STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE GAIL M. COOKSON

I/M/O THE PETITION OF PUBLIC SERVICE ELECTRIC AND GAS COMPANY FOR APPROVAL OF AN INCREASE IN ELECTRIC AND GAS RATES AND FOR CHANGES IN THE TARIFFS FOR ELECTRIC AND GAS SERVICE, B.P.U.N.J. NO.16 ELECTRIC AND B.P.U.N.J. NO. 16 GAS, AND FOR CHANGES IN DEPRECIATION RATES, PURSUANT TO N.J.S.A. 48:2-18, N.J.S.A. 48:2-21 AND N.J.S.A. 48:2-21.1 AND FOR OTHER APPROPRIATE RELIEF	)	**BPU DOCKET NOS. ER18010029 and GR18010030** **OAL DOCKET NO. PUC 01151-18**

DIRECT TESTIMONY OF DAVID PETERSON ON BEHALF OF THE DIVISION OF RATE COUNSEL

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is David E. Peterson. I am a Senior Consultant employed by Chesapeake Regulatory Consultants, Inc. ("CRC"). Our business address is 1698 Saefern Way, Annapolis, Maryland 21401-6529. I maintain an office in Dunkirk, Maryland.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE IN THE PUBLIC UTILITY FIELD?

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

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

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

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

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN PUBLIC UTILITY RATE PROCEEDINGS?

A. Yes. I have presented testimony in 166 other proceedings before the state regulatory commissions in Alabama, Arkansas, California, Colorado, Connecticut, Delaware, Indiana, Kansas, Maine, Maryland, Montana, Nevada, New Jersey, New Mexico, New York, Pennsylvania, South Dakota, West Virginia, and Wyoming, and before the Federal Energy Regulatory Commission. Collectively, my testimonies have addressed the following topics: the appropriate test year, rate base, revenues, expenses, depreciation, taxes, capital structure, capital costs, rate of return, cost allocation, rate design, life-cycle analyses, affiliate transactions, mergers, acquisitions, and cost-tracking procedures.

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

II. SUMMARY

Q. HAVE YOU TESTIFIED IN OTHER PROCEEDINGS BEFORE THE NEW JERSEY BOARD OF PUBLIC UTILITIES ("BOARD")?

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

Utility	Docket No.
South Jersey Gas Company	GR8704329
	GR03050413
	GR03080683
	GR10010035
New Jersey-American Water Company	WR88070639
	WR91081399J
	WR92090906J
	WR94030059
	WR95040165
	WR98010015
	WR03070511
	WR06030257
	WR17090985
ACE/Delmarva Merger	EM97020103
Atlantic City Electric Company	ER03020110
	ER11080469
	ER17030308
FirstEnergy/GPU Merger (JCP&L)	EM00110870
Jersey Central Power & Light	ER02080506
	ER05121018
	ER12111052
	EM14060581
	EM15060733
Rockland Electric Company	ER02100724

	ER06060483
	ER09080668
Public Service Electric and Gas	EM00040253
	GR09050422
	GO12030188
Exelon/PSE&G Merger	EM05020106
Exelon/Pepco Holdings Merger	EM14060581
Conectiv/Pepco Merger (ACE)	EM01050308
Elizabethtown Gas Company	GR02040245
	GR09030195
The Southern Company/AGL Resources	GM15101196
United Water New Jersey, Inc.	WR07020135
United Water Toms River	WR15020269
New Jersey Natural Gas Company	GR07110889

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

A. My appearance in this proceeding is on behalf of the Division of Rate Counsel ("Rate Counsel").

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

A. I was asked by Rate Counsel to review and to analyze the Petition, testimonies and exhibits filed by Public Service Electric and Gas Company ("PSE&G" or "the Company") supporting the rates it proposes to implement at the conclusion of this proceeding. The purpose of my testimony is to present the results of my analyses of PSE&G's embedded class cost of service studies and proposed electric and natural delivery service rates to Your Honor and the Board.

Q. ARE YOU FAMILIAR WITH PSE&G'S RATE DESIGN PROPOSALS IN THIS PROCEEDING?

A. Yes, I am. I have carefully reviewed the Direct Testimony and Exhibits sponsored by PSE&G's witness relating to the issues that I address herein. Mr. Stephen Swetz presents the results of the Company's class cost of service studies. He also recommends a spread of the increase among the classes of service and a rate design for each service class. My review also included an evaluation of the Company's responses to data requests of Rate Counsel and the Board Staff relating to the issues that I address in my testimony.

