Agenda Date: 11/16/15
Agenda Item: 2F

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 OF PUBLIC SERVICE ELECTRIC AND GAS COMPANY FOR APPROVAL OF A GAS SYSTEM MODERNIZATION PROGRAM AND ASSOCIATED COST RECOVERY MECHANISM	))))	DECISION AND ORDER APPROVING STIPULATION DOCKET NO. GR15030272

Parties of Record:

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Samuel I. Portnoy, Esq., Gibbons, PC, for Creamer-Sanzari Joint Venture
Vincent M. Giblin, Esq., Pitta & Giblin, LLP, for Local 825

BY THE BOARD:[1]

BACKGROUND

On February 27, 2015, Public Service Electric and Gas ("PSE&G" or "Company") filed a petition with the New Jersey Board of Public Utilities ("Board") that requested approval to implement and administer a Gas System Modernization Program ("GSMP" or "Program") and to implement an associated cost recovery mechanism. The Company also sought approval to spend up to $1.594 billion in GSMP investment across its gas service territory over five and one-half (5.5) years. According to the petition, the GSMP would replace cast iron mains, unprotected steel mains and services, abandon district regulators associated with cast iron and unprotected steel plant and relocate inside meter sets. The Company anticipated that these expenditures would

[1] Commissioner Upendra J. Chivukula recused himself due to a potential conflict of interest and as such took no part in the discussion or deliberation of this matter.

result in the replacement of approximately 810 miles of cast iron and unprotected steel mains, 55,000 unprotected steel services, and associated district regulators.

The Company proposed to implement the same cost-recovery methodology and rate design as used for the Energy Strong Program, including annual "roll-in" filings based on investment through May 31, with no deferred return or deferred depreciation, for rates to be effective as of September 1.[2] The Company also sought a return on and of the approved investments using an after-tax weighted average cost of capital of 6.32% based on a return on equity of 9.75% and a cost of debt of 4.60%.

By Order dated April 15, 2015, the Board retained this matter for hearing, and designated Commissioner Joseph L. Fiordaliso as the presiding officer with the authority to establish and modify schedules, decide all motions and otherwise control the conduct of this case, subject to Board ratification.

On May 21, 2015, Commissioner Fiordaliso issued a Prehearing Order and an accompanying procedural schedule. Thereafter, on May 27, 2015 ("May 27, 2015 Order"), Commissioner Fiordaliso granted the motion of the New Jersey Large Energy Users Coalition to intervene, and the motions of the PSE&G Unions and AARP to participate in the matter.[3] In the May 27, 2015 Order, Commissioner Fiordaliso also denied the request made by Ferreira Construction Company, Inc. ("Ferreira") to intervene, but granted it participant status pursuant to N.J.A.C. 1:1-16.6, limited to the right to argue orally and file a statement or brief.

After publication of notice in newspapers of general circulation in the Company's service territory, public hearings were held in both the afternoon and the evening on June 8, 2015, June 11, 2015 and June 16, 2015 in New Brunswick, Westampton and Hackensack, respectively. At each of the hearings a variety of comments were received, as reflected in the transcripts of those hearings.

By Order dated July 2, 2015 ("July 2, 2015 Order"), Commissioner Fiordaliso denied a motion for reconsideration filed by Ferreira and motions to intervene filed by New Jersey Laborer's Employers Cooperation and Trust ("NJLECET"), Engineers Labor-Employer Cooperative ("ELEC"), International Union of Operating Engineers and Local 825 ("Local 825"). However, the July 2, 2015 Order granted participant status to NJLECET, ELEC and Local 825. The July 2, 2015 Order also granted a motion to participate that was filed by Creamer-Sanzari Joint Venture, as well as a motion to intervene and a motion for *pro hac vice* filed by the Environmental Defense Fund.

Following the issuance of the Prehearing Order, the parties engaged in discovery and several settlement conferences during the month of July. By letter dated August 6, 2015, the New Jersey Division of Rate Counsel ("Rate Counsel") requested additional time in the procedural schedule to continue settlement discussions while maintaining the reserved evidentiary hearing dates in October. On August 10, 2015, Commissioner Fiordaliso issued an Order and revised procedural schedule which granted Rate Counsel's request for additional time to complete discovery.

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[2] In re Petition of Public Service Electric and Gas Company for Approval of the Energy Strong Program, BPU Docket Nos. EO13020155 & GO13020156 (Order dated May 21, 2014) ("Energy Strong Order").

[3] The Unions include Local Union 94 of the International Brotherhood of Electrical Workers, and Local 855 of the United Association of Journeymen and Apprentices of Plumbing and Pipefitting Industry.

According to information provided by the parties, numerous settlement conferences were conducted at the Company's location and Office of Rate Counsel in July and August 2015. Several phone conferences were also held.

STIPULATION[4]

Following the review of discovery, testimony, and transcripts, on November 2, 2015 PSE&G, Rate Counsel, New Jersey Large Energy Users Coalition, Environmental Defense Fund, Local Union 94 of the International Brotherhood of Electrical Workers, and Local 855 of the United Association of Journeymen and Apprentices of Plumbing and Pipefitting Industry, Ferreira Construction, New Jersey Laborers-Employers Cooperation and Education Trust, Engineers Labor-Employment Cooperative, Creamer-Sanzari Joint Venture, Local 825, and Board Staff (collectively, "Signatory Parties") executed a stipulation of settlement ("Stipulation") resolving all of the issues in the proceeding. In pertinent part, the Stipulation provides the following:

> The Program includes investment in the PSE&G gas distribution system, a cost recovery mechanism ("Alternative Rate Mechanism") including scheduled rate adjustments for investments included in the Program, required gas distribution base investments that are not recoverable through the Alternative Rate Mechanism ("Stipulated Base"), and other provisions as described in the Stipulation.
>
> The Program shall have a three (3) year term beginning on January 1, 2016 and ending December 31, 2018, except as noted in the Stipulation.
>
> The Program will include the costs to replace PSE&G's Utilization Pressure Cast Iron ("UPCI") mains and associated services and unprotected steel mains and associated services. The Program will also include costs related to the uprating of the UPCI segments to higher pressure including the installation of excess flow valves and the elimination of district regulators.
>
> The Program costs will exclude the costs to replace high pressure cast iron mains, meters, and the additional costs associated with the relocation of inside meter sets to outdoor locations.
>
> The cost of the Program shall be limited to $650 million, which excludes the costs associated with the Stipulated Base and Allowance for Funds Used During Construction. Recovery of costs beyond $650 million may be sought through a base rate case. Notwithstanding the forgoing, PSE&G shall not install more than 400 miles of mains in this Program to replace UPCI and unprotected steel mains. The Signatory Parties agree that the 400 mile limitation is a limit of the Program; nevertheless, if PSE&G exceeds that limit by a *de minimus* amount, it shall not be precluded from seeking cost recovery of the amount over the 400 miles through the Program cost recovery mechanism, up to the program cost limit of $650 million.
>
> The Company will have the option of seeking Board approval to extend the Program beyond the term provided in the Stipulation.

[4] Although described at some length in this Order, should there be any conflict between this summary and the Settlement, the terms of Settlement control, subject to the findings and conclusion in this Order.

During the three (3) years 2016 through 2018, the Company will be required to maintain a base level of capital spending that is not recoverable through the Alternative Rate Mechanism provided in the Stipulation (i.e., the Stipulated Base) for the planned replacement of cast iron and unprotected steel mains and services during the course of the Program of $85 million per calendar year.

The Stipulated Base will not include Program expenditures or expenditures related to leak repairs. During the three (3) years 2016 – 2018, PSE&G will install and place in service no less than 110 miles of main to replace cast iron and unprotected steel mains and associated services under this Stipulated Base. If the Company fails to install and place in service 110 miles of main and associated services by December 31, 2018 it will complete this work without seeking cost recovery from ratepayers for any such expenditures incurred after December 31, 2018. If the Company fails to spend $85 million in any calendar year for Stipulated Base, the Company shall expend the amount of the shortfall without seeking cost recovery from ratepayers for such expenditures to make up the shortfall.

The replacement of mains in the Program shall follow the prioritization based on the grid-based Leak Hazard Indices developed by PSE&G using its Hazard Assessment model. Unprotected steel mains may also be selected based on additional factors such as age, size and pressure where insufficient leak hazard data exists.

Rate Design – Until the next base rate case, the rate design for the annual rate adjustments will be structured similarly to the rate design methodology used to set rates in the most recent base rate case. The weather normalization process will be consistent with the Company's Weather Normalization Charge. The Company will utilize weather normalized annualized billing determinants from the latest approved gas Energy Strong Program rate adjustment, or from the latest approved base rate case.

The timing and accounting for provisional Program investment recoverability are detailed in paragraphs 17, 18 and 19 of the Stipulation.

The Signatory Parties acknowledge that the stipulation of settlement that was adopted by the Energy Strong Order explicitly requires the Company to file its Next Base Case with the Board no later than November 1, 2017. The Signatory Parties agree that the Next Base Case shall be kept open beyond an order addressing base rates, if necessary, for a second phase for the limited purposes of addressing the rate adjustments previously described, and any prudence review not completed prior to an order addressing base rates.

In the rate adjustment proceedings provided for above, the revenue requirement associated with the Program investments shall be calculated as summarized in further detail in Paragraph 21 of the Stipulation. Attached to the Stipulation as Attachment A is a sample revenue requirement calculation based on the estimated revenue requirement for the first rate adjustment.

Minimum Filing Requirements ("MFRs") - Each rate change filing will be accompanied by the MFRs that are set forth in Attachment B to the Stipulation.

During the time period from September 30, 2015 through September 30, 2018, the Company shall reduce its inventory of open leaks by sixty (60) percent in accordance with Paragraph 24 of the Stipulation.

PSE&G will provide monthly reports on the Program to the BPU Staff and Rate Counsel setting forth the information for the Program and the Stipulated Base as set forth in Attachment C and Paragraph 25 of the Stipulation.

The Company will monitor progress of the Department of Energy's Quadrennial Energy Review ("QER") initiative, and engage in communications with relevant stakeholders regarding potential funding made available to New Jersey ratepayers for gas main replacement. The Company will interact with the relevant stakeholders to support a position that promotes funding for New Jersey ratepayers. The Company agrees to provide quarterly updates to Board Staff and Rate Counsel of any QER developments of which it becomes aware.

DISCUSSION AND FINDINGS

In evaluating a proposed settlement, the Board must review the record, balance the interests of the ratepayers and the shareholders, and determine whether the settlement represents a reasonable disposition of the issues that will enable the Company to provide its customers in this State with safe, adequate and proper service at just and reasonable rates. In re Petition of Pub. Serv. Elec. & Gas, 304 N.J. Super. 247 (App. Div.), cert. denied, 152 N.J. 12 (1997). After carefully considering the record in this proceeding and the terms of the Stipulation, the Board is persuaded that the current settlement satisfies those goals.

