



Board of Public Utilities
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ENERGY

IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY TO IMPLEMENT AN INFASTRUCTURE INVESTMENT PROGRAM ("IIP") AND ASSOCIATED RECOVERY MECHANISM PURSUANT TO N.J.S.A. 48:2-21 AND N.J.A.C. 14:3-2A)	PREHEARING ORDER WITH PROCEDURAL SCHEDULE AND ORDER ON MOTIONS TO INTERVENE OR PARTICIPATE
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)	DOCKET NO. GR19020278
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Parties of Record:

Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel
Andrew K. Dembia, Esq. on behalf of New Jersey Natural Gas Company

BY COMMISSIONER ROBERT M. GORDON

BACKGROUND

On February 28, 2019, New Jersey Natural Gas Company ("NJNG" or "Company") filed a petition with the New Jersey Board of Public Utilities ("Board") seeking approval for its proposed Infrastructure Investment Program ("IIP" or "Program"), including an associated cost recovery mechanism pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:3-2A.1 et seq. ("II&R Rules")¹ and any other provision deemed applicable by the Board. NJNG proposes to invest \$507 million over a five (5) year period from July 1, 2019 through June 30, 2023. NJNG seeks authority to implement an accelerated cost recovery mechanism for its proposed IIP. The Company is proposing that NJNG's investment costs be recovered utilizing the cost recovery mechanism utilized in the Company's SAFE Extension ("SAFE II") Program, which was approved by the Board in the Company's last base rate case.²

¹ On December 19, 2017, the Board adopted new rules for utility "Infrastructure Investment and Recovery" to encourage utilities to implement infrastructure investments. The rules are codified at N.J.A.C. 14:3-2A.1 et seq. ("II&R Rules") and became effective on January 16, 2018.

² In re the Petition of New Jersey Natural Gas Company for Approval of an Increase in Gas Base Rates and for Changes in its Tariff for Gas Service, Approval of the SAFE Program Extension, and Approval of SAFE Extension and NJ Rise Rate Recovery Mechanisms Pursuant to N.J.S.A. 48:2-21, 48:2-21.1 and for Changes to Depreciation Rates for Gas Property Pursuant to N.J.S.A. 48:2-18; BPU Docket No. GR15111304 and OAL PUC 00738-16 (September 23, 2016). ("2016 Rate Case Order")

The proposed program includes seven (7) projects estimated to cost \$288.2 million excluding Allowance for Funds Used During Construction ("AFUDC"). The proposed projects include: (1) reliability and resiliency projects, adding 65.9 miles of reinforcement mains to the system; (2) replacement and reinforcement of 7.7 miles of main as well as install a new regulator station; (3) LNG transmission interconnection from the Howell LNG facility to the Company's backbone transmission system; (4) reconstruction of a regulator station in order to mitigate existing storm – related risks; (5) replace older steel mains with state of the art steel mains; (6) the installation of approximately 16,000 Excess Flow Valves in potential storm-affected areas of the Company's service territory; and (7) Protection of Regulators, approximately 60,000 protective devices on regulator vents in flood areas.

In addition to the seven (7) projects outlined in the petition, NJNG is also proposing an integrated information technology investment referred to as NEXT. The Company anticipates that NEXT's total capital cost to be approximately \$219 million. According to the petition, NEXT will support and modernize the business process and technology platforms, while increasing the security of the information. The Company has broken down the NEXT project into five (5) major components: (1) Finance and Accounting; (2) Customer Experience; (3) Customer Information and Billings; (4) Work Force and Asset Management; and (5) the technical foundational platforms required for IT integration, reporting and content management.

The Company proposes to utilize the after-tax Weighted Average Cost of Capital ("WACC") approved by the Board in the Company's recent base rate case filing (BPU Docket No. GR15111304). The WACC is 6.90 percent (6.40 percent after-tax), based on the 2016 Rate Case Order. The initial WACC is based on the return on equity of 9.75 percent and an equity component in the capital structure of 52.50 percent.

By Order dated March 29, 2019 ("March 2019 Order"), the Board retained this matter for hearing and, pursuant to N.J.S.A. 48:2-32, designated me as the presiding officer authorized to rule on all motions that arose during the pendency of these proceedings, and modify any schedules that may be set as necessary to secure a just and expeditious determination of the issues. Further, the March 2019 Order directed that any entities seeking to intervene or participate in this matter file the appropriate application with the Board by April 29, 2019.

