

**STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

IN THE MATTER OF THE MERGER) BPU Docket No. GM15101196
OF THE SOUTHERN COMPANY)
AND AGL RESOURCES, INC.)
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)

**DIRECT TESTIMONY OF DAVID E. PETERSON
ON BEHALF OF THE
DIVISION OF RATE COUNSEL**

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I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is David E. Peterson. I am a Senior Consultant employed by Chesapeake Regulatory Consultants, Inc. ("CRC"). Our business address is 1698 Saefern Way, Annapolis, Maryland 21401-6529. I maintain an office in Dunkirk, Maryland.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE IN THE PUBLIC UTILITY FIELD?

A. I graduated with a Bachelor of Science degree in Economics from South Dakota State University in May of 1977. In 1983, I received a Master's degree in Business Administration from the University of South Dakota. My graduate program included accounting and public utility courses at the University of Maryland.

In September 1977, I joined the Staff of the Fixed Utilities Division of the South Dakota Public Utilities Commission as a rate analyst. My responsibilities at the South Dakota Commission included analyzing and testifying on ratemaking matters arising in rate proceedings involving electric, gas and telephone utilities.

Since leaving the South Dakota Commission in 1980, I have continued performing cost of service and revenue requirement analyses as a consultant. In December 1980, I joined the public utility consulting firm of Hess & Lim, Inc. I remained with that firm until August 1991, when I joined CRC. Over the years, I have analyzed filings by electric, natural gas, propane, telephone, water, wastewater, and steam utilities in connection with utility rate and certificate

1 proceedings before federal and state regulatory commissions. A copy of my
2 curriculum vitae is provided in Appendix A attached to my testimony.

3 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN PUBLIC**
4 **UTILITY RATE PROCEEDINGS?**

5 A. Yes. I have presented testimony in 151 other proceedings before the state
6 regulatory commissions in Alabama, Arkansas, California, Colorado,
7 Connecticut, Delaware, Indiana, Kansas, Maine, Maryland, Montana, Nevada,
8 New Jersey, New Mexico, New York, Pennsylvania, South Dakota, West
9 Virginia, and Wyoming, and before the Federal Energy Regulatory Commission.
10 Collectively, my testimonies have addressed the following topics: the appropriate
11 test year, rate base, revenues, expenses, depreciation, taxes, capital structure,
12 capital costs, rate of return, cost allocation, rate design, life-cycle analyses,
13 affiliate transactions, mergers, acquisitions, and cost-tracking procedures.

14
15 In addition, I testified twice before the Energy Subcommittee of the Delaware
16 House of Representatives on the issues of consolidated tax savings and tax
17 normalization. Also, I have presented seminars on public utility regulation,
18 revenue requirements, cost allocation, rate design, consolidated tax savings,
19 income tax normalization and other ratemaking issues to the Delaware Public
20 Service Commission, to the Commissioners and Staff of the Washington Utilities
21 and Transportation Commission, and to the Colorado Office of Consumer
22 Counsel.

23
24 **Q. PLEASE IDENTIFY THE PROCEEDINGS IN NEW JERSEY WHEREIN**
25 **YOU FILED TESTIMONY.**

26 A. I have submitted testimony in the following proceedings before the Board:

27 Utility Docket No.
28

1	South Jersey Gas Company	GR8704329
2		GR03050413
3		GR03080683
4		GR10010035
5		
6	New Jersey-American Water Company	WR88070639
7		WR91081399J
8		WR92090906J
9		WR94030059
10		WR95040165
11		WR98010015
12		WR03070511
13		WR06030257
14		
15	ACE/Delmarva Merger	EM97020103
16	Atlantic City Electric Company	ER03020110
17		ER11080469
18		
19	FirstEnergy/GPU Merger (JCP&L)	EM00110870
20	Jersey Central Power & Light	ER02080506
21		ER05121018
22		ER12111052
23		EM14060581
24		
25	Rockland Electric Company	ER02100724
26		ER06060483
27		ER09080668
28		
29	Public Service Electric and Gas	EM00040253
30		GR09050422
31		GO12030188
32		
33	Exelon/PSE&G Merger	EM05020106
34	Exelon/Pepco Holdings Merger	EM14060581
35		
36	Conectiv/Pepco Merger (ACE)	EM01050308
37		
38	Elizabethtown Gas Company	GR02040245
39		GR09030195
40		
41	United Water New Jersey, Inc.	WR07020135