The Board is persuaded that the GSMP, as modified by the terms of the Stipulation, addresses concerns related to the size and the length of the original proposal and that the requirement of Stipulated Base spending represents a more appropriate allocation of risk and responsibility with respect to the need to upgrade the Company's gas system. As detailed above, the Stipulation calls for the Program investment level to be capped at $650 million and limited to 400 miles of replacement mains.

The Board agrees that replacement of aging infrastructure, as well as the implementation of certain investments in the Company's gas system, if properly executed, should mitigate potential damage to the system and reduce methane emissions, as well as enhance public safety and result in increased long-term reliability. These investments include replacement of UPCI mains, unprotected steel mains, unprotected steel services, and associated district regulators. A systematic, committed long-term replacement program allows for infrastructure to be replaced and/or uprated at a lower cost per ratepayer, and should result in fewer disruptions in the affected municipalities.

With respect to cost recovery, the Board is persuaded that the mechanism proposed by the Stipulation allows the Company rate recovery for all expenditures related to facilities that have been placed in service but on a provisional basis, subject to refund. These costs will be subject to prudency review in the Base Rate Case that the Company has committed to file by November 1, 2017.

Therefore, the Board believes the cost recovery mechanism adopted in the Stipulation strikes a more effective balance between giving the company a reasonable opportunity to earn its allowed rate of return over the life of its investment while still protecting ratepayers from paying more than is reasonably necessary. First, no rates will be charged to customers until the facilities for which the rates are being charged are in service. The Stipulation permits the Company to place rates into effect annually with respect to investments in its natural gas infrastructure but only on a provisional basis. Because the Stipulation does not provide for deferred cost accounting, it is appropriate to include rate relief on a more frequent basis.

The Board is also persuaded that the reduced return on common equity from that approved by the Board in the Company's 2009 Base Rate Case is reasonable in light of the recovery of costs from ratepayers on a more contemporaneous basis which reduces the risk of recovery of capital invested during the time between rate cases. The metrics and reporting requirements provide a means to maintain accountability and oversight of the execution of the modified GSMP. The Stipulation sets targets that must be met, and provides consequences for failure to meet them, including requiring the Company to meet the targets without cost recovery from ratepayers.

After review of the petition and supporting information, the Board **HEREBY FINDS** that, subject to the terms and conditions set forth above, the attached Stipulation is reasonable, in the public interest, and in accordance with the law. Accordingly, the Board **HEREBY ADOPTS** the Stipulation as its own, as if fully set forth herein.

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

The Company's costs remain subject to audit by the Board. 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.

This Order shall become effective on November 26, 2015.

DATED: 11-16-15

BOARD OF PUBLIC UTILITIES
BY:

RICHARD S. MROZ
PRESIDENT

JOSEPH L. FIORDALISO
COMMISSIONER

MARY-ANNA HOLDEN
COMMISSIONER

DIANNE SOLOMON
COMMISSIONER

ATTEST:

IRENE KIM ASBURY
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 PUBLIC SERVICE ELECTRIC AND GAS COMPANY FOR APPROVAL OF A GAS SYSTEM MODERNIZATION PROGRAM AND ASSOCIATED COST RECOVERY MECHANISM

DOCKET NO. GR15030272

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PSEG
Services Corporation

November 2, 2015

In the Matter of the Petition of
Public Service Electric and Gas Company
for Approval of a Gas System Modernization Program
and Associated Cost Recovery Mechanism

BPU Docket No. GR15030272

VIA OVERNIGHT MAIL

Irene Kim Asbury, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, New Jersey 08625-0350

Dear Secretary Asbury:

Enclosed for filing are ten (10) copies of a Stipulation resolving all issues in in the above-referenced matter. All parties and participants have signed the Stipulation.

If you have any questions, please do not hesitate to contact me.

Respectfully submitted,

Martin C Rothfelder

C Division of Rate Counsel (2 copies)
Attached Service List (E-mail)

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the Petition of Public Service Electric and Gas Company for Approval of a Gas System Modernization Program and Associated Cost Recovery Mechanism	BPU DOCKET NO. GR15030272

STIPULATION AND AGREEMENT

APPEARANCES:
Joseph F. Accardo Jr., Esq., Deputy General Counsel, **Matthew M. Weissman, Esq.,** General Regulatory Counsel-Rates, and **Martin C. Rothfelder, Esq.,** Associate General Regulatory Counsel, for the Petitioner, Public Service Electric and Gas Company

Felicia Thomas-Friel, Esq., Managing Attorney- Gas, **Sarah H. Steindel, Esq.**, Assistant Deputy Rate Counsel, **Kurt Lewandowski**, Assistant Deputy Rate Counsel, **Henry M. Ogden**, Assistant Deputy Rate Counsel, **James W. Glassen**, Assistant Deputy Rate Counsel, and **Maura Caroselli**, Assistant Deputy Rate Counsel (**Stefanie A. Brand, Esq.**, Director, New Jersey Division of Rate Counsel)

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Elizabeth Schlax, Susanin Widman & Brennan, PC, for the Engineers Labor-Employment Cooperative

TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

It is hereby AGREED, by and between Public Service Electric and Gas Company ("Public Service," PSE&G" or the "Company"); the Staff of the New Jersey Board of Public Utilities ("Board Staff"); the New Jersey Division of Rate Counsel ("Rate Counsel"); and the undersigned parties and participants (hereinafter all the foregoing collectively referred to as "the Signatories"), to execute this Stipulation and Agreement resolving PSE&G's Petition in this docket and to join in recommending that the Board issue a Final Decision and Order approving this Stipulation and Agreement.