Q. BEFORE DISCUSSING YOUR SPECIFIC FINDINGS AND RECOMMENDATIONS, PLEASE SUMMARIZE PSE&G'S REQUESTS RELATING TO THE ISSUES THAT YOU ADDRESS IN YOUR TESTIMONY.

A. PSE&G's initial filing in this proceeding purportedly shows an approximate $111.0 million revenue deficiency, excluding Sales and Use Tax, associated with the Company's electric distribution service and an approximate $186.7 million revenue deficiency associated with the Company's natural gas distribution service, again excluding Sales and Use Taxes. Changes in revenues of these magnitudes to correct the alleged deficiencies will increase electric distribution revenues under current rates by 9.47 percent and gas distribution revenues by 23.31 percent. The Company used a test year consisting of the twelve months ended June 30, 2018, to calculate these alleged revenue deficiencies.

In his Direct Testimony, Mr. Swetz presented class cost of service studies for the electric and gas divisions for the twelve months ended December 31, 2016. In Mr. Swetz's cost studies, PSE&Gs distribution service related costs were

allocated among fourteen (14) electric customer classes and five (5) gas customer classes. The following are summaries of the earned rates of return by customer class from Mr. Swetz's study.

Table 1

Public Service Electric and Gas Company
Electric Earned Rates of Return – PSE&G Allocation Method
Under Existing Rates

Rate Schedule	Rate of Return	Unitized ROR
RS – Residential	2.16%	0.44
RHS – Residential Heating	2.85%	0.59
RLM – Residential Load Management	3.15%	0.65
WHS – Water Heating	-6.40%	(1.31)
WHS – Water Heating Storage	-19.16%	(3.93)
HS – Building Heating	7.71%	1.58
GLP – General Lighting and Power	7.53%	1.55
LPL – Large Power & Lighting Sec	7.56%	1.55
LPL – Large Power & Lighting Pri	5.48%	1.13
HT – High Tension Subtransmission	3.72%	0.76
HT – High Transmission HV	246.35%	50.59
BPL – Body Politic Lighting	11.43%	2.35
BPL-POF Body Politic Lighting POF	-1.45%	(0.30)
PSAL – Private Street & Area Light	20.78%	4.27
Total Electric	4.87%	1.00

Table 2

Public Service Electric and Gas Company
Gas Earned Rates of Return – PSE&G Allocation Method
Under Existing Rates

Rate Schedule	Rate of Return	Unitized ROR
RGS	2.97%	0.88
GSG	3.68%	1.09
LVG	5.24%	1.55
SLG	-16.35%	(4.84)
Total	3.38%	1.00

Mr. Swetz relied on the results of his cost studies, as well as his judgment, to realign class revenue responsibilities. His cost studies indicate that the Residential classes, for both the electric and gas divisions, are contributing less than the system average rate of return. This is illustrated by a unitized rate of return of less than 1.00 for the Residential classes in Tables 1 and 2 above. A unitized rate of return is the ratio of the individual class rate of return to the total Company rate of return. A unitized rate of return of less than 1.00, as is the case with the Residential classes, indicates that the rate class is contributing less than the system-wide average rate of return. Because the unitized rates of return are less than 1.00 for the Residential rate classes, Mr. Swetz proposed a higher than average revenue increase, on a percentage basis, for those rate classes. Mr. Swetz assigned somewhat less than the system wide average increases to the remaining classes, except for the lighting classes where he assigned no increase. Tables 3 and 4 below, shows Mr. Swetz's proposed spread of PSE&G's initially claimed revenue deficiency among the various rate classes along with the resulting percentage increase for each rate class.

Table 3

Public Service Electric and Gas Company
PSE&G Proposed Electric Class Revenue Increases
$(000)

Rate Schedule	Increase	Percent Increase
RS – Residential	$ 81,868	15.81%
RHS – Residential Heating	$ 614	16.57%
RLM – Residential Load Management	$ 954	13.58%
WHS – Water Heating	$ 4	7.84%
WHS – Water Heating Storage	$ 0.021	16.54%
HS – Building Heating	$ 33	4.80%
GLP – General Lighting and Power	$ 12,447	4.73%
LPL – Large Power & Lighting Sec	$ 10,778	4.74%
LPL – Large Power & Lighting Pri	$ 1,867	4.73%
HT – High Tension Subtransmission	$ 2,331	8.27%
HT – High Transmission HV	$ 101	4.72%
BPL – Body Politic Lighting	$ 0	0.00%
BPL-POF Body Politic Lighting POF	$ 0	0.00%
PSAL – Private Street & Area Light	$ 0	0.00%
Total Electric	$110,997	9.47%