1 United Water Toms River WR15020269

2

3 New Jersey Natural Gas Company GR07110889

4

5 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN UTILITY**
6 **MERGER OR ACQUISITION PROCEEDINGS?**

7 A. Yes, I have. I presented testimony in connection with the following merger or
8 acquisition proceedings in New Jersey:

9 • The acquisition of Atlantic Energy, Inc. and Atlantic City Electric
10 Company by Delmarva Power and Light Company, BPU Docket No.
11 EM97020103;

12 • The acquisition of GPU, Inc. and Jersey Central Power & Light Company
13 by FirstEnergy Corp, BPU Docket No. EM00110870;

14 • The acquisition of Conectiv and Atlantic City Electric Company by Pepco
15 Holdings, Inc., BPU Docket No. EM01050308;

16 • The acquisition of PSEG and Public Service Electric and Gas Company by
17 Exelon Corporation, BPU Docket No. EM05020106; and

18 • The acquisition of Pepco Holdings, Inc. by Exelon Corporation, BPU
19 Docket No. EM14060581.

20

21 In addition, I have presented testimony in merger or acquisition proceedings
22 before the state regulatory commissions in Colorado, Maryland and New York.

23

24

25 **II. SUMMARY OF RECOMMENDATIONS**

26 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

27 A. My appearance in this proceeding is on behalf of the New Jersey Division of Rate
28 Counsel ("Rate Counsel").

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Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I was asked to assist Rate Counsel in analyzing the proposed merger of The Southern Company (“Southern”) and AGLR Inc. (“AGLR”) (Collectively, “the Joint Petitioners”). Specifically, I was asked to address two topics: corporate governance and affiliate transactions involving the Joint Petitioner’s mutual service companies post-merger. In addition to my testimony, Rate Counsel also is sponsoring the testimonies four additional witnesses, who will address other aspects of the proposed merger.

Q. WHAT DID YOU REVIEW IN PREPARATION FOR YOUR TESTIMONY?

A. I carefully reviewed the October 16, 2015 Joint Petition and the testimonies and exhibits of the Joint Petitioners relating to the issues that I address herein. I also reviewed the Joint Petitioners’ responses to requests for data and information submitted by Rate Counsel, again relating to the issues that I address in my testimony.

Q. PLEASE SUMMARIZE YOUR FINDINGS.

A. I have been advised by counsel that the Board must determine whether the proposed transaction can be accomplished without an adverse impact on the areas specified in the merger statute, if the transaction results in net positive benefits to New Jersey ratepayers and to the State, and, ultimately, if the merger is in the public interest.¹

¹ Pursuant to *N.J.S.A.* 48:2-51.1, the BPU also is required to “...evaluate the impact of the acquisition on competition, on the rates of ratepayers affected by the acquisition of control, on the employees of the affected public utility or utilities, and on the provision of save and adequate utility service at just and

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Corporate Governance -- Without question, AGLR, and by extension, Elizabethtown Gas Company (“ETG”), will relinquish the autonomy it now enjoys to Southern following the merger. A certain loss of autonomy is inherent in any business combination; but it is especially acute with this merger. In previous merger proceedings in New Jersey, we have seen where the acquiring company offered seats on its board of directors to the acquired company. Southern, however, has no plan to extend such an offer to AGLR in this merger. If the merger is accomplished as proposed, Southern will retain the current composition of its Board of Directors. Thus, AGLR, and by extension ETG, will not have a direct voice on Southern’s Board of Directors; nor will it have any direct votes following the merger.

