



Agenda Date: 10/24/07
Agenda Item: 2B

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.nj.gov/bpu/

DIVISION OF ENERGY

IN THE MATTER OF THE MOTION OF PUBLIC	)	ORDER ADOPTING
SERVICE ELECTRIC AND GAS COMPANY TO	)	INITIAL DECISION AND
MODIFY ITS MANUFACTURED GAS PLANT (MPG)	)	APPROVING STIPULATION
REMEDATION COMPONENT WITHIN ITS ELECTRIC	)	FINDING EXPENSES FOR RAC
AND GAS SBC CHARGES AND TO MAKE CHANGES	)	13 AND 14 PERIODS PRUDENT
IN THE TARIFFS FOR ELECTRIC AND GAS SERVICE	)	AND SETTING NEW RAC
B.P.U.N.J. NO. 14, PURSUANT TO <u>N.J.S.A. 48:2-21</u>	)	FACTORS
AND <u>N.J.S.A. 48:2-21.1</u>)	
	)	DOCKET NO. ER07020104

(SERVICE LIST ATTACHED)

BY THE BOARD:

The Manufactured Gas Plant Remediation Adjustment Clause ("RAC") allows for recovery of Public Service Electric and Gas Company's ("Petitioner, PSE&G" or "Company") reasonably incurred Manufactured Gas Plant Remediation Program Costs ("MPG Costs"), amortized over a seven year rolling average period, and carrying charges tied to seven-year treasuries plus sixty basis points. The Company proposed to modify its RAC factors for both gas and electric service in the Motion filed with the Board on February 13, 2007. The RAC is a component of the Societal Benefits Charge.

The time period covered in this filing (RAC-13 and RAC-14) is August 1, 2004 through July 31, 2006. The Company's Motion seeks to reduce its RAC rates by approximately \$17.921 million annually, of which \$6.268 million is applicable to its gas customers and \$11.653 million is applicable to its electric customers. As proposed, the RAC factors are designed to recover \$13.273 million annually through Petitioner's gas SBC and \$5.162 million annually through its electric SBC for a total rate recovery of \$18.435 million annually. This matter was determined to be a contested case and transmitted to the Office of Administrative Law. On June 28, 2007 the Administrative Law Judge (ALJ) conducted a pre-hearing conference and thereafter circulated a Pre-hearing Order establishing a schedule for the proceeding. Board Staff, Rate Counsel and the Company ("the Parties") were the only parties of record in this matter.

Subsequent to comprehensive discovery and extensive discussions, the Parties executed the attached Settlement. The Settlement provides for the following:

- o Adoption of the RAC factors proposed by the Company in its February 13, 2007 filing with the Board.
- o Agreement that the MPG Remediation work performed by PSE&G during the RAC-13 and RAC-14 periods (August 1, 2004 through July 31, 2006) was reasonable and prudent and that the resulting RAC-13 costs of \$42.895 million (net of insurance proceeds) and RAC-14 costs of \$27.895 million (net of insurance proceeds) are reasonable and appropriate for rate recovery.
- o PSE&G's current gas RAC factor shall be reduced by \$6.268 million on an annual basis and the current electric RAC factor shall be reduced by \$11.653 million on an annual basis for a total annual decrease of \$17.921 million.
- o Petitioner's current secondary electric RAC factor of \$0.0424 cents per kWh (including losses and SUT) will be reduced to \$0.0126 cents per kWh. The other electric service RAC factors (Primary, Subtransmission and High Voltage) will be reduced accordingly by voltage level. The current gas RAC factor of 0.6391 cents per therm (including SUT) will be reduced to 0.4225 cents per therm. The above described rates will allow recovery of 1/7th of the RAC-8 through RAC-14 expenditures.
- o The Company's revised RAC factors shall remain in effect until new rates are approved by the Board.
- o During the RAC 13 and 14 periods, the Company properly credited all net proceeds from the sale or lease of MPG properties to the RAC-13 and/or RAC-14 balances for the benefit of customers.
- o The Company will conduct internal audits of expenses that it seeks rate recovery for through the RAC factor. These expenses will continue to be subject to Board audit.

On October 23, 2007 ALJ Irene Jones issued an Initial Decision approving the Settlement in this docket. The ALJ found that the Parties voluntarily agreed to the Settlement and that the Settlement fully disposes of all issues and is consistent with the law.

DISCUSSION AND FINDINGS

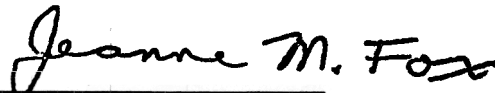
The Board has reviewed the attached Initial Decision and Settlement of the Parties and FINDS them to be reasonable and in the public interest. Accordingly, the Board ADOPTS the Initial Decision and Settlement in their entirety, incorporating the terms and conditions thereof into this Order as if they were set forth at length herein. The Board ORDERS that Petitioner's RAC factor for gas customers other than contract customers be decreased from \$0.6391 cents per therm (including SUT) to \$0.4225 cents per therm (including SUT). The Board FURTHER ORDERS a decrease in Petitioner's RAC factor for electric customers from \$0.0424 cents per kilowatt hour (including SUT) to \$0.0126 cents per kilowatt hour (including SUT) effective on and after the date of this Order.