BACKGROUND

1. On February 27, 2015 Public Service petitioned the Board in BPU Docket No. GR15030272 for approval of a program known as the Gas System Modernization Program and for the recovery of costs (hereinafter "GSMP" or the "Program"). The Program as filed proposed to focus on gas projects designed to replace cast iron mains, unprotected steel mains and services, elimination of district regulators associated with this cast iron and unprotected steel plant, and relocation of inside meter sets. PSE&G proposed to invest approximately \$1.594 billion of such investments over five years[1] with cost recovery

[1] The PSE&G petition noted that part of the work to close out the Program would continue into the first six months of a sixth year of this Program, unless such work became part of a Program extension.

related to these investments to be through rate adjustments based upon the mechanism in the PSE&G Energy Strong program approved by Board on May 21, 2014 in Docket Nos. EO13020155 and GO13020156.

2. On April 15, 2015 the Board issued an Order designating Commissioner Joseph L. Fiordaliso as the presiding officer in the matter to rule on all motions that arise during the pendency of the proceeding, establish and modify any schedules that may be set as necessary, and to conduct public and evidentiary hearings.

3. Via Orders issued on May 27, 2015 and July 2, 2015, Commissioner Fiordaliso ruled on Motions to Intervene or Participate in the proceeding. Intervention status was granted to the New Jersey Large Energy Users Coalition ("NJLEUC") and the Environmental Defense Fund ("EDF"). Participant status was accorded to: Local Union 94 of the International Brotherhood of Electrical Workers and Local 855 of the United Association of Journeymen and Apprentices of Plumbing and Pipefitting Industry (these two unions referred to collectively herein as the "PSE&G Unions"); AARP, Inc.; Creamer-Sanzari Joint Venture; International Union of Operating Engineers -- Local Union 825; New Jersey Laborer's-Employer's Cooperation and Education Trust ("NJLECET"); the Engineers Labor-Employment Cooperative ("ELEC"); and Ferreira Construction Company, Inc.

4. Public hearings were held in both the afternoon and the evening in New Brunswick, New Jersey on June 8, 2015; in Westampton, New Jersey on June 11, 2015; and in Hackensack, New Jersey on June 15, 2015. At each of the hearings a variety of comments were received, as reflected in the transcripts of those hearings.

5. Discovery has been issued and responded to pursuant to a procedural schedule issued and modified thereafter by Commissioner Fiordaliso.

6. The parties met on several occasions in settlement conferences in order to facilitate information gathering and to discuss settlement. This included meetings on July 16, 17, 21, 24 and 30, and August 12, 13, 19, and 25, and a conference call on August 26, 2015.

7. The Signatories reached an agreement on a settlement resolving all issues in the instant proceeding.

In light of the foregoing, the Signatories have agreed to submit this Stipulation of Settlement, the terms of which are set forth below. Specifically, the Signatories hereby **STIPULATE AND AGREE** to the following:

STIPULATED MATTERS

8. The Signatories agree that, subject to Board approval of this Stipulation and Agreement, PSE&G may implement a Program under the terms and conditions described herein. The Program will include investment in the PSE&G gas distribution system, a cost recovery mechanism ("Alternative Rate Mechanism") including scheduled rate adjustments for investments included in the Program, required gas distribution base investments that are not recoverable through the Alternative Rate Mechanism ("Stipulated Base"), and other provisions as described herein.

9. The Program shall have a three year term beginning on January 1, 2016 and ending December 31, 2018, except as noted herein. The Company may begin Program non-construction expenditures, such as planning and engineering, upon Board approval of the

Program. The Company may also, for mains already installed, joined to a supplying line that contains gas, and pressurized with gas as of December 31, 2018, engage in completion (including all work associated with such mains) and restoration work in the first 6 months of 2019, such as tie-ins, uprates, excess flow valve installations, service transfers, service replacements, paving (and related restoration), lawn restoration/landscaping, and retirements. Non-construction expenditures incurred prior to January 1, 2016 and completion and restoration work in the first 6 months of 2019 are subject to the Program cost limit set forth in paragraph 12 below.

10. The Program will include the costs to replace PSE&G's Utilization Pressure Cast Iron ("UPCI") mains and associated services and Unprotected Steel mains and associated services. The Program will also include the costs required to uprate the UPCI systems (including the uprating of associated protected steel and plastic mains and associated services) to higher pressures, and shall include uprate costs, and costs associated with the installation of excess flow valves and the elimination of district regulators, where applicable.

11. The Program costs will exclude: the costs to replace high pressure ("HP") cast iron mains, meters, and the additional costs associated with the relocation of inside meter sets to outdoor locations. The "additional costs associated with the relocation of inside meter sets" are the costs that such relocation work adds to the project compared to the project proceeding without relocating the meters to outdoor locations. The costs to replace HP cast iron mains and the additional costs associated with the relocation of inside meter sets associated with main replacement in the Program may be a part of the Stipulated Base, as

further addressed below. The costs for replacement meters are not part of the Stipulated Base or the Program costs. Expenditures related to leak repairs are not included in the Stipulated Base or the Program.

12. The costs of the Program shall be limited to $650 million, which excludes the costs associated with the Stipulated Base and AFUDC. Recovery of costs beyond $650 million may be sought through a base rate case. Notwithstanding the forgoing, PSE&G shall not install more than 400 miles of mains in this Program to replace UPCI and unprotected steel mains. The parties agree that the 400 mile limitation is a limit of the Program; nevertheless, if PSE&G exceeds that limit by a *de minimus* amount, it shall not be precluded from seeking cost recovery of the amount over the 400 miles through the Program cost recovery mechanism, up to the program cost limit of $650 million.

13. The Company will have the option of seeking Board approval to extend the Program beyond the term provided above. Any such extension proposal shall be supported by the results of activities from the first two years under this Program. In order to expedite the decision-making process for an efficient continuation of the Program in the event of an extension, the Company may initially file for such extension with no more than 6 months of projected data for part of the second year of the Program, with updates through the end of the second year to be filed in sufficient time to allow full consideration as part of the proceedings to consider the proposed extension.

14. During the three years 2016 through 2018, the Company will be required to maintain a base level of capital spending that is not recoverable through the Alternative Rate Mechanism provided in this Stipulation (i.e., the Stipulated Base) for the planned replacement of cast

iron and unprotected steel mains and services during the course of the Program of $85 million per calendar year. This spend level will be limited to the replacement of cast iron (UP and HP) and unprotected steel mains and associated services, as well as the costs required to uprate the UPCI systems if applicable (including the uprating of associated protected steel and plastic mains and services) to higher pressures and the elimination, where applicable, of district regulators, the installation of excess flow valves associated with the Stipulated Base, and the additional costs associated with the relocation of inside meter sets that is associated with the Stipulated Base as well as the Program main replacements. The Stipulated Base will not include GSMP Program expenditures or expenditures related to leak repairs. During the three years 2016 – 2018, PSE&G will install and place in service no less than 110 miles of main to replace cast iron and unprotected steel mains and associated services under this Stipulated Base. If the Company fails to install and place in service 110 miles of main and associated services by December 31, 2018 it will complete this work without seeking cost recovery from ratepayers for any such expenditures incurred after December 31, 2018. If the Company fails to spend $85 million in any calendar year for Stipulated Base, the Company shall expend the amount of the shortfall without seeking cost recovery from ratepayers for such expenditures to make up the shortfall. PSE&G may request and the Board may grant an exception from the requirements of this paragraph based on extraordinary circumstances, such as extreme weather, acts of war or terrorism, or other *force majeure* extraordinary circumstances.

15. The replacement of mains in the Program shall follow the prioritization based on the grid-based Leak Hazard Indices developed by PSE&G using its Hazard Assessment model.

Unprotected steel mains may also be selected based on additional factors such as age, size and pressure where insufficient leak hazard data exists. Recognizing that considering methane emission flow volume (i.e., emission size) as part of prioritization will reduce the amount of natural gas lost from emissions to the benefit of customers, and reduce the environmental impacts of such emissions, the Signatories agree that for grids with comparable Hazard Index/Mile, available methane emissions survey data estimating flow volumes, as prepared by the Environmental Defense Fund using Program plans, system information and maps provided by PSE&G, will be used, as appropriate, in sub-prioritizing replacement activities, considering additional factors such as construction efficiencies and logistics. If permitting or other issues in a grid (e.g., municipal/county specific paving costs, traffic control costs, etc.) make work within that grid impossible, impracticable, or significantly more expensive, PSE&G may bypass that grid and proceed to work in subsequent prioritized grids. PSE&G may return to do the work in the bypassed grid after resolution of the issues with that grid.

16. Rate Design – Until the next base rate case, the rate design for the annual rate adjustments will be structured similarly to the rate design methodology used to set rates in the most recent base rate case. The weather normalization process will be consistent with the Company's Weather Normalization Charge ("WNC"). The Company will utilize weather normalized annualized billing determinants from the latest approved gas Energy Strong Program rate adjustment, or from the latest approved base rate case All parties reserve their right to propose a different weather normalization methodology in the next base rate case.

17. Cost recovery for the Program investments will occur on an annual basis, with schedules, procedures, and filings as detailed in subsequent paragraphs. Costs to be recovered will include the return on net plant in service as of the end of the annual period. Net plant will be calculated as gross plant in service less accumulated depreciation less accumulated deferred income taxes. The revenue requirement will also include depreciation expense, income taxes, the associated interest synchronization adjustment, and BPU/Rate Counsel assessments. The revenue requirement will not include an expense for the recovery of the Cost of Removal (unless embedded in the depreciation rates); however, the revenue requirement will include the return on the Cost of Removal investment. Depreciation will be included at the rate reflected in the table below, except that if the depreciation rates are revised in a subsequent base rate case, the revised rates will be applied. The Company will begin to depreciate an asset once it goes into service. O&M expenses associated with the Program will not be included in the annual revenue requirement filings nor will such costs be deferred.

GSMP Depreciation Rate		
Asset Class	**Description**	**Book Rate**
62 Year Plant	Gas Distribution Plant (mains, regulators, valves, etc.)	1.61%

18. The Signatories agree that the review of the prudency of all projects undertaken in the Program will not take place prior to or in connection with the base rate adjustments established herein. PSE&G therefore agrees that the rate adjustments established in the annual rate filing proceedings established herein shall be provisional and subject to refund

based upon a Board finding that PSE&G imprudently incurred capital expenditures under the Program. Such prudency review shall take place in a base rate case.

19. To effectuate the cost recovery process for the Program investments, Public Service shall proceed on the following schedule following public notice and public hearing, recognizing that the prudency of the investments will be determined in the next appropriate base rate case proceeding. The schedule below anticipates annual notice, public hearings, and rate adjustments to cover all rate changes for the Program investments. The effective dates for the adjustments may be revised by agreement of the parties in the Company's next base rate case ("Next Base Case") as described in paragraph 20 below.

a. Revenue Requirements associated with Program investments that are placed into service through and including 9/30/16 shall go into base rates effective 1/1/17. PSE&G shall make its initial filing for such rates in July 2016, and update such filing for actual data through September 30, 2016 by October 15, 2016. PSE&G shall by October 15, 2016 provide actual data on the "Stipulated Base" expenditures, showing actual expenditures through September 30, 2016 and projections through year end. PSE&G represents that, due to the uneven and seasonal nature of the gas distribution system investment process, the expenditures at September 30, 2016 may be less than nine twelfths of the required $85 million annual Stipulated Base. PSE&G shall file data on actual 2016 Stipulated Base Expenditures no later than January 30, 2017.

b. Revenue Requirements associated with Program investments that are placed into service through and including 9/30/17 shall go into base rates effective 1/1/18. PSE&G shall make its initial filing for such rates in July, 2017, and update such filing for actual data through September 30, 2017 by October 15, 2017. PSE&G shall by October 15, 2017 provide actual data on the "Stipulated Base" expenditures, showing actual expenditures through September 30, 2017, and projections through year end. PSE&G represents that, due to the uneven and seasonal nature of the gas distribution system investment process, the expenditures at September 30, 2017 may be less than nine twelfths of the required $85 million annual Stipulated Base. PSE&G shall file data on actual 2017 Stipulated Base Expenditures no later than January 30, 2018.

c. Revenue Requirements associated with Program investments that are placed into service through and including 9/30/18 shall go into base rates effective 1/1/19. PSE&G shall make its initial filing for such rates in July 2018, and update such filing for actual data through

September 30, 2018 by October 15, 2018. PSE&G shall by October 15, 2018 provide actual data on the "Stipulated Base" expenditures, showing actual expenditures through September 30, 2018, and projections through year end. PSE&G represents that, due to the uneven and seasonal nature of the gas distribution system investment process, the expenditures at September 30, 2018 may be less than nine twelfths of the required $85 million annual Stipulated Base. PSE&G shall file data on actual 2018 Stipulated Base Expenditures no later than January 30, 2019.

d. Revenue Requirements associated with Program investments that are placed into service through and including 6/30/19 shall go into base rates effective 10/1/19. PSE&G shall make its initial filing for such rates in April 2019, and provide updates for such filing for actual data through June 30, 2019 by July 15, 2019.

20. The Parties acknowledge that in the Board Order dated May 21, 2014 in BPU Docket Nos. EO13020155 and GO13020156 (the "Energy Strong Order") that adopted a Stipulation of Settlement, the Stipulation explicitly requires the Company to file its Next Base Case with the Board no later than November 1, 2017. The Parties agree that the Next Base Case shall be kept open beyond an order addressing base rates, if necessary, for a Phase II for the limited purposes of addressing the rate adjustments described above, and any prudence review not completed prior to an order addressing base rates. The Parties further agree that the required annual Stipulated Base spending for 2016 through 6 months after the end of the Test Year used in the Next Base Case is subject to prudence review and, unless disallowed as unreasonable or imprudent, shall be included in rate base and rates as a result of the Next Base Case.

21. In the rate adjustment proceedings provided for above, the revenue requirement associated with the Program investments shall be calculated as summarized below.

Program Investment Costs - All qualifying Program capital expenditures, including actual costs of engineering, design and construction, and property acquisition, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects

("Program Costs"), will be recovered through base rate roll-ins for each of the time periods described above. The Program Costs will be recorded, during construction, in an associated Construction Work In Progress ("CWIP") account or in a Plant in Service account upon the respective project being deemed used and useful. The Company will follow its current policies and practices with regard to capitalizing costs, including overheads.

Net Investment - Is equal to the Program Investment Costs that have been placed into service less the associated accumulated depreciation less accumulated deferred income taxes.

WACC –Although PSE&G's Board-authorized return on equity ("ROE") is 10.3%, Public Service agrees that the return on the incremental investments undertaken in the Program at issue in this proceeding shall be at a weighted average cost of capital including a 9.75% return on common equity and a 4.36% cost of debt (the Company's Long-term debt as of July 31, 2015). The portion of debt and equity in the capital structure shall be as determined in the Company's 2009 Base Rate Case (Equity: 51.2%, Debt: 48.8%). This results in a WACC of 7.12% at current tax rates (6.25% after tax). The Signatory Parties agree that any WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent revenue requirement calculations rather than the WACC stated above.

The base rate adjustments will be calculated using the following formula:

Revenue Requirement = ((Program Rate Base * After Tax WACC) + Depreciation Expense (net of tax) + Tax Adjustments)* Revenue Factor

i. Program Rate Base – The Program Rate Base will be calculated as Plant in Service, including CWIP transferred into service and associated AFUDC, less accumulated depreciation and less associated accumulated deferred income taxes. AFUDC will be calculated using the same methodology used for current distribution assets consistent with the Company's AFUDC policy, and as permitted by FERC Order 561, which includes compounding AFUDC on a semi-annual basis. As an exception to the forgoing, any AFUDC calculation shall utilize, when applicable, an ROE of 9.75 percent. Any ROE authorized by the Board in a subsequent base rate case will be reflected in the subsequent AFUDC calculations as addressed by FERC Order 561.

ii. Depreciation Expense – Depreciation expense will be calculated as the Program Investment Costs by asset class multiplied by the associated depreciation rate applied to the same asset in current base rates and then calculated net of tax.

iii. Tax Adjustments - Includes the effects of any flow through items and any tax law changes codified by the Internal Revenue Service, the State of New Jersey or any other taxing authority.

iv. Revenue Factor – The Revenue Factor adjusts the Revenue Requirement Net of Tax for federal and state income taxes and the costs associated with the BPU and Rate Counsel (RC) Annual Assessments and Gas Revenue Uncollectibles. The then-current statutory state and federal income tax rates and the then-current BPU/RC Assessment rates will be utilized. The percentage used to calculate the uncollectible expense is based upon the percentage determined in the Company's latest base rate case.

22. Attached as Attachment A is a sample revenue requirement calculation based on the estimated revenue requirement for the first rate adjustment.

23. Filing Requirements (MFRs) - Each rate change filing will be accompanied by the MFRs that are set forth in Attachment B hereto.

24. During the time period from September 30, 2015 through September 30, 2018, the Company shall reduce its inventory of open leaks by 60 percent. This metric is irrespective of incremental, new, post-September 30, 2015 leaks which will not be counted in such metric. If the Company fails to reduce this September 30, 2015 leak inventory by 20% in the first year, or 40% after the first two years, it will notify Board Staff and Rate Counsel and schedule a conference to discuss within 30 days. If the Company fails to reduce this September 30, 2015 leak inventory by 60% over three years, the Company shall achieve compliance with this obligation without seeking cost recovery from ratepayers for any expenditures incurred for this purpose after September 30, 2018. PSE&G may request and the Board may grant an exception from the requirements of this

paragraph based on extraordinary circumstances, such as extreme weather, acts of war or terrorism, or other *force majeure* extraordinary circumstances.

25. PSE&G will provide monthly reports on the Program to the BPU Staff and Rate Counsel ("Monthly Report") setting forth the information for the Program and the Stipulated Base as set forth in Attachment C.

The project expenditures shall be broken out between material and other costs. This reporting will begin with the January, 2016 report and be filed by April 1, 2016, and continue month to month with reports due on the first of the month two months after the end of the month that is reflected in the report, until Program and Stipulated Base expenditures are complete.

26. The Company will monitor progress of the Department of Energy's Quadrennial Energy Review ("QER") initiative, and engage in communications with relevant stakeholders regarding potential funding made available to New Jersey ratepayers for gas main replacement. The Company will interact with the relevant stakeholders to support a position that promotes funding for New Jersey ratepayers. The Company agrees to provide quarterly updates to Board Staff and Rate Counsel of any QER developments of which it becomes aware.

FURTHER PROVISIONS

27. This Stipulation represents a mutual balancing of interests, contains interdependent provisions and, therefore, is intended to be accepted and approved in its entirety. In the

event any particular aspect of this Stipulation is not accepted and approved in its entirety by the Board, any Party aggrieved thereby shall not be bound to proceed with this Stipulation and shall have the right to litigate all issues addressed herein to a conclusion. More particularly, in the event this Stipulation is not adopted in its entirety by the Board, in any applicable Order(s), then any Party hereto is free to pursue its then available legal remedies with respect to all issues addressed in this Stipulation as though this Stipulation had not been signed.

28. It is the intent of the Signatories that the provisions herein be approved by the Board as being in the public interest. The Signatories further agree that they consider the Stipulation to be binding on them for all purposes herein.

29. It is specifically understood and agreed that this Stipulation represents a negotiated agreement and has been made exclusively for the purpose of these proceedings. Except as expressly provided herein, Public Service, Board Staff, Rate Counsel and all other Signatories shall not be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein and, in total or by specific item. The Signatories further agree that this Stipulation is in no way binding upon them in any other proceeding, except to enforce the terms of this Stipulation.

30. The Signatories further acknowledge that a Board Order approving this Stipulation will become effective upon the service of said Board Order, or upon such date after the service thereof as the Board may specify, in accordance with N.J.S.A. 48:2-40.

WHEREFORE, the Signatories hereto do respectfully submit this Stipulation and request that the Board issue a Decision and Order approving it in its entirety, in accordance with the terms hereof, as soon as reasonably possible.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

BY: Joseph F. Accardo Jr.
Joseph F. Accardo Jr.
Deputy General Counsel

DATED: 10-29-15

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

BY: Stefanie A. Brand
Stefanie A. Brand

DATED: 10/29/15

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

BY:
T. David Wand
Deputy Attorney General

DATED: 10/29/15

Environmental Defense Fund

BY: ________________
Donald J. Meliado Jr., Esq
Meliado & Meliado

DATED: ________________

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Deputy General Counsel

DATED: ____________________

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

BY: ____________________
Stefanie A. Brand

DATED: ____________________

JOHN JAY HOFFMAN, ESQ.
ACTING ATTORNEY GENERAL
OF NEW JERSEY
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BY: ____________________
T. David Wand
Deputy Attorney General

DATED: ____________________

Environmental Defense Fund

BY: ____________________
Donald J. Meliado Jr., Esq
Meliado & Meliado

DATED: 10/29/2015

NEW JERSEY LARGE ENERGY USERS COALITION (NJLEUC)

BY: ______________________________
Steven S. Goldenberg, Esq.
Fox Rothschild, LLP

DATED: ______________________________

PSE&G UNIONS

BY: ______________________________
Roger Schwarz, Esq.
Issues Management LLC

DATED: ______________________________

INTERNATIONAL UNION OF OPERATING ENGINEERS, LOCAL UNION 825

BY: ______________________________
Vincent M. Giblin, Esq.
Pitta & Giblin, LLP

DATED: ______________________________

NEW JERSEY LABORERS UNION – LABORERS' – EMPLOYEES COOPERATION AND EDUCATION TRUST (NJLECET)

BY: AG Kroll
Albert G. Kroll, Esq.
Kroll Heineman Carton, LLC

DATED: 10/29/15

AARP, Inc.

BY: ______________________________
Janine G. Bauer, Esq.
Szaferman, Lakind, Blumstein, & Blader, P.C

DATED: ______________________________

FERREIRA CONSTRUCTION

BY: ______________________________
Michael Rato, Esq.
McElroy, Deutsch, Mulvaney & Carpenter, LLP

DATED: ______________________________

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Issues Management LLC

DATED: ______________________________

INTERNATIONAL UNION OF OPERATING ENGINEERS, LOCAL UNION 825

BY: Vincent M. Giblin, Esq.
Vincent M. Giblin, Esq.
Pitta & Giblin, LLP

DATED: 10/30/15

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PSE&G UNIONS

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INTERNATIONAL UNION OF OPERATING ENGINEERS, LOCAL UNION 825

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Pitta & Giblin, LLP

DATED: __________________________

NEW JERSEY LABORERS UNION – LABORERS' – EMPLOYEES COOPERATION AND EDUCATION TRUST (NJLECET)

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PSE&G UNIONS

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Roger Schwarz, Esq.
Issues Management LLC

DATED: ___________________________

INTERNATIONAL UNION OF OPERATING ENGINEERS, LOCAL UNION 825

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Vincent M. Giblin, Esq.
Pitta & Giblin, LLP

DATED: ___________________________

NEW JERSEY LABORERS UNION – LABORERS' – EMPLOYEES COOPERATION AND EDUCATION TRUST (NJLECET)

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DATED: ___________________________

AARP, Inc.

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Janine G. Bauer, Esq.
Szaferman, Lakind, Blumstein, & Blader, P.C

DATED: ___________________________

FERREIRA CONSTRUCTION

BY: ______________________________
Michael Rato, Esq.
McElroy, Deutsch, Mulvaney & Carpenter, LLP

DATED: 10/29/15

CREAMER-SANZARI JOINT VENTURE

BY: ______________________

Samuel I. Portnoy, Esq.
Gibbons P.C.

ENGINEERS LABOR-EMPLOYMENT COOPERATIVE

BY: ______________________

Elizabeth Schlax
Susanin Widman & Brennan, PC

CREAMER-SANZARI JOINT VENTURE

BY: ______________________________

Samuel I. Portnoy, Esq.
Gibbons P.C.

ENGINEERS LABOR-EMPLOYMENT COOPERATIVE

BY: E Schlax

Elizabeth Schlax
Susanin Widman & Brennan, PC

ATTACHMENT A

PSE&G Gas System Modernization Program
Sample Revenue Requirement
in $ Millions

Rate Effective Date	**1/1/2017**
Plant In Service as of Date	9/30/2016
Rate Base Balance as of Date	12/31/2016
Direct In-Service	$70.6
CWIP Transferred into Service	$0.0
AFUDC Transferred Into Service - Debt	$0.0
AFUDC Transferred Into Service - Equity	$0.0
AFUDC on Plant in Service (Deferred Return) - Debt	$0.0
AFUDC on Plant in Service (Deferred Return) - Equity	$0.0
Accumulated Depreciation	$4.8
Rate Base	$75.3
Accumulated Deferred Taxes	($3.0)
Net Rate Base	$72.3
Rate of Return - After Tax (Schedule WACC)	6.25%
Return Requirement (After Tax)	$4.5
Depreciation Exp, net	$0.7
Revenue Requirement (After Tax)	$5.2
Revenue Factor	1.7121
Total Revenue Requirement	**$8.9**

SUPPORT

Gross Plant

Direct In-Service	$70.6
CWIP Transferred into Service	$0.0
AFUDC Transferred Into Service - Debt	$0.0
AFUDC Transferred Into Service - Equity	$0.0
AFUDC on Plant in Service (Deferred Return) - Debt	$0.0
AFUDC on Plant in Service (Deferred Return) - Equity	$0.0
Total Gross Plant	$70.6

Accumulated Depreciation

Accumulated Depreciation	($0.5)
Cost of Removal	$5.3
Net Accumulated Depreciation	$4.8

Depreciation Expense (Net of Tax)

Depreciable Plant (xAFUDC-E)	$70.6
AFUDC-E	$0.0
Depreciation Rate	1.61%
Depreciation Expense	$1.1
Tax @40.85%	$0.5
Depreciation Expense (Net of Tax)	$0.7

ATTACHMENT B

MINIMUM FILING REQUIREMENTS

1) PSE&G's income statement for the most recent 12 month period, as filed with the BPU.

2) PSE&G's balance sheet for the most recent 12 month period, as filed with the BPU.

3) A calculation of the proposed rate adjustment based on details related to Program projects included in Plant in Service.

    a. A calculation of the associated depreciation expense, based on those projects closed to Plant in Service during the period.

4) A revenue requirement calculation showing the actual capital expenditures for the period for which the filing is made, as well as supporting calculations.

5) Copies of the current and all previously filed Monthly Reports.

ATTACHMENT C – MONTHLY REPORTING REQUIREMENTS

1) PSE&G's overall approved Program and Stipulated Base capital budget broken down by major categories, both budgeted and actual amounts.

2) For the Program and for the Stipulated Base:

   a. Descriptions of projects (main replacement, service replacement, and regulator elimination) funded through the Program and through Stipulated Base spending.

   b. Expenditures incurred to date and amounts transferred to plant in service, by project.

   c. Projected miles of mains installed and actual miles of mains installed and placed in service), broken down by size and type of material being installed.

   d. Projected number of services installed and actual number of services installed and placed in service, broken down by size and type of material being installed.

3) Anticipated Program and Stipulated Base timeline with updates and expected changes.

4) A list of any and all funds or credits received from the United States government, the State of New Jersey, a county or a municipality, for work related to any of the Program projects, as well as an explanation of the financial treatment associated with the receipt of the government funds or credits.

5) Explanations of differences of over 5% between budgeted and actual amounts in Program Costs as reflected in data provided in response to 1 above (calendar year end monthly report only), including a detailed explanation of each cause and a breakdown of the amount of the deviation by cause.