Rather than offer AGLR seats on Southern’s Board of Directors, Southern has committed to establishing for AGLR a separate, outside Board of Directors for a minimum of five years following the merger. This commitment, however, is inadequate in proportion to the control AGLR will relinquish in the merger. It is also inadequate in that there is no commitment to retain the outside directors beyond five years post-merger.

To retain a fair and reasonable balance of power post-merger, AGLR’s separate, outside Board of Directors should be granted complete autonomy and not be subjected to veto power by Southern’s Board of Directors. Alternatively, absent this complete control of its own fate, AGLR should be granted proportional representation on Southern’s Board of Directors. The proportion to which AGLR and Southern directors are seated can be measured with reference to the total

reasonable rates.” See also *N.J.A.C. 14:1-5.14(c)*.

1 assets of the two respective merging companies. Such an approach will seat
2 approximately three of AGLR's board members on Southern's Board of
3 Directors. Even if AGLR is granted seats on Southern's Board of Directors, there
4 will still remain a need for AGLR to maintain a separate board of outside
5 directors, just as is the case with Southern's other utility operating subsidiaries.
6 Also, the five-year time limitation contained in the Joint Petitioners' commitment
7 should be eliminated. AGLR should be allowed to retain its outside directors
8 indefinitely. Any change in that organizational structure should require pre-
9 approval from the BPU.

10
11 **Affiliate Transactions** – The Joint Petitioners plan to continue operating its two
12 existing service companies in some form post-merger closing². Beyond that,
13 however, the Joint Petitioners have not yet stated their specific plan for each
14 service company post-merger closing. Thus, Rate Counsel and the BPU have no
15 reasonable way to evaluate the potential impact of the merger on ETG and its
16 New Jersey customers on matters relating to affiliate charges to the utility. Thus,
17 I recommend the following relating to service company matters involved in this
18 merger proceeding:

- 19 • Joint Petitioners should submit a detailed operating plan for the
20 post-merger period for both SCS and AGSC. This operating plan
21 will identify with specificity the services to be provided by each to
22 ETG along with the bases for assigning or allocating the associated
23 cost of each service item;
- 24 • The agreement between SCS and AGSC for services that will be
25 subsequently billed to ETG should be reviewed and approved by
26 the BPU before any SCS-related charges are billed to ETG; and

² Southern's wholly-owned subsidiary service company is Southern Services, Inc. ("SCS"). AGLR's wholly-owned subsidiary service is AGL Services Company, Inc. ("AGSC").

- 1 • The Joint Petitioners two-year commitment to not increase service
2 company costs to ETG beyond the amount that would have been
3 charged in the absence of the merger should be enforced by
4 implementing a hard cap on affiliate charges to ETG at their 2015
5 level. That is, affiliate charges to ETG, by both SCS and AGSC,
6 combined, shall not exceed the actual level of such charges to ETG
7 in 2015. That commitment should be extended to five years.

8
9 The bases for these findings and recommendations are detailed in the following
10 sections of my testimony.

11
12
13 **III. CORPORATE GOVERNANCE**

14
15 **Q WHAT ARE THE DUTIES OF A BOARD OF DIRECTORS FOR A**
16 **CORPORATION?**

17 A. Generally speaking, the duties and responsibilities of a board of directors are to
18 hire the CEO or general manager and to assess the overall direction and strategy
19 of the business. A board of directors typically has a dual mandate: *advisory* – to
20 consult with management on overall corporate strategy and on operational
21 direction of the company; and *oversight* – to monitor company performance and
22 to make efficient use of financial resources to further the interest of stockholders.
23 No two boards of directors function identically, nor are their foci and strategies
24 identical.