Table 4
Public Service Electric and Gas Company
PSE&G's Proposed Gas Class Revenue Increase
$(000)

Rate Schedule	Increase	Percent Increase
RGS	$150,830	25.92%
GSG	$ 21,369	22.67%
LVG	$ 14,496	11.66%
SLG	$ 0	0.00
Total	$186,695	23.31%

Concerning electric rate design, Mr. Swetz proposes the following changes for its residential customers:

- Increase the Service Charge (presently $2.27 excluding SUT) by 260 percent (to $8.18 excluding SUT) over the next three years;
- Eliminate the present inclining block usage (i.e., kWh) charges for both summer and winter seasonal rates by having a flat $/kWh charge during both seasons; and
- Realignment of the summer/winter rate differential so that each seasonal rate will be the same percentage of cost, rather than the summer rate being priced below cost and the winter rate being priced above cost.

Mr. Swetz also proposes to increase the residential gas Service Charge (presently $5.46 excluding SUT) by 125 percent (to $12.30 excluding SUT) over the next three years.

Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS ON PSE&G'S COST ALLOCATION AND RATE DESIGN PROPOSALS.

A. Following is a brief summary of my findings and recommendations.

- **Embedded cost of service study.** As was done in PSE&G's last electric base rate case, Mr. Swetz relied on various demand measures (e.g., sum of customer individual peak demands for Local Delivery costs, class coincident peak demands for System Delivery costs, and a combination of both demand measures for subtransmission and primary circuits) to allocate the majority of distribution costs to the various service classes. Using this method, Mr. Swetz calculated a 0.44 unitized rate of return for the RS (residential) class. In the past, however, the Board has required

that cost studies also reflect class energy usage (i.e., kWh).[1] Mr. Swetz's testimony also included a class cost of service study using the "Peak and Average" cost allocation method, which recognizes relative class energy usage. Under the Peak and Average method, the unitized rate of return for the RS class is considerably higher at 0.94. But, under either cost allocation method, present rates for the RS class yield less than the system-wide average rate of return.

- **Spread of the revenue increase.** Mr. Swetz's proposed spread of PSE&G's calculated revenue deficiency for the electric department attempts to move each class closer to its cost of service by moving the class unitized rates of return closer to 1.0. All of the electric classes are moved closer to a unitized rate of return of 1.0 under PSE&G's preferred allocation method. The same is true if one compares the results of Mr. Swetz's proposed allocation to the alternative peak and average cost study. Moreover, applying Mr. Swetz's proposed increase for the RS class to the alternative peak and average allocation method results in a 1.00 unitized rate of return, which is higher than the 0.78 unitized rate of return that results from PSE&G's preferred allocation method under current rates. Under neither allocation method, however, does Mr. Swetz's proposed revenue increase for the RS class produce a unitized rate of return for that class that exceeds 1.0. Given that Mr. Swetz's proposed revenue increase by rate class shows significant progress towards equalizing class rates of return for the rate classes under both the Company's preferred allocation method and the alternative peak and average allocation method and that

[1] *I/M/O The Petition of Jersey Central Power & Light Company for Approval of Increased Base Tariff Rates and Charges for Electric Service and Other Tariff Revisions*, BPU Docket No. ER91121820J, Final Decision and Order, page 16 (June 15, 1993).

the increase to the Residential class is somewhat higher than the system-wide average, I do not object to his proposed distribution of the PSE&G's purported revenue deficiency.

The same is true for Mr. Swetz's proposed allocation of the revenue increase to PSE&G's gas customers, i.e., each class return is moved closer to the system-wide average return. Therefore, I do not object to Mr. Swetz's proposed allocation of the revenue deficiency among the gas rate classes.

In addition, I agree with Mr. Swetz that if Your Honor and the Board determine a revenue increase smaller than what PSE&G proposed is appropriate, the class revenue increases should be scaled back proportionally to those recommended by Mr. Swetz. Ms. Crane has determined, however, that PSE&G's current annual revenues, for both the electric and gas divisions, are excessive and should be reduced. Thus, I am recommending a slightly different strategy for allocating the revenue decreases among the various rate cases. My recommendation closely follows the underlying principles and limitations that Mr. Swetz relied on in his revenue spread proposals. For example, my proposed spread of the overall revenue decrease includes a revenue decrease for each rate class in each division. This is a corollary to Mr. Swetz's limitation where all rate classes would have received an increase under his proposal. Moreover, to the extent possible, my proposed class revenue reductions result in approximately the same percentages of total distribution revenues, by rate class, that resulted from Mr. Swetz's proposed allocation of the revenue increases for both the electric and gas divisions.

