



STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

ENERGY

IN THE MATTER THE BOARD'S ESTABLISHMENT OF)	DECISION AND ORDER
A GENERIC PROCEEDING TO REVIEW THE)	APPROVING STIPULATION
PRUDENCY OF COSTS INCURRED BY PUBLIC)	
SERVICE ELECTRIC AND GAS COMPANY IN)	
RESPONSE TO MAJOR STORM EVENTS IN 2011)	
AND 2012; AND)	DOCKET NO. AX13030196
)	
IN THE MATTER OF THE BOARD'S ESTABLISHMENT)	
OF A GENERIC PROCEEDING TO REVIEW THE)	
PRUDENCY OF COSTS INCURRED BY NEW JERSEY)	
UTILITY COMPANIES IN RESPONSE TO MAJOR)	
STORM EVENTS IN 2011 AND 2012)	DOCKET NO. EO13070607

Parties of Record:

Matthew Weissman, Esq., for Public Service Electric and Gas Company
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

BACKGROUND

On March 20, 2013, the Board issued an Order establishing a generic proceeding to review the prudence of costs incurred by New Jersey utilities in response to multiple Major Storm Events¹ in 2011 and 2012² ("March 20 Order"). Among other things, the March 20 Order required any utility seeking reimbursement for these costs from its ratepayers to file a detailed expense report

¹ For the purposes of the proceeding, "Major Storm Event" is defined as a sustained impact on or interruption of utility service resulting from conditions beyond the control of the utility that affects at least 10 percent of the customers in an operating area. March 20 Order at 2.

² In re the Board's Establishing a Generic Proceeding to Review the Prudence of Costs Incurred by NJ Utility Companies in Response to Major Storm Events in 2011 and 2012, Docket No. AX13030196, March 20, 2013.

by July 1, 2013, for evaluation and prudence review under its own separate sub-docket within the generic proceeding. March 20 Order at 3.

The March 20 Order further provided the Board would utilize the filings required by the March 20 Order to review the prudence of each utility's Major Storm Events costs and "as a condition for approval of the right to recover un-reimbursed extraordinary Major Storm Event costs from ratepayers in a currently pending or future base rate filing." March 20 Order at 4.

In response to the March 20 Order, on June 28, 2013, Public Service Electric and Gas Company ("PSE&G" or "the Company") filed a report ("June Filing") detailing what the Company asserted were its unreimbursed Major Storm Event costs and requesting that the Board review the prudence of these expenditures incurred in connection with service restoration related to the Major Storm Events. The June Filing and the subsequent updates provided thereto in discovery detailed the damage from and the Company's response to the Major Storm Events, and summarized the incremental restoration cost per storm as follows:

MAJOR STORM COSTS					
Major Storm Events	Outage Information (% of customers)	Capital Expenditures (CapEx) (\$000)	O&M Expenses (\$000)	CapEx + O&M Expenses (\$000)	Incremental O&M Expenses (\$000)
Superstorm Sandy (10/27/12 – 11/15/12),	2.01 million or 91% of PSE&G electric customers	\$78,742	\$217,759	\$296,501	\$179,327
October 2011 Snowstorm (10/29/11) – 11/6/11)	636,900 or 29% of PSE&G customers	\$11,514	\$34,490	\$46,004	\$24,204
Hurricane Irene (8/27/11 – 9/4/11)	872,490 or 39.4% of PSE&G customers	\$16,309	\$39,521	\$55,830	\$28,331
March 2010 Nor'easter	607,403 or 32% of PSE&G customers	\$18,270	\$17,563	\$35,833	\$6,929
February 2010 Blizzard	39,685, or 69% of PSE&G's Southern Division Customers	\$945	\$5,416	\$6,361	\$1,716
Total		\$125,780	\$314,749	\$440,529	\$240,507

Based upon the forgoing, PSE&G requested that the Board determine that its unreimbursed incremental Major Storm costs of \$240,506,727 for Operations and Maintenance ("O&M") and \$125,780,421 for capital expenditures be found by the Board to be reasonable, prudent and recoverable in rates by the Company in a future base rate proceeding.

