Agenda Date: 6/12/19
Agenda Item: 2E

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 ELIZABETHOWN GAS COMPANY TO IMPLEMENT AN INFRASTRUCTURE INVESTMENT PROGRAM ("IIP") AND ASSOCIATED RECOVERY MECHANISM PURSUANT TO N.J.S.A 48:2-21 AND N.J.A.C. 14:3-2A	)))))	FINAL DECISION AND ORDER APPROVING STIPULATION DOCKET NO. GR18101197

Parties of Record:

Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel
Deborah M. Franco, Esq., SJI Industries Inc., on behalf of Elizabethtown Gas Company
Steven S. Goldenberg, Esq., Giordano Halleran & Ciesla, P.A., on behalf of New Jersey Large Energy Users Coalition
Martin C. Rothfelder, Esq., Rothfelder Stern, LLC, on behalf of Environmental Defense Fund

BY THE BOARD:

By this Order, the New Jersey Board of Public Utilities ("Board" or "BPU") considers a Stipulation of Settlement ("Stipulation") executed by Elizabethtown Gas Company ("Elizabethtown" or "Company"), Board Staff, the New Jersey Division of Rate Counsel ("Rate Counsel"), the Environmental Defense Fund ("EDF"), and the New Jersey Large Energy Users Coalition ("NJLEUC") (collectively, "Parties") intended to resolve the Company's requests related to the above docketed matter.

BACKGROUND

On December 19, 2017, pursuant to subchapter N.J.A.C. 14:3-2A.1 et seq. ("II&R Rules"), the Board established a regulatory mechanism supporting Infrastructure Investment Programs ("IIP(s)") or "Program(s)"), which allows a utility to accelerate its investment in the construction, installation, and rehabilitation of certain non-revenue producing utility plant and facilities.[1] A utility may accelerate recovery of qualifying incremental investments, subject to the terms of the II&R Rules and any other condition and/or requirement set forth by the Board in approving an individual utility's IIP. The II&R Rules provide for the recovery of IIP costs through a separate clause of the utility's Board approved tariff.

[1] The II&R Rules became effective on January 16, 2018.

ELIZABETHTOWN 2018 IIP PETITION

On October 29, 2018, Elizabethtown filed a petition ("October 2018 Petition") with the Board seeking approval for its proposed IIP including an associated cost recovery mechanism pursuant to N.J.S.A. 48:2-21, the II&R Rules, and any other provision deemed applicable by the Board. The Company proposed to invest $518 million over a five (5) year period, from 2019 through 2024, excluding Allowance of Funds Used During Construction ("AFUDC") replacing approximately 309 miles of main and approximately 41,000 services. Of this amount, Elizabethtown proposed to recover $466 million under the IIP Rider F with the remaining amount of $51.8 million (10% of total IIP) allocated as base spend to be recovered in a subsequent base rate case filing. Elizabethtown did not propose a rate change at the time of the filing. The October 2018 Petition provides that the Company would, through Rider F, make semi-annual rate adjustment filings each year of the five (5) year Program, with rate adjustments effective 60 days after each filing. The Company further proposed that the costs included in rates include depreciation expenses providing for the recovery of the invested capital over its useful book life, a return on the net investment, as well as AFUDC less depreciation expense and deferred income taxes.

The proposed Program included (5) infrastructure projects, which would: (1) replace and retire approximately 309[2] miles of vintage, at risk mains and associated customer services, while also upgrading the legacy low-pressure system located primarily in the eastern portion of the service territory to elevated pressure; (2) relocate approximately 44,000 inside meters sets to outside; (3) install approximately 38,600 excess flow values ("EFVs") on the upgraded system; (4) retire approximately 100 district regulators that would no longer be needed once the existing low pressure system was upgraded; and (5) convert five (5) existing master meter systems to individual meters.

The Company proposed a return on investment based upon a weighted average cost of capital ("WACC") of 6.707 percent, consistent with the Board's Order in Elizabethtown's last base rate case proceeding, Docket No. GR16090826,[3] adjusted for subsequent tax rate changes associated with the Tax Cuts and Jobs Act of 2017. The initial WACC will be based upon the return on equity of 9.6 percent (9.6%) and an equity component in the capital structure of 46 percent (46%). Any future Board-approved changes in the WACC in future base rate cases would be reflected in any subsequent revenue requirement calculations for the Elizabethtown IIP.

In support of the October 2018 Petition, the Company filed direct testimony of three (3) witnesses: Michael Scacifero, Thomas Kaufmann, and Brian MacLean. Mr. Scacifero testified regarding capital investments, benefits, engineering evaluation and reporting. Mr. Kaufmann provided testimony concerning the Company's cost recovery mechanism, revenue requirements, rate filings, and bill impacts. Mr. MacLean's testimony described an overview of Elizabethtown's systems and territory, as well as a summary of the proposed programs.

---

[2]The direct testimony of Michael Scacifero at page 10 provides as follows: "While the Company is proposing to install approximately 309 miles of new main in the initial five-year program, the Company proposes to retire approximately 364 miles. The difference of new main versus retired main is due to the fact that certain areas of the Company's distribution system have existing redundant mains."

[3] In re the Petition of Pivotal Utility Holdings, Inc. d/b/a Elizabethtown for Approval of Increase Base Tariff Rates and Charges for Gas Service and Other Tariff Revisions, BPU Docket No. GR16090826

By Order dated December 18, 2018, the Board (1) retained this matter, designating Commissioner Upendra J. Chivukula as the Presiding Officer to rule on all motions and determine schedules; and (2) directed that any motions to intervene or participate be filed on or before January 8, 2019. The EDF and NJLEUC filed motions to intervene on December 21, 2018 and on January 4, 2019, respectively. Atlantic City Electric Company ("ACE") filed a motion to participate on January 8, 2019.

On March 18, 2019, Commissioner Chivukula issued a Prehearing Order setting forth a procedural schedule for the pre-filing of witness testimony, discovery, evidentiary hearings, and all other related matters. Commissioner Chivukula also granted all motions to intervene and participate.

Following adequate public notice in newspapers of general circulation in Elizabethtown's service territory, two (2) public hearings occurred on March 19, 2019 and March 20, 2019, in Union and Flemington, respectively. No members of the public attended or provided comments.

On April 25, 2019, Elizabethtown sent a letter to Commissioner Chivukula requesting an extension of the procedural schedule. On May 6, 2019, Elizabethtown sent a letter to Commissioner Chivukula requesting a suspension of the procedural schedule.

STIPULATION

Throughout the course of the proceeding the parties engaged in extensive discovery and held several in-person and telephonic conferences. Following the review of discovery, testimony, and multiple settlement conferences the Parties executed a Stipulation on May 30, 2019 resolving all of the issues related to the Elizabethtown IIP. In pertinent part, the Stipulation provides the following:[4]

IIP Investments

1. Elizabethtown may implement the IIP pursuant to the terms of N.J.A.C. 14:3-2A.1 et seq., subject to the terms of the Stipulation. The Company's IIP will include accelerated capital investment in Elizabethtown's gas distribution system and a related cost recovery mechanism ("IIP Cost Recovery Mechanism"), as described in the Stipulation. In addition, the Stipulation includes Baseline Capital Spending amounts (defined in paragraph 7 of the Stipulation) to be made by the Company and recovered in the ordinary course through base rates as described in the Stipulation.