- **Rate design.** Increasing the residential monthly service charges over the next three years, as Mr. Swetz proposes, is unnecessary and unreasonable. Especially so since Ms. Crane has found that current revenues are excessive in both the electric and gas divisions and should be rolled back. Since I am recommending that no class or customer receive a rate/bill increase as a result of this proceeding, I am also recommending that Mr. Swetz's proposed three-year plan to increase the residential Service Charge be rejected and that the present monthly Service Charges be maintained.

The bases for these findings and recommendations are explained in more detail in the following sections of this testimony.

III. COST ALLOCATION

Q. HAVE YOU REVIEWED PSE&G'S EMBEDDED CLASS COST OF SERVICE STUDIES?

A. Yes, I have. PSE&G's witness Stephen Swetz prepared embedded class cost of service studies for both the electric and gas division using costs and class load data for the twelve months ended December 31, 2016. Studies of this nature, if performed carefully and objectively, can be useful tools in apportioning revenue responsibility fairly among the rate classes and in designing unit charges within rate classes.

Q. WHICH ALLOCATION PROCEDURE DID MR. SWETZ USE IN HIS STUDY?

A. Approximately 82 percent of PSE&G's electric plant in service at issue in this proceeding is in distribution facilities including station equipment, conductors,

poles, towers, and transformers. The remaining 18 percent represents facilities that provide service to individual customers (i.e., meters, services, and other customer installations), general and common facilities, and street lighting. With such a large percentage of plant being distribution-related, the outcome of the cost study can be significantly influenced by the procedures used to allocate the costs of those facilities. Mr. Swetz used the sum of customer individual peak demands to allocate costs that he assigned to the Local Delivery function, which includes secondary wire, line transformers, a portion of the 25 KV circuits, a portion of the primary circuits and a portion of the service drop and meters in excess of the relative minimum amounts. He used class contribution to coincident peak demands to allocate costs that he assigned to the System Delivery function, which includes switching stations and substations and portions of the 25 kV circuits and primary circuits. Similarly, Mr. Swetz used coincident peak hour demands to allocate the majority of PSE&G's gas transmission and distribution mains. His allocation procedures gave no recognition to average demands or annual usage, however.

Q. HAS THE BOARD FOUND IT APPROPRIATE TO CONSIDER ANNUAL AND AVERAGE USAGE IN ADDITION TO PEAK DEMAND IN DETERMINING DEVELOPING ALLOCATION FACTORS?

A. Yes, it has. The Board found it appropriate to consider the "dual demand/energy dimension of T&D system planning and operation" in developing class allocation factors in Jersey Central Power and Light's ("JCP&L") 1991 base rate proceeding (BPU Docket No. ER91121820J). In its Order approving an allocation method that recognized both peak demand and annual usage for JCP&L's transmission and distribution facilities, the Board stated:

The record in this proceeding contains two distinct approaches to the classification and allocation of non-production transmission, subtransmission and distribution (hereafter "T&D") costs. The DOD/FEA approach classifies plant costs functionalized in accounts 360-368 on an exclusive demand basis, allocating them based upon voltage specific non-coincident peaks. The other approach is a voltage level specific average and excess method advocated by Rate Counsel and included in the MSPM studies advanced by the Staff and the Company.

Exclusive demand approaches to the allocation of T&D costs – such as that advanced by the DOD/FEA – were rejected in the April 9, 1992, Order in JCP&L's last base rate proceeding [BPU Docket No. ER89110912J] after the Board determined that "there is a dual demand and energy dimension to transmission and distribution system planning and operation which should henceforth be reflected in cost allocation." See, JCP&L Order, p. 6. In that proceeding, we adopted the average and excess approach advocated by Rate Counsel and supported by Staff as an interim step toward a more complete investigation of the proper allocator for these costs. The difficulty with this prior version of the average and excess method was its use of system load factor to classify T&D costs into demand and energy components. The employment of voltage level specific load factors to classify costs in the Rate Counsel, Staff and Company cost studies in the instant proceeding addresses the concerns raised in our April 9, 1992, Order.

