

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

**IN THE MATTER OF THE PETITION OF)
PUBLIC SERVICE ELECTRIC AND GAS)
COMPANY FOR APPROVAL OF ITS CLEAN) BPU DOCKET NO. EO1810111
ENERGY FUTURE- ELECTRIC VEHICLE AND)
ENERGY STORAGE PROGRAMS ON A)
REGULATED BASIS)**

**DIRECT TESTIMONY OF DAVID E. PETERSON
ON BEHALF OF THE
NEW JERSEY DIVISION OF RATE COUNSEL**

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I. INTRODUCTION

1
2 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
3 **ADDRESS.**

4 A. My name is David E. Peterson. I am the President of and a Senior Consultant
5 with Chesapeake Regulatory Consultants, Inc. ("CRC"). My business address is
6 10351 Southern Maryland Blvd., Suite 202, Dunkirk, Maryland 20754.

7
8 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE**
9 **IN THE PUBLIC UTILITY FIELD?**

10 A. I graduated with a Bachelor of Science degree in Economics from South Dakota
11 State University in May of 1977. In 1983, I received a master's degree in
12 Business Administration from the University of South Dakota. My graduate
13 program included accounting and public utility courses at the University of
14 Maryland.

15
16 In September 1977, I joined the Staff of the Fixed Utilities Division of the South
17 Dakota Public Utilities Commission as a rate analyst. My responsibilities at the
18 South Dakota Commission included analyzing and testifying on ratemaking
19 matters arising in rate proceedings involving electric, gas and telephone utilities.

20
21 Since leaving the South Dakota Commission in 1980, I have continued
22 performing cost of service and revenue requirement analyses as a consultant. In
23 December 1980, I joined the public utility consulting firm of Hess & Lim, Inc. I
24 remained with that firm until August 1991, when I joined CRC. Over the years, I
25 have analyzed filings by electric, natural gas, propane, telephone, water,
26 wastewater, and steam utilities in connection with utility rate and certificate

1 proceedings before federal and state regulatory commissions. A copy of my
2 curriculum vitae is provided in Appendix A attached to my testimony.

3
4 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN PUBLIC**
5 **UTILITY RATE PROCEEDINGS?**

6 A. Yes. I have presented testimony in 175 other proceedings before the state
7 regulatory commissions in Alabama, Arkansas, California, Colorado,
8 Connecticut, Delaware, Indiana, Kansas, Maine, Maryland, Montana, Nevada,
9 New Jersey, New Mexico, New York, Pennsylvania, South Dakota, West
10 Virginia, and Wyoming, and before the Federal Energy Regulatory Commission.
11 Collectively, my testimonies have addressed the following topics: the appropriate
12 test year, rate base, revenues, expenses, depreciation, taxes, capital structure,
13 capital costs, rate of return, cost allocation, rate design, life-cycle analyses,
14 affiliate transactions, mergers, acquisitions, and cost-tracking procedures.

15
16 In addition, I testified twice before the Energy Subcommittee of the Delaware
17 House of Representatives on the issues of consolidated tax savings and tax
18 normalization. Also, I have presented seminars on public utility regulation,
19 revenues requirements, cost allocation, rate design, consolidated tax savings,
20 income tax normalization and other ratemaking issues to the Delaware Public
21 Service Commission, to the Commissioners and Staff of the Washington Utilities
22 and Transportation Commission, and to the Colorado Office of Consumer
23 Counsel.

24 **II. SUMMARY**

25 **Q. HAVE YOU TESTIFIED IN OTHER PROCEEDINGS BEFORE THE**
26 **NEW JERSEY BOARD OF PUBLIC UTILITIES (“BOARD”)?**

27 A. Yes, I have. I have submitted testimony in the following proceedings before the
28 Board:

	<u>Utility</u>	<u>Docket No.</u>
1		
2		
3	South Jersey Gas Company	GR8704329
4		GR03050413
5		GR03080683
6		GR10010035
7		
8	New Jersey-American Water Company	WR88070639
9		WR91081399J
10		WR92090906J
11		WR94030059
12		WR95040165
13		WR98010015
14		WR03070511
15		WR06030257
16		WR17090985
17		WR1912516
18		
19	ACE/Delmarva Merger	EM97020103
20	Atlantic City Electric Company	ER03020110
21		ER11080469
22		ER17030308
23		ER18020196
24		
25		
26	FirstEnergy/GPU Merger (JCP&L)	EM00110870
27	Jersey Central Power & Light	ER02080506
28		ER05121018
29		ER12111052
30		EM14060581
31		EM15060733
32		ER18070728
33		
34	Rockland Electric Company	ER02100724
35		ER06060483
36		ER09080668
37		ER19050552
38		
39	Public Service Electric and Gas	EM00040253
40		GR09050422
41		GO12030188
42		EO18101115