To aid in the setting of an appropriate schedule, Board Staff requested that the New Jersey Division of Rate Counsel ("Rate Counsel") and the Company circulate proposed procedural schedules. Following the exchange of several proposed procedural schedules, the Company and Rate Counsel agreed to a procedural schedule, which was forwarded to Board Staff on June 14, 2019.

Motions

Public Service Electric & Gas Company ("PSE&G") Motion to Participate

On April 22, 2019, PSE&G filed a motion to participate. PSE&G is a public utility as defined by N.J.S.A. 48:2-13 and is engaged in the purchase, distribution, and sale of natural gas for more than 1,800,000 customers located within the State of New Jersey.

PSE&G is seeking participation status and contends that the Board's decision in the case will have a precedential effect and impact on other New Jersey gas utilities, not just NJNG, therefore, PSE&G will be directly and specifically affected by the proceeding. Further, PSE&G believes that its interests are significant and that PSE&G's experience in the gas industry will likely add

constructively to this proceeding. PSE&G believes that substantive policy and procedural requirements set forth in this proceeding will impact other proceedings involving PSE&G.

PSE&G attests that it will coordinate its activities in this docket with other similar entities where appropriate, that it will abide by any schedule set for within this proceeding and that its participation would not cause any undue delay or confusion.

By letter dated April 30, 2019, NJNG indicated that it does not oppose the granting of participant status to PSE&G.

Prehearing Order

1. NATURE OF PROCEEDINGS AND ISSUES TO BE RESOLVED

Through this proceeding, NJNG seeks approval to implement and administer its \$501.2 million IIP proposal. NJNG further seeks authority to implement a cost recovery mechanism similar to NJNG's approved cost recovery associated with SAFE II Program. NJNG is proposing to make annual filings by March of each year, starting in 2020 to recover investments placed in service during the five-year program period, which would commence on July 1, 2019 and remain in effect until September 24, 2023. Based upon the proposed program spending, the Company estimates that the initial bill impact for a residential heating customer using 1,000 therms annually and estimated to begin on October 1 2020 is \$12.62 or 1.2% based on investments in service as of June 30, 2020.

Issues to be Resolved:

1. Whether the proposed rates and associated terms and conditions of service are reasonable and consistent with the Company's obligation to provide safe, adequate and proper service to all of its customers and whether the costs of the projects result in just & reasonable rates;
2. Whether the projects are reasonable and ultimately will be used & useful;
3. The appropriateness of the cost recovery mechanism;
4. The appropriateness of recovering the costs of the computer upgrade through an IIP filing; and
5. The cost justification for the computer system.

2. PARTIES AND THEIR DESIGNATED ATTORNEYS OR REPRESENTATIVES:

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No change in designated trial counsel shall be made without leave if such change will interfere with the dates for hearings. If no specific counsel is set forth in this Order, any partner or associate may be expected to proceed with evidentiary hearings on the agreed dates.

3. SPECIAL LEGAL REQUIREMENTS AS TO NOTICE OF HEARING:

Pursuant to N.J.S.A. 48:2-32.3, public hearings were held in the Company's service territory after publication of notice in newspapers of general circulation in NJNG's service territory on July 16, 2019 in Rockaway Township, New Jersey at 4:30 p.m. and 5:30 p.m. and July 17, 2019 in Freehold, New Jersey at 5:00 p.m. and 6:00 p.m.

4. SCHEDULE OF HEARING DATES, TIME, AND PLACE:

Evidentiary hearings, with live Surrebuttal, will be held the week of November 11, 2019 starting at 10:00 a.m. on each day at the New Jersey Board of Public Utilities, 44 South Clinton Avenue, Trenton, New Jersey in the first floor multipurpose room.

5. STIPULATIONS:

The Staff of the Board of Public Utilities, Rate Counsel, PSE&G and NJNG have entered into an Agreement of Non-Disclosure of Information Agreed to Be Confidential.

6. **SETTLEMENT:**

Parties are encouraged to engage in settlement discussion. Notice should be provided to all parties of any settlement discussions for the preparation of an agreement to resolve the issues in the case.

7. **AMENDMENTS TO PLEADINGS:**

None at this time.

8. **DISCOVERY AND DATE FOR COMPLETION:**

The time limits for discovery shall be in accordance with N.J.A.C. 1:1-10.4, or as provided in Exhibit A.

9. **ORDER OF PROOFS:**

NJNG has the burden of proof. The hearings will be conducted by topic (see point 12, below); within each topic, the hearings will be conducted in the following order:

First – NJNG

Second – Rate Counsel

Third – Board Staff

10. **EXHIBITS MARKED FOR IDENTIFICATION:**

None at this time.

11. **EXHIBITS MARKED IN EVIDENCE:**

None at this time.