Accordingly, we CONCUR with the Initial Decision that the voltage specific average and excess method is the appropriate basis for the classification and allocation of T&D costs and ORDER that it be employed in this and future JCP&L proceedings until such time that a more precise methodology is developed. We REJECT the exclusive demand approach advanced by the DOD/FEA based upon its failure to reflect the aforementioned dual demand/energy dimension of the T&D planning process.[2]

[2] *I/M/O the Petition of Jersey Central Power & Light Company for Approval of Increased Base Tariff Rates and Charges for Electric Service and Other Tariff Revisions*, BPU Docket No. ER91121820J, Final Decision and Order, page 16 (June 15, 1993).

Thus, the Board found that both annual usage (i.e., kWh and therms) and class maximum demands are appropriate to consider in developing allocation factors for transmission and distribution facilities. Moreover, the Board specifically rejected the demand-only approach that Mr. Swetz has advanced in this proceeding. In fact, the Board's Order in PSE&G's 2009 base rate proceeding (BPU Docket No. GR09050422) required the Company to present the results of a class cost study using an allocation methodology developed by the BPU Staff including the Peak and Average cost allocation method. The Peak and Average allocation method incorporates class kWh and therm usage into the allocation process. In this proceeding, Mr. Swetz prepared second versions of his electric and gas class cost studies using the Peak and Average allocation method.

Q. HOW DO THE RESULTS UNDER PSE&G'S PREFERRED ALLOCATION METHOD COMPARE WITH THOSE USING THE PEAK AND AVERAGE METHOD?

A. The following tables compare the unitized class rates of return that Mr. Swetz calculated for each of the two allocation methods for both the electric and gas divisions.

Table 5
Public Service Electric and Gas Company
Unitized Class Rates of Return - Electric
Under Existing Rates

Rate Schedule	Unitized ROR PSE&G Method	Unitized ROR "Staff Method"
RS – Residential	0.44	0.94
RHS – Residential Heating	0.59	1.23
RLM – Residential Load Management	0.65	0.81
WHS – Water Heating	(1.31)	(1.15)
WHS – Water Heating Storage	(3.93)	(4.31)
HS – Building Heating	1.58	2.31
GLP – General Lighting and Power	1.55	1.30
LPL – Large Power & Lighting Sec	1.55	0.56
LPL – Large Power & Lighting Pri	1.13	0.44
HT – High Tension Subtransmission	0.76	1.14
HT – High Transmission HV	50.59	36.82
BPL – Body Politic Lighting	2.35	2.26
BPL-POF Body Politic Lighting POF	(0.30)	(0.90)
PSAL – Private Street & Area Light	4.27	3.23
Total Electric	1.00	1.00

Table 6
Public Service Electric and Gas Company
Unitized Class Rates of Return - Gas
Under Existing Rates

Rate Schedule	Unitized ROR PSE&G Method	Unitized ROR "Staff Method"
RGS	0.88	0.91
GSG	1.09	1.12
LVG	1.55	1.34
SLG	(4.84)	4.33
Total	1.00	1.00

As shown in Tables 5 and 6 above, both allocation methods produce similar results; the principal difference is in the order of magnitude. The unitized rates of return for the Residential class is less than 1.0 under both methods. The largest difference in results between the two allocation methods appears to be with gas street lighting. Mr. Swetz's preferred allocation indicates a significantly negative return contributed by gas street lighting, whereas under the Staff Method gas street lighting is contributing significantly more than the system-wide average rate of return.

Q. HOW DID MR. SWETZ USE HIS RESULTS TO ALLOCATE PSE&G'S REQUESTED REVENUE INCREASE AMONG RATE CLASSES?

A. My understanding is that using the results of his preferred class cost studies, Mr. Swetz attempted to move each class closer to a 1.0 unitized rate of return. For the Residential classes, which had unitized rates of return of less than 1.0, Mr. Swetz proposed greater-than-average (in percentage terms) increases. For those classes that had unitized rates of return significantly greater than 1.0, Mr. Swetz proposed