1	Exelon/PSE&G Merger	EM05020106
2	Exelon/Pepco Holdings Merger	EM14060581
3		
4	Conectiv/Pepco Merger (ACE)	EM01050308
5		
6	Elizabethtown Gas Company	GR02040245
7		GR09030195
8	The Southern Company/AGL Resources	GM15101196
9		
10	United Water New Jersey, Inc.	WR07020135
11	United Water Toms River	WR15020269
12		
13	New Jersey Natural Gas Company	GR07110889
14		

15
16 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

17 A. My appearance in this proceeding is on behalf of the Division of Rate Counsel
18 (“Rate Counsel”).
19

20

21

III. PSE&G’s PROPOSED EVES PROGRAMS

22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
23 **PROCEEDING?**

24 A. The purpose of my testimony is to present Rate Counsel’s cost allocation and rate
25 design concerns with Public Service Electric and Gas Company’s (“PSE&G” or
26 “the Company”) proposed Clean Energy Future – Electric Vehicle (“EV”) and
27 Energy Storage (“ES”) (combined “CEF-EVES”) program offerings. As part of
28 my analysis, I reviewed, PSE&G’s October 11, 2018 Verified Petition
29 (“Petition”), Direct Testimonies, and Schedules relating to cost allocation and rate
30 design. In addition, I also reviewed PSE&G’s response to discovery requests of
31 Rate Counsel, the Board Staff and other parties, again relating to cost allocation
32 and rate design.

1 **Q. BEFORE YOU DISCUSS YOUR FINDINGS AND**
2 **RECOMMENDATIONS, PLEASE PROVIDE A VERY BRIEF**
3 **OVERVIEW ON PSE&G’S PROPOSAL IN THIS PROCEEDING.**

4 A. PSE&G’s Petition seeks Board approval for the Company’s CEF-EVES Program.
5 PSE&G’s proposed CEF-EVES Program is a six-year, \$543 million initiative
6 consisting of four subprograms under PSE&G’s EV proposal and five
7 subprograms under the Company’s ES proposal.

8
9 PSE&G proposes to accumulate capital-related costs and expenses, using a
10 standardized annual revenue requirement formula approach, for costs incurred in
11 connection with its CEF-EVES Program. The accumulated annual revenue
12 requirement amounts will be booked into a deferred account to be recovered on an
13 annual basis in one of two separate components of a new charge in the
14 Company’s Tariff called the Technology Innovation Charge (“TIC”). The two
15 TIC components are the CEF-EV component and the CEF-ES component.
16 PSE&G’s proposed revenue requirement formula includes a carrying charge
17 based on PSE&G’s currently authorized weighted average cost of capital.

18
19 The proposed TIC rates will be stated on a dollars per kWh basis for all
20 distribution kWh sales for the year. That is, the annual revenue requirement
21 associated the EVES Programs will be recovered from all rate classes based on
22 relative kWh sales within each rate class. Over- and under-recoveries will be
23 trued-up in the following year’s TIC determination. Approximately 33 percent of
24 total kWh sales are in the residential class.¹ Consequently, 33 percent of
25 PSE&G’s EVES costs will be paid for by residential customers.

26

¹ PSE&G’s response to S-PSEG-REV-0057, page 645.

1 **Q. WHAT IS YOUR OVERALL IMPRESSION OF THE COMPANY'S**
2 **PROPOSED EVES PROGRAMS?**

3 A. From a cost allocation and rate design standpoint, my overall impression is not
4 favorable. PSE&G's Programs, and in particular the proposed cost recovery
5 mechanism, are inconsistent with cost-based ratemaking principles in that the
6 proposed cost recovery mechanism is intentionally designed to require PSE&G's
7 general body of customers to subsidize the Company's costs of providing EVES
8 services to relatively few EV and ES customers.

9
10 **Q. WHAT IS YOUR OBJECTION TO PSE&G'S PROPOSED COST**
11 **RECOVERY PLAN FOR RECOVERING EVES RELATED COSTS?**

12 A. I reviewed the Company's proposed cost recovery plan outlined in the Direct
13 Testimony of PSE&G witness, Stephen Swetz. My objection to Mr. Swetz's
14 proposed cost recovery plan is that it is inconsistent with proper cost allocation
15 and rate design principles, which dictate that customers receiving service benefits
16 pay the related costs. The rate design principle of matching rates with service
17 beneficiaries has been inherent in PSE&G's base rate proceedings and has been
18 the guiding principle in class cost of service studies previously filed by PSE&G in
19 base rate proceedings. Mr. Swetz's proposed cost recovery procedures in this
20 proceeding, however, do not meet this basic objective. The proposed TIC rates
21 impose charges on PSE&G customers who do not receive direct benefits from the
22 EVES Program. Therefore, the general body of PSE&G customers should not be
23 required to pay for EVES related costs. Rather, the costs of the EVES Program
24 should be assessed directly to those customers that request the EVES offerings.