2. The IIP shall consist of the capital investment of up to $300 million, excluding the Baseline Capital Spending amounts (defined in paragraph 7 of the Stipulation), and AFUDC ("IIP Capital Investment Cap") in the Company's gas distribution system over the five (5) year period beginning July 1, 2019 through June 30, 2024. The capital investments may be recovered through the IIP Cost Recovery Mechanism permitted pursuant to N.J.A.C. 14:3-2A.6.

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

3. The IIP Capital Investment Cap of $300 million is derived by applying a cost per mile cap of $1.2 million per mile to an IIP mileage cap of 250 miles over the five (5) year IIP term. The Parties agree that the projects to be recovered through the IIP Cost Recovery Mechanism consist of the replacement of up to 250 miles of cast iron and bare steel mains and related services, as well as the installation of EFVs on new service lines ("IIP Projects"). These projects are intended to enhance distribution system safety and reliability to the benefit of Elizabethtown's customers, to help support the environment, and to facilitate economic development and employment in New Jersey. The IIP Projects and amounts are incremental to the Company's normal capital spending budget.

4. Capital investments for the replacement of vintage plastic mains and related services, relocation of meters and labor costs associated with the relocations from an inside to outside location, retirement of district regulators, and conversion of master metered complexes to individually metered apartments are not eligible for recovery under the IIP Cost Recovery Mechanism ("Excluded Investments"). Such Excluded Investments will be credited toward the Baseline Capital Spending amounts defined in paragraph 7 of the Stipulation. The parties understand and agree that in no event will the Company be entitled to recovery for any investments in customer-owned property in connection with the conversion of master-metered complexes to individual metering. Elizabethtown will coordinate with master meter complex owners in an effort to help facilitate a conversion of such complexes over the term of the IIP to the extent feasible.

5. Costs recoverable under the IIP Cost Recovery Mechanism shall not exceed $1.2 million per mile. Costs incurred by the Company in excess of $1.2 million per mile ("Costs In Excess of $1.2 million/mile") will be credited toward the Baseline Capital Spending requirement set forth in paragraph 7 of the Stipulation. Recovery of costs in excess of $1.2 million per mile may be sought through a base rate case.

6. The Parties recognize that the initiatives included in the IIP are significant in scale and scope, and that flexibility in budgeting the IIP is appropriate. Accordingly, consistent with the provisions of N.J.A.C. 14:3-2A.4(f), year-to-year variations in the IIP approved annual budget of up to 10% shall be permitted, provided that the total IIP budget is not exceeded. To the extent that year-to-year variations in the IIP budget exceed the 10% variation level, Elizabethtown shall seek Board approval of any amount in excess of 10%.

Baseline Capital Spending

7. In addition to the IIP expenditures described in paragraphs one (1) through six (6) of the Stipulation, over the five (5) year IIP investment period July 1, 2019 through June 30, 2024, the Company agrees to maintain Baseline Capital Spending amounts consisting of: (i) a Total Capital Baseline Spend and (ii) an IIP Baseline Spend as defined in the Stipulation. Elizabethtown shall seek recovery of the Baseline Capital Spending amounts in a base rate case subject to N.J.A.C. 14:3-2A.1 et seq. Elizabethtown may request, and the Board may consider, an exception from the Baseline Capital Spending requirements contained in the

Stipulation based on extraordinary circumstances, including, but not limited to, extreme weather, labor disputes, acts of war or terrorism, and/or other force majeure circumstances.

8. The Total Capital Baseline Spend will be equal to an average annual amount of $79 million per IIP year or $395 million over the five (5)-year IIP investment period beginning July 1, 2019 through June 30, 2024. The specific capital investments made by the Company as part of the Total Capital Baseline Spend are within the discretion of Elizabethtown and shall include all capital expenditures, including, but not limited to, Excluded Investments and Costs In Excess of $1.2 million/mile. New business expenditures included in the Total Capital Baseline Spend shall not exceed $10 million per IIP year. The Total Capital Baseline Spend shall not include expenditures associated with the IIP Baseline Spend.

9. The IIP Baseline Spend will be equal to $6 million per IIP year or $30 million over the five (5) year IIP investment period beginning July 1, 2019 through June 30, 2024. The IIP Baseline Spend will consist of expenditures on projects similar to those eligible for recovery under the IIP Cost Recovery Mechanism.

Term

10. The IIP five (5) year investment period shall commence on July 1, 2019 and end on June 30, 2024. The Company may include IIP non-construction expenditures, such as planning and engineering of IIP projects incurred as of July 1, 2019 in revenue requirements associated with IIP projects for the first year of the IIP from July 1, 2019 to June 30, 2020. The Company shall have the option of seeking Board approval to extend the Program beyond the term provided in the Stipulation.

Prioritization of Projects

11. IIP Projects will be prioritized utilizing Elizabethtown's Distribution Integrity Management Plan ("DIMP"), which is a risk-based process followed by the Company. In prioritizing IIP Projects, Elizabethtown will integrate advanced leak detection ("ALD") technology information and methane emission flow rates, as appropriate, and consider additional factors such as construction, efficiencies, logistics and other risk factors within Elizabethtown's discretion, including the prioritization ranking methodology within the Company's DIMP. If construction, logistics and/or other issues on a project area (i.e. municipal/county paving costs, traffic control, etc.) make work within that project area impossible, impracticable, and/or significantly more expensive, Elizabethtown may postpone that project and proceed to work on subsequent prioritized projects. Elizabethtown may resume work on a postponed project after resolution of the issues with the project area. IIP investments in years two (2) through five (5) of the IIP shall be subject to completion of a methane leak survey for Elizabethtown's targeted IIP miles using ALD technology. The survey will be completed six months after the effective date of the Board Order approving the program. All costs incurred by Elizabethtown in connection with methane leak surveying using ALD technology will be recovered through the IIP Cost Recovery Mechanism, and shall be in addition to the $300 million recovered through the IIP Cost Recovery Mechanism.

Elizabethtown will report on the above-referenced methane leak survey activity as set forth in paragraph 22 of the Stipulation.

Leak Metrics

12. The Company will reduce its year-end open leak inventory by one (1) percent for each year of the IIP, except under extraordinary circumstances, including, but not limited to, extreme weather, labor disputes, acts of war or terrorism, and/or other force majeure 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 (5) calendar years. Thereafter, the cap will be reduced by one (1) percent for each of the remaining four (4) years of the IIP as follows:

Year	Year End Open Leaks
2015	3,933
2016	3,190
2017	3,531
2018	4,330
2019	nnnn (open leaks as of May 1, 2019: 2,146)
5-Year Average	xxx

Year	Year End Open Leaks
2020	xxx
2021	xxx – 1%
2022	xxx – 2%
2023	xxx – 3%
2024	xxx – 4%

13. If Elizabethtown fails to meet the leak reduction target in 2020, it will notify Board Staff, Rate Counsel, and all Parties, and schedule a conference to discuss within thirty (30) days of Elizabethtown's determination that it failed to meet such target. If the Company fails to reduce the leak target in any year thereafter, the Company shall achieve compliance with this obligation without seeking cost recovery from ratepayers for any expenditures incurred for this purpose. Elizabethtown may request, and the Board may consider, an exception from the requirements of this paragraph of the Stipulation based upon extraordinary circumstances, such as extreme weather, labor disputes, acts of war or terrorism, and/or other force majeure circumstances.