By Order dated November 22, 2013, this matter was retained for hearing at the Board, and Commissioner Joseph Fiordaliso was designated as the presiding Commissioner with authority to rule on all matters that arise during the proceeding. On January 9, 2014, Commissioner Fiordaliso issued an initial Order Setting Bar Date for the filing of motions to intervene, Manner of Service and Preliminary Schedule. Commissioner Fiordaliso issued a prehearing order along with a procedural schedule for this matter on February 7, 2014. Throughout the course of this matter, the Company, the Division of Rate Counsel ("Rate Counsel") and Board staff (collectively, "Parties") have engaged in discovery.

After notice in newspapers of general circulation within PSE&G's service territory, and the serving of notice upon affected municipalities and counties within the Company's service area, public hearings were conducted in this matter by Commissioner Fiordaliso in Hackensack, New Brunswick and Mount Holly on August 11, 12, and 14, 2014, respectively. Two members of the public appeared at the hearings in Hackensack and two members of the public appeared at the hearings in New Brunswick. One customer expressed concern about the fairness of the Company's recovery of storm costs when PSE&G was insulated from liability to the individual for flood damages he incurred because his sump pump did not work during certain major storm events. The issues expressed by the three other members of the public included a concern about the cost of utility service generally and the Company's collection practices. One member of the public posed a question about the timing of Board decisions. A representative speaking on behalf of the Mercer County Workers Benefit Council asserted that PSE&G should not receive any further rate increases because (i) New Jersey's economic recovery is lagging behind the nation; (ii) PSE&G only provides safe and reliable service when the ratepayers are willing to pay for the service; and (iii) despite the decisions of the Board and the New Jersey Supreme Court, PSE&G's stranded costs resulting from energy restructuring were unfair.

STIPULATION

Following the review of discovery and testimony, the Parties met to discuss the issues in this matter. As a result, on September 17, 2014, the Parties executed a stipulation of settlement ("Stipulation"). The Stipulation provides the following³:

1. The Company has represented that its costs related to the Major Storm Events (which are defined within the Stipulation to consist of Superstorm Sandy, the October 2011 Snowstorm, Hurricane Irene, the March 2010 Nor'easter, and the February 2010 Blizzard) total \$366,287,148, which consists of \$125,780,421 in capital costs, and \$240,506,727 in incremental O&M costs, are reasonable, prudent and eligible and appropriate for inclusion in, and recovery through a future rate proceeding before the Board. Board Staff and Rate Counsel agree that the costs incurred are reasonable and prudent subject to the adjustments set forth in the Stipulation. The Company agrees that it will not seek to recover any other Major Storm costs related to the Major Storm Events in any future base rate proceeding.
2. For the purposes of settlement, the Parties agree that the incremental O&M amount of \$240,506,727 shall be reduced by \$424,000 to reflect a reduction in expenses for food and incremental pay provided to certain management employees in connection with their service restoration efforts. This constitutes a compromise by the Parties for purposes of settlement and is without prejudice to the Parties' rights in future storm proceedings to argue in favor of, or against, the recovery in rates of certain food and incremental pay expenses associated with extreme weather events. As a result, the Parties agree that incremental O&M expense in the amount of \$240,082,727 is reasonable and prudent, should be eligible for rate recovery and that the Company may seek rate recovery of these costs in a future base rate proceeding.

³ Although described at some length in this Order, should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusions of this Order.