25
26 **Q. WHAT IS THE PRESENT COMPOSITION OF THE BOARDS OF**
27 **DIRECTORS FOR EACH OF THE TWO MERGING COMPANIES?**

1 A. The Southern’s Board of Directors presently consists of one inside director and
2 fourteen outside directors, for a total of fifteen directors. AGLR also maintains a
3 15-member Board of Directors, including one inside director.
4

5 **Q. WHAT ARE THE MERGING COMPANIES’ PLAN POST-MERGER**
6 **RELATIVE TO THE BOARDS OF DIRECTORS?**

7 A. The merger plan is for Southern to acquire AGLR. Following the merger closing,
8 AGLR will become a direct, wholly-owned subsidiary of Southern. ETG will
9 remain an indirect, wholly-owned subsidiary of AGLR, with Southern as its
10 ultimate parent. Despite acquiring approximately \$14 billion of AGLR’ assets,
11 “Southern does not anticipate any changes to the composition of its Board of
12 Directors as a result of the Merger.”³ That is, AGLR has not been offered any
13 seats on Southern’s Board of Directors. Rather, the merger plan is for AGLR to
14 have a separate board of outside directors for a minimum of five years following
15 the closing of the merger. A separate board of outside directors is the same
16 arrangement for each of Southern’s utility operating subsidiaries.
17

18 **Q. WHAT IS YOUR CONCERN WITH THIS APPROACH?**

19 A. The Joint Petitioners claim that AGLR will have a separate board of outside
20 directors and that AGLR and ETG will retain its existing core management team
21 following the closing of the merger. It is not stated in the Joint Petitioners’
22 testimonies, however, what mission, duties, responsibilities and limitations will be
23 imposed on AGLR’s separate board of outside directors. Notwithstanding this
24 organizational structure, however, my concern is that AGLR, and by extension,
25 ETG, will relinquish the autonomy it now enjoys to Southern. Instead, Southern’s
26 Board of Directors will own the ultimate strategic planning and oversight

³ Joint Petitioners’ response to RCR-GOV-1.

1 authority and control over all of the operating subsidiaries, including AGLR and
2 ETG. AGLR will no longer have a direct voice or a direct vote at the highest
3 level in the corporate organization. This is quite unlike previous merger
4 proposals that have been brought before the BPU wherein the acquired companies
5 were offered seats on the boards of directors of the acquiring companies.
6 Denying AGLR seats on Southern's Board of Directors could be detrimental to
7 AGLR and to ETG to the extent that Southern's vision for AGLR (and its
8 subsidiaries including ETG) differs significantly from the path chosen by AGLR's
9 separate board of directors. The detriments could manifest themselves in many
10 ways including, but not limited to, strategic planning, core business development,
11 expansion or contraction of unregulated operations, and perhaps most
12 significantly in budget functions and resource allocation.

13
14 **Q. IS THERE A SOLUTION?**

15 **A.** Yes, there is. The potential conflicts between AGLR and Southern can be
16 significantly, but not completely, resolved if Southern's Board of Directors lacks
17 veto authority over all decisions made by AGLR's separate board of directors and
18 if the five-year commitment to maintain a separate board of directors for AGLR is
19 made permanent.

20
21 Another potential solution that is equitable to both sides and which should be
22 more palatable to Southern is to grant proportional representation of AGLR
23 directors on Southern's Board of Directors. If relative assets of the merging
24 companies are used as the measure of proportionality, AGLR should receive
25 approximately 3 seats on Southern's Board of Directors. While three seats are far
26 from a majority on a 15-member board, AGLR, nevertheless, will have a voice
27 and a vote on matters brought before Southern's Board of Directors.

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Q. WILL GRANTING AGLR MEMBERSHIP ON SOUTHERN'S BOARD OF DIRECTORS NEGATE THE NEED FOR A SEPARATE BOARD OF DIRECTORS FOR AGLR?