Cost Recovery

14. The Parties agree that Elizabethtown shall be permitted to recover the revenue requirement associated with a maximum of $300 million in IIP investments, plus AFUDC, through the IIP Cost Recovery Mechanism as described in the Stipulation and in Appendix B of the Stipulation, in accordance with a separate clause in the Company's tariff to be included with the Company's annual cost recovery filings, a sample of which is set forth in Appendix C of the Stipulation. The prudency of the IIP Projects will be reviewed by the Board in the Company's subsequent base rate proceedings. The Company will file a base rate case no

later than June 30, 2024. If the costs for IIP Projects exceed the amount allowable under the IIP, the Parties agree that Elizabethtown may seek recovery of those additional costs, not subject to recovery in the IIP Cost Recovery Mechanism, in a subsequent base rate case.

15. The Company may seek cost recovery for completed IIP Projects in accordance with the annual cost recovery filing schedule and rate effective dates contained in Appendix B. The cost recovery filing requirements are set out in N.J.A.C. 14:3-2A.1 et seq., with Minimum Filing Requirements contained in Exhibit D of the Stipulation. Consistent with the requirement contained in N.J.A.C. 14:3-2A.6(b), Elizabethtown will make annual filings to recover IIP costs when eligible in-service amounts exceed 10% of the total proposed program spending, except however, given the nature of the work, the Parties recognize that the April 2025 filing may be less than 10% of total program spending as it will reflect residual spending associated with restoration work occurring after June 30, 2024.

16. As reflected in Appendix B of the Stipulation, the costs to be included in rates shall include the following: depreciation expense providing for the recovery of the invested capital over its useful book life, and a return on the net investment, which will be calculated as the gross investment, plus AFUDC, less depreciation expense and deferred income taxes. The return on this net investment shall be calculated utilizing the Weighted Average Cost of Capital ("WACC") approved in the Company's 2016 base rate case in Docket No. GR16090826 ("2016 Base Rate Case"), adjusted for subsequent tax rate changes associated with the Tax Cuts and Jobs Act of 2017. The WACC is 6.707% (6.063% after-tax), which is based on a return on equity ("ROE") of 9.60% and an equity component of 46%. Any change in the WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent monthly revenue requirement calculations. The revenue requirement will also utilize a revenue factor of 1.40828098 to reflect State and Federal income taxes, as well as the costs associated with Board and Rate Counsel's annual assessments and uncollectibles. The Company will apply the revenue factor applied in the 2016 Base Rate Case. Any future changes to the revenue factor will be reflected in the subsequent monthly revenue requirement calculations.

17. As reflected in Appendix B of the Stipulation, the IIP Cost Recovery Mechanism revenue requirement will be reduced by an operations and maintenance ("O&M") credit of $90,000 per year, or prorated annual amount where applicable, to reflect an O&M savings associated with leak repair on facilities replaced in connection with the IIP.

18. Cost recovery under the IIP is contingent on an earnings test. If the product of the calculation set forth in N.J.A.C. 14:3-2A.6(h) exceeds the Company's most recently approved ROE by fifty (50) basis points or more, cost recovery under the IIP shall not be allowed for the applicable filing period pursuant to N.J.A.C. 14:3-2A.6(i).

Rates and Rate Design

19. There is no rate impact on customers at this time from the IIP. The Company will allocate the total revenue requirement to each firm customer class and firm

special contract customers based on the level of distribution revenues from the rate design approved in the 2016 Base Rate Case. A volumetric distribution charge will be determined for each class utilizing the billing determinants used to set rates in the Company's most recent base rate case. The Margin Revenue Factor set forth in the Company's Weather Normalization Clause tariff will be revised to reflect the IIP annual rate adjustments authorized by the Stipulation. To the extent a rate design methodology that differs from the rate design methodology used to set base rates in the 2016 Base Rate Case is adopted, then that rate design shall be utilized for the IIP Cost Recovery Mechanism in IIP filings subsequent to the adoption of such methodology.

Monitor

20. Within six (6) months of a final BPU Order in this proceeding, Elizabethtown, following consultation with Board Staff and Rate Counsel, will retain an independent monitor to review and report to Board Staff and Rate Counsel the information contained in N.J.A.C. 14:3-2A.5(c)(2) which provides as follows: (i) the effectiveness of IIP investments in meeting project objectives; (ii) the cost-effectiveness and efficiency of investments; (iii) the appropriateness of cost assignments; and (iv) any other information required by the Board. Independent monitor expenses shall be capitalized to the extent consistent with Generally Accepted Accounting Principles ("GAAP") and shall be in addition to the $300 million recovered through the IIP Cost Recovery Mechanism.

Reporting Requirements

21. The Company agrees to file a semi-annual status reports with the Board, and provide copies to Board Staff, Rate Counsel, and all Parties, for project management and oversight purposes. The semi-annual status reports shall contain the following requirements consistent with N.J.A.C. 14:3 - 2A.5(e):
    (a) Forecasted and actual costs of the IIP for the applicable reporting period, and for the IIP to date, where IIP projects are identified by major category;
    (b) Estimated total quantity of work completed under the IIP identified by major category. In the event that the work cannot be quantified, major tasks completed shall be provided;
    (c) Estimated completion dates for the IIP as a whole;
    (d) Anticipated changes to IIP projects, if any;
    (e) Actual capital expenditures made by Elizabethtown in the normal course of business on similar projects, identified by major category; and
    (f) Any other performance metrics concerning the IIP required by the Board.

22. In addition to information set forth in the Stipulation, the semi-annual status report shall include the methane leak survey information contained in Appendix A of the Stipulation.

DISCUSSION AND FINDINGS

In evaluating a proposed settlement, the Board must review the record, balance the interests of the ratepayers and the shareholders, and determine whether the settlement represents a reasonable disposition of the issues that will enable the Company to provide its customers in this State with safe, adequate, and proper service at just and reasonable rates. The II&R Rules were created to provide a rate recovery mechanism that encourages and supports all necessary accelerated construction, installation, and rehabilitation of certain utility plants and equipment. The Board believes that IIPs are important for continued system safety, reliability, resiliency, and sustained economic growth. After carefully considering the record in this proceeding and the terms of the Stipulation, the Board is persuaded that the current settlement satisfies these goals.

The Board agrees that replacement of aging infrastructure, as well as the implementation of certain investments in the Company's system, if properly executed, should mitigate potential damage to the system, as well as enhance public safety and result in increased long-term reliability.

The Board agrees that the proposed cost recovery mechanism provides the Company with rate recovery for all expenditures related to the plant that has been placed in service, but on a provisional basis, subject to refund. These costs will be subject to review in the next base rate case, which the Company committed to filing no later than five (5) years after the Board's approval of the Program's start date. The Board, in its discretion, may require Elizabethtown to file its next base rate case within a shorter period. The Board concludes that the proposed cost recovery mechanism strikes an effective balance between giving the Company a reasonable opportunity to earn its allowed rate of return over the life of the investment, while protecting ratepayers from paying more than reasonably necessary. No rates will be charged to customers until the facilities for which the rates are being charged are in service. Additionally, the Stipulation mandated reporting requirements provide additional protection to ratepayers.

