



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/

ENERGY

IN THE MATTER OF THE PETITION OF PUBLIC)
SERVICE ELECTRIC AND GAS COMPANY FOR)
APPROVAL OF THE NEXT PHASE OF THE GAS)
SYSTEM MODERNIZATION PROGRAM AND)
ASSOCIATED COST RECOVERY MECHANISM)
("GSMP II"))

DECISION AND ORDER
APPROVING STIPULATION

DOCKET NO. GR17070776

Parties of Record:

Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel
Joseph F. Accardo, Jr., Esq., Public Service Electric and Gas Company
Christopher D. Miller, Esq., Maraziti Falcon, LLP, for Environmental Defense Fund
Steven S. Goldenberg, Esq., Fox Rothschild, LLP, for New Jersey Large Energy Users Coalition

BY THE BOARD:¹

By this Decision and Order, the New Jersey Board of Public Utilities ("Board" or "BPU") considers a Stipulation and Agreement ("2018 Stipulation") executed by Public Service Electric and Gas Company ("PSE&G" or "Company"), the New Jersey Division of Rate Counsel ("Rate Counsel"), Board Staff, the Environmental Defense Fund ("EDF"), Local Union 94 of the International Brotherhood of Electrical Workers and Local 855 of the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry ("PSE&G Unions"), Creamer-Sanzari Joint Venture ("CSJV"), the New Jersey Laborers-Employers Cooperation and Education Trust ("NJLECET"), the Engineers Labor-Employment Cooperative ("ELEC"), and Ferreira Construction Company, Inc. ("Ferreira Construction") (collectively, the "Signatory Parties") intended to resolve the Company's requests related to the above docketed matter.²

BACKGROUND/PROCEDURAL HISTORY

On July 27, 2017, PSE&G filed a petition ("July 2017 Petition") with the Board that requested approval to implement and administer the next phase of its Gas System Modernization Program ("GSMP II" or "Program") and an associated cost recovery mechanism. The Program is an extension of PSE&G's current Gas System Modernization Program ("GSMP I"), which was

¹ Commissioner Robert M. Gordon recused himself due to a potential conflict of interest and as such took no part in the discussion or deliberation of this matter.

² Intervenor New Jersey Large Energy Users Coalition ("NJLEUC") and participant AARP, Inc. ("AARP") did not sign the 2018 Stipulation and filed letters in opposition to the Board.

approved by the Board in accordance with an Order dated November 16, 2015.³ In support of and as part of its July 2017 Petition, PSE&G filed the direct testimonies of Wade E. Miller and Stephen Swetz.

In the July 2017 Petition, PSE&G sought Board approval to replace cast iron and unprotected steel mains and associated services, address the abandonment of district regulators associated with cast iron and unprotected steel⁴ mains, rehabilitate large diameter elevated pressure cast iron, upgrade utilization pressure portions of the system to elevated pressure, replace limited amounts of protected steel and plastic mains, and relocate inside meter sets to outside locations. As proposed in the Petition, the Program, would result in the replacement of approximately 250 miles of main per year, with estimated investment of approximately \$2.68 billion over a five (5) year period from 2019 through 2023. The July 2017 Petition proposed that the costs of these investments be recovered by the Company through semi-annual roll-ins—assuming a minimum level of ten (10) percent of the total program investment has been expended.

On September 22, 2017, the Board issued an Order retaining this matter and designating Commissioner Joseph L. Fiordaliso (now Board President 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.

By Order dated November 9, 2017, President Fiordaliso issued a procedural schedule, and ruled on motions to intervene or participate in the proceeding. Intervention status was granted to NJLEUC and EDF. Participant status was accorded to the PSE&G Unions, AARP, CSJV, NJLECET, ELEC, and Ferreira Construction.

After publication of notice in newspapers of general circulation in the Company's service territory, public hearings were held at 4 p.m. and 5:30 p.m. in New Brunswick, New Jersey on January 17, 2018; in Mt. Holly, New Jersey on January 18, 2018; and in Hackensack, New Jersey on January 25, 2018. The Board received comments in support of the petition as well as general comments in opposition to any rate increases. AARP emphasized that they support 'fair rates.'

On January 19, 2018, Rate Counsel filed the direct testimonies of Andrea C. Crane (amended on February 15, 2018), David E. Dismukes, Ph.D., Edward A. McGee, and Kevin W. O'Donnell, CFA. On January 19, 2018, Intervenor, EDF filed the testimony of Virginia Palacios. PSE&G filed the rebuttal testimonies of Ann E. Bulkley, Stephen Swetz and Wade E. Miller on February 16, 2018.

By way of Order dated February 28, 2018, the Board reassigned this matter to Commissioner Upendra J. Chivukula and amended the procedural schedule providing for an additional settlement conference on March 9, 2018 and evidentiary hearings on April 4, through 6, 2018 at the Office of Administrative Law in Newark, New Jersey.

³ In re 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 (November 16, 2015).

⁴ For purposes of this petition, "unprotected steel" is steel that is not cathodically protected and includes both bare steel and coated steel.

The parties to the proceeding exchanged discovery and met on several occasions to discuss settlement of this matter. On March 23, 2018, the Signatory Parties reached an agreement settling this matter.

STIPULATION

On April 18, 2018 the Signatory Parties executed the 2018 Stipulation resolving all of the issues in the proceeding. The 2018 Stipulation provides the following:⁵

Program Term

13. The Program will be implemented over a five (5) year term, commencing on January 1, 2019, and ending December 31, 2023, except as provided herein. The Company may undertake Program non-construction expenditures, such as planning and engineering, upon Board approval of the Program. For mains already installed, joined to a supplying line that contains gas, and pressurized with gas as of December 31, 2023, the Company may also engage in completion (including all work associated with such mains) and restoration work in the first six (6) months of 2024, such as tie-ins, uprates, excess flow valve installations, service transfers, service replacements, paving (and related restoration), lawn restoration/landscaping, and retirements.
14. 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 three and one-half years under this Program.

GSMP II Accelerated Rate Recovery Mechanism

15. Costs eligible for recovery under the GSMP II Accelerated Rate Recovery Mechanism ("GSMP II Rate Mechanism") include: (a) costs to replace PSE&G's Utilization Pressure Cast Iron ("UPCI") mains and associated services and Unprotected Steel mains and associated services; (b) costs required to uprate the UPCI systems (including the uprating of associated protected steel and plastic mains and associated services) to higher pressures; and (c) costs associated with the installation of excess flow valves and the elimination of district regulators, where applicable.
16. The GSMP II Rate Mechanism will exclude: costs to replace elevated pressure cast iron ("EPCI"), plastic and cathodically protected steel mains; costs to reinforce EPCI joints; 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 cost that such relocation work adds to the project compared to the project proceeding without relocation of the meters to outdoor locations. The costs to replace EPCI, limited plastic and cathodically protected steel mains associated with the UPCI and unprotected steel replacement projects, the costs to reinforce EPCI joints, and

⁵ Although summarized 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 conclusion in this Order. Each paragraph is numbered to coincide with the paragraphs in the Stipulation.

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 provided below. The costs of replacement meters are not part of the Stipulated Base or the GSMP II Rate Mechanism. Expenditures related to leak repairs are not included in the Stipulated Base or the GSMP II Rate Mechanism.

17. Costs eligible for recovery under the GSMP II Rate Mechanism shall not exceed \$1.575 billion - representing replacement of 875 miles of main -which excludes the cost associated with the Stipulated Base and Allowance for Funds Used During Construction ("AFUDC"). Costs recoverable under the accelerated rate mechanism provided herein shall not exceed \$1.80 million per mile. The maximum cost of \$1.80 million per mile limit includes the costs to replace UPCI mains and associated services and Unprotected Steel mains and associated services, costs required to uprate the UPCI systems, the costs of excess flow valves, and the costs of eliminating district regulators, and excludes costs associated with the Stipulated Base and AFUDC. The cost of \$1.80 million per mile is an agreed upon maximum amount that the Company will recover through the GSMP II Rate Mechanism. Costs incurred by the Company in excess of the \$1.80 million/mile on its replacements will be credited toward the baseline capital expenditure requirement provided in paragraph 22 of the 2018 Stipulation for the year in which the cost is incurred. Recovery of costs in excess of \$1.80 million per mile may be sought through a base rate case.

Capital Structure/Return on Equity

18. PSE&G's capital structure and return on equity for GSMP II will be set based on the capital structure and return on equity level established in the Company's most recently approved base rate case.

Stipulated Base

19. The Company shall spend \$300 million on certain capital projects during the five-year Program, with no less than \$20 million expended in each calendar year from 2019 through 2023. The \$300 million expenditure (i.e., the "Stipulated Base") shall be recoverable from base rates and not recoverable through the GSMP II Rate Mechanism. If the Company fails to spend at least \$20 million in any calendar year or \$300 million over the five year period 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 "Major event" (as defined at N.J.A.C. 14:5-1.2), acts of war or terrorism, or other *force majeure* extraordinary circumstances.
20. Separate and apart from Paragraph 19 of the 2018 Stipulation, if the Company fails to spend either \$30 million a year of the Stipulated Base or a total of \$100 million of the overall Stipulated Base obligation by the end of the third year of the Program, it shall notify Board Staff and Rate Counsel and schedule a conference to discuss the matter within thirty (30) days of the date the Company provides such notice. PSE&G may request and the Board may grant an exception from the requirements of paragraph 20 of the 2018 Stipulation based on extraordinary

circumstances, such as "Major event" (as defined at N.J.A.C. 14:5-1.2), acts of war or terrorism,) or other *force majeure* extraordinary circumstances.

21. Stipulated Base expenditures may include all work described in Paragraph 15 above, as well as costs incurred to: replace elevated pressure cast iron ("EPCI") mains; reinforce EPCI joints; replace plastic and cathodically protected steel main; relocate inside meter sets to outdoor locations; replace UPCI and Unprotected Steel main and associated services; uprate the UPCI systems (including the uprating of associated protected steel and plastic mains and services) to higher pressures; eliminate district regulators, where applicable; install excess flow valves associated with the Stipulated Base expenditures; and relocate inside meter sets associated with GSMP II Rate Mechanism work or Stipulated Base main replacements to outside locations.