A. No, it will not. As I understand it, each of Southern's utility operating companies presently have a separate board of directors.⁴ This type of corporate structure is useful in promoting the unique or regional interests and requirements of the separate operating companies, so long as those interests align with those of Southern's Board of Directors. AGLR should receive the same treatment as the other operating companies in this respect; i.e., AGLR should have a separate board of outside directors.

Q. GIVEN YOUR TESTIMONY THAT AGLR SHOULD MAINTAIN A SEPARATE BOARD OF DIRECTORS, ARE YOU IN AGREEMENT WITH THE JOINT PETITIONERS' COMMITMENT IN THAT REGARD?

A. No, not completely. The Joint Petitioners have committed to maintaining a separate board of outside directors for a period of five years post-merger closing. I appreciate Southern's apparent desire to keep its options open if there are better or more efficient corporate structures that surface rather than permanently tying itself to the one it is now committing to for the next five years. The five-year limitation on the commitment, however, is arbitrary in that the Joint Petitioners presently do not have any plans to change its organizational structures following the initial five-year period post-merger.⁵ Moreover, it is unwise for the BPU and for New Jersey customers to agree to limit the commitment to five years when there is no way of knowing now how the organizational structure may change

⁴ Joint Petitioners response to RCR-GOV-2.
⁵ Joint Petitioners' response to RCR-GOV-4.

1 after expiration of the five-year commitment. Thus, in fairness to both Southern's
2 concern for flexibility to manage its own operations and Rate Counsel's concern
3 that it cannot predict what corporate structure may be adopted in the future, I
4 recommend that Southern be required to seek BPU approval before modifying or
5 eliminating AGLR separate board of outside directors. There should be no time
6 limitation on this requirement.

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9 **IV. MUTUAL SERVICE COMPANIES**

10 **Q. DO THE JOINT PETITIONERS EACH HAVE A MUTUAL SERVICE**
11 **COMPANY WITHIN ITS CORPORATE STRUCTURE PRE-MERGER**
12 **CLOSING?**

13 **A.** Yes, they do. As I previously mentioned, Southern's mutual service company,
14 Southern Services, Inc., is a direct, wholly-owned subsidiary of Southern. SCS
15 provides several professional and administrative services to Southern affiliates.
16 On page 3 of his Direct Testimony, Joint Petitioners' witness Mark S. Lantrip lists
17 the services provided by SCS to include general and design engineering,
18 operations, research, purchasing, accounting finance and treasury, tax,
19 information technology, marketing, auditing, insurance and pension
20 administration, human resources, systems and procedures, digital wireless
21 communications, and other services with respect to business and operations,
22 construction management, and power pool transactions.

23
24 As mentioned previously, ALG Resources also has a mutual service company
25 under its corporate umbrella. That service company is named AGL Services
26 Company, Inc. AGSC provides to AGLR's corporate affiliates essentially the
27 same types of services as were described above in connection with SCS.

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Q. DO THE JOINT PETITIONERS INTEND TO CONTINUE WITH BOTH MUTUAL SERVICE COMPANIES POST-MERGER CLOSING?

A. Yes, they do. However, it is not yet been determined which services will be provided by each service company going forward. Mr. Lantrip testifies for the Joint Petitioners as follows in this regard: “As a result of the Merger, we expect that certain corporate-level services will be provided by SCS through its services agreement with AGSC, as explained below. SCS may also provide other types of services to AGSC, to the extent it is determined to be efficient to do so.”⁶ The Joint Petitioners are not able to identify the specific services that SCS will provide to AGSC, and ultimately to ETG.⁷ Nor has it been determined what allocation methods will be used by SCS to allocate service costs to AGSC and ultimately to ETG.⁸ Thus, all we know for certain is that both SCS and AGSC will continue to operate post-merger; but, we do not know what specific services SCS will provide to AGSC and ultimately to ETG and how SCS will bill for those unidentified services.