less-than-average percentage increases. He limited class increases to 175 percent of the system-wide average percentage increase for electric customers and to 150 percent of the system-wide average percentage increase for gas customers. For those classes having unitized rates of return much greater than 1.0, Mr. Swetz assigned an increase that was at least 50 percent of the system-wide average percentage increase. Street lighting, for both the electric and gas divisions, was exempt from these limitations. While Mr. Swetz's proposed revenue spread within the gas division was able to achieve a 1.0 unitized rate of return under proposed rates for the three major rate classes, excluding gas street lighting, such was not the case for the electric division. Even though there is movement towards a unitized rate of return of 1.0 for the rate classes under Mr. Swetz's proposed spread of the requested electric revenue increase, his revenue distribution proposal was unable to achieve a uniform 1.0 unitized rate of return for all classes because the rate impact, principally on the Residential class, would have been far too severe. In that regard, Mr. Swetz limited the percentage increase to the Residential classes to 1.75 times the system-wide percentage increase that PSE&G is requesting. Mr. Swetz also is not proposing to decrease present revenues for any customer class. Limiting the increases for the RS class and not reducing revenues for any class are both measured steps to gradually move all classes toward an equalized rate of return. I support Mr. Swetz's gradual approach.

Q. GIVEN THAT THERE ARE TWO COST STUDIES FOR EACH DIVISION TO CONSIDER IN THIS PROCEEDING, HOW CAN MR. SWETZ'S PROPOSED REVENUE DISTRIBUTION BE EVALUATED?

A. Mr. Swetz's proposed revenue distribution was developed principally from the results of his class cost study using measures of individual and class demands as

the primary allocation factors. His revenue distribution can also be evaluated for its effects on class returns under the Peak and Average allocation method.

Q. HAVE YOU PERFORMED THIS ANALYSIS?

A. Yes, I have. Summaries of my analyses are shown on Schedule___(DEP-1) (electric) and Schedule___(DEP-2) (gas) attached to my testimony. Tables 7 and 8, below, summarize and compare the unitized rates of return that result from Mr. Swetz's proposed spread of the increase under PSE&G's preferred allocation method and under the alternative Peak and Average allocation method.

Table 7
Public Service Electric and Gas Company
Resulting Unitized Rates of Return - Electric
From Mr. Swetz's Proposed Revenue Distribution

Rate Schedule	Unitized ROR PSE&G Method	Unitized ROR "Staff Method"
RS – Residential	0.78	1.00
RHS – Residential Heating	0.81	1.00
RLM – Residential Load Management	0.82	1.00
WHS – Water Heating	(0.69)	(0.57)
WHS – Water Heating Storage	(2.54)	(2.78)
HS – Building Heating	1.21	1.75
GLP – General Lighting and Power	1.21	1.04
LPL – Large Power & Lighting Sec	1.22	0.84
LPL – Large Power & Lighting Pri	0.92	0.77
HT – High Tension Subtransmission	0.84	1.00
HT – High Transmission HV	36.43	26.86
BPL – Body Politic Lighting	1.54	1.49
BPL-POF Body Politic Lighting POF	0.62	(0.59)
PSAL – Private Street & Area Light	2.81	2.13
Total Electric	1.00	1.00

Table 8
Public Service Electric and Gas Company
Resulting Unitized Rates of Return - Gas
From Mr. Swetz's Proposed Revenue Distribution

Rate Schedule	Unitized ROR PSE&G Method	Unitized ROR "Staff Method"
RGS	1.00	1.00
GSG	1.00	1.00
LVG	1.00	1.00
SLG	0.10	(0.22)
Total	1.00	1.00

Mr. Swetz tempered the revenue impact among the electric rate classes somewhat by not forcing each class's unitized rate of return exactly to 1.0. As shown in Table 7 above, Mr. Swetz's proposed revenue spread when evaluated using the Peak and Average allocation study, in many cases, results in class unitized rates of return closer to 1.0 than what is achieved under PSE&G's preferred allocation method. Thus, I conclude that Mr. Swetz's proposed revenue spread produces reasonable results under both allocation methods.

Q. HOW SHOULD RATE COUNSEL'S CALCULATED REVENUE EXCESS BE APPORTIONED AMONG THE RATE CLASSES?

A. For PSE&G's electric division, Ms. Crane determined that annualized revenues under present revenues should be reduced by $48.868 million. Ideally, I would have preferred to allocate the revenue reduction among the classes so that the resulting distribution revenue for each class was the same percentage of total distribution revenues as that resulting from Mr. Swetz's proposed revenue spread. My preferred approach was not possible because it would have resulted in an increase in required revenues from the residential classes. My recommendation is