12. **ESTIMATED NUMBER OF FACTS AND EXPERT WITNESSES:**

New Jersey Natural Gas

Craig A. Lynch, NJNG Senior Vice President

- Jacqueline K. Shea, New Jersey Resources - Vice President and Chief Information Officer

- James M. Corcoran, NJNG Director

Rate Counsel

- David E. Dismukes, Ph.D, Acadian Consulting Grp.
- Robert Henkes, Henkes Consulting
- David Habr, Habr Economics
- Edward McGee, Acadian Consulting Grp.

13. **MOTIONS:**

PSE&G has moved to participate.

14. **SPECIAL MATTERS:**

None at this time.

DISCUSSION AND FINDINGS

Motions to Intervene or Participate

In ruling on a motion to participate the trier of fact shall consider "whether the participant's interest is likely to add constructively to the case without causing undue delay or confusion." N.J.A.C. 1:1-16.6 (b). Under N.J.A.C. 1:1- 16.6(c), such participation is limited to the right to argue orally, or file a statement or brief, or file exceptions, or all of these as determined by the trier of fact.

As the Board has stated in previous proceedings, application of these standards involves an implicit balancing test. The need and desire for development of a full and complete record, which involves consideration of a diversity of interests, must be weighed against the requirements of the New Jersey Administrative Code, which recognizes the need for prompt and expeditious administrative proceedings by requiring that an intervenor's interest be specific, direct and different from that of the other parties so as to add measurably and constructively to the scope of the case. See In re the Joint Petition of Public Service Electric and Gas Company and Exelon Corporation for Approval of a Change in Control, BPU Docket No. EM05020106 (June 8, 2005).

After consideration of the papers and given the lack of opposition, I **HEREBY FIND**, pursuant to N.J.A.C. 1:1-16.5, that the participation of PSE&G in this matter is likely to add constructively to the case without causing delay or confusion. Accordingly, I **HEREBY GRANT** the motion for participation of PSE&G, limited to the right to argue orally and file a statement or brief as set out in N.J.A.C. 1:1-16.6(c)(1) and (2).

Procedural Schedule

I have reviewed the proposals for a preliminary schedule, after giving due consideration to the positions of Staff, Rate Counsel and the Company, I **HEREBY ISSUE** the aforementioned as the Prehearing Order, along with the procedural schedule identified as Exhibit A, and **HEREBY DIRECT** the parties to comply with its terms.

The parties are directed to work cooperatively with each other to the fullest extent possible in the interests of reaching a just determination in this proceeding.

I **HEREBY DIRECT** that this Order be posted on the Board's website.

This provisional ruling is subject to ratification or other alteration by the Board as it deems appropriate during the proceedings in this matter.

DATED: 7/29/19


ROBERT M. GORDON
COMMISSIONER

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IMPLEMENT AN INFRASTRUCTURE INVESTMENT PROGRAM ("IIP") AND ASSOCIATED
RECOVERY MECHANISM PURSUANT TO N.J.S.A 48:2-21 AND N.J.A.C. 14:3-2A
BPU DOCKET NO. GR19020278

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EXHIBIT A

IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY TO
IMPLEMENT AN INFRASTRUCTURE INVESTMENT PROGRAM ("IIP") AND ASSOCIATED
RECOVERY MECHANISM PURSUANT TO N.J.S.A. 48:2-21 AND N.J.A.C. 14:3-2A
DOCKET NO. GR19020278

Procedural Schedule³

Deadline for service of discovery on Company's filing	July 1, 2019
Discovery/Settlement conference	July 11, 2019
Public hearings	July 16 th & 17 th , 2019
Deadline for NJNG's responses to discovery on filing	July 17, 2019
Settlement meetings	Week of July 22 nd , 2019 Week of August 5 th , 2019
Rate Counsel/Intervenor pre-filed testimony	August 26, 2019
Discovery served on Rate Counsel/Intervenor testimony	September 6, 2019
Responses to discovery on Intervenor testimony	September 23, 2019
NJNG rebuttal testimony filed	October 8, 2019
Discovery served on rebuttal testimony	October 21, 2019
Responses to discovery on rebuttal testimony	October 31, 2019
Evidentiary hearings (with live surrebuttal testimony)	Week of November 11, 2019
Initial and reply briefs	t/b/d

³ Discovery will be conducted on a rolling basis, with responses due in accordance with N.J.A.C. 1:1-10.4, subject to the scheduled end dates. The aforementioned dates are subject to modification by the presiding Commissioner. The parties on the service list will be notified accordingly.