25
26 **Q. DO YOU HAVE ANOTHER CONCERN WITH THE PROPOSED TIC**
27 **CALCULATIONS?**

1 A. Yes, I do. The proposed TIC calculations include all EVES related costs but do
2 not include any revenues that PSE&G expects to receive from certain EVES
3 projects. For example, even though Rate Counsel opposes Company-owned EV
4 charging stations, PSE&G expects to receive revenues from Company-owned EV
5 charging stations, from its participation in the PJM frequency market, and from
6 sales of ancillary services and energy in the PJM wholesale markets.² Mr. Swetz
7 proposes that revenues received from EV and ES projects be credited to the
8 distribution cost of service in PSE&G's next base rate case. The problem with
9 this approach is that PSE&G's customers will not receive any cost of service
10 credit for EVES revenues until the next base rate case. All EVES revenues
11 received prior to a base rate proceeding will go straight to the Company's profit
12 margin.

13
14 **Q. IF PSE&G'S TIC COST RECOVERY PROCEDURE IS ADOPTED,**
15 **AGAINST RATE COUNSEL'S RECOMMENDATION, HOW SHOULD**
16 **REVENUES FROM EV AND ES SERVICES BE ACCOUNTED FOR?**

17 A. I recommend that all EV and ES revenues received be tracked and included as a
18 credit in the annual TIC and related true-up calculations. There is no reason why
19 ratepayers should not receive credit for EV and ES revenue on a concurrent basis
20 with EVES cost recovery. Nor is there any justification for PSE&G's retaining
21 the benefit for itself of EVES revenues until its next base rate proceeding.

22
23 **Q. GIVEN THE CONCERNS THAT YOU HAVE EXPRESSED, WHAT IS**
24 **YOUR CONCLUSION AND RECOMMENDATION TO THE BOARD IN**
25 **THIS PROCEEDING?**

26 A. My primary conclusion is that PSE&G's proposed EVES Program and related
27 cost recovery proposal fail the fundamental and long-standing cost allocation and

² Direct Testimony of Stephen Swetz, page 5.

1 ratemaking principle that customers receiving service benefits from the utility
2 should pay the associated costs necessary to provide that service. In this
3 proceeding, however, PSE&G has intentionally designed a cost recovery system
4 that results in the general body of non-EVES customers subsidizing the cost of
5 EVES services for relatively few EVES customers. This subsidization is
6 unreasonable, discriminatory, and egregious, especially for those residential
7 customers who do not own any vehicle, let alone an electric vehicle, and must rely
8 on public transportation.

9
10 Rather, as explained in more detail in Dr. Hausman's Direct Testimony, if any of
11 PSE&G's EV programs are approved by the Board, Rate Counsel supports pricing
12 those programs on a cost of service basis though a separate EV rate schedule. In
13 that way, EV loads and associated costs can be identified separately in a class cost
14 of service study and rates for EV services can be appropriately priced based on a
15 cost of service basis.

16
17 The decision to purchase an electric vehicle is a matter of economics. As with
18 any purchase, the expected benefits must outweigh the costs, including
19 consideration of alternative costs. For example, the purchase of an electric or a
20 hybrid vehicle will reduce or eliminate trips to a gasoline filling station. But that
21 saving must be netted against the cost of electric vehicle charging. A false
22 economic savings will result if the prospective buyer relies on a subsidized costs
23 of electric vehicle charging, as will occur under PSE&G's EVES Program. The
24 false economic savings occur because PSE&G's general body of non-electric
25 vehicle customers have been forced to subsidize the EVES Program, conferring a
26 non-cost-based benefit on a select few customers that are able to purchase an
27 electric vehicle. This subsidy is contrary to long-standing cost allocation and rate
28 design principles and should be rejected by the Board. If the Board approves an

1 EV program, rates for EV service should be set on a cost of service basis and
2 priced through a separate EV tariff. The same is true for ES service, i.e., the
3 general body of PSE&G's customers should not be required to subsidize ES
4 service requested by a limited number of customers.