that no class receive an increase in revenue requirements, however. This is a corollary to Mr. Swetz's limitation that no class receive a revenue reduction in the event there is an overall revenue deficiency. Therefore, I attempted to satisfy two goals in developing an appropriate spread of the revenue reduction. First, all rate classes share in the revenue reduction. Second, maintain approximately the same percentage of total distribution revenues for each rate class as that resulting from Mr. Swetz's proposed revenue spread. To accomplish these goals, I reduced residential class revenues by 50 percent of the overall percentage revenue reduction recommended by Ms. Crane. That is, I reduced present revenues in the residential class by 2.084 percent (i.e., 50% of 4.169%). I then reduced revenues in the non-residential rate classes by a uniform 5.881 percent. These amounts are shown on my Schedule___(DEP-3), Columns G and J. As can be seen on this schedule, the percent of total revenue for each class under my revenue decrease allocation shown in Column I is very similar to that shown in Column F for Mr. Swetz's proposed revenue increase allocation.

Schedule___(DEP-4) shows my allocation of Ms. Crane's $106.743 million revenue decrease determination for the gas department among the rate classes. In this instance I was able to decrease revenues in each rate class and maintain the same percentage of total distribution revenues that resulted from Mr. Swetz's proposed revenue increase allocation.

Tables 9 (electric) and 10 (gas) below summarize my recommended revenue reduction for each rate class.

Table 9
Public Service Electric and Gas Company
Electric
Rate Counsel's Proposed Spread of Revenue Decrease
$(000)

Rate Schedule	Revenue Decrease	Percent
RS – Residential	($10,795)	(2.084%)
RHS – Residential Heating	(77)	(2.078%)
RLM – Residential Load Management	(146)	(2.079%)
WHS – Water Heating	(3)	(5.881%)
WHS – Water Heating Storage	(0.007)	(5.881%)
HS – Building Heating	(40)	(5.881%)
GLP – General Lighting and Power	(15,460)	(5.881%)
LPL – Large Power & Lighting Sec	(13,386)	(5.881%)
LPL – Large Power & Lighting Pri	(2,319)	(5.881%)
HT – High Tension Subtransmission	(1,659)	(5.881%)
HT – High Transmission HV	(126)	(5.881%)
BPL – Body Politic Lighting	(3,123)	(5.881%)
BPL-POF Body Politic Lighting POF	(19)	(5.881%)
PSAL – Private Street & Area Light	(1,715)	(5.881%)
Total Electric	($48,868)	(4.169%)

Table 10
Public Service Electric and Gas Company
Gas
Rate Counsel's Proposed Spread of Revenue Decrease
$(000)

Rate Schedule	Increase	Percent Increase
RGS	($66,898)	(11.496%)
GSG	(12,985)	(13.777%)
LVG	(26,764)	(21.520%)
SLG	(96)	(30.151%)
Total Gas	($106,743)	(13.328%)

IV. RATE DESIGN

Q. WHAT CHANGES TO ELECTRIC RATE SCHEDULE RS (RESIDENTIAL SERVICE) IS MR. SWETZ PROPOSING?

A. Concerning electric rate design, Mr. Swetz proposes the following changes for its residential customers:

- Increase the Service Charge (presently $2.27 excluding SUT) by 260 percent (to $8.18 excluding SUT) over the next three years;
- Eliminate the present inclining block usage (i.e., kWh) charges for both summer and winter seasonal rates; and
- Realignment of the summer/winter rate differential.

Mr. Swetz also proposes to increase the residential gas Service Charge (presently $5.46 excluding SUT) by 125 percent (to $12.30 excluding SUT) over the next three years.

Q. WHAT IS THE REASONING BEHIND MR. SWETZ'S PROPOSED INCREASE IN THE MONTHLY SERVICE CHARGE?

A. Mr. Swetz proposes to increase residential service charges for both the electric and gas customers in each of the next three years. In Years 2 and 3, PSE&G will make revenue neutral filings to increase the residential service charge and to correspondingly reduce the kWh/therm usage charges, under Mr. Swetz's proposal. Mr. Swetz's primary concern appears to be that the present monthly service charges fail to recover all costs in his study that are classified as customer-related costs. This, he claims, results in inaccurate pricing signals. Mr. Swetz further claims that his cost study proves that the average customer-related cost per electric residential customer is $8.18 per month and $24.60 per month for residential gas customers.[3]

[3] See PSE&G Exhibit P-9E, Schedule SS-E10 (electric) and PSE&G Exhibit P-9G, Schedule SS-G9.