3. The Parties agree that the amount of reasonable and prudently incurred capital costs that have been reviewed in this proceeding is \$125,780,421. The parties agree that the Company may seek recovery for the net book value of these capital costs, after adjustments have been made for depreciation and Allowance for Deferred Taxes in a future base rate proceeding.
4. The amount of prudently incurred, recoverable, O&M and capital costs set forth in Paragraphs 2 and 3 of the Stipulation shall be reduced by the amount of insurance proceeds the Company receives from claims for damage caused to distribution assets by the Major Storms. Such insurance proceeds for damaged distribution assets will be netted out of the Major Storm Costs that PSE&G will recover in a future base rate proceeding.
5. The Parties reserve their rights to take whatever position each deems appropriate in regard to the length of the amortization period for recovery of the reasonable and prudently incurred incremental O&M expense set forth in Paragraph 2 of the Stipulation. The Parties also reserve their rights to take whatever position each deems appropriate regarding any carrying charge that may be applied to the deferred incremental O&M costs that the Parties have agreed are reasonable and prudent. Further, the Parties agree that the amortization period and any carrying charge rate applicable to the deferred incremental O&M costs that have been deemed reasonable and prudent in this proceeding shall be determined in a future base rate proceeding.

DISCUSSION AND FINDINGS

The March 20 Order required certain information to be filed by the utilities which would be reviewed by Board Staff and other interested parties to determine if the preparation, recovery and restoration costs associated with the Major Storm Events were prudent. According to the Stipulation, the Major Storm Events costs have been reviewed by the Parties, and it has been determined that the majority of the costs incurred by PSE&G for the Major Storm Events in 2010, 2011 and 2012 are reasonable and prudent. Based on the Board's review of the petition and Stipulation, the Board **HEREBY FINDS** that the requirements of the March 20 Order have been satisfied.


Based on the Board's careful review and consideration of the record in this proceeding, the Board **HEREBY FINDS** the Stipulation to be reasonable and in accordance with the law, striking an appropriate balance between the needs of customers and of the Company. Therefore, the Board **HEREBY FINDS** that the 2010, 2011 and 2012 Major Storm Costs may be recovered from ratepayers in a future base rate proceeding subject to the conditions specified above. Accordingly, the Board **HEREBY ADOPTS** the Stipulation in its entirety, and **HEREBY INCORPORATES** its terms and conditions as though fully set forth herein.

The Board **HEREBY RATIFIES** the decisions of Commissioner Fiordaliso rendered during this proceeding for the reasons stated in his Orders.

This Order shall become effective on October 10, 2014.

DATED: 9/30/14

BOARD OF PUBLIC UTILITIES
BY:

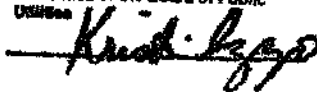

DIANNE SOLOMON
PRESIDENT


JOSEPH L. FIORDALISO
COMMISSIONER


MARY-ANNA HOLDEN
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



Docket No. EO13070607 – In the Matter the Board’s Establishment of a Generic Proceeding to Review the Prudence of Costs Incurred by Public Service Electric and Gas Company in Response to Major Storm Events in 2011 and 2012; and

Docket No. AX13030196 – In the Matter of the Board’s Establishment of a Generic Proceeding to Review the Prudence of Costs Incurred by New Jersey Utility Companies in Response to Major Storm Events in 2011 and 2012

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September 17, 2014

In the Matter of the Board's Establishing a
Generic Proceeding to Review the Prudence of Costs
Incurred by NJ Utility Companies in Response to
Major Storm Events in 2011 and 2012

BPU Docket Nos. AX13030196 & EO13070607

VIA ELECTRONIC MAIL & OVERNIGHT MAIL

Kristi Izzo, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, New Jersey 08625

Dear Secretary Izzo:

On behalf of Public Service Electric and Gas Company ("PSE&G") enclosed for filing is an original and ten copies of a Stipulation of Settlement ("Stipulation") in the above-referenced matter. The document has been executed by the parties to the proceeding (i.e., PSE&G, Board of Public Utilities' Staff, and Division of Rate Counsel).

Please stamp a copy of the Stipulation filed and return a copy in enclosed addressed envelope. Should you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Hesser G. McBride, Jr.", written over a faint, circular stamp or watermark.