5
6 **Q. HAS THE COMPANY TIED THE CEF-ES COMPONENT OF ITS**
7 **PROPOSED TIC RATE TO SYSTEM BENEFITS, CONSISTENT WITH**
8 **THE COST CAUSATION RATEMAKING PRINCIPLE?**

9 A. No, it has not. While some participants in the Company's proposed Energy
10 Storage programs may benefit from them, PSE&G has failed to show that ES
11 deployment will bring system-wide benefits to all customers. Accordingly, the
12 proposed TIC-ES rate should be rejected since it would charge all PSE&G
13 customers for benefits that would accrue to only a limited number of them. If the
14 Board approves an ES program, rates for ES services should be set on a cost of
15 service basis and prices through a separate ES tariff.

16
17 **Q. DOES THIS COMPLETE YOUR TESTIMONY AT THIS TIME?**

18 A. Yes, it does; however, I reserve the right to supplement my testimony if additional
19 or updated information becomes available.

20
21
22
23
24
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27
28

APPENDIX A - CURRICULUM VITAE

DAVID E. PETERSON

**STATEMENT OF EDUCATION AND EXPERIENCE
FOR
DAVID E. PETERSON**

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410.286.0503

Email: davep@chesapeake.net

Mr. Peterson is employed as a public utility rate consultant by Chesapeake Regulatory Consultants, Inc. Mr. Peterson has over forty-two years of experience analyzing regulated public utility ratemaking and service matters including three years as a member of a state regulatory commission staff and thirty-nine years as a consultant. Mr. Peterson specializes in utility revenue requirement and cost of service analyses. He has presented testimony in more than 170 proceedings before twenty state regulatory commissions, the Delaware House Energy Subcommittee, and the Federal Energy Regulatory Commission. Utilities addressed in Mr. Peterson's analyses and testimonies have included electric, natural gas, propane, telephone, water, steam and sewer companies.

EMPLOYMENT

1991 - Present	Senior Consultant Chesapeake Regulatory Consultants, Inc. Annapolis, Maryland
1980 - 1991	Consultant Hess & Lim, Inc. Greenbelt, Maryland
1977 - 1980	Rate Analyst South Dakota Public Utilities Commission Pierre, South Dakota
1977	Research Assistant Economics Department South Dakota State University Brookings, South Dakota

As a rate analyst and consultant, Mr. Peterson has served a diverse group of public utility consumers and governmental agencies on utility ratemaking and service-related issues. Clients have included state regulatory commissions and their staffs, consumer advocate agencies of state governments, federal agencies, municipalities, privately owned, municipally owned and cooperatively owned utilities, civic organizations, and industrial consumers.

EDUCATION

December 1983 Master of Business Administration
University of South Dakota
Vermillion, South Dakota

May 1977 Bachelor of Science Degree in Economics
South Dakota State University
Brookings, South Dakota

EXPERT TESTIMONY

Among the issues that Mr. Peterson has addressed in testimony are the appropriate test year, construction work in progress, cash working capital lead/lag studies, rate base, excess capacity, revenues, expenses, depreciation, income taxes, capital structure, rate of return, cost allocation, rate design, customer service charges, flexible rates, life-cycle analyses, cost tracking procedures, affiliate transactions, mergers, acquisitions and the consequences of industry restructuring. Mr. Peterson has presented testimony to the following regulatory bodies.

Alabama Public Service Commission
Arkansas Public Service Commission
California Public Utilities Commission
Colorado Public Utilities Commission
Connecticut Public Utilities Control Authority

Delaware Public Service Commission
Indiana Public Service Commission
Kansas State Corporation Commission
Maine Public Utilities Commission
Maryland Public Service Commission

Montana Public Service Commission
Nevada Public Service Commission
New Jersey Board of Public Utilities
New Mexico Public Service Commission
New York Dept. of Environmental Protection

New York Public Service Commission
Pennsylvania Public Utility Commission
South Dakota Public Utilities Commission
West Virginia Public Service Commission
Wyoming Public Service Commission

Delaware House of Representatives (Energy Subcommittee)
Federal Energy Regulatory Commission

In addition, Mr. Peterson has presented several utility training seminars, including the following:

Consolidated Tax Savings and Income Tax Normalization
Presented to Delaware Public Service Commission 2006

Public Utility Ratemaking Principles
Presented to Washington Utilities and Transportation Commission 2011

Electric Cost Allocation and Rate Design
Presented to Colorado Office of Consumer Counsel 2012

Public Utility Revenue Requirements
Presented to Delaware Public Service Commission 2012

Electric Cost Allocation and Rate Design
Presented to Delaware Public Service Commission 2013