Baseline Capital Expenditure

22. In addition, for each of the five years, 2019 through 2023, the Company agrees to maintain a baseline capital expenditure level of at least \$155 million. The capital investments made by the Company as part of its baseline capital expenditure requirements are within the discretion of the Company and may include, *inter alia*, costs incurred by the Company in excess of \$1.80 million/mile on its replacements under the GSMP II Rate Mechanism. If the Company fails to maintain an annual baseline capital expenditure level of at least \$155 million in any year, the amount of investment eligible for recovery through the GSMP II Rate Adjustment Mechanism for the subsequent year will be reduced by an amount equal to the difference between \$155 million baseline and the actual annual capital expenditure made by the Company. However, if the Company fails to maintain, for more than one year during the Program, an annual baseline capital expenditure level of at least \$155 million, no recovery of GSMP II Rate Mechanism eligible costs will be permitted during the second and any subsequent year for which the annual baseline expenditure is not met. If the annual baseline capital expenditure is not met for a second and any subsequent year, then traditional ratemaking practices will apply for that year and there will be no deferral of any GSMP II Rate Mechanism related costs for that year. Instead, all GSMP II Rate Mechanism related costs for the second and any subsequent year(s) in which the annual baseline capital expenditure level were not met will be reviewed in the Company's next base rate case and recovered through base rates, if reasonable and prudent. PSE&G may request and the Board may grant an exception from the requirements of paragraph 22 of the 2018 Stipulation based on extraordinary circumstances, such as "Major event" (as defined at N.J.A.C. 14:5-1.2), acts of war or terrorism, or other *force majeure* extraordinary circumstances.

Prioritization of Projects

23. 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 as described in the Direct Testimony of PSE&G Witness Wade Miller, dated July 27, 2017, at pp. 46-50, except that methane flow volumes from mobile leak surveys (as described in paragraph 24 of the 2018 Stipulation) will be used for sub-prioritization. Unprotected steel mains may also

be selected for replacement based on additional factors such as age, size and pressure where insufficient leak hazard data exists.

24. It is agreed that including methane emission flow volume (*i.e.*, emission size) as part of the replacement prioritization process may result in the reduction of natural gas emissions and reduce the environmental impacts of such emissions. The Company agrees to retain a third-party vendor to conduct and complete a methane leak survey of approximately 280 miles of UPCI during the planning phase of the Program (expected Spring/Summer, 2018). This mileage of UPCI is located within the highest ranked B grids (10-15 Hazard Index per mile ("HI/mile")) replacement of which is anticipated to be completed in years 2 and 3 of the program. Consistent with the approach for GSMP I, and after advising EDF of information provided by the third party vendor, data from leak survey will be used to generate an "Estimated Flow Rate per Mile (Liters/minute/mile)." A threshold will be established based upon the survey data, in consultation with EDF. Any grid exceeding this threshold is anticipated to be replaced in year 2 up to a maximum of 140 miles of UPCI replacement. Additional factors such as construction efficiencies and logistics will also be taken into account in the scheduling of the grids. If permitting constraints or other issues (*e.g.*, municipal/county specific paving costs, traffic control costs, etc.) make work within a 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. PSE&G acknowledges that bypassing grids due to these considerations may result in diminished methane emission reduction efficiencies. PSE&G will identify any grids that it has bypassed due to the reasons referred to above and describe factors contributing to each decision to bypass a grid.
25. All costs incurred by PSE&G in connection with methane leak surveying will be deferred and recovered as costs through rates as detailed further in the 2018 Stipulation. The costs recoverable for methane leak surveying during the Program shall not exceed the annual Operations & Maintenance ("O&M") expense savings related to leak reductions from the Program as defined in Paragraph 33(a) of the 2018 Stipulation.
26. PSE&G agrees to report on the above-referenced methane leak survey activity as noted in Attachment D of the 2018 Stipulation.

Leak Metrics

27. The Company agrees to reduce its year-end open leak inventory by one (1) percent for each year of the Program, except under extraordinary circumstances, such as "Major event" (as defined at N.J.A.C. 14:5-1.2), acts of war or terrorism, or other *force majeure* extraordinary circumstances. This open leak reduction metric includes all post-approval open leaks subject to a cap for each year of the Program. The cap for the first year following the date of Board approval is set at the average number of year-end open leaks the Company has experienced during the past five calendar years. Thereafter, the cap will be reduced by one (1) percent for each of the remaining four years of the Program as follows:

Year end Open Leaks	
2014	1710
2015	2314
2016	1649
2017	1481
2018	nnnn
5 Year average	xxxx

PROGRAM YEAR	Year end Open Leaks CAP
2019	xxxx
2020	xxxx - 1%
2021	xxxx - 2%
2022	xxxx - 3%
2023	xxxx - 4%

28. If the Company exceeds the open-leak performance cap in the first two years of the Program, the Company will notify Board Staff and Rate Counsel and schedule a conference within thirty (30) days to discuss the matter. Consistent with the Board Infrastructure Investment and Recovery regulation (“IIP”), N.J.A.C. 14:3-2A.1 et seq., if the Company exceeds the cap for a third year consecutive year, the Company will reduce its return on equity (“ROE”) under the Program by fifty (50) basis points until it achieves the leak reduction target. PSE&G may request, and the Board may grant, an exception from the requirements of this paragraph based on extraordinary circumstances, such as “Major event” (as defined at N.J.A.C. 14:5-1.2), acts of war or terrorism, or other *force majeure* extraordinary circumstances.

Cost Recovery

29. The Company may seek recovery through the GSMP II Rate Mechanism for the costs covered under Paragraph 15 of the 2018 Stipulation via a base rate roll-in request with schedules, procedures, and filings as detailed in the 2018 Stipulation.
30. Consistent with the IIP, each base rate roll-in made by the Company may be on a semi-annual basis, provided that it includes a minimum investment level of ten (10) percent of the total amount authorized to be recovered via the GSMP II Rate Mechanism.
31. Costs to be recovered through the GSMP II Rate Mechanism will include the return on net plant in service as of the end of the semi-annual period, assuming the above-referenced 10% minimum threshold has been met. 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, an expense adjustment (described in detail in the 2018 Stipulation), 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.

32. Depreciation Expense will be included at the rate established in the Company's most recently approved base rate case. The Company will begin to depreciate an asset once it goes into service and is used and useful.
33. O&M expenses associated with the Program, except those explicitly defined in part (a) below, will not be included in the annual revenue requirement filings nor will such costs be deferred.
 - a. The Signatory Parties agree that GSMP II Rate Mechanism investments will result in \$3.3 million in O&M savings from leak reductions by replacing 875 miles of main. To flow these savings to customers, an O&M expense reduction of \$3,771/mile (\$3.3 million / 875 miles) will be incorporated to each rate adjustment based upon the miles of main in service related to each rate roll-in.
 - b. The Company agrees to conduct leak detection surveying as discussed in Paragraph 24 of the 2018 Stipulation. Because these leak detection surveying expenses are anticipated to be incurred in 2018-2019 upon Program approval, the Company will defer these expenses. Once the leak detection surveying is completed, the total deferred expense will be amortized over a 5-year period and the annual amortization amount will be included in the next rate roll-in revenue requirement. Once included in rates, the Company will commence the amortization of this deferred expense.
34. The Signatory Parties agree that the review of the prudence of all projects undertaken in the Program will not take place prior to or in connection with the base rate adjustments established in the 2018 Stipulation. PSE&G therefore agrees that the rate adjustments established in the semi-annual rate filing proceedings (assuming the 10% minimum threshold explained in Paragraph 30 of the 2018 Stipulation has been met) established in the 2018 Stipulation shall be provisional and subject to refund based upon a Board finding that PSE&G imprudently incurred capital expenditures under the Program. Such prudence review shall take place in a base rate case.
35. To effectuate the cost recovery process for the GSMP II Rate Mechanism investments, PSE&G shall proceed on the below schedule following public notice and public hearing, recognizing that the prudence of the investments will be determined in the base rate case following the placement of the investments into service. The schedule below anticipates semi-annual notice, public hearings, and rate adjustments to cover all rate changes for the GSMP II Rate Mechanism investments. The effective dates for the adjustments may be revised by agreement of the Parties in the Company's 2018 base rate case.

36. The proposed schedule for the Rates Effective, Initial Filing, Investment as of, and True-up Filing dates for all rate roll-ins is listed below:

GSMP II Rate Roll-in Schedule				
Roll-in #	Rates Effective	Initial Filing	Investment as of	True-up Filing
1 ⁶	12/1/19	6/30/19	8/31/19	9/15/19
2	6/1/20	12/31/19	2/29/20	3/15/20
3	12/1/20	6/30/20	8/31/20	9/15/20
4	6/1/21	12/31/20	2/28/21	3/15/21
5	12/1/21	6/30/21	8/31/21	9/15/21
6	6/1/22	12/31/21	2/28/22	3/15/22
7	12/1/22	6/30/22	8/31/22	9/15/22
8	6/1/23	12/31/22	2/28/23	3/15/23
9	12/1/23	6/30/23	8/31/23	9/15/23
Final ⁷	10/1/24	4/31/24	6/30/24	7/15/24

37. The Signatory Parties acknowledge that although the main replacement work for GSMP II is scheduled to be complete December 31, 2023, close out work, such as final paving, must wait 3 to 6 months following main installation. As a result, trailing charges from contractors may lag into 2024. Accordingly, the Signatory Parties agree to a final roll-in no later than July 15, 2024, with all actual data for rates effective October 1, 2024.
38. In the rate adjustment proceedings provided for above, the revenue requirement associated with the investments recovered through the GSMP II Rate Mechanism shall be calculated as summarized below.

GSMP II Rate Mechanism Costs - All capital expenditures recoverable through GSMP Rate Mechanism, including actual costs of engineering, design and construction, and property acquisition, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects ("GSMP II Rate Mechanism Costs"), will be recovered through base rate roll-ins for each of the time periods described above. The GSMP II Rate Mechanism capital expenditures 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 GSMP II Rate Mechanism Investment Costs that have been placed into service less the associated accumulated depreciation less accumulated deferred income taxes.