Based on the Board's review and consideration of the record, the Board **HEREBY FINDS** the Stipulation to be reasonable and in accordance with the law; striking an appropriate balance between the needs of customers and of the Company.

Accordingly, the Board **HEREBY ADOPTS** the Stipulation in its entirety, and **HEREBY INCORPORATES** its terms and conditions as though fully set forth herein, subject to any terms and conditions set forth in this Order.

The Board **HEREBY RATIFIES** the decisions made by Commissioner Chivukula during the pendency of this proceeding for the reasons stated in his decisions and Orders.

The Company's costs, including those related to the Program, will remain subject to audit by the Board. This Decision and Order shall not preclude, nor prohibit, the Board from taking any actions determined to be appropriate as a result of any such audit.

The effective date of this Order is June 22, 2019.

DATED: 6\12\19

BOARD OF PUBLIC UTILITIES
BY:

JOSEPH L. FIORDALISO
PRESIDENT

MARY-ANNA HOLDEN
COMMISSIONER

DIANNE SOLOMON
COMMISSIONER

UPENDRA J. CHIVUKULA
COMMISSIONER

ROBERT M. GORDON
COMMISSIONER

ATTEST:

AIDA CAMACHO-WELCH
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities.

IN THE MATTER OF THE PETITION OF ELIZABETHOWN GAS COMPANY TO IMPLEMENT AN INFRASTRUCTURE INVESTMENT PROGRAM ("IIP") AND ASSOCIATED RECOVERY MECHANISM PURSUANT TO N.J.S.A. 48:2-21 AND N.J.A.C. 14:3-2A

DOCKET NO. GR18101197

SERVICE LIST

Board of Public Utilities:
Post Office Box 350
Trenton, NJ 08625-0350

Aida Camacho-Welch
Secretary of the Board
board.secretary@bpu.nj.gov

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

Office of the Chief Counsel
Carol Artale, Esq.
Deputy Chief Counsel
carol.artale@bpu.nj.gov

Heather Weisband, Esq.
heather.weisband@bpu.nj.gov

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

Paul Lupo
paul.lupo@bpu.nj.gov

Kevin Moss
kevin.moss@bpu.nj.gov

Ryan Moran
ryan.moran@bpu.nj.gov

Stephan Luma
stephan.luma@bpu.nj.gov

Christopher Oprysk
Christopher.oprysk@bpu.nj.gov

Reliability & Security
Joseph Costa
joseph.costa@bpu.nj.gov

Deputy Attorneys General:
Division of Law
Post Office Box 45029
Newark, New Jersey 07101

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

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

Patricia Krogman, DAG
patricia.krogman@law.njoag.org

New Jersey Division of Rate Counsel:
Division of Rate Counsel
Post Office Box 003
Trenton, NJ 08625

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

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

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

Sarah Steindel
ssteindel@rpa.nj.gov

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

Lisa Gurkas
lgurkas@rpa.nj.gov

Shelly Massey
smassey@rpa.nj.gov

Elizabethtown Gas Company
520 Green Lane
Union, NJ 07083

Deborah Franco, Esq.
dfranco@sjindustries.com

Thomas Kaufmann
tkaufmann@sjindustries.com

Michael Scacifero
mscacifero@sjindustries.com

Susan Potanovich
spotanovich@sjindustries.com

Stacy A. Mitchell, Esq.
Vice President, Rates and Regulatory Affairs
SJI Utilities, Inc.
3800 Atlantic Avenue
Atlantic City, NJ 08401
smitchell@sjindustries.com

Stefany Graham
Manager, Rates and Regulatory Initiatives
SJI Utilities, Inc.
3800 Atlantic Avenue
Atlantic City, NJ 08401
sgraham@sjindustries.com

Environmental Defense Fund
Martin C. Rothfelder, Esq.
407 Greenwood Ave., Unit #301
Trenton, NJ 08609-2158
mrothfelder@rothfelderstern.com

Naris Karas, Esq.
1875 Connecticut Avenue.
NW Washington, DC 20009
nkaras@edf.org

Elizabeth B. Stein, Esq.
257 Park Avenue South, 17111 Floor
New York, NY 10010
estein@edf.org

Atlantic City Gas Company
Phillip Passanante, Esq.
500 North Wakefield Dr.
Newark, DE 19714
philip.passanante@pepcoholdings.com

Henkes Consulting
7 Sunset Road
Old Greenwich, CT 06879

Robert Henkes
rhenkes@optonline.net

Acadian Consulting Group
5800 One Perkins Place Drive
Bldg. 5, Suite F
Baton Rouge, LA 70808

David E. Dismukes, Ph.D.
daviddismukes@acadianconsulting.com

New Jersey Large Energy Users Coalition
Steven S. Goldenberg, Esq.
Giordano Halleran & Ciesla, P.A.
125 Half Mile Road, Suite 300
Red Bank, NJ 07701
sgoldenberg@ghclaw.com

Paul F. Forshay, Esq.
Eversheds-Sutherland (US) LLP
700 Sixth Street, N.W., Suite 700
Washington, D.C. 2001-3980
paul.forshay@evesheds-sutherland.com

N. Jonathan Peress
16 Tremont Street, Suite 850
Boston, MA 02108
njperess@edf.org

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF ELIZABETHTOWN GAS COMPANY TO IMPLEMENT AN INFRASTRUCTURE INVESTMENT PROGRAM ("IIP") AND ASSOCIATED RECOVERY MECHANISM PURSUANT TO N.J.S.A. 48:2-21 AND N.J.A.C. 14:3-2A	**BPU DOCKET NO. GR18101197** **STIPULATION OF SETTLEMENT**

APPEARANCES:

Deborah M. Franco, Esq., Regulatory Affairs Counsel, SJI Utilities, Inc., on behalf of Elizabethtown Gas Company

Brian O. Lipman, Esq., Litigation Manager, **Felicia Thomas-Friel, Esq.** Managing Attorney Gas, Division of Rate Counsel, and **Maura Caroselli, Esq.**, Assistant Deputy Rate Counsel, on behalf of the Division of Rate Counsel (**Stefanie A. Brand, Director**, Division of Rate Counsel)

Patricia Krogman, Deputy Attorney General on behalf of the Staff of the New Jersey Board of Public Utilities (Gurbir S. Grewal, Attorney General of New Jersey)

Martin C. Rothfelder, Esq., Rothfelder Stern, L.L.C., on behalf of Intervenor Environmental Defense Fund

Steven S. Goldenberg, Esq., Giordano, Halleran & Ciesla, and **Paul Forshay, Esq.**, Eversheds Sutherland (US) LLP, on behalf of Intervenor New Jersey Large Energy Users Coalition

Phillip J. Passanante, Esq., Assistant General Counsel on behalf of Participant, Atlantic City Electric Company

TO THE HONORABLE NEW JERSEY BOARD OF PUBLIC UTILITIES:

BACKGROUND

On October 29, 2018, Elizabethtown Gas Company ("Elizabethtown" or "Company") filed a petition (the "Petition") with the New Jersey Board of Public Utilities ("Board") seeking approval for an infrastructure investment program ("IIP"), including an associated cost recovery mechanism pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:3-2A.1 *et seq.* and any other provision applicable by the Board. As reflected in the Petition, Elizabethtown sought authority for a five (5) year, $518 million IIP. Of this amount, Elizabethtown proposed to recover $466 million under the IIP cost recovery mechanism, with the remaining amount of $52 million (10% of the total IIP expenditures) allocated as base spend to be recovered in a subsequent base rate case filing in accordance with N.J.A.C. 14:3-2A.