C Attached Service List (E-mail Only)

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

IN THE MATTER OF THE BOARD'S)
ESTABLISHMENT OF A GENERIC)
PROCEEDING TO REVIEW THE PRUDENCY)
OF COSTS INCURRED BY NJ UTILITY)
COMPANIES IN RESPONSE TO MAJOR)
STORM EVENTS IN 2011 AND 2012)

**STIPULATION
OF
SETTLEMENT**

BPU Docket No. AX13030196

IN THE MATTER OF THE BOARD'S)
ESTABLISHMENT OF A GENERIC)
PROCEEDING TO REVIEW THE PRUDENCY)
OF THE COSTS INCURRED BY PUBLIC)
SERVICE ELECTRIC AND GAS COMPANY)
IN RESPONSE TO MAJOR STORM EVENTS)
IN 2011 AND 2012)

BPU Docket No. E013070607

APPEARANCES:

Matthew M. Weissman, Esq., General Regulatory Counsel - Rates and **Hesser G. McBride, Jr., Esq.**, Associate General Regulatory Counsel on behalf of Public Service Electric and Gas Company

Alex Moreau, Deputy Attorney General and **T. David Wand, Deputy Attorney General (John J. Hoffman, Acting Attorney General of New Jersey)**, on behalf of the Staff of the Board of Public Utilities

Stefanie A. Brand, Esq., Director, **Ami Morita, Esq.**, Deputy Rate Counsel, **Felicia Thomas-Friel, Deputy Rate Counsel**, **Diane Schulze, Esq.**, Assistant Deputy Rate Counsel, and **Kurt Lewandowski, Esq.**, Assistant Deputy Rate Counsel, on behalf of the New Jersey Division of Rate Counsel

TO THE HONORABLE COMMISSIONERS OF THE BOARD OF PUBLIC UTILITIES:

This Stipulation of Settlement ("Stipulation") is hereby made and executed as of the dates stated below, by and among the Petitioner Public Service Electric and Gas Company ("PSE&G," the "Company," or the "Petitioner"), the New Jersey Board of Public Utilities Staff ("Board Staff"), and the New Jersey Division of Rate Counsel ("Rate Counsel") (collectively the

“Parties”). The Parties do hereby join in recommending that the New Jersey Board of Public Utilities (“Board”) issue an Order adopting the terms of this Stipulation, based on the following:

Background

Petitioner is a corporation of the State of New Jersey, having its principal offices at 80 Park Plaza, Newark, New Jersey and subject to regulation by the Board for the purposes of setting its retail distribution rates and to assure safe, adequate and reliable electric distribution and natural gas distribution service pursuant to N.J.S.A. 48:2-21, *et seq.*

PSE&G’s customers have been subject to several extreme weather events in recent years, dating from a blizzard and Nor’easter in the February-March 2010 timeframe to Superstorm Sandy in October 2012, with Hurricane Irene and an off-season snowstorm in between during calendar year 2011. In each instance, the Company incurred significant incremental storm restoration costs not included in base rates.

On March 20, 2013, the Board issued an Order establishing a generic proceeding to examine the prudence of costs incurred by New Jersey utilities in response to Major Storm Events in 2011 and 2012.¹ The March Order directed utilities to submit a report identifying all extraordinary preparation, recovery and restoration costs incurred as a result of “the Major Storm Events”, including costs for the utilization of mutual aid crews, extraordinary employee deployment costs, facility repair and upgrades, and operational steps taken to mitigate damage.

The March Order further provided the Board would utilize the filings required by the March Order to review the prudence of each utility’s Major Storm Event costs and “as a condition

¹ I/M/O The Board’s Establishing A Generic Proceeding To Review The Prudence of Costs Incurred By NJ Utility Companies In Response To Major Storm Events in 2011 and 2012, BPU Docket No. AX13030196, Order Establishing Generic Proceeding (March 20, 2013) (“March Order”).

for approval of the right to recover unreimbursed extraordinary Major Storm Event costs from ratepayers in a currently pending or future base rate filing.”²

On June 28, 2013, the Company filed a Petition responding to the March Order (“Prudency Review Petition”) and requesting that the Board review the prudency of the Company’s expenditures in connection with service restoration relating to the Major Storm Events set forth below.³ The Prudency Review Petition and related exhibits set forth a detailed description of the damage from and the Company’s response to the relevant Major Storm Events, and the costs incurred by the Company in connection with the Major Storm Events.