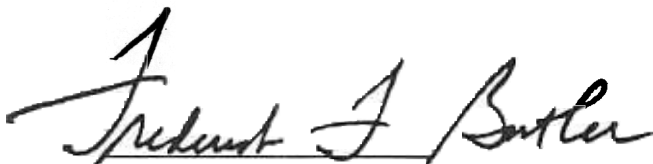
The Board HEREBY DIRECTS the Company to submit revised tariff sheets that conform to the terms and conditions of this Order within ten (10) days from the date of this Order.

The Company's RAC costs shall remain subject to on-going audit by the Board. Additionally, the Company will periodically conduct audits of these expenses. This Decision and Order shall not preclude nor prohibit the Board from taking any actions determined to be appropriate as a result of any such audit.

DATED: 10/25/07

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER

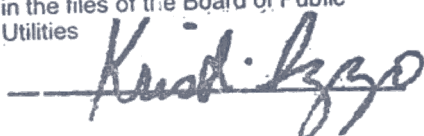

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
COMMISSIONER

ATTEST:


KRISTI IZZO
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 PETITION OF PUBLIC
SERVICE ELECTRIC & GAS COMPANY TO
INCREASE ITS GAS PLANT REMEDIATION ADJUSTMENT CLAUSE
BPU DOCKET NO. GR07020104
SERVICE LIST

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE MOTION OF)	
PUBLIC SERVICE ELECTRIC AND GAS)	
COMPANY TO MODIFY ITS	)	SETTLEMENT
MANUFACTURED GAS PLANT (MGP))	
REMEDATION COMPONENT WITHIN ITS	)	BPU DOCKET NO. ER07020104
ELECTRIC SOCIETAL BENEFITS CHARGE	)	OAL DOCKET NO. PUC 03968-
(SBC) AND ITS GAS SBC; FOR A BOARD	)	2007N
ORDER FINDING THAT ITS MGP)	
REMEDATION WORK PERFORMED)	
DURING THE REMEDIATION)	
ADJUSTMENT CHARGE (RAC) 13 and 14)	
PERIODS, AUGUST 1, 2004 TO JULY 31,)	
2005 AND AUGUST 1, 2005 TO JULY 31,)	
2006, RESPECTIVELY, WAS PRUDENT;)	
THAT THE RESULTING RAC 13 AND 14)	
COSTS ARE REASONABLE AND)	
AVAILABLE FOR RECOVERY; AND TO)	
MAKE CHANGES IN THE TARIFF FOR)	
ELECTRIC SERVICE B.P.U.N.J. NO. 14)	
AND TO MAKE CHANGES IN THE)	
TARIFF FOR GAS SERVICE B.P.U.N.J. NO.)	
14, PURSUANT TO <u>N.J.S.A. 48:2-21</u> AND)	
<u>N.J.S.A. 48:2-21-1</u>)	

On February 13, 2007, Public Service Electric and Gas Company (Public Service, the Company) filed a Motion with the Board of Public Utilities (Board) for an Order finding that Public Service's Manufactured Gas Plant (MGP) Remediation work performed during the Remediation Adjustment Charge (RAC) periods, August 1, 2004 through July 31, 2005 (RAC 13) and August 1, 2005 to July 31, 2006 (RAC 14) was

prudent, and that the resulting RAC 13 and RAC 14 costs are reasonable and appropriate for rate recovery. The Company's filing also requested that the Board approve revised tariff sheets for the RAC components of its gas Societal Benefits Charge (SBC) and electric SBC rates that would result in reduced annual RAC revenues from the Company's gas customers of approximately \$6.268 million, and reduced annual RAC revenues from the Company's electric customers of approximately \$11.653 million. The Company's filing requested authority to (1) decrease its Gas RAC factor rate from 0.6391 cents per therm (including SUT) to 0.4225 cents per therm (including SUT); and (2) to decrease its Electric RAC factor rate for secondary service from 0.0424 cents per kWh (including losses and SUT) to 0.0126 cents per kWh (including losses and SUT), with other voltage level services reduced accordingly.

The Company proposed a July 1, 2007 effective date for these tariff changes.

On June 28, 2007 the Administrative Law Judge (ALJ) conducted a pre-hearing conference and thereafter circulated a Pre-hearing Order establishing a schedule for the proceeding.

The Board Staff (Staff) and the Department of the Public Advocate, Division of Rate Counsel (Rate Counsel), the only parties to this proceeding (the Parties), have propounded discovery requests, to which the Company has responded . In addition,

Staff, Rate Counsel and the Company have held settlement and discovery conferences concerning this matter.