The Company's proposed IIP included the following projects: (i) the replacement and retirement of approximately 309[1] miles of the Company's vintage mains and services in its distribution system, including cast iron, ductile iron, bare steel, copper and certain vintage plastic mains; (ii) the relocation of approximately 44,000 inside meter sets to outside; (iii) the installation of excess flow valves ("EFVs") on new service lines; (iv) the retirement of approximately 100 district regulators that would no longer be needed once the existing low pressure system is upgraded; and (v) the conversion of five (5) master metered complexes to individually metered apartments within those facilities. According to the Petition, the benefits of the proposed IIP included enhancing the safety and reliability of the Company's gas distribution system, reducing greenhouse gas emissions, and supporting economic development and employment in New Jersey.

PROCEDURAL HISTORY

By order dated December 18, 2018, the Board retained this matter, and pursuant to N.J.S.A. 48:2-32, designated Commissioner Upendra J. Chivukula as the Presiding Officer. The Board further directed that motions to intervene or participate be filed by January 8, 2019. Motions to intervene were filed on behalf of the Environmental Defense Fund ("EDF") and the

[1] Testimony of Michael Scacifero at page 10 stated, "While the Company is proposing to install approximately 309 miles of new main in the initial five-year program, the Company proposes to retire approximately 364 miles. The difference of new main versus retired main is due to the fact that certain areas of the Company's distribution system have existing redundant mains."

New Jersey Large Energy Users Coalition ("NJLEUC"). A motion for admission *pro hac vice* by Paul Forshay accompanied the NLEUC motion to intervene. A motion to participate was filed on behalf of Atlantic City Electric Company ("ACE"). The Company did not oppose the granting of any of the motions.[2] In a Prehearing Order dated March 18, 2019, Commissioner Chivukula approved a procedural schedule and granted the motions to intervene filed on behalf of NJLEUC and EDF, the motion to participate filed on behalf of ACE, and the motion for admission *pro hac vice*.

Notices of this proceeding, including the dates of the public hearings, were placed in newspapers having circulation within Elizabethtown's service territory, and served on the county executives and clerks of all municipalities in the Company's service territory. Public hearings were held in Union, New Jersey on March 19, 2019 and Flemington, New Jersey on March 20, 2019. No members of the public submitted written comments or appeared at the hearings.

At the request of the parties, Commissioner Chivukula modified the procedural schedule to permit additional time for settlement discussions, and ultimately suspended the procedural schedule.

Extensive discovery was conducted and several settlement discussions were held. As a result, the Company, Board Staff ("Staff"), the New Jersey Division of Rate Counsel ("Rate Counsel"), EDF and NJLEUC (collectively the "Signatory Parties" and each a "Signatory Party") reached an amicable resolution of all matters set forth in this Stipulation. Specifically, the Signatory Parties hereby STIPULATE AND AGREE to the following:

[2] Elizabethtown's original opposition to EDF's motion to intervene was subsequently withdrawn.

STIPULATED MATTERS

IIP Investments

1. Elizabethtown may implement the IIP pursuant to the terms of N.J.A.C. 14:3-2A.1 *et seq*., subject to the terms of this Stipulation. The Company's IIP will include accelerated capital investment in Elizabethtown's gas distribution system and a related cost recovery mechanism ("IIP Cost Recovery Mechanism"), as described herein. In addition, this Stipulation includes Baseline Capital Spending amounts (defined below in paragraph 7) to be made by the Company and recovered in the ordinary course through base rates as described below.

2. The IIP shall consist of the capital investment of up to $300 million, excluding the Baseline Capital Spending amounts (defined below in paragraph 7), and Allowance for Funds Used During Construction ("AFUDC") ("IIP Capital Investment Cap") in the Company's gas distribution system over the five (5) year period beginning July 1, 2019 through June 30, 2024. The capital investments may be recovered through the IIP Cost Recovery Mechanism permitted pursuant to N.J.A.C. 14:3-2A.6.

3. The IIP Capital Investment Cap of $300 million is derived by applying a cost per mile cap of $1.2 million per mile to an IIP mileage cap of 250 miles over the five (5) year IIP term. The Signatory Parties agree that the projects to be recovered through the IIP Cost Recovery Mechanism consist of the replacement of up to 250 miles of cast iron and bare steel mains and related services, as well as the installation of EFVs on new service lines ("IIP Projects"). These projects are intended to enhance distribution system safety and reliability to the benefit of Elizabethtown's customers, to help support the environment, and to facilitate economic development and employment in New Jersey. The IIP Projects and amounts are incremental to the Company's normal capital spending budget.

4. Capital investments for the replacement of vintage plastic mains and related services, relocation of meters and labor costs associated with the relocations from an inside to outside location, retirement of district regulators, and conversion of master metered complexes to individually metered apartments are not eligible for recovery under the IIP Cost Recovery Mechanism ("Excluded Investments"). Such Excluded Investments will be credited toward the Baseline Capital Spending amounts defined in paragraph 7 provided below. The parties understand and agree that in no event will the Company be entitled to recovery for any investments in customer-owned property in connection with the conversion of master-metered complexes to individual metering. Elizabethtown will coordinate with master meter complex owners in an effort to help facilitate a conversion of such complexes over the term of the IIP to the extent feasible.

5. Costs recoverable under the IIP Cost Recovery Mechanism shall not exceed $1.2 million per mile. Costs incurred by the Company in excess of $1.2 million per mile ("Costs In Excess of $1.2 million/mile") will be credited toward the Baseline Capital Spending requirement set forth in paragraph 7 of this Stipulation as provided below. Recovery of costs in excess of $1.2 million per mile may be sought through a base rate case.

6. The Signatory Parties recognize that the initiatives included in the IIP are significant in scale and scope, and that flexibility in budgeting the IIP is appropriate. Accordingly, consistent with the provisions of N.J.A.C. 14:3-2A.4(f), year-to-year variations in the IIP approved annual budget of up to 10% shall be permitted, provided that the total IIP budget is not exceeded. To the extent that year-to-year variations in the IIP budget exceed the 10% variation level, Elizabethtown shall seek Board approval of any amount in excess of 10%.