Q. WILL SERVICES AND BILLINGS BETWEEN SCS AND AGSC BE SUBJECT TO REGULATORY OVERSIGHT?

A. According to the Joint Petitioners response to a Rate Counsel discovery request: “...Following repeal of the Public Utility Holding Company Act of 1935 in 2005, the Federal Energy Regulatory Commission has provided by rule for centralized service companies, including SCS to provide services at cost in accordance with the Uniform System of Accounts. But, the FERC currently does not require

⁶ Direct Testimony of Mark S. Lantrip, page 3.
⁷ Ibid.
⁸ Joint Petitioners response to RCR-GOV-10.

1 approval of specific service company allocation methodologies.⁹ Additionally,
2 while no state PSC has approved SCS' service agreements, the costs incurred by
3 operating companies pursuant to those service agreements are reviewed by state
4 commissions in audits and in rate proceedings."¹⁰ Thus, the FERC administers
5 SCS service agreements with Southern affiliates. But, SCS has not been required
6 to seek approval of its service agreements or the allocation factors contained
7 therein by any federal or state regulatory commission. On the other hand, ETG
8 requires BPU approval for its contract with AGSC, including the indirect cost
9 allocation factors that are included in the contract. But, since SCS intends to enter
10 into an agreement with AGSC rather than with ETG, that agreement ordinarily
11 will not be subject to BPU approval, under the proposed merger plan.

12

13 **Q. DID THE JOINT PETITIONERS MAKE ANY COMMITMENT TO ETG**
14 **RELATING TO THE SERVICE COMPANIES?**

15 A. Yes, they did. The Joint Petitioners committed to the following: "For a period of
16 two years following the close of the Merger, the amount of costs assessed to
17 Elizabethtown for services provided by an affiliate shall be no greater than it
18 would have been had the Merger not occurred, regardless of whether such
19 services are provided directly or indirectly by SCS, AGSC, or any other Southern
20 affiliate."¹¹

21

22 **Q. DID THE JOINT PETITIONERS EXPLAIN HOW THIS COMMITMENT**
23 **TO ETG WILL BE ACCOMPLISHED?**

24 A. No, they did not. When questioned in discovery about this by Rate Counsel, the
25 Joint Petitioners responded as follows: "The integration process has just begun.

⁹ Direct Testimony of Mark S. Lantrip, Exhibit MSL-2, page 9 (Excerpt from SAS Cost Accountability and Control Manual).

¹⁰ Joint Petitioners response to RCR-GOV-12.

¹¹ Direct Testimony of Art P. Beattie, page 4.

1 As such, the Joint Petitioners have not yet determined the mechanisms by which
2 they will effectuate this commitment following the closing of the Merger.
3 However, the Joint Petitioners have not committed to ‘freeze’ any of the amounts
4 charged to Elizabethtown by AGSC or any other affiliate.”¹²
5

6 **Q. WHAT ARE YOUR CONCERNS ABOUT THE JOINT PETITIONERS’**
7 **PLANS CONCERNING THE SERVICE COMPANIES?**

8 A. My concerns are several. Initially, and perhaps most important, neither Rate
9 Counsel nor the BPU can evaluate a plan that has not yet been developed. Yet,
10 this is precisely what the Joint Petitioners are requesting in this proceeding. That
11 is, the Joint Petitioners seek BPU approval for a new service company
12 arrangement that will have a material impact on ETG’s costs without the Joint
13 Petitioners knowing who will provide the service, what services will be provided,
14 and how ETG will be charged for those unidentified services following merger
15 closing. The leap of faith that the Joint Petitioners will act in the best interest of
16 ETG and New Jersey ratepayers that is inherent in the Joint Petitioners’ requested
17 BPU approvals is not a reasonable substitute for a thorough examination of the
18 specific details of the Joint Petitioners’ operating plan going forward. The BPU
19 should not give its approval for a service company operating plan if it has not
20 been made aware of all the details of that plan.
21

22 I am concerned that the BPU will no longer have direct regulatory control over
23 significant charges to ETG by an affiliate service company; i.e., SCS. ETG
24 previously received BPU authorization for a specific structure of cost allocations
25 and assignments for services provided by its affiliate service company, AGSC.
26 According to the Joint Petitioners, following the merger certain services will be

¹² Joint Petitioners response to RCR-GOV-7.