In the Prudency Review Petition and in updates thereto provided through responses to discovery requests, PSE&G identified storm-related costs in the amounts below (“Major Storm Costs”).

² March Order, at 4.

³ In the Prudency Review Petition, PSE&G acknowledges that the March 2013 Order initiated this generic proceeding to investigate the prudency of costs incurred by New Jersey utilities for service restoration efforts associated with Major Storm Events that occurred in 2011 and 2012. However, since PSE&G previously sought deferral authority for costs incurred due to certain storms that took place in 2010 (see August 26, 2011 Petition, BPU Docket Nos. EO11090518 and GO11090519), and the Board subsequently granted that authority, PSE&G included in the Prudency Review Petition information regarding deferred incremental storm restoration costs not otherwise recovered through rates and actually incurred as a result of the 2010 storms. See I/M/O the Petition of Public Service Electric and Gas Company and Atlantic City Electric Company’s Request for Deferral Accounting Authority for Storm Damage Restoration Costs and I/M/O the Petition of Public Service Electric and Gas Company’s Request for Deferral Accounting Authority for Storm Damage Restoration Costs, Docket Nos. EO11090518 and GO11090519, and EO12110995 and GO12110996, Orders (December 19, 2012 and February 20, 2013) (the “Deferral Orders”).

MAJOR STORM COSTS					
Extreme Weather Events	Outage Information (% of customers)	Capital Expenditures (CapEx) (\$000)	O&M Expenses (\$000)	CapEx + O&M Expenses (\$000)	Incremental O&M Expenses (\$000)
Superstorm Sandy (10/27 – 11/15, 2012)	2.01 million or 91% of PSE&G electric customers	\$78,742	\$217,759	\$296,501	\$179,327
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Based upon the forgoing, the Company requested that the Board determine that its unreimbursed incremental Major Storm costs of \$240,506,727 for Operations and Maintenance (“O&M”) and \$125,780,421 for capital expenditures be found by the Board to be reasonable, prudent and recoverable in rates by the Company in a future rate proceeding.

After the issuance of proper notice, public hearings were conducted in this matter in Hackensack, New Brunswick and Mount Holly on August 11, 12, and 14, 2014, respectively. At the hearings, four members of the public provided comments. One member stated that it was unfair for the Company to recover its storm damage expenditures because various customers incurred unreimbursed expenditures. The other persons providing comments expressed opposition to the Company’s storm damage recovery based upon objection that the Company’s rates are already high.

Throughout the course of this proceeding, the Company has responded to extensive discovery requests and the Parties engaged in settlement discussions. After reviewing

the Company's discovery responses and engaging in settlement discussions, the Parties hereby stipulate and agree as follows:

1. The Company asserts that its costs related to the Major Storms Events (which are defined herein to consist of Superstorm Sandy, the October 2011 Snowstorm, Hurricane Irene, the March 2010 Nor'easter, and the February 2010 Blizzard) total \$366,287,148, which consists of \$125,780,421 in capital costs, and \$240,506,727 in incremental O&M costs. After review and analysis, the Parties agree that, subject to the adjustments below, these costs are reasonable and prudent; these costs should be eligible for rate recovery; and the Company may seek rate recovery of these costs in a future base rate proceeding before the Board. The Company agrees that it will not seek to recover any other Major Storm costs related to the Major Storms Events in any future rate case.

2. For the purposes of settlement, the Parties agree that the incremental O&M amount of \$240,506,727 shall be reduced by \$424,000 to reflect a reduction in expenses for food and incremental pay provided to certain management employees in connection with their service restoration efforts. The agreement in this paragraph constitutes a compromise by the Parties for purposes of settlement and is without prejudice to the Parties' rights in future storm proceedings to argue in favor of, or against, the recovery in rates of certain food and incremental pay expenses associated with extreme weather events. As a result, the Parties agree that incremental O&M expense in the amount of \$240,082,727 is reasonable and prudent and should be eligible for rate recovery, and the Company may seek rate recovery of these costs in a future base rate proceeding.