Q. DO YOU AGREE THAT THE "CORRECT" CUSTOMER CHARGES ARE THE AMOUNTS SHOWN IN MR. SWETZ'S COST STUDIES?

A. No, I do not. It does not necessary follow that all costs classified as customer-related for class allocation purposes must also be recovered through the monthly service charge. For many costs that are classified as being customer-related there simply is no other reasonable basis for classification other than the relative number of customers. For example, Mr. Swetz classified a portion of PSE&G's general and common plant and administrative and general expenses to the Customer Service and Measurement segments. Classifying these costs as customer-related costs, however, does not mean they are dependent on the number of customers or are incremental to the number of customers served. There is no precise nexus between costs classified as customer-related and those that are appropriately recognized in the monthly service charge.

Q. DOES THE BOARD TYPICALLY INCLUDE ALL CUSTOMER-CLASSIFIED COSTS IN THE DETERMINATION OF THE SERVICE CHARGE?

A. No, not that I am aware of. My understanding is that the Board has taken a very restrictive view of the costs that are recognized in a monthly service charge. I am advised that the Board generally allows only costs that vary directly and linearly with the number of customers served in the calculation of the monthly service charge. It is likely for this reason that residential service charges for all New Jersey electric utilities remain relatively low. Mr. Swetz did not provide a calculation of monthly service charges that consider only costs that vary directly and linearly with the number of customers serviced.

Q. WHAT HAS THE BOARD APPROVED FOR OTHER NEW JERSEY UTILITIES?

A. Tables 11 and 12 below show the presently approved residential monthly service charge for the New Jersey electric and gas utilities that are regulated by the Board.

Table 11

BPU Approved Residential Monthly Service Charges*
New Jersey Regulated Electric Utilities

Electric Utility	Residential Service Charge
Rockland Electric Company	$4.25
Atlantic City Electric Company	$4.68
Public Service Electric and Gas	$2.27
Jersey Central Power & Light Company	$2.64
PSE&G – Proposed (Year 3)	$8.18

* Excludes Sales and Use Tax

Table 12

BPU Approved Residential Monthly Service Charges*
New Jersey Regulated Gas Utilities

Electric Utility	Residential Service Charge
Elizabethtown Gas Company	$7.68
New Jersey Natural Gas Company	$8.08
Public Service Electric and Gas	$5.46
South Jersey Gas Company	$10.00
PSE&G – Proposed (Year 3)	$12.30

* Excludes Sales and Use Tax

As Table 11 shows, PSE&G's existing residential electric monthly service charge, while lowest in the State, is not that far out of line with the monthly service charges the Board has approved for the other New Jersey electric utilities. By Year 3, however, Mr. Swetz's proposed increase in the service charge for residential electric customers would place PSE&G's monthly service charge significantly above the charges being paid by all of the other electric residential customers in the State.

Similarly, PSE&G's current gas monthly service charge is the lowest among the State's four gas distribution utilities. But, under Mr. Swetz's proposal to increase the charge to 50 percent of the Company's indicated cost in three years, PSE&G's gas service charge will be significantly higher than the other New Jersey gas utilities.

Ultimately, Mr. Swetz's plan to increase the residential monthly service charges over a three-year period does not reflect only costs that vary directly and proportionally to the number of customers served. Moreover, it exposes PSE&G's low volume customers to disproportionate rate increases in spite of the fact that Ms. Crane has determined that PSE&G's present revenues are excessive for both the electric and gas divisions. Therefore, I recommend that the Board reject Mr. Swetz's three-year proposal relating to the residential monthly service charge.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE RESIDENTIAL CUSTOMER SERVICE CHARGE?

A. Because PSE&G did not present any analyses of its costs that vary directly and proportionally to the number of customers served, the Board is justified in

maintaining the Company's existing residential service charges for both electric and gas divisions. Such a result is eminently reasonable in this case since Ms. Crane has determined that annualized revenues under PSE&G's present rates significantly exceed the Company's electric and gas revenue requirements. Since present revenues are excessive in both the electric and gas divisions, I see no urgent need to increase residential service charges at this time. Therefore, I recommend that the residential monthly service charges be maintained at their present levels.

Q. WHAT OTHER CHANGES TO THE ELECTRIC RESIDENTIAL RATE DESIGN DID MR. SWETZ PROPOSE?

A. Mr. Swetz proposed to eliminate the inclining block rate structure presently contained in the summer kWh charges.[4] Mr. Swetz also proposed to realign the summer and winter kWh charges so that by Year 3 each charge will be an equivalent percentage below the indicated cost.[5]

I have no objection to eliminating the inclining block summer kWh charge as Mr. Swetz proposes. Moreover, I have no conceptual objection to having the