1 provided by SCS to AGSC, and ultimately to ETG, which will be governed by an
2 agreement between SCS and AGSC. That agreement has not been finalized. Nor
3 will it be subject to BPU regulatory control because AGSC, and not ETG, will be
4 the counter-party to that agreement. Under this scheme, more ETG ratepayer
5 dollars will no longer be regulated by the BPU to the extent that SCS rather than
6 AGSC provides centralized services.

7
8 I am also concerned that ETG, and its New Jersey customers, may be charged
9 unnecessarily for duplicate layers of corporate governance services. While it has
10 not been determined what services will be provided by each of the two service
11 companies, it is a safe bet that some executive management and oversight
12 functions will be provided by SCS. According to the Joint Petitioners' proposed
13 merger plans, AGLR will also retain significant executive management and
14 oversight functions as well. Thus, ETG will be charged for both Southern's
15 executive management and oversight and for AGLR's executive management and
16 oversight. Such duplication, which results solely from the merger, is unnecessary
17 and the resulting charges to ETG will be unreasonable. ETG should not be billed
18 for duplicative management services provided by both SCS and AGSC.

19
20 I am also concerned that the Joint Petitioners are unable to tell us whether affiliate
21 service company charges to ETG will increase or decrease as a result of the
22 merger.¹³

23
24 Finally, I am concerned that the Joint Petitioners have no plan for enforcing its
25 commitment that ETG's assessment of costs from affiliates beyond what would

¹³ Joint Petitioners responses to RCR-GOV-9, RCR-GOV-18 and RCR-GOV-19.

1 have been charged had the merger not occurred.¹⁴ Therefore, the Joint Petitioners
2 commitment regarding assessment of costs from affiliates post-merger is
3 essentially meaningless in its present form.
4

5 **Q. DO YOU HAVE ANY RECOMMENDATIONS CONCERNING THE**
6 **JOINT PETITIONERS PLANS FOR THE SERVICE COMPANIES POST-**
7 **MERGER THAT, IF ADOPTED BY THE BPU, WILL ALLEVIATE**
8 **SOME OF THE CONCERNS THAT YOU JUST MENTIONED?**

9 A. Yes, I do. As I stated at the outset of my discussion on service company matters,
10 neither Rate Counsel nor the BPU can make an informed decision on service
11 company matters unless and until the Joint Petitioners formulate and
12 communicate its plans concerning the services that each service company (i.e.,
13 SCS and AGSC) will perform and the bases for charging ETG for such services.
14 With this in mind, my recommendations are as follows:

- 15 • Joint Petitioners should submit a detailed operating plan for the
16 post-merger period for both SCS and AGSC. This operating plan
17 will identify with specificity the services to be provided by each to
18 ETG along with the bases for assigning or allocating the associated
19 cost of each service item.
- 20 • The agreement between SCS and AGSC for services that will be
21 subsequently billed to ETG should be reviewed and approved by
22 the BPU before any SCS-related charges are billed to ETG.
- 23 • The Joint Petitioners' two-year commitment to not increase service
24 company costs to ETG beyond the amount that would have been
25 charged in the absence of the merger should be enforced by
26 implementing a hard cap on affiliate charges to ETG at their 2015

¹⁴ Joint Petitioners response to RCR-GOV-7.

1 level. That is, affiliate charges to ETG, by both SCS and AGSC,
2 combined, shall not exceed the actual level of such charges to ETG
3 in 2015. This commitment should be for five years.

4
5 These recommendations provide a reasonable level of protection to ETG and its
6 New Jersey ratepayers against harmful consequences that could result from the
7 vagaries of the plan put forth by the Joint Petitioners concerning service company
8 operations post-merger.