⁶ Only applicable if at least 10% of GSMP II Rate Mechanism investment is in-service.
⁷ The final roll-in dates may vary due to the timing for the completion of Program work.

WACC – PSE&G shall earn a return on its net investment in the GSMP II based upon the authorized ROE and capital structure including income tax effects decided by the Board in the most recently approved base rate case.

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

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

- i. GSMP II Rate Mechanism Rate Base – The GSMP II Rate Mechanism 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.
- ii. Depreciation Expense – Depreciation expense will be calculated as the GSMP II Rate Mechanism 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. Expense Adjustments - Includes the amortization of the expenses related to methane mapping offset by the O&M savings related to leak reduction.
- iv. 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.
- v. Revenue Factor – The Revenue Factor adjusts the Revenue Requirement Net of Tax for federal and state income taxes and the costs associated with the Board and Rate Counsel Annual Assessments and Gas Revenue Uncollectibles. The then-current statutory state and federal income tax rates and the then-current Board/Rate Counsel Assessment rates will be utilized. The percentage used to calculate the uncollectible expense will be based upon the percentage determined in the Company's most recently approved base rate case.

Attached as Attachment A of the 2018 Stipulation is a sample revenue requirement calculation based on the estimated revenue requirement for the first rate adjustment.

Rate Design

39. Until the completion of the Company's next base rate case, the rate design for these rate adjustments agreed upon herein, will be structured consistent with the rate design methodology used to set rates in GSMP I. The estimated rates calculated for the first forecasted roll-in are based on weather normalized billing determinants which are also currently being used for GSMP I. For roll-ins that are effective subsequent to the Company's base rate cases, the Company will utilize the corresponding billing determinants approved in the most recent base rate case. To the extent the Company seeks to utilize more current weather

normalized billing determinants for any future rate roll-in filings subsequent to the most recently approved base rate case, or to change the methodology used to weather normalize billing determinants, PSE&G shall provide those updated billing determinants and supporting data to Board Staff and Rate Counsel a minimum of sixty (60) days prior to any GSMP II rate roll-in filing for review and approval.

Base Rate Case Filing Requirement

40. Consistent with the IIP, the Company agrees to file a base rate case no later than January 1, 2024, five (5) years from the start date of the Program.
41. Notwithstanding the foregoing provision requiring PSE&G to file a base rate case no later than five (5) years from the start date of the Program, agreement to this 5-year period does not result in a waiver of Rate Counsel's right to challenge the legality of the IIP provision that authorizes infrastructure investment programs up to five years without the filing of a base rate case, or to argue in any other case that a period shorter than 5 years is necessary to preserve the required nexus to a rate case.

Reporting Requirements

42. Minimum Filing Requirements ("MFRs") - Each rate change filing will be accompanied by the MFRs that are set forth in Attachment B of the 2018 Stipulation.
43. PSE&G will provide monthly reports on the Program to the Board Staff and Rate Counsel ("Monthly Report") setting forth the information for the Program as set forth in Attachment C of the 2018 Stipulation.
44. The investments recovered through the GSMP II Rate Mechanism and Stipulated Base shall be broken out between internal labor, material, and other costs. Also, PSE&G will report internal labor regular hours and internal labor overtime hours. This reporting will begin with the January 2019 report and be filed by April 1, 2019, 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 GSMP II Rate Mechanism and Stipulated Base expenditures are complete. With each True-up Filing, the Company will also provide a) additional monthly reports covering all remaining investment for which a rate adjustment is being sought, pursuant to the "Investment as of" schedule shown in paragraph 33 of the 2018 Stipulation, and b) a semi-annual report reconciling the six applicable monthly reports with the semi-annual rate adjustment being claimed in the True-up Filing.⁸

On April 23, 2018, NJLEUC filed a letter with the Board expressing its non-support of the Stipulation. NJLEUC stated that the Program is very expensive and, as large volume energy users, NJLEUC members will pay a disproportionate share of its costs. NJLEUC also stated, "the proliferation of accelerated cost recovery mechanisms reflects unsound regulatory policy and should be discouraged." Lastly, NJLEUC objected to the inclusion of the five (5) year stay-

⁸ Since the initial True-up Filing will reflect investment through August 31, 2019 per paragraph 36 of the 2018 Stipulation, the initial reconciliation report will reconcile eight (8) monthly reports instead of six (6).

out provision for the Company's next base rate case, and the Board should require PSE&G and the other utilities that utilize these clauses to file rate cases more frequently, rather than less.

By letter dated April 25, 2018, AARP stated that it could not support the proposed settlement with regard to the Program. AARP stated that the proposed settlement in GSMP II, if approved, would create a significantly more expensive program and raise rates by \$1.575 billion dollars over a five (5) year period, through an accelerated clause mechanism. Rather than filing a base rate case within three (3) years, AARP stated that the proposed settlement does not require a base rate filing and full prudence review of the project for five (5) years. AARP asserted that it is particularly concerned about the proposed settlement's five (5) year stay-out provision. AARP stated that this provision seriously impedes the Board's ability to identify imprudence, to correct for it, and to incent adherence to prudence going forward.

DISCUSSION AND FINDING:

The Board may use a non-unanimous settlement as a fact-finding tool and adopt it provided that it finds independent support in the record, the parties had an opportunity to discuss settlement, and the non-consenting parties have the opportunity to argue against the stipulation. These conditions have been satisfied in this proceeding. 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 the 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).

The Board is persuaded that the GSMP II, as modified by the terms of the 2018 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.

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. Moreover, 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. In addition, a five year program will enable more efficient, longer-term utility capital planning which will benefit utility customers while satisfying the requirement for nexus to a base rate case. The Company will be able to maximize efficiency in numerous ways, including by purchasing necessary components in larger quantities and engaging contractors for a longer period of time. Furthermore, the five (5) year term of the Program is not only in accordance with N.J.A.C. 14:3-2A.1 et seq., but it also affords the Company greater stability and predictability, which results in increased efficiency and overall lower project costs. With respect to the stipulated cost recovery mechanism, the Board is persuaded that the mechanism proposed in the 2018 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, which not only provides ratepayers with the benefit of improved infrastructure, but also an assurance that they will be refunded any excess amount over what the Board ultimately approves in the Company's next base rate case. These costs will be subject to review in a future base rate case, which will be filed no later than five (5) years following the commencement of the Program. This requirement of the filing of a base rate case in five (5)

years provides an appropriate nexus between the Program and the prudency review of the expenditures, while providing for better alignment with the Company's capital planning process. The Stipulation also mandates the Company to maintain certain reporting requirements, which provides for additional protection to ratepayers.

In addition, the Board believes the cost recovery mechanism adopted in the 2018 Stipulation strikes an effective balance by 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. No rates will be charged to customers until the facilities for which the rates are being charged are in service.

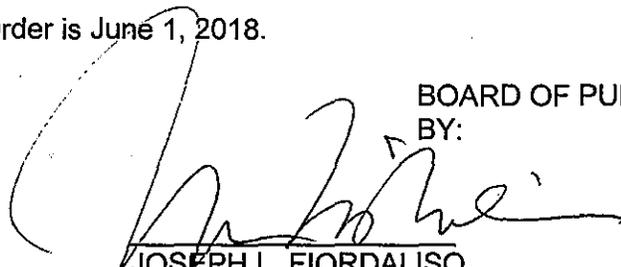
The Board, having carefully reviewed the record in this proceeding, including the July 2017 Petition, testimony submitted by the parties, the 2018 Stipulation, and comments submitted by NJLEUC and AARP, **HEREBY FINDS** the 2018 Stipulation to be reasonable, in the public interest, and in accordance with the law. Therefore, the Board **HEREBY ADOPTS** the 2018 Stipulation in its entirety, and **HEREBY INCORPORATES** its terms and conditions as though fully set forth herein.

The Board **HEREBY RATIFIES** the decisions of President Fiordaliso and Commissioner Chivukula rendered during the time each was the presiding officer of 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 or prohibit the Board from taking any such actions determined to be appropriate as a result of any such audit.

The effective date of this Order is June 1, 2018.

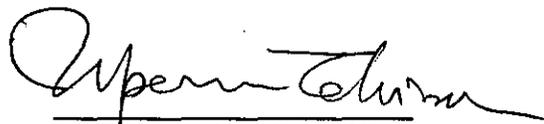
DATED: 5/22/18

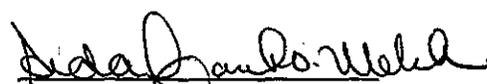

JOSEPH L. FIORDALISO
PRESIDENT

BOARD OF PUBLIC UTILITIES
BY:


MARY-ANNA HOLDEN
COMMISSIONER


DIANNE SOLOMON
COMMISSIONER


UPENDRA J. CHIVUKULA
COMMISSIONER

ATTEST: 
AIDA CAMACHO-WELCH
SECRETARY

In the Matter of the Petition of Public Service Electric and Gas Company for Approval of the
Next Phase of the Gas System Modernization Program and Associated Cost Recovery
Mechanism ("GSMP II") - BPU DOCKET NO. GR17070776

SERVICE LIST

New Jersey Division of Rate Counsel

140 East Front Street, 4th Floor
Post Office Box 003
Trenton, NJ 08625-0003

Stefanie A. Brand, Esq., Director
sbrand@rpa.nj.gov

Brian Lipman, Esq.
blipman@rpa.nj.gov

Maura Caroselli, Esq.
mcaroselli@rpa.nj.gov

Felicia Thomas-Friel, Esq.
ftthomas@rpa.nj.gov

Sarah Steindel, Esq.
ssteinde@rpa.nj.gov

Henry Ogden, Esq.
hogden@rpa.nj.gov

Shelly Massey
shelly.massey@rpa.nj.gov

Andrea Crane
The Columbia Group, Inc.
2805 East Oakland Park, Blvd., #401
Ft. Lauderdale, FL 33306
ctcolumbia@aol.com

David Dismukes, Ph.D.
Acadian Consulting Group
5800 One Perkins Place Drive
Building 5, Suite F
Baton Rouge, LA 70808
daviddismukes@acadianconsulting.com