3. The Parties agree that the amount of reasonable and prudently incurred capital costs that have been reviewed in this proceeding is \$125,780,421. The parties agree that the Company may seek recovery for the net book value of these capital costs, after adjustments have been made for depreciation and Accumulated Deferred Income Taxes, in a future base rate proceeding.

4. The amount of prudently incurred and recoverable O&M and capital costs set forth in Paragraphs 2 and 3 above shall be reduced by the amount of insurance proceeds the Company receives from claims for damage caused to distribution assets by the Major Storms. Such insurance proceeds for damaged distribution assets will be netted out of the Major Storm Costs that PSE&G will recover in a future base rate proceeding.

5. The Parties reserve their rights to take whatever position each deems appropriate in regard to the length of the amortization period for recovery of the reasonable and prudently incurred incremental O&M expense set forth in Paragraph 2 above. The Parties also reserve their rights to take whatever position each deems appropriate regarding any carrying charge that may be applied to the deferred incremental O&M costs that the Parties have agreed are reasonable and prudent. Further, the Parties agree that the amortization period and any carrying charge rate applicable to the deferred incremental O&M costs that have been deemed reasonable and prudent in this proceeding shall be determined in a future base rate proceeding.

6. The Parties by way of the filing of this Stipulation hereby request that the Board accept and approve the agreed-upon amount of Major Storm Costs set forth in this Stipulation as prudent and reasonable; and the Parties agree that the Company may seek rate recovery of these costs in a future base rate proceeding.

7. This Stipulation shall be binding on the Parties upon approval by the Board. This Stipulation shall bind the Parties in this matter only and shall have no precedential value. This Stipulation contains terms, each of which is interdependent with the others and essential in its own right to the signing of this Stipulation. Each term is vital to the agreement as a whole, since the Parties expressly and jointly state that they would not have signed the Stipulation had any term been modified in any way. Since the Parties have compromised in numerous areas, each is entitled to certain procedures in the event that any modifications whatsoever are made to the Stipulation. If, upon consideration of this Stipulation, the Board were to modify any of the terms described above, the Parties each must be given the right to be placed in the position it was in before the Stipulation was entered into. It is essential that each Party be afforded the option, prior to the implementation of any modification of this Stipulation, either to modify its own position to accept the proposed change(s) or to resume the proceeding as if no agreement had been reached. This proceeding, under such circumstance, would resume at the point where it was terminated. The Parties agree that these procedures are fair to all concerned, and therefore, they are made an integral and essential element of this Stipulation. None of the Parties shall be prohibited from or prejudiced in arguing a different policy or position before the Board in any other proceeding, as such agreements pertain only to this matter.

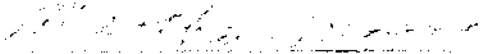
8. This Stipulation may be executed in as many counterparts as there are Parties of this Stipulation, each of which counterparts shall be an original, but all of which shall constitute one and the same instrument.

Wherefore, the Parties hereto have duly executed and respectfully submit this Stipulation to the Board, and recommend that the Board issue a final Decision and Order adopting and approving this Stipulation in its entirety and specifically finding that the Major Storm Costs incurred by the Company, as set forth herein, are reasonable and prudent, and the Company may seek rate recovery of these costs in a future base rate proceeding in accordance with the terms hereof.

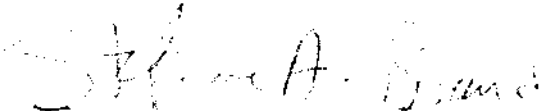
PUBLIC SERVICE ELECTRIC AND GAS COMPANY

NFW JERSEY DIVISION OF RATE COUNSEL, STEFANIE A. BRAND, DIRECTOR

BY:


Matthew M. Weissman
General Regulatory Counsel - Rates

BY:


Stefanie A. Brand
Director

DATED:




DATED:



JOHN JAY HOFFMAN
ACTING ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the Board of Public Utilities

BY:


Alec Moreau
Deputy Attorney General

DATED:

