



Agenda Date: 9/22/17  
Agenda Item: 2B

**STATE OF NEW JERSEY**  
**Board of Public Utilities**  
44 South Clinton Avenue, 3rd Floor, Suite 314  
Post Office Box 350  
Trenton, New Jersey 08625-0350  
[www.nj.gov/bpu/](http://www.nj.gov/bpu/)

ENERGY

IN THE MATTER OF THE PETITION OF PUBLIC	)	ORDER DESIGNATING
SERVICE ELECTRIC AND GAS COMPANY FOR	)	COMMISSIONER AND
APPROVAL OF A GAS SYSTEM MODERNIZATION	)	SETTING MANNER OF
PROGRAM AND ASSOCIATED COST RECOVERY	)	SERVICE AND BAR DATE
MECHANISM	)	
	)	DOCKET NO. GR17070776

**Parties of Record:**

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

BY THE BOARD:

**BACKGROUND**

**Gas System Modernization Program I Petition**

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 I") and to implement an associated cost recovery mechanism. GSMP I sought to invest in the replacement of cast iron mains, replace unprotected steel mains and services, abandon district regulators associated with cast iron and unprotected steel plant and relocate inside meter sets.

Following the review of discovery, testimony and transcripts, on November 2, 2015, PSE&G, Rate Counsel, and numerous interveners executed a stipulation of settlement ("Stipulation") resolving all of the issues in the GSMP I proceeding, which was approved by the Board by Order dated November 16, 2015.

The GSMP I, as approved, has a three (3) year term beginning on January 1, 2016 and ending December 31, 2018, except as noted in the Stipulation. GSMP I 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 GSMP I, required gas distribution base investments that are not recoverable through the Alternative Rate Mechanism

("Stipulated Base"), and other provisions as described in the Stipulation. PSE&G was authorized to earn a return on the approved investments using an after-tax weighted after cost of capital of 6.25% based on a return on equity of 9.75% and a cost of debt of 4.36%.

The Company represents that as of June 2017, it had replaced approximately 157 miles of main and replaced approximately 11,820 services, or an average of seventy-five (75) services per mile of main replaced. The Company also represents that it has abandoned sixteen (16) district regulators associated with the replacement areas. The Company further states that the cost of GSMP I to date is approximately \$266 million, or approximately \$1.7 million per mile of main.

### **Gas System Modernization Program II Petition**

On July 27, 2017, the Company filed a petition for Board approval of a continuation of the GSMP I and associated cost recovery mechanism ("GSMP II" or "Program"). PSE&G anticipates that GSMP II will be conducted over a five (5) year period from 2019 through 2023. The Company states that the GSMP II: (1) is comprised of gas utility projects designed to replace cast iron mains and unprotected steel<sup>1</sup> mains and services; (2) addresses the abandonment of district regulators associated with this cast iron and unprotected steel plant; (3) will rehabilitate large diameter elevated pressure cast iron; (4) includes upgrades to utilization pressure portions of the system to elevated pressure; (5) replaces limited amounts of protected steel and plastic mains; and (6) provides for the relocation of inside meter sets.

According to the petition, the GSMP II, as proposed, would result in the replacement of approximately 250 miles of main per year, with an estimated investment of approximately \$2.68 billion over the course of the five (5) years, or approximately \$536 million per year.<sup>2</sup> At this time, the Company anticipates these expenditures will result in the replacement of approximately 870 miles of unprotected cast iron main, 130 miles of elevated pressure cast iron main, 200 miles of unprotected/bare steel main, 50 miles of unprotected cathodically protected steel and plastic main, and reinforcement of approximately 4,000 elevated pressure cast iron bell joints. The Company claims that this main replacement will result in approximately 266 abandoned district regulators, replacement of approximately 99,200 unprotected steel services, and the relocation of approximately 70,900 inside meter sets to the outside. Where appropriate, services will have excess flow valves installed for improved safety.

PSE&G is proposing a cost recovery mechanism for GSMP II that is consistent with the recently proposed Board Infrastructure Investment and Recovery regulations<sup>3</sup> and the GSMP I. The proposed capital expenditure forecast, the first base rate roll-in filing will not occur until December 31, 2019, for rates effective June 1, 2020. The Company also seeks a return on the approved investments using an after-tax weighted average cost of capital of 6.1735% based on a return on equity of 9.75% and a cost of debt of 4.1439%.

Following the filing of the petition, New Jersey Large Energy Users Coalition ("NJLEUC") filed a motion to intervene and for the admission pro hac vice of Paul F. Forshay, Esq., a member of the bar of the District of Columbia.

<sup>1</sup> For purposes of this petition, "unprotected steel" is steel that is not cathodically protected and includes both bare steel and coated steel.

<sup>2</sup> The Company represents that work required to complete the GSMP II will continue into the first six (6) months of a sixth (6) year of the Program, i.e., through June 30, 2024. The \$2.68 billion cost of this Program includes this work.

<sup>3</sup> Proposed New Subchapter: N.J.A.C. 14:3-2A, BPU Docket Number: AX17050469, Order dated June 30, 2017.

**DISCUSSION**

The Board has determined that the GSMP II petition described above should be retained by the Board for hearing and, pursuant to N.J.S.A. 48:2-32, **HEREBY DESIGNATES** Joseph L. Fiordaliso as the presiding officer who is authorized to rule on all motions that arise during the pendency of these proceedings and modify any schedules that may be set as necessary to secure a just and expeditious determination of the issues. Further, the Board **HEREBY DIRECTS** that any entities seeking to intervene or participate in this matter file the appropriate application with the Board by October 13, 2017. Commissioner Fiordaliso, as the presiding officer, will render a decision with regard to any pending motions following the expiration of the October 13, 2017 deadline, including the motions pending filed by NJLEUC.

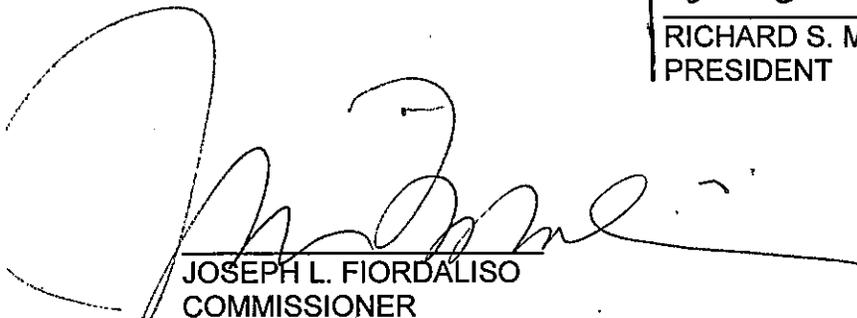
In the interests of economy, all parties are also **HEREBY DIRECTED** to serve all documents electronically, while still providing hard copies to the Board for those documents which must be filed with the Board, and also providing two (2) hard copies to each party, unless otherwise requested by the parties. Finally, the Board **HEREBY DIRECTS** Staff to post this Order on the Board's website.

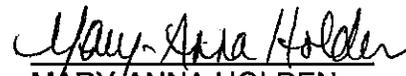
This Order shall be effective September 29, 2017.

DATED: 9/22/17

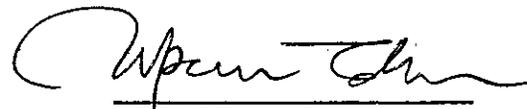
BOARD OF PUBLIC UTILITIES  
BY:

  
RICHARD S. MROZ  
PRESIDENT

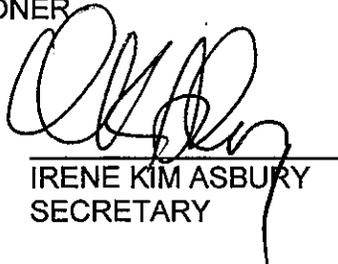
  
JOSEPH L. FIORDALISO  
COMMISSIONER

  
MARY ANNA HOLDEN  
COMMISSIONER

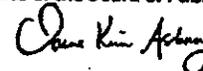
  
DIANNE SOLOMON  
COMMISSIONER

  
UPENDRA J. CHIVUKULA  
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. GR17070776**

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