Baseline Capital Spending

7. In addition to the IIP expenditures described in paragraphs one (1) through six (6) above, over the five (5) year IIP investment period July 1, 2019 through June 30, 2024, the Company agrees to maintain Baseline Capital Spending amounts consisting of: (i) a Total Capital Baseline Spend and (b) an IIP Baseline Spend as defined below. Elizabethtown shall seek recovery of the Baseline Capital Spending amounts in a base rate case subject to N.J.A.C. 14:3-2A.1 et seq. Elizabethtown may request, and the Board may consider, an exception from the Baseline Capital Spending requirements contained herein based on extraordinary circumstances, including, but not limited to, extreme weather, labor disputes, acts of war or terrorism, and/or other *force majeure* circumstances.

8. The Total Capital Baseline Spend will be equal to an average annual amount of \$79 million per IIP year or \$395 million over the five (5)-year IIP investment period beginning July 1, 2019 through June 30, 2024. The specific capital investments made by the Company as part of the Total Capital Baseline Spend are within the discretion of Elizabethtown and shall include all capital expenditures, including, but not limited to, Excluded Investments and Costs In Excess of \$1.2 million/mile. New business expenditures included in the Total Capital Baseline Spend shall not exceed \$10 million per IIP year. The Total Capital Baseline Spend shall not include expenditures associated with the IIP Baseline Spend.

9. The IIP Baseline Spend will be equal to \$6 million per IIP year or \$30 million over the five (5) year IIP investment period beginning July 1, 2019 through June 30, 2024. The IIP Baseline Spend will consist of expenditures on projects similar to those eligible for recovery under the IIP Cost Recovery Mechanism.

Term

10. The IIP five (5) year investment period shall commence on July 1, 2019 and end on June 30, 2024. The Company may include IIP non-construction expenditures, such as planning and engineering of IIP projects incurred as of July 1, 2019 in revenue requirements associated with IIP projects for the first year of the IIP from July 1, 2019 to June 30, 2020. The Company shall have the option of seeking Board approval to extend the Program beyond the term provided herein.

Prioritization of Projects

11. IIP Projects will be prioritized utilizing Elizabethtown's Distribution Integrity Management Plan ("DIMP"), which is a risk-based process followed by the Company. In prioritizing IIP Projects, Elizabethtown will integrate advanced leak detection ("ALD") technology information and methane emission flow rates, as appropriate, and consider additional factors such as construction, efficiencies, logistics and other risk factors within Elizabethtown's discretion, including the prioritization ranking methodology within the Company's DIMP. If construction, logistics and/or other issues on a project area (*i.e.* municipal/county paving costs, traffic control, etc.) make work within that project area impossible, impracticable, and/or significantly more expensive, Elizabethtown may postpone that project and proceed to work on subsequent prioritized projects. Elizabethtown may resume work on a postponed project after resolution of the issues with the project area. IIP investments in years two (2) through five (5) of the IIP shall be subject to completion of a methane leak survey for Elizabethtown's targeted IIP miles using ALD technology. The survey will be completed six months after the effective date of the Board Order approving this program. All costs incurred by Elizabethtown in connection with methane leak surveying using ALD technology will be recovered through the IIP Cost

Recovery Mechanism, and shall be in addition to the $300 million recovered through the IIP Cost Recovery Mechanism. Elizabethtown will report on the above-referenced methane leak survey activity as set forth in paragraph 22 below.

Leak Metrics

12. The Company will reduce its year-end open leak inventory by one (1) percent for each year of the IIP, except under extraordinary circumstances, including, but not limited to, extreme weather, labor disputes, acts of war or terrorism, and/or other *force majeure* 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 (5) calendar years. Thereafter, the cap will be reduced by one (1) percent for each of the remaining four (4) years of the IIP as follows:

Year	**Year End Open Leaks**
2015	3,933
2016	3,190
2017	3,531
2018	4,330
2019	nnnn (open leaks as of May 1, 2019: 2,146)
5-Year Average	xxx
Year	**Year End Open Leaks**
2020	xxx
2021	xxx – 1%
2022	xxx – 2%

2023	xxx – 3%
2024	xxx – 4%

13. If Elizabethtown fails to meet the leak reduction target in 2020, it will notify Board Staff, Rate Counsel, and all Signatory Parties, and schedule a conference to discuss within thirty (30) days of Elizabethtown's determination that it failed to meet such target. If the Company fails to reduce the leak target in any year thereafter, the Company shall achieve compliance with this obligation without seeking cost recovery from ratepayers for any expenditures incurred for this purpose. Elizabethtown may request, and the Board may consider, an exception from the requirements of this paragraph based upon extraordinary circumstances, such as extreme weather, labor disputes, acts of war or terrorism, and/or other *force majeure* circumstances.

Cost Recovery

14. The Signatory Parties agree that Elizabethtown shall be permitted to recover the revenue requirement associated with a maximum of $300 million in IIP investments, plus AFUDC, through the IIP Cost Recovery Mechanism as described below and in Appendix B, in accordance with a separate clause in the Company's tariff to be included with the Company's annual cost recovery filings, a sample of which is set forth in Appendix C. The prudency of the IIP Projects will be reviewed by the Board in the Company's subsequent base rate proceedings. The Company will file a base rate case no later than June 30, 2024. If the costs for IIP Projects exceed the amount allowable under the IIP, the Signatory Parties agree that Elizabethtown may seek recovery of those additional costs, not subject to recovery in the IIP Cost Recovery Mechanism, in a subsequent base rate case.

15. The Company may seek cost recovery for completed IIP Projects in accordance with the annual cost recovery filing schedule and rate effective dates contained in Appendix B. The cost recovery filing requirements are set out in N.J.A.C. 14:3-2A.1 *et seq*., with Minimum Filing Requirements contained in Exhibit D. Consistent with the requirement contained in N.J.A.C. 14:3-2A.6(b), Elizabethtown will make annual filings to recover IIP costs when eligible in-service amounts exceed 10% of the total proposed program spending, except however, given the nature of the work, the Signatory Parties recognize that the April 2025 filing may be less than 10% of total program spending as it will reflect residual spending associated with restoration work occurring after June 30, 2024.

16. As reflected in Appendix B, the costs to be included in rates shall include the following: depreciation expense providing for the recovery of the invested capital over its useful book life, and a return on the net investment, which will be calculated as the gross investment, plus AFUDC, less depreciation expense and deferred income taxes. The return on this net investment shall be calculated utilizing the Weighted Average Cost of Capital ("WACC") approved in the Company's 2016 base rate case in Docket No. GR16090826 ("2016 Base Rate Case"), adjusted for subsequent tax rate changes associated with the Tax Cuts and Jobs Act of 2017. The WACC is 6.707% (6.063% after-tax), which is based on a return on equity ("ROE") of 9.60% and an equity component of 46%. Any change in the WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent monthly revenue requirement calculations. The revenue requirement will also utilize a revenue factor of 1.40828098 to reflect State and Federal income taxes, as well as the costs associated with Board and Rate Counsel's annual assessments and uncollectibles. The Company will apply the revenue

factor applied in the 2016 Base Rate Case. Any future changes to the revenue factor will be reflected in the subsequent monthly revenue requirement calculations.

17. As reflected in Appendix B, the IIP Cost Recovery Mechanism revenue requirement will be reduced by an operations and maintenance ("O&M") credit of $90,000 per year, or prorated annual amount where applicable, to reflect an O&M savings associated with leak repair on facilities replaced in connection with the IIP.