9

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

11 A. Yes, it does. However, I wish to reserve the right to supplement this testimony to
12 the extent that new or updated information causes me to change my foregoing
13 testimony.

APPENDIX A

STATEMENT OF EDUCATION AND EXPERIENCE

For

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Mr. Peterson is employed as a public utility rate consultant by Chesapeake Regulatory Consultants, Inc. Mr. Peterson has thirty-eight years of experience analyzing regulated public utility ratemaking and service matters including three years as a member of a state regulatory commission staff and thirty-five years as a consultant. Mr. Peterson specializes in utility revenue requirement and cost of service analyses. Utilities addressed in Mr. Peterson's analyses and testimony have included electric, natural gas, propane, telephone, water, steam and sewer companies. He has presented testimony in more than 150 proceedings before twenty state regulatory commissions, the Delaware House Energy Subcommittee, and the Federal Energy Regulatory Commission. Mr. Peterson also presented, or co-presented seminars on utility ratemaking topics to the staffs of the Washington Utilities and Transportation Commission, the Delaware Public Service Commission and the Colorado Consumer Counsel.

EMPLOYMENT

1991 - Present	Consultant Chesapeake Regulatory Consultants, Inc. Annapolis, Maryland
1980 - 1991	Consultant Hess & Lim, Inc. Greenbelt, Maryland
1977 - 1980	Rate Analyst South Dakota Public Utilities Commission Pierre, South Dakota
1977	Research Assistant Economics Department South Dakota State University Brookings, South Dakota

As a rate analyst and consultant, Mr. Peterson has served a diverse group of public utility consumers and governmental agencies on utility ratemaking and service-related issues. Clients have included state regulatory commissions and their staffs, consumer advocate agencies of state governments, federal agencies, municipalities, municipally-owned and cooperatively-owned utilities, civic organizations, and industrial consumers.

EDUCATION

December 1983	Master of Business Administration University of South Dakota Vermillion, South Dakota
May 1977	Bachelor of Science Degree in Economics South Dakota State University Brookings, South Dakota

EXPERT TESTIMONY

Among the issues that Mr. Peterson has addressed in testimony are the appropriate test year, construction work in progress, cash working capital lead/lag studies, rate base, excess capacity, revenues, expenses, depreciation, income taxes, capital structure, rate of return, cost allocation, rate design, customer service charges, flexible rates, life-cycle analyses, cost tracking procedures, affiliate transactions, mergers, acquisitions and the consequences of industry restructuring. Mr. Peterson has made formal presentations and presented testimony to the following regulatory bodies.

Alabama Public Service Commission
Arkansas Public Service Commission
California Public Utilities Commission
Colorado Public Utilities Commission
Connecticut Public Utilities Control Authority

Delaware Public Service Commission
Indiana Public Service Commission
Kansas State Corporation Commission
Maine Public Utilities Commission
Maryland Public Service Commission

Montana Public Service Commission
Nevada Public Service Commission
New Jersey Board of Public Utilities
New Mexico Public Service Commission
New York Dept. of Environmental Protection

New York Public Service Commission
Pennsylvania Public Utility Commission
South Dakota Public Utilities Commission
West Virginia Public Service Commission
Wyoming Public Service Commission

Delaware House of Representatives (Energy Subcommittee)
Federal Energy Regulatory Commission

In addition, Mr. Peterson has presented several utility training seminars, including the following:

- Consolidated Tax Savings and Income Tax Normalization
Presented to Delaware Public Service Commission (2006)
- Public Utility Ratemaking Principles
Co-Presented to Washington Utilities and
Transportation Commission (2011)
- Electric Cost Allocation and Rate Design
Presented to Colorado Office of Consumer Counsel (2012)
- Public Utility Revenue Requirements
Presented to Delaware Public Service Commission (2012)
- Electric Cost Allocation and Rate Design
Presented to Delaware Public Service Commission (2013)