Acadian Consulting Group

Julia McKenna
5800 One Perkins Place Drive
Building 5, Suite F
Baton Rouge, LA 70808
juliemckenna@acadianconsulting.com

New Jersey Board of Public Utilities

44 South Clinton Avenue, 3rd Floor, Suite 314
Post Office Box 350
Trenton, NJ 08625-0350

Aida Camacho-Welch, Secretary of the Board
aida.camacho@bpu.nj.gov

Paul Flanagan, Executive Director
paul.flanagan@bpu.nj.gov

Stacy Peterson, Director
Division of Energy
stacy.peterson@bpu.nj.gov

Andrea Reid
Division of Energy
andrea.reid@bpu.nj.gov

Christopher Oprysk
Division of Energy
christopher.oprysk@bpu.nj.gov

Michael Stonack
Division of Reliability and Security
michael.stonack@bpu.nj.gov

Bethany Rocque-Romaine, Esq.
Counsel's Office
bethany.romaine@bpu.nj.gov

Megan Lupo, Esq.
Counsel's Office
megan.lupo@bpu.nj.gov

Division of Law

Department of Law & Public Safety
Division of Law
124 Halsey Street
Post Office Box 45029
Newark, NJ 07101-45029

Caroline Vachier, Esq.
caroline.vachier@law.njoag.gov

Edward McGee
Acadian Consulting Group
P.O. Box 1659
Bethany Beach, DE 19930
edmcgee@acadianconsulting.com

Kevin O'Donnell, CFA
Nova Energy Consultants
1350 SE Maynard Road
Suite 101
Cary, NC 27511
kodonnell@novaenergyconsultants.com

PSE&G

PSEG Services Corporation
80 Park Plaza, T5
P.O. Box 570
Newark, NJ 07102

Hesser McBride, Esq.
Hesser.mcbride@pseg.com

Joseph F. Accardo, Jr., Esq.
Joseph.accardojr@pseg.com

Michele Falcao
Michele.falcao@pseg.com

Danielle Lopez, Esq.
Danielle.lopez@pseg.com

Bernard Smalls
Bernard.smalls@pseg.com

Matthew Weissman, Esq.
Matthew.weissman@pseg.com

Caitlyn White
Caitlyn.white@pseg.com

AARP

Janine G. Bauer, Esq.
Szaferman, Lakind, Blumstein, & Blader, P.C.
101 Grovers Mill Road, Suite 200
Lawrenceville, NJ 08648
jbauer@szaferman.com

Geoffrey Gersten, Esq.
geoffrey.gersten@law.njoag.gov

Alex Moreau, Esq.
alex.moreau@law.njoag.gov

Patricia Krogman, Esq.
patricia.krogman@law.njoag.gov

Emma Xiao, Esq.
emma.xiao@law.njoag.gov

EDF

Christopher D. Miller, Esq.
Maraziti Falcon, LLP
150 John F. Kennedy Parkway
Short Hills, NJ 07078
cmiller@mfhenvlaw.com

Holly Pearen, Esq.
2060 Broadway Street
Suite 300
Boulder, CO 80302
hpearen@edf.com

ELEC

Daniel J. Brennan, Esq.
Susanin, Widman & Brennan, PC.
656 E. Swedesford Rd., Suite 330
Wayne, PA 19087
dbrennan@swbconsellers.com

Elizabeth, K. Schalax, Esq.
Susanin, Widman & Brennan, PC.
656 E. Swedesford Rd., Suite 330
Wayne, PA 19087
eschlax@swbcounsellors.com

NJLECET

Bradley M. Parsons, Esq.
Kroll Heineman Carton, LLC
Metro Corporate Campus I
99 Wood Avenue South
Suite 307
Iselin, NJ 08830
bparsons@krollfirm.com

Stephanie Hunsinger
AARP
Forrestal Village
101 Rockingham Row
Princeton, NJ 08540
shunsinger@aarp.org

Evelyn Liebman
AARP
Forrestal Village
101 Rockingham Row
Princeton, NJ 08540
eliebman@aarp.com

CSJV

Kevin G. Walsh, Esq.
Gibbons, P.C.
One Gateway Center
Newark, NJ 07102
kwalsh@gibbonslaw.com

Ferreira Construction Company

Michael Rato
McElroy, Deutsch, Mulvaney & Carpenter, LLP
1300 Mount Kemble Avenue
PO Box 2075
Morristown, NJ 07962
mrato@mdmc-law.com

NJLEUC

Steven S. Goldenberg, Esq.
Fox Rothschild LLP
997 Lenox Drive, Bldg. 3
Lawrenceville, NJ 08648-2311
sgoldenberg@foxrothschild.com

Paul F. Forshay, Esq.
Eversheds-Sutherland, LLP
700 Sixth Street, NW, Suite 700
Washington, DC 20001-3980
paul.forshay@eversheds-sutherland.com

PSE&G Unions

Thomas C. Kelly
Russo Tumulty, Nester, Thompson & Kelly
175 Fairfield Avenue #1A
West Caldwell, NJ 07066
tkelly@russotumulty.com

Roger M. Schwarz
Issues Management LLC
1 Benjamin Rush Lane
Princeton, NJ 08540
rms@rmsga.com

Kenneth Thoman
IBEW Local Union 94
219 Franklin Street
Hightstown, NJ 08520
bud@ibew94.org

Hesser G. McBride, Jr.
Associate General Regulatory Counsel

Law Department
PSEG Services Corporation
80 Park Plaza – T5, Newark, New Jersey 07102-4194
973-430-5333 fax: 973-430-5983
email: hesser.mcbride@pseg.com



April 18, 2018

In the Matter of the Petition of
Public Service Electric and Gas Company
for Approval of the Next Phase of the
Gas System Modernization Program and
Associated Cost Recovery Mechanism
("GSMP II")

Docket No. GR17070776

VIA ELECTRONIC MAIL & OVERNIGHT DELIVERY

Aida Camacho-Welch, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 3rd Flr.
P.O. Box 350
Trenton, New Jersey 08625-0350

Dear Secretary Camacho-Welch:

Enclosed for filing please find ten (10) copies of a fully executed Stipulation of Settlement and Agreement ("GSMP II Stipulation") resolving the above-referenced matter. The Petitioner respectfully requests that the Board of Public Utilities ("Board") approve the Stipulation without modification

We note that Intervenor New Jersey Large Energy Users Coalition (NJLEUC) and participant AARP are not signatories to the GSMP II Stipulation submitted herewith. We anticipate that they will submit no position letters to the Board.

If you have any questions, please contact the undersigned.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Hesser G. McBride, Jr.", written in a cursive style.

Attach.
C Attached Service List (E-Mail Only)

AARP

Janine G. Bauer
Szaferman, Lakind, Blumstein, & Blader, P.C.
101 Grovers Mill Road, Suite 200
Lawrenceville NJ 08648
(609) 275-0400 x249
jbauer@szaferman.com

AARP

Stephanie Hunsinger
101 Rockingham Row Forrestal Village
Princeton NJ 08540
shunsinger@aarp.org

AARP

Evelyn Liebman
AARP
Forestral Village
101 Rockingham Row
Princeton NJ 08540
(609) 452-3906
eliebman@aarp.org

BPU

William Agee Esq.
Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton NJ 08625-0350
(609) 292-1616
william.agee@bpu.nj.gov

BPU

Joe Costa
Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton NJ 08625-0350
(609) 984-4558
joe.costa@bpu.nj.gov

BPU

Paul Flanagan
Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton NJ 08625-2836
paul.flanagan@bpu.nj.gov

BPU

Son Lin Lai
Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton NJ 08625-0350
(609) 292-2098
son-lin.lai@bpu.nj.gov

BPU

Christine Lin
Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton NJ 08625-0350
(609) 292-2956
christine.lin@bpu.nj.gov

BPU

Megan Lupo
Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton NJ 08625-0350
megan.lupo@bpu.nj.gov

BPU

Jacqueline O'Grady
Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton NJ 08625-0350
(609) 292-2947
jackie.ogrady@bpu.nj.gov

BPU

Stacy Peterson
Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton NJ 08625-0350
(609) 292-4517
stacy.peterson@bpu.nj.gov

BPU

Bethany Rocque-Romaine Esq.
Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton NJ 08625-0350
(609) 292-1496
bethany.romaine@bpu.nj.gov

BPU

Michael Stonack
Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton NJ 08625-0350
(609) 777-0192
michael.stonack@bpu.nj.gov

BPU

Scott Sumliner
Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton NJ 08625-0350
(609) 292-4519
scott.sumliner@bpu.nj.gov

CSJV

Kevin G Walsh Esq.
Gibbons P.C.
One Gateway Center
Newark NJ 07102
kwalsh@gibbonslaw.com

DAG

Geoffrey Gersten
NJ Dept. of Law & Public Safety
Division of Law
124 Halsey Street, 5th Flr.
P.O. Box 45029
Newark NJ 07101
(973) 648-3510
geoffrey.gersten@dol.lps.state.nj.us

DAG

Jenique Jones
NJ Dept. of Law & Public Safety
Division of Law
124 Halsey Street, 5th Flr.
P.O. Box 45029
Newark NJ 07101
jenique.jones@dol.lps.state.nj.us

DAG

Patricia A. Krogman DAG
NJ Dept of Law & Public Safety
Division of Law
124 Halsey Street, 5th Flr.
P.O. Box 45029
Newark NJ 07101
(973) 648-3441
patricia.krogman@dol.lps.state.nj.us

DAG

Alex Moreau DAG
NJ Dept. of Law & Public Safety
Division of Law
124 Halsey Street, 5th Flr.
P.O. Box 45029
Newark NJ 07101
(973) 648-3762
Alex.Moreau@dol.lps.state.nj.us

DAG

Caroline Vachier DAG
NJ Dept. of Law & Public Safety
Division of Law
124 Halsey Street, 5th Flr.
P.O. Box 45029
Newark NJ 07101
(973) 648-3709
caroline.vachier@dol.lps.state.nj.us

DAG

Emma Xiao DAG
NJ Dept of Law & Public Safety
Division of Law
124 Halsey Street, 5th Flr.
P.O. Box 45029
Newark NJ 07101
Emma.Xiao@dol.lps.state.nj.us

EDF

Christopher D. Miller Esq.
Maraziti Falcon, LLP
150 John F. Kennedy Parkway
Short Hills NJ 07078
cmiller@mfhenvlaw.com

EDF

Holly Pearen Esq.
2060 Broadway St.
Suite 300
Boulder CO 80302
hpearen@edf.org

ELEC

Daniel J. Brennan Esq.
Susanin, Widman & Brennan, PC.
656 E. Swedesford Rd. Suite 330
Wayne PA 19087
dbrennan@swbcounselors.com

Engineers Labor-Employment Cooperative

Elizabeth K. Schlax Esq.
Susanin Widman & Brennan, PC
656 East Swedesford Road
Suite 330
Wayne PA 19087
(610) 710-4510
ESchlax@swbcounselors.com

Ferreira

Michael Rato
McElroy, Deutsch, Mulvaney & Carpenter, LLP
1300 Mount Kemble Avenue
P.O. Box 2075
Morristown NJ 07962
mrato@mdmc-law.com

IBEW Local Union 94

Thomas C. Kelly Esq.
Russo, Tumulty, Nester, Thompson & Kelly
175 Fairfield Avenue #1A
West Caldwell NJ 07066
tkelly@russotumulty.com

Local 94

Roger M. Schwarz
Issues Management LLC
1 Benjamin Rush Lane
Princeton NJ 08540
(609) 252-1300
rms@rmsga.com

Local 94

Kenneth Thoman
IBEW Local Union 94
219 Franklin Street
Highstown NJ 08520
bud@ibew94.org

NJLECET

Bradley M. Parsons Esq.
KROLL HEINEMAN CARTON, LLC
Metro Corporate Campus I
99 Wood Avenue South,
Suite 307
Iselin NJ 08830
bparsons@krollfirm.com

NJLEUC

Paul F. Forshay Esq.
Eversheds-Sutherland, LLP
700 Sixth Street, NW, Suite 700
Washington DC 20001-3980
(202) 383-0100
paul.forshay@eversheds-sutherland.com

NJLEUC

Steven S. Goldenberg Esq.
Fox Rothschild LLP
997 Lenox Drive, Bldg. 3
Lawrenceville NJ 08648-2311
(609) 896-4586
sgoldenberg@foxrothschild.com

PSE&G

Joseph F. Accardo, Jr.
PSEG Services Corporation
80 Park Plaza, T5G
P.O. Box 570
Newark NJ 07102
(973) 430-5811
joseph.accardojr@pseg.com

PSE&G

Michele Falcao
PSEG Services Corporation
80 Park Plaza, T5
P.O. Box 570
Newark NJ 07102
(973) 430-6119
michele.falcao@pseg.com

PSE&G

Danielle Lopez Esq.
Public Services Corporation
80 Park Plaza, T5
P.O. Box 570
Newark NJ 07102
973-430-6479
danielle.lopez@pseg.com

PSE&G

Bernard Smalls
PSEG Services Corporation
80 Park Plaza-T5
Newark NJ 07102-4194
(973) 430-5930
bernard.smalls@pseg.com

PSE&G

Matthew M. Weissman Esq.
PSEG Services Corporation
80 Park Plaza, T5
P.O. Box 570
Newark NJ 07102
(973) 430-7052
matthew.weissman@pseg.com

PSE&G

Caitlyn White
PSEG Services Corporation
80 Park Plaza, T-5
P.O. Box 570
Newark NJ 07102
(973)-430-5659
caitlyn.white@pseg.com

Rate Counsel

Stefanie A. Brand
Division of Rate Counsel
140 East Front Street, 4th Flr.
P.O. Box 003
Trenton NJ 08625
(609) 984-1460
sbrand@rpa.state.nj.us

Rate Counsel

Maura Caroselli Esq.
Division of Rate Counsel
140 East Front Street
4th Floor
Trenton NJ 08625
mcaroselli@rpa.state.nj.us

Rate Counsel

James Glassen
Division of Rate Counsel
140 East Front Street, 4th Flr.
P.O. Box 003
Trenton NJ 08625
(609) 984-1460
jglassen@rpa.state.nj.us

Rate Counsel

Kurt Lewandowski Esq.
Division of Rate Counsel
140 East Front Street, 4th Flr.
P.O. Box 003
Trenton NJ 08625
(609) 984-1460
klewando@rpa.state.nj.us

Rate Counsel

Brian O. Lipman
Division of Rate Counsel
140 East Front Street, 4th Flr.
P.O. Box 003
Trenton NJ 08625
(609) 984-1460
blipman@rpa.state.nj.us

Rate Counsel

Shelly Massey
Division of Rate Counsel
140 East Front Street, 4th Flr.
P.O. Box 003
Trenton NJ 08625
(609) 984-1460
smassey@rpa.state.nj.us

Rate Counsel

Henry M. Ogden Esq.
Division of Rate Counsel
140 East Front Street, 4th Flr.
P.O. Box 003
Trenton NJ 08625
(609) 984-1460
hogden@rpa.state.nj.us

Rate Counsel

Sarah Steindel
Division of Rate Counsel
140 East Front Street, 4th Flr.
P.O. Box 003
Trenton NJ 08625
(609) 984-1460
ssteinde@rpa.state.nj.us

Rate Counsel

Felicia Thomas-Friel
Division of Rate Counsel
140 East Front Street, 4th Flr.
P.O. Box 003
Trenton NJ 08625
(609) 984-1460
fthomas@rpa.state.nj.us

Rate Counsel Consultant

Andrea Crane
The Columbia Group, Inc.
2805 East Oakland Park Blvd., #401
Ft. Lauderdale FL 33306
203-917-9709
ctcolumbia@aol.com

Rate Counsel Consultant

David Dismukes
Acadian Consulting Group
5800 One Perkins Drive
Building 5, Suite F
Baton Rouge LA 70808
(225) 578-4343
daviddismukes@acadianconsulting.com

Rate Counsel Consultant

Edward McGee
Acadian Consulting
P.O. Box 1659
Bethany Beach DE 19930
edmcgee@acadianconsulting.com

Rate Counsel Consultant

Julie McKenna
Acadian Consulting Group
n/a
n/a n/a
juliemckenna@acadianconsulting.com

Rate Counsel Consultant

Kevin O'Donnell
Nova Energy Consultants, Inc.
1350 SE Maynard Road, Suite 101
Cary NC 27511
KODonnell@novaenergyconsultants.com

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

**In the Matter of the Petition of Public Service
Electric and Gas Company for Approval of the
Next Phase of the Gas System Modernization
Program and Associated Cost Recovery
Mechanism (GSMP II)**

BPU DOCKET NO. GR17070776

STIPULATION OF SETTLEMENT AND AGREEMENT

APPEARANCES:

Joseph F. Accardo Jr., Esq., Deputy General Counsel, **Matthew M. Weissman, Esq.,** General Regulatory Counsel-Rates, **Hesser G. McBride, Jr., Esq.,** Associate General Regulatory Counsel, and **Danielle Lopez, Esq.,** Assistant General Regulatory Counsel, for the Petitioner, Public Service Electric and Gas Company

Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel, **Felicia Thomas-Friel, Esq.,** Managing Attorney- Gas, **Brian O. Lipman, Esq.,** Litigation Manager, **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 for New Jersey Division of Rate Counsel

Alex Moreau, Emma Xiao, and Patricia A. Krogman, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (**Gurbir S. Grewal,** Attorney General of New Jersey)

Christopher D. Miller Esq., Maraziti Falcon, LLP, Attorney for Environmental Defense Fund

Steven S. Goldenberg, Esq., , Fox Rothschild, LLP, and **Paul F. Forshay, Esq.,** Sutherland Asbill & Brennan LLP, for New Jersey Large Energy Users Coalition

Thomas C. Kelly, Esq.,Russo Tumulty Nestor Thompson & Kelly, for Local Union 94 of the International Brotherhood of Electrical Workers *and* Local 855 of the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry (PSE&G Unions).

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

Michael Rato, Esq., McElroy, Deutsch, Mulvaney & Carpenter, LLP for Ferreira Construction

Kevin G. Walsh Esq., Gibbons P.C., for Creamer-Sanzari Joint Venture

Elizabeth Schlax, Esq. and Daniel Brennan, Esq., Susanin Widman & Brennan, PC, for the Engineers Labor-Employment Cooperative

Bradley M. Parsons Esq., Kroll Heineman Carton, LLC for New Jersey Laborers – Employers Cooperation and Education Trust

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”) (collectively referred to herein as “the Parties”); and the undersigned parties and participants (hereinafter all the foregoing collectively referred to as “the Signatories”), to execute this Stipulation of Settlement 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 of Settlement and Agreement.

BACKGROUND

1. On July 27, 2017, PSE&G filed a petition with the New Jersey Board of Public Utilities (the “Board”) seeking approval to implement and administer the next phase of its Gas System Modernization Program, (“GSMP II” or the “Program”). The Program is an extension of PSE&G’s current Gas System Modernization Program (“GSMP I”), which was approved by the Board in accordance with an Order dated November 16, 2015.
2. In GSMP II, PSE&G seeks to replace cast iron and unprotected steel mains and associated services, address the abandonment of district regulators associated with cast iron and unprotected steel mains, rehabilitate large diameter elevated pressure cast iron, upgrade utilization pressure portions of the system to elevated pressure, replace limited

amounts of protected steel and plastic mains, and relocate inside meter sets to outside locations. The Program, as proposed, would result in the replacement of approximately 250 miles of main per year, with estimated investment of approximately \$2.68 billion over a five-year period from 2019 through 2023. The Petition proposes that the costs of these investments be recovered by the Company through semi-annual roll-ins—assuming a minimum level of 10 percent of the total program investment has been expended.

3. On September 22, 2017, the Board issued an Order designating Commissioner Joseph L. Fiordaliso (now Board President 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.
4. By way of Order dated November 9, 2017, President Fiordaliso issued a procedural schedule, and 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; New Jersey Laborer’s-Employer’s Cooperation and Education Trust (“NJLECET”); the Engineers Labor-Employment Cooperative (“ELEC”), and Ferreira Construction Company, Inc.
5. Public hearings were held at 4 p.m. and 5:30 p.m. in New Brunswick, New Jersey on January 17, 2018; in Mt. Holly, New Jersey on January 18, 2018; and in Hackensack,

New Jersey on January 25, 2018. At each hearing a variety of comments were received, as reflected in the transcripts of those hearings.

6. Substantial discovery has been issued and responded to in this proceeding, pursuant to the procedural schedule issued by President Fiordaliso.
7. The Signatories met on several occasions to facilitate further information gathering and to discuss settlement of this matter. Settlement conferences were held on December 6 and December 11 of 2017, and on January 4, 10, and 23 of, 2018.
8. By way of Order dated February 28, 2018, the Board reassigned this matter to Commissioner Upendra J. Chivukula, and amended the procedural schedule to set an additional settlement conference for March 9, 2018, and evidentiary hearings for April 4-6, 2018.
9. A final settlement conference was ultimately held on March 23, 2018, where the Signatories reached an agreement on a settlement resolving all issues in the instant proceeding.
10. Over the course of this proceeding, discovery has been issued and responded to pursuant to a procedural schedule issued and modified thereafter by the presiding Commissioner. (See PSE&G Discovery Responses to Rate Counsel Requests RCR-A-1 – RCR-A-26, RCR-ENG-1 – RCR-ENG-40, RCR-POL-1-88; RCR-ROR-1 - RCR-ROR-14; PSE&G Discovery Responses to BPU Staff Requests S-PS-GSMP II 1 – S-PS-GSMP II 3; PSE&G Discovery Responses to EDF 1- EDF-3; EDF Response to PSE&G Requests PSEG-EDF 1-2; Rate Counsel Discovery Responses to PSEG RC-DD 1-26; PSEG-RC-ACC-1-13; PSEG-RC-KWO 1-9; PSEG-RCR-EAM 1-9.)

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

STIPULATED MATTERS

12. The Signatories agree that, subject to Board approval of this Stipulation of Settlement and Agreement, PSE&G may implement GSMP II under the terms and conditions described herein. The Program will include investment in the PSE&G gas distribution system, an accelerated rate recovery mechanism (“GSMP II Rate Mechanism”) including scheduled rate adjustments for investments included in the GSMP II Rate Mechanism, required gas distribution base investments that are not recoverable through the GSMP II Rate Mechanism (“Stipulated Base”), an annual baseline capital expenditure, and other provisions as described herein.

Program Term

13. The Program will be implemented over a five (5) year term, commencing on January 1, 2019, and ending December 31, 2023, except as provided herein. The Company may undertake Program non-construction expenditures, such as planning and engineering, upon Board approval of the Program. For mains already installed, joined to a supplying line that contains gas, and pressurized with gas as of December 31, 2023, the Company may also engage in completion (including all work associated with such mains) and restoration work in the first six (6) months of 2024, such as tie-ins, uprates, excess flow valve installations, service transfers, service replacements, paving (and related restoration), lawn restoration/landscaping, and retirements.

14. 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 three and one-half years under this Program.

GSMP II Accelerated Rate Recovery Mechanism

15. Costs eligible for recovery under the GSMP II Accelerated Rate Recovery Mechanism ("GSMP II Rate Mechanism") include: (a) costs to replace PSE&G's Utilization Pressure Cast Iron ("UPCI") mains and associated services and Unprotected Steel mains and associated services; (b) costs required to uprate the UPCI systems (including the uprating of associated protected steel and plastic mains and associated services) to higher pressures; and (c) costs associated with the installation of excess flow valves and the elimination of district regulators, where applicable.
16. The GSMP II Rate Mechanism will exclude: costs to replace elevated pressure cast iron ("EPCI"), plastic and cathodically protected steel mains; costs to reinforce EPCI joints; 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 cost that such relocation work adds to the project compared to the project proceeding without relocation of the meters to outdoor locations. The costs to replace EPCI, limited plastic and cathodically protected steel mains associated with the UPCI and unprotected steel replacement projects, the costs to reinforce EPCI joints, 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 provided below. The costs of replacement meters are not part of the Stipulated Base or the GSMP

II Rate Mechanism. Expenditures related to leak repairs are not included in the Stipulated Base or the GSMP II Rate Mechanism.

17. Costs eligible for recovery under the GSMP II Rate Mechanism shall not exceed \$1.575 billion - representing replacement of 875 miles of main--which excludes the cost associated with the Stipulated Base and AFUDC. Costs recoverable under the accelerated rate mechanism provided herein shall not exceed \$1.80 million per mile. The maximum cost of \$1.80 million per mile limit includes the costs to replace UPCI mains and associated services and Unprotected Steel mains and associated services, costs required to uprate the UPCI systems, the costs of excess flow valves, and the costs of eliminating district regulators, and excludes costs associated with the Stipulated Base and AFUDC. The cost of \$1.80 million per mile is an agreed upon maximum amount that the Company will recover through the GSMP II Rate Mechanism. Costs incurred by the Company in excess of the \$1.80 million/mile on its replacements will be credited toward the baseline capital expenditure requirement provided in paragraph 22 of this Stipulation for the year in which the cost is incurred. Recovery of costs in excess of \$1.80 million per mile may be sought through a base rate case.

Capital Structure/Return on Equity

18. PSE&G's capital structure and return on equity for GSMP II will be set based on the capital structure and return on equity level established in the Company's most recently approved base rate case.

Stipulated Base

19. The Company shall spend \$300 million on certain capital projects during the five-year Program, with no less than \$20 million expended in each calendar year from 2019 through 2023. The \$300 million expenditure (*i.e.*, the “Stipulated Base”) shall be recoverable from base rates and not recoverable through the GSMP II Rate Mechanism. If the Company fails to spend at least \$20 million in any calendar year or \$300 million over the five year period 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 “Major event” (as defined at *N.J.A.C.* 14:5-1.2), acts of war or terrorism, or other *force majeure* extraordinary circumstances.
20. Separate and apart from Paragraph 19 above, if the Company fails to spend either \$30 million a year of the Stipulated Base or a total of \$100 million of the overall Stipulated Base obligation by the end of the third year of the Program, it shall notify Board Staff and Rate Counsel and schedule a conference to discuss the matter within thirty (30) days of the date the Company provides such notice. PSE&G may request and the Board may grant an exception from the requirements of this paragraph based on extraordinary circumstances, such as “Major event” (as defined at *N.J.A.C.* 14:5-1.2), acts of war or terrorism, or other *force majeure* extraordinary circumstances.
21. Stipulated Base expenditures may include all work described in Paragraph 15 above, as well as costs incurred to: replace elevated pressure cast iron (“EPCI”) mains; reinforce

EPCI joints; replace plastic and cathodically protected steel main; relocate inside meter sets to outdoor locations; replace UPCI and Unprotected Steel main and associated services; uprate the UPCI systems (including the uprating of associated protected steel and plastic mains and services) to higher pressures; eliminate district regulators, where applicable; install excess flow valves associated with the Stipulated Base expenditures; and relocate inside meter sets associated with GSMP II Rate Mechanism work or Stipulated Base main replacements to outside locations.

Baseline Capital Expenditure

22. In addition, for each of the five years, 2019 through 2023, the Company agrees to maintain a baseline capital expenditure level of at least \$155 million. The capital investments made by the Company as part of its baseline capital expenditure requirements are within the discretion of the Company and may include, *inter alia*, costs incurred by the Company in excess of \$1.80 million/mile on its replacements under the GSMP II Rate Mechanism. If the Company fails to maintain an annual baseline capital expenditure level of at least \$155 million in any year, the amount of investment eligible for recovery through the GSMP II Rate Adjustment Mechanism for the subsequent year will be reduced by an amount equal to the difference between \$155 million baseline and the actual annual capital expenditure made by the Company. However, if the Company fails to maintain, for more than one year during the Program, an annual baseline capital expenditure level of at least \$155 million, no recovery of GSMP II Rate Mechanism eligible costs will be permitted during the second and any subsequent year for which the annual baseline expenditure is not met. If the annual baseline capital expenditure is not

met for a second and any subsequent year, then traditional ratemaking practices will apply for that year and there will be no deferral of any GSMP II Rate Mechanism related costs for that year. Instead, all GSMP II Rate Mechanism related costs for the second and any subsequent year(s) in which the annual baseline capital expenditure level were not met will be reviewed in the Company's next base rate case and recovered through base rates, if reasonable and prudent. PSE&G may request and the Board may grant an exception from the requirements of this paragraph based on extraordinary circumstances, such as "Major event" (as defined at *N.J.A.C. 14:5-1.2*), acts of war or terrorism, or other *force majeure* extraordinary circumstances.

Prioritization of Projects

23. 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 as described in the Direct Testimony of PSE&G Witness Wade Miller, dated July 27, 2017, at pp. 46-50, except that methane flow volumes from mobile leak surveys (as described in section 24 below) will be used for sub-prioritization. Unprotected steel mains may also be selected for replacement based on additional factors such as age, size and pressure where insufficient leak hazard data exists.
24. It is agreed that including methane emission flow volume (*i.e.*, emission size) as part of the replacement prioritization process may result in the reduction of natural gas emissions and reduce the environmental impacts of such emissions. The Company agrees to retain a third-party vendor to conduct and complete a methane leak survey of approximately 280 miles of UPCI during the planning phase of the Program (expected Spring/Summer,

2018. This mileage of UPCI is located within the highest ranked B grids (10-15 Hazard Index per mile (“HI/mile”)) replacement of which is anticipated to be completed in years 2 and 3 of the program. Consistent with the approach for GSMP I, and after advising EDF of information provided by the third party vendor, data from leak survey will be used to generate an “Estimated Flow Rate per Mile (Liters/minute/mile).” A threshold will be established based upon the survey data, in consultation with Environmental Defense Fund. Any grid exceeding this threshold is anticipated to be replaced in year 2 up to a maximum of 140 miles of UPCI replacement. Additional factors such as construction efficiencies and logistics will also be taken into account in the scheduling of the grids. If permitting constraints or other issues (*e.g.*, municipal/county specific paving costs, traffic control costs, etc.) make work within a 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. PSE&G acknowledges that bypassing grids due to these considerations may result in diminished methane emission reduction efficiencies. PSE&G will identify any grids that it has bypassed due to the reasons referred to above and describe factors contributing to each decision to bypass a grid.

25. All costs incurred by PSE&G in connection with methane leak surveying will be deferred and recovered as costs through rates as detailed further hereafter. The costs recoverable for methane leak surveying during the Program shall not exceed the annual Operations & Maintenance (“O&M”) expense savings related to leak reductions from the Program as defined in Paragraph 33(a).

26. PSE&G agrees to report on the above-referenced methane leak survey activity as noted in Attachment D hereto.

Leak Metrics

27. The Company agrees to reduce its year-end open leak inventory by one (1) percent for each year of the Program, except under extraordinary circumstances, such as “Major event” (as defined at *N.J.A.C.* 14:5-1.2), acts of war or terrorism, or other *force majeure* extraordinary circumstances. This open leak reduction metric includes all post-approval open leaks subject to a cap for each year of the Program. The cap for the first year following the date of Board approval is set at the average number of year-end open leaks the Company has experienced during the past five calendar years. Thereafter, the cap will be reduced by one (1) percent for each of the remaining four years of the Program as follows:

Year end Open Leaks	
2014	1710
2015	2314
2016	1649
2017	1481
2018	nnnn
5 Year average	xxxx

PROGRAM YEAR	Year end Open Leaks CAP
2019	xxxx
2020	xxxx - 1%
2021	xxxx - 2%
2022	xxxx - 3%
2023	xxxx - 4%

28. If the Company exceeds the open-leak performance cap in the first two years of the Program, the Company will notify Board Staff and Rate Counsel and schedule a conference within thirty (30) days to discuss the matter. Consistent with the Board Infrastructure Investment and Recovery regulation ("IIP"), *N.J.A.C. 14:3-2A.1 et. seq.*, if the Company exceeds the cap for a third year consecutive year, the Company will reduce its return on equity ("ROE") under the Program by fifty (50) basis points until it achieves the leak reduction target. PSE&G may request, and the Board may grant, an exception from the requirements of this paragraph based on extraordinary circumstances, such as "Major event" (as defined at *N.J.A.C. 14:5-1.2*), acts of war or terrorism, or other *force majeure* extraordinary circumstances.

Cost Recovery

29. The Company may seek recovery through the GSMP II Rate Mechanism for the costs covered under Paragraph 15 via a base rate roll-in request with schedules, procedures, and filings as detailed in subsequent paragraphs herein.
30. Consistent with the IIP, each base rate roll-in made by the Company may be on a semi-annual basis, provided that it includes a minimum investment level of ten (10) percent of the total amount authorized to be recovered via the GSMP II Rate Mechanism.
31. Costs to be recovered through the GSMP II Rate Mechanism will include the return on net plant in service as of the end of the semi-annual period, assuming the above-referenced 10% minimum threshold has been met. 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, an expense adjustment (described in detail below), 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.

32. Depreciation Expense will be included at the rate established in the Company's most recently approved base rate case. The Company will begin to depreciate an asset once it goes into service and is used and useful.
33. O&M expenses associated with the Program, except those explicitly defined in part (a) below, will not be included in the annual revenue requirement filings nor will such costs be deferred.
 - a. The parties agree that GSMP II Rate Mechanism investments will result in \$3.3 million in O&M savings from leak reductions by replacing 875 miles of main. To flow these savings to customers, an O&M expense reduction of \$3,771/mile (\$3.3 million / 875 miles) will be incorporated to each rate adjustment based upon the miles of main in service related to each rate roll-in.
 - b. The Company agrees to conduct leak detection surveying as discussed in Paragraph 24. Because these leak detection surveying expenses are anticipated to be incurred in 2018-2019 upon Program approval, the Company will defer these expenses. Once the leak detection surveying is completed, the total deferred expense will be amortized over a 5-year period and the annual amortization

amount will be included in the next rate roll-in revenue requirement. Once included in rates, the Company will commence the amortization of this deferred expense.

34. The Signatories agree that the review of the prudence 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 semi-annual rate filing proceedings (assuming the 10% minimum threshold explained in Paragraph 30 above has been met) 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 prudence review shall take place in a base rate case.
35. To effectuate the cost recovery process for the GSMP II Rate Mechanism investments, PSE&G shall proceed on the below schedule following public notice and public hearing, recognizing that the prudence of the investments will be determined in the base rate case following the placement of the investments into service. The schedule below anticipates semi-annual notice, public hearings, and rate adjustments to cover all rate changes for the GSMP II Rate Mechanism investments. The effective dates for the adjustments may be revised by agreement of the Parties in the Company's 2018 base rate case.
36. The proposed schedule for the Rates Effective, Initial Filing, Investment as of, and True-up Filing dates for all rate roll-ins is listed below:

GSMP II Rate Roll-in Schedule				
Roll-in #	Rates Effective	Initial Filing	Investment as of	True-up Filing
1 ¹	12/1/19	6/30/19	8/31/19	9/15/19
2	6/1/20	12/31/19	2/29/20	3/15/20
3	12/1/20	6/30/20	8/31/20	9/15/20
4	6/1/21	12/31/20	2/28/21	3/15/21
5	12/1/21	6/30/21	8/31/21	9/15/21
6	6/1/22	12/31/21	2/28/22	3/15/22
7	12/1/22	6/30/22	8/31/22	9/15/22
8	6/1/23	12/31/22	2/28/23	3/15/23
9	12/1/23	6/30/23	8/31/23	9/15/23
Final ²	10/1/24	4/31/24	6/30/24	7/15/24

37. The Signatories acknowledge that although the main replacement work for GSMP II is scheduled to be complete December 31, 2023, close out work, such as final paving, must wait 3 to 6 months following main installation. As a result, trailing charges from contractors may lag into 2024. Accordingly, the Signatories agree to a final roll-in no later than July 15, 2024, with all actual data for rates effective October 1, 2024.
38. In the rate adjustment proceedings provided for above, the revenue requirement associated with the investments recovered through the GSMP II Rate Mechanism shall be calculated as summarized below.

GSMP II Rate Mechanism Costs - All capital expenditures recoverable through GSMP Rate Mechanism, including actual costs of engineering, design and construction, and property acquisition, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects (“GSMP II Rate Mechanism Costs”), will be recovered through base rate roll-ins for each of the time periods described above. The GSMP II Rate Mechanism capital expenditures will be recorded, during construction, in an associated Construction Work In Progress (“CWIP”) account or in a Plant in Service

¹ Only applicable if at least 10% of GSMP II Rate Mechanism investment is in-service.

² The final roll-in dates may vary due to the timing for the completion of Program work.

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 GSMP II Rate Mechanism Investment Costs that have been placed into service less the associated accumulated depreciation less accumulated deferred income taxes.

WACC - PSE&G shall earn a return on its net investment in the GSMP II based upon the authorized ROE and capital structure including income tax effects decided by the Board in the most recently approved base rate case.

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

$$\text{Revenue Requirement} = ((\text{GSMP II Rate Mechanism Rate Base} * \text{After Tax WACC}) + \text{Depreciation Expense (net of tax)} + \text{Expense Adjustments} + \text{Tax Adjustments}) * \text{Revenue Factor}$$

- i. GSMP II Rate Mechanism Rate Base - The GSMP II Rate Mechanism 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.
- ii. Depreciation Expense - Depreciation expense will be calculated as the GSMP II Rate Mechanism 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. Expense Adjustments - Includes the amortization of the expenses related to methane mapping offset by the O&M savings related to leak reduction.
- iv. 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.
- v. Revenue Factor - The Revenue Factor adjusts the Revenue Requirement Net of Tax for federal and state income taxes and the costs associated with the Board and Rate Counsel Annual Assessments and Gas Revenue Uncollectibles. The then-current statutory state and federal income tax rates and the then-current Board/Rate Counsel Assessment rates will be utilized. The percentage used to calculate the uncollectible expense will be based upon

the percentage determined in the Company's most recently approved base rate case.

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

Rate Design

39. Until the completion of the Company's next base rate case, the rate design for these rate adjustments agreed upon herein, will be structured consistent with the rate design methodology used to set rates in GSMP I. The estimated rates calculated for the first forecasted roll-in are based on weather normalized billing determinants which are also currently being used for GSMP I. For roll-ins that are effective subsequent to the Company's base rate cases, the Company will utilize the corresponding billing determinants approved in the most recent base rate case. To the extent the Company seeks to utilize more current weather normalized billing determinants for any future rate roll-in filings subsequent to the most recently approved base rate case, or to change the methodology used to weather normalize billing determinants, PSE&G shall provide those updated billing determinants and supporting data to Board Staff and Rate Counsel a minimum of sixty (60) days prior to any GSMP II rate roll-in filing for review and approval.

Base Rate Case Filing Requirement

40. Consistent with the IIP, the Company agrees to file a base rate case no later than January 1, 2024, five (5) years from the start date of the Program.
41. Notwithstanding the foregoing provision requiring PSE&G to file a base rate case no later than five (5) years from the start date of the Program, agreement to this 5-year

period does not result in a waiver of Rate Counsel's right to challenge the legality of the IIP provision that authorizes infrastructure investment programs up to five years without the filing of a base rate case, or to argue in any other case that a period shorter than 5 years is necessary to preserve the required nexus to a rate case.

Reporting Requirements

42. Minimum Filing Requirements ("MFRs") - Each rate change filing will be accompanied by the MFRs that are set forth in Attachment B hereto.
43. PSE&G will provide monthly reports on the Program to the Board Staff and Rate Counsel ("Monthly Report") setting forth the information for the Program as set forth in Attachment C.
44. The investments recovered through the GSMP II Rate Mechanism and Stipulated Base shall be broken out between internal labor, material, and other costs. Also, PSE&G will report internal labor regular hours and internal labor overtime hours. This reporting will begin with the January 2019 report and be filed by April 1, 2019, 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 GSMP II Rate Mechanism and Stipulated Base expenditures are complete. With each True-up Filing, the Company will also provide a) additional monthly reports covering all remaining investment for which a rate adjustment is being sought, pursuant to the "Investment as of" schedule shown in paragraph 33, and

b) a semi-annual report reconciling the six applicable monthly reports with the semi-annual rate adjustment being claimed in the True-up Filing.³

FURTHER PROVISIONS

45. 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.
46. 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.
47. 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

³ Since the initial True-up Filing will reflect investment through 8/31/19 per paragraph 36, the initial reconciliation report will reconcile 8 monthly reports instead of 6.

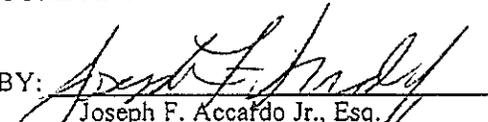
principle or methodology underlying or supposed to underlie any agreement provided herein and, in total or by specific item. The Signatories further agree that this Stipulation is in no way binding upon them in any other proceeding, except to enforce the terms of this Stipulation.

48. 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

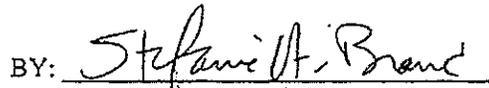
BY:


Joseph F. Accafdo Jr., Esq.
Deputy General Counsel

DATED: 4/18/18

NEW JERSEY DIVISION OF
RATE COUNSEL,

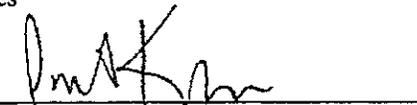
BY:


Stefania A. Brand, Esq.
Director

DATED: 4/18/18

GURBIR S. GREWAL, ESQ.
ATTORNEY GENERAL
OF NEW JERSEY
for the Staff of the Board of Public
Utilities

BY:


Patricia A. Krogman, Esq.
Deputy Attorney General

DATED: 4/18/18

ENVIRONMENTAL DEFENSE FUND

BY:

Mark Brownstein,
Senior Vice President

DATED: _____

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.

48. 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., Esq.
Deputy General Counsel

DATED: _____

**GURBIR S. GREWAL, ESQ.
ATTORNEY GENERAL
OF NEW JERSEY
for the Staff of the Board of Public
Utilities**

BY: _____
Alex Moreau, Esq.
Deputy Attorney General

DATED: _____

**NEW JERSEY DIVISION OF
RATE COUNSEL,**

BY: _____
Stefanie A. Brand, Esq.
Director

DATED: _____

ENVIRONMENTAL DEFENSE FUND

BY: _____

Mark Brownstein,
Senior Vice President

DATED: 4/18/18

**NEW JERSEY LABORERS—UNION
EMPLOYEES COOPERATION
AND EDUCATION TRUST (NJLECET)**

BY: 
Bradley M. Parsons Esq.
Kroll Heineman Carton, LLC

DATED: April 18, 2018

PSE&G UNIONS

BY: _____
Thomas C. Kelly, Esq
Russo Tumulty Nestor Thompson
& Kelly

DATED: _____

**ENGINEERS LABOR-EMPLOYMENT
COOPERATIVE**

BY: _____
Elizabeth Schlax, Esq.
Susanin Widman & Brennan, PC

DATED: _____

FERREIRA CONSTRUCTION

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

DATED: _____

CREAMER-SANZARI JOINT VENTURE

BY: _____
Kevin G Walsh, Esq.
Gibbons P.C.

DATED: _____

**NEW JERSEY LABORERS—UNION
EMPLOYEES COOPERATION
AND EDUCATION TRUST (NJLECET)**

BY: _____
Bradley M. Parsons Esq.
Kroll Heineman Carton, LLC

DATED: _____

PSE&G UNIONS

BY:  _____
Thomas C. Kelly, Esq.
Russo Tumulty Nestor Thompson
& Kelly

DATED: 4/18/18 _____

**ENGINEERS LABOR-EMPLOYMENT
COOPERATIVE**

BY: _____
Elizabeth Schlax, Esq.
Susanin Widman & Brennan, PC

DATED: _____

FERREIRA CONSTRUCTION

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

DATED: _____

CREAMER-SANZARI JOINT VENTURE

BY: _____
Kevin G Walsh, Esq.
Gibbons P.C.

DATED: _____

**NEW JERSEY LABORERS—UNION
EMPLOYEES COOPERATION
AND EDUCATION TRUST (NJLECET)**

BY: _____
Bradley M. Parsons Esq.
Kroll Heineman Carton, LLC

DATED: _____

PSE&G UNIONS

BY: _____
Thomas C. Kelly, Esq
Russo Tumulty Nestor Thompson
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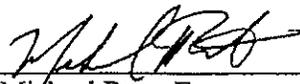
DATED: _____

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Michael Rato, Esq.
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DATED: April 18, 2018

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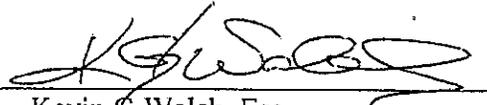
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Kevin G. Walsh, Esq.
Gibbons P.C.

DATED: April 18, 2018

PSE&G Gas System Modernization Program II
Gas Roll-in Calculation
Sample Calculation

Attachment A

in (\$000)

Rate Effective Date 6/1/2020
 Plant In Service as of Date 2/29/2020
 Rate Base Balance as of Date 5/31/2020

RATE BASE CALCULATION

	<u>Total</u>	Notes
1 Gross Plant	\$212,682	= ln 16
2 Accumulated Depreciation	\$13,544	= ln 19
3 Net Plant	\$226,225	= ln 1 + ln 2
4 Accumulated Deferred Taxes	-\$7,619	= See "Dep-UPCI" Wkps
5 Rate Base	\$218,606	= ln 3 + ln 4
6 Rate of Return - After Tax (Schedule WACC)	6.43%	See Schedule SS-GSMP11-2
7 Return Requirement (After Tax)	\$14,052	= ln 5 * ln 6
8 Depreciation Exp, net	\$2,462	= ln 25
9 Expense Adjustment (After Tax)	-\$467	= ln 34
Tax Adjustment	\$0	N/A
10 Revenue Factor	1.4127	See Schedule SS-GSMP11-4
11 Roll-in Revenue Requirement	\$22,669	= (ln 7 + ln 8 + ln 9) * ln 10

SUPPORT

Gross Plant

12 Plant in-service	\$212,682	= See "Dep-UPCI" Wkp
13 CWIP Transferred into Service	\$0	= See "Dep-UPCI" Wkp
14 AFUDC on CWIP Transferred Into Service - Debt	\$0	= See "Dep-UPCI" Wkp
15 AFUDC on CWIP Transferred Into Service - Equity	\$0	= See "Dep-UPCI" Wkp
16 Total Gross Plant	\$212,682	= ln 12 + ln 13 + ln 14 + ln 15

Accumulated Depreciation

17 Accumulated Depreciation	-\$2,465	= See "Dep-UPCI" Wkp
18 Cost of Removal	\$16,008	= See "Dep-UPCI" Wkp
19 Net Accumulated Depreciation	\$13,544	= ln 17 + ln 18

Depreciation Expense (Net of Tax)

20 Depreciable Plant (xAFUDC-E)	\$212,682	= ln 12 + ln 13 + ln 14
21 AFUDC-E	\$0	= ln 15
22 Depreciation Rate	1.61%	= See "Dep-UPCI" Wkp
23 Depreciation Expense	\$3,424	= (ln 20 + ln 21) * ln 22
24 Tax @28.11%	\$963	= ln 20 * ln 22 * Tax Rate
25 Depreciation Expense (Net of Tax)	\$2,462	= ln 23 - ln 24

Expense Adjustments

26 Miles of Main Replaced	175	hypothetical example
27 Agreed O&M Savings / Mile	-\$3.77	= \$3.3M / 875 miles
28 O&M Savings	-\$660	= ln 26 * ln 27
29 GSMP11 related methane mapping expenses	\$50	hypothetical example
30 Amortization period (years)	5	
31 Annual methane mapping amortization expense	\$10	= ln 29 / ln 30
32 Expense Adjustment	-\$650	= ln 28 + ln 31
33 Tax @28.11%	-\$183	= ln 32 * Tax Rate
34 Expense Adjustment (Net of Tax)	-\$467	= ln 32 - ln 33

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 GSMP II Rate Mechanism and Stipulated Base capital budget broken down by major categories, both budgeted and actual amounts.
- 2) For the GSMP II Rate Mechanism and for the Stipulated Base:
 - a. Descriptions of projects (main replacement, service replacement, and regulator elimination) funded through the GSMP II Rate Mechanism and through Stipulated Base spending.
 - b. Expenditures incurred to date and amounts transferred to plant in service, by project. Expenditures shall be broken down by materials, internal labor, and other costs. Internal labor hours broken down by regular hours and overtime hours.
 - 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 GSMP II Rate Mechanism 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 GSMP II Rate Mechanism 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.

ATTACHMENT D

The Company agrees to submit a Methane Leak Surveying Report to the BPU for the GSMP II Program on March 1, 2019, March 1, 2020, and March 1, 2021, respectively. The GSMP II Methane Leak Surveying Report will contain:

- An explanation of the advanced leak detection and leak quantification technology used, including description of equipment and software, sensitivity and capabilities relative to equipment and technology traditionally used by PSE&G for these purposes.
- A description of methodology used to integrate leak flow rate data into the Hazard Ranking replacement prioritization scheme, *i.e.*, as an additional factor to supplement hazard ranking.
- Depiction of results, *i.e.*, tabular representation of aggregate leak flow rate for each grid targeted, ranking of each grid using leak flow rate relative to risk ranking based on existing algorithm, and final prioritization rank after considering leak flow rate data.
- A table with the Grid IDs, and associated information, including:
 - Miles of UPCI pipe in the Grid,
 - Total estimated flow rate (liters/minute),
 - Estimated flow rate (liters/minute/mile),
 - Hazard Index per Mile,
 - GSMP II UPCI Grid Rank,
 - Rank by Estimated Flow Rate per Mile,
 - Ranked Year of Construction using methane flow rate data
 - Planned Year of Construction Description of factors contributing to grid bypass decisions (if Planned Year of Construction does not match Ranked Year of Construction)