18. Cost recovery under the IIP is contingent on an earnings test. If the product of the calculation set forth in N.J.A.C. 14:3-2A.6(h) exceeds the Company's most recently approved ROE by fifty (50) basis points or more, cost recovery under the IIP shall not be allowed for the applicable filing period pursuant to N.J.A.C. 14:3-2A.6(i).

Rates and Rate Design

19. There is no rate impact on customers at this time from the IIP. The Company will allocate the total revenue requirement to each firm customer class and firm special contract customers based on the level of distribution revenues from the rate design approved in the 2016 Base Rate Case. A volumetric distribution charge will be determined for each class utilizing the billing determinants used to set rates in the Company's most recent base rate case. The Margin Revenue Factor set forth in the Company's Weather Normalization Clause tariff will be revised to reflect the IIP annual rate adjustments authorized by this Stipulation. To the extent a rate design methodology that differs from the rate design methodology used to set base rates in the 2016 Base Rate Case is adopted, then that rate design shall be utilized for the IIP Cost Recovery Mechanism in IIP filings subsequent to the adoption of such methodology.

Monitor

20. Within six (6) months of a final BPU Order in this proceeding, Elizabethtown, following consultation with Board Staff and Rate Counsel, will retain an independent monitor to review and report to Board Staff and Rate Counsel the information contained in N.J.A.C. 14:3-2A.5(c)(2) which provides as follows: (i) the effectiveness of IIP investments in meeting project objectives; (ii) the cost-effectiveness and efficiency of investments; (iii) the appropriateness of cost assignments; and (iv) any other information required by the Board. Independent monitor expenses shall be capitalized to the extent consistent with Generally Accepted Accounting Principles ("GAAP") and shall be in addition to the $300 million recovered through the IIP Cost Recovery Mechanism.

Reporting Requirements

21. The Company agrees to file a semi-annual status reports with the Board, and provide copies to Board Staff, Rate Counsel, and all Signatory Parties, for project management and oversight purposes. The semi-annual status reports shall contain the following requirements consistent with N.J.A.C. 14:3- 2A.5(e):

(a) Forecasted and actual costs of the IIP for the applicable reporting period, and for the IIP to date, where IIP projects are identified by major category;

(b) Estimated total quantity of work completed under the IIP identified by major category. In the event that the work cannot be quantified, major tasks completed shall be provided;

(c) Estimated completion dates for the IIP as a whole;

(d) Anticipated changes to IIP projects, if any;

(e) Actual capital expenditures made by Elizabethtown in the normal course of business on similar projects, identified by major category; and

(f) Any other performance metrics concerning the IIP required by the Board.

22. In addition to information set forth above, the semi-annual status report shall include the methane leak survey information contained in Appendix A.

Miscellaneous

23. All appendices referenced in and attached to this Stipulation are incorporated by reference herein as if set forth in the body of this Stipulation.

24. This Stipulation will become effective in accordance with N.J.S.A. 48:2-40.

25. This Stipulation 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, then any Signatory 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. In the event this Stipulation is not adopted in its entirety by the Board in an Order in this matter, then any Signatory Party hereto is free to pursue legal remedies with respect to all issues addressed in this Stipulation as though this Stipulation had not been signed.

26. It is the intent of the Signatory Parties that the provisions hereof be approved by the Board, as appropriate, as being in the public interest. The Signatory Parties further agree that this Stipulation be binding on them for all purposes herein. It is understood and agreed by the Signatory Parties that this Stipulation represents a negotiated agreement and, except as otherwise

expressly provided herein, is intended to be binding only in this proceeding and only as to the matters specifically addressed herein.

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

WHEREFORE, the Signatory Parties 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.

ELIZABETHTOWN GAS COMPANY

By: ______________________
Deborah M. Franco, Esq.
Regulatory Affairs Counsel

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

By: ______________________
Felicia Thomas-Friel, Esq.
Managing Attorney - Gas

GURBIR S. GREWAL
ATTORNEY GENERAL OF
NEW JERSEY
Attorney for the Staff of the
New Jersey Board of Public Utilities

By: ______________________
Patricia Krogman
Deputy Attorney General

ENVIRONMENTAL DEFENSE FUND

By: ______________________
Martin C. Rothfelder, Esq.
Rothfelder Stern, L.L.C.

NEW JERSEY LARGE ENERGY
USERS GROUP

By: ______________________
Stephen S. Goldenberg, Esq.
Giordano, Halleran & Ciesla

Dated: May 29, 2019

Appendix A

Advanced Leak Detection Reporting Requirements

The reports filed by Elizabethtown in accordance with N.J.A.C. 14:3-2A.5(e) will include the following information:

• An explanation of the ALD technology and leak quantification methods used, including description of equipment and software, sensitivity and capabilities relative to equipment and technology traditionally used by Elizabethtown for these purposes.

• A description of methodology used to integrate leak flow rate data into the Company's prioritization scheme, as an additional factor to supplement rankings based on risk.

• Depiction of results, *i.e.*, a table with the project area IDs, and associated information, including:

o Miles of vintage and at risk pipe in the project area
o Total estimated flow rate by project area (liters/minute),
o Estimated flow rate per mile (liters/minute/mile),
o Risk Score per Mile,
o Rank by Estimated Flow Rate per Mile, IIP project area Priority Rank after incorporating leak flow rate,
o Ranked Year of Construction using methane flow rate data
o Planned Year of Construction Description of factors contributing to prioritization bypass decisions (if Planned Year of Construction does not match Ranked Year of Construction), and
o A clear indication of which project areas were re-prioritized based on leak flow rate data.

• Total annual methane leak flow rate reduction based on the mileage of retired pipe and the leak flow rates estimated for those miles using advanced leak detection technology and leak quantification methods

• To the extent that Elizabethtown bypassed doing construction in an area for over one year during program due to permitting constraints or other issues, Elizabethtown shall in its semi-annual reports identify such areas and provide information on why such areas were bypassed.

Appendix B

IIP Cost Recovery Mechanism

The revenue requirement associated with the IIP annual rate adjustments will be calculated as follows:

> Revenue Requirement = ((IIP Rate Base * After-Tax WACC) – $90,000 (pre-tax) + Advanced Leak Detection expense (net of tax) + Depreciation Expense (net of tax)) * Revenue Factor.

Notes and Definitions:

IIP Rate Base – The filing period's net IIP investments, which will be calculated as the gross IIP investment, plus Allowance for Funds Used During Construction ("AFUDC"), less depreciation expense and applicable deferred income taxes.

IIP Investments – All IIP capital expenditures associated with IIP projects placed in service, including actual costs of engineering, design and construction, property acquisitions, if any, and monitoring, including actual labor, materials, overhead, and capitalized AFUDC. While the IIP projects are under construction, they will be recorded in a Construction Work In Progress ("CWIP") account and will accrue AFUDC on a monthly basis. The AFUDC will be capitalized and included in the balance to the recovered through the IIP Cost Recovery Mechanism. At the time the project is deemed used and useful, it will be transferred to a utility plant in service account and the booking of AFUDC will cease. The Company will follow its current policies and practices with regard to capitalizing costs, including overheads.