NOW, THEREFORE, THE UNDERSIGNED AGREE AS FOLLOWS:

- 1) The Company's MGP Remediation work performed during the RAC 13 period, August 1, 2004 to July 31, 2005 and during the RAC 14 period, August 1, 2005 to July 31, 2006, as described in Company witness Bruce A. Preston's testimony (Attachment B to the Company's Motion), was prudent and reasonable, and the resulting RAC 13 costs of \$42.895 million (net of insurance proceeds and other recoveries) and RAC 14 costs of \$27.895 million (net of insurance proceeds and other recoveries) are reasonable and appropriate for recovery.
- 2) The Parties agree that the current electric and gas RAC rates, approved by the Board on December 5, 2005, should be changed as follows. The current gas RAC rates shall be reduced by \$6.268 million on an annual basis, and the current electric RAC rates shall be reduced by \$11.653 million on an annual basis, for a total decrease of \$17.921 million on an annual basis. The current secondary service electric RAC factor of 0.0424 cents per kWh (including losses and sales and use tax (SUT)) will be reduced to 0.0126 cents per kWh (including losses and SUT). The other electric services by voltage level (Primary, Subtransmission and High Voltage) will also be reduced accordingly. Similarly, the current gas RAC factor of 0.6391 cents per therm (including SUT) will be reduced to 0.4225

service territory. Public hearings concerning the Company's Petition were held in Flemington, New Jersey on September 25, 2007 and Rahway, New Jersey on September 27, 2007. Two members of the public appeared in Rahway only.

3. Representatives of Elizabethtown, the Board's Staff and Rate Counsel are the only parties to this proceeding (collectively "the Parties"). The Parties agree that additional time is needed to complete the review of the Company's filing and that provisional rates are reasonable to permit Elizabethtown to timely collect appropriate costs while additional review of the Company's filing takes place.

4. The Parties have determined and hereby **STIPULATE AND AGREE** that, pending the conclusion of any further review and discussions among the Parties and a final determination by the Board, and pursuant to N.J.S.A. 48:2-21.1, it would be both reasonable and in the public interest for the Board to authorize Elizabethtown to decrease its BGSS-P rate to \$1.0339 per therm inclusive of all applicable taxes. This authorization will be implemented on a provisional basis, subject to refund with interest on any net overrecoveries, and after an opportunity for a full review of the Company's filing in this proceeding, subject to final Board approval. The stipulated change results in a bill decrease from the BGSS-P rate currently in effect of approximately 4.47%, or \$6.88 per month, for a typical residential heating customer using 100 therms per month. The Parties request that the Board issue an order authorizing the provisional rates effective as close to October 1, 2007 as reasonably possible.

5. The Company will submit tariff sheets in compliance with the provisional rates within 10 days of the Board's Order approving these rates.

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5. The Company will submit tariff sheets in compliance with the provisional rates within 10 days of the Board's Order approving these rates.

- 6) The Parties agree that this Settlement is being entered into exclusively for the purpose of resolving the issues in this matter. The parties further agree that this Settlement resolves all issues regarding the Company's RAC 13/RAC 14 filing.
- 7) The Parties agree that this Settlement was negotiated and agreed to in its entirety with each section being mutually dependent on approval of all other sections. Therefore, if the Board modifies any of the terms of this Settlement, each party is given the option, before implementation of any different rate or terms in this case, to accept the change or to resume the proceeding as if no agreement had been reached. If these proceedings are resumed, each party is given the right to return to the position it was in before this settlement was executed.
- 8) The Parties agree that the Company's MGP remediation costs will remain subject to audit by the Board. Additionally, the Company periodically conducts audits of these expenses, similar to its other expenses. The Parties further agree to defer, until a future proceeding, any determination as to the recoverability of Natural Resource Damage costs through the RAC mechanism.
- 9) The Parties hereby agree that this Settlement has been made exclusively for the purpose of this proceeding and that this Settlement, in total or by specific item, is

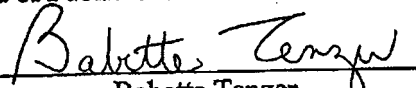
in no way binding upon them in any other proceeding, except to enforce the terms of this Settlement.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

By: 
Gregory Eisenstark, Esq.

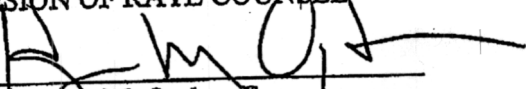
DATED: Oct. 11, 2007

ANNE MILGRAM
ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the
Board of Public Utilities

By: 
Babette Tenzer
Arlene Paskow
Deputy Attorneys General

DATED: 10/11/07

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PUBLIC ADVOCATE OF NEW JERSEY
STEFANIE A. BRAND, DIRECTOR
DIVISION OF RATE COUNSEL

By: 
Henry M. Ogden, Esq.
Assistant Deputy Public Advocate

DATED: October 11, 2007