Weighted Average Cost of Capital ("WACC") – The WACC applied to IIP Investments shall be the WACC approved in the Company's 2016 base rate case in BPU Docket No. GR16090826 ("2016 Base Rate Case"), adjusted for subsequent tax rate changes associated with the Tax Cuts and Jobs Act of 2017. The WACC is 6.707% (6.063% after-tax), which is based on a return on equity ("ROE") of 9.60% and an equity component of 46%. Any change in the WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent monthly revenue requirement calculations.

Deferred Income Taxes – will be calculated by multiplying the difference in the Company's tax depreciation expense and book depreciation expense for the plant subject to the IIP by the effective income tax rate. The

Company's tax depreciation expense would be adjusted for any bonus depreciation in accordance with Federal tax laws.

Depreciation Expense - Depreciation expense will be calculated as the IIP Investments by asset class multiplied by the associated depreciation rate applied to the same asset in current base rates established in the 2016 Base Rate Case and then calculated net of tax. Any future changes to depreciation rates during the IIP construction period will be reflected in the depreciation expense calculation at the time of each subsequent rate adjustment filing. The Company will begin to depreciate an asset once it is placed into service.

AFUDC – AFUDC will be calculated using the Modified FERC Uniform System of Accounts method including compounding AFUDC on a monthly basis.

Revenue Factor - The Revenue Factor adjusts the revenue requirement to reflect State and Federal income taxes, as well as the costs associated with Board and Rate Counsel annual assessments and uncollectibles. The Company will apply the Revenue Factor applied in the 2016 Base Rate Case. Any future changes to the Revenue Factor will be reflected in the subsequent monthly revenue requirement calculations

Taxes: In developing the IIP rates the Company will also apply and collect applicable sales and use tax. Tax adjustments include 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.

Operations and Maintenance (O&M") – O&M expenses associated with the IIP will not be included in the revenue requirement calculations and will not be subject to deferral.

IIP Rate Recovery Filing Schedule

ETG shall proceed on the following schedule, recognizing that the prudency of the IIP projects shall be reviewed in the Company's next base rate case:

IIP Filing Schedule				
Filing	**Initial 9+3 Filing**	**Program Year Ending Date**	**12+0 Update**	**Rates Effective on or before**
1	April 30, 2020	June 30, 2020	July 15, 2020	October 1, 2020
2	April 30, 2021	June 30, 2021	July 15, 2021	October 1, 2021
3	April 30, 2022	June 30, 2022	July 15, 2022	October 1, 2022
4	April 1, 2023	June 30, 2023	July 15, 2023	October 1, 2023
5	April 1, 2024	June 30, 2024	July 15, 2024	October 1, 2024
Residual *	April 1, 2025	June 30, 2025	July 15, 2025	October 1, 2025

* Residual filing for restoration spending occurring after June 30, 2024.

The Company acknowledges and agrees that any unreasonable delay in the initial filing or receipt of discovery responses from the Company may push out the rate effective date. The Parties agree that rates will not be in effect until after public notice and public hearing.

RIDER "F"

INFRASTRUCTURE INVESTMENT PROGRAM ("IIP")

Applicable to all RDS, SGS, GDS, NGV, LVD, EGF, GLS and FTS customers receiving service through the Company's distribution system. The IIP rate shall be collected on a per therm basis and shall remain in effect until changed by order of the NJBPU.

Incremental Base Rate Charges per Service Class:

		Pre Tax	w/Tax
RDS	Residential		$x.xxxx
SGS	Small General Service		$x.xxxx
GDS	General Delivery Service		$x.xxxx
GDS	Seasonal Small SP#1		$x.xxxx
GDS	Seasonal Large SP#2		$x.xxxx
NGV	Natural Gas Vehicles	$x.xxxx	
LVD	Large Volume Demand		$x.xxxx
EGF	Electric Generation	$x.xxxx	$x.xxxx
GLS	Gas Lights, per mantel		$x.xxxx
FTS	Firm Transportation	$x.xxxx	$x.xxxx
Firm Special Contracts		$x.xxxx	

The charges applicable under this Rider include provision for the New Jersey Sales and Use Tax, and when billed to customers exempt from this tax shall be reduced by the amount of such tax included therein.

The IIP is a five-year program to modernize and enhance the reliability and safety of the Company's gas distribution system by replacing its vintage, at-risk facilities which include aging cast iron and bare steel mains and related services, as well as the installation of excess flow valves on new service lines. The costs recovered through the IIP Rider rate are based on the Company's after-tax weighted average cost of capital, depreciation expense, deferred income tax credits and other adjustments as determined by the Board, grossed up by the Company's revenue expansion factor and applicable taxes.

Appendix D

Minimum Filing Requirements

For each filing seeking recovery of IIP investments, the Company shall provide the following:

1) Elizabethtown's income statement for the most recent 12 month period ended on a quarter, as filed with the Board.

2) Elizabethtown's balance sheet for the most recent quarter, as filed with the Board.

3) Elizabethtown's actual baseline capital spending for both the recovery period and the prior calendar year.

4) Elizabethtown's overall approved IIP capital budget broken down by major categories, both budgeted and actual amounts.

5) For each IIP project:

   a. The original project budget;

   b. Expenditures incurred to date;

   c. Work completed, including identified tasks completed, e.g. design phase, material procurement, permit gathering, phases of construction, etc.;

   d. Anticipated project timeline, including estimated completion date, with updates and expected and unanticipated changes, along with an explanation of the reasons for any changes; and

   e. A narrative discussion of the effectiveness of the project in improving system performance; including identification of improved facilities (including specific feeders), where appropriate.

6) Consistent with the methodology set out in Appendix B, a calculation of the proposed revenue requirements related to the IIP projects included in Plant-in-Service in that rate

recovery period. The calculation should show the actual capital expenditure for the period for which the filing is made, as well as supporting calculations.

7) A calculation of the associated depreciation expense, based on those projects close to Plant-in-Service during the period.

8) 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 IIP projects, such as relocation, reimbursement, or stimulus money, and an explanation of the financial treatment associated with the receipt of the government funds or credits.

9) Pursuant to N.J.A.C. 14:3-2A.6(h), the results of an earnings test calculation where ROE shall be determined based on the actual net income of the Company for the most recent 12-month period ended on a calendar quarter divided by the average of the beginning and ending common equity balances for the corresponding period.

10) The earnings test calculation described in Paragraph 9 immediately above is a requirement under the IIP regulations and is used to determine if it is appropriate for the Company to recover, or continue to recover, IIP costs. The following information shall be provided to the Board Staff and Rate Counsel with each earnings review:

a. The earnings test shall contain information from the Company's official books and records, and shall be consistent with the Company's independently audited results of operations and its most recent annual report to the Board, and shall include the most recent 12 months of actual financial information ended on a calendar quarter (*i.e.,* net income and rate of return on the average balance of common equity, per books); and

b. Rate base (completed IIP net plant additions that have been deemed used and useful but are not yet included in rate base), revenues (including approved IIP revenues not yet in base revenues), expenses, taxes, capital structure, weighted average cost of capital, approved net IIP plant additions not yet in rate base, and other such relevant financial information as may be known to the Company in determining the calculation in Paragraph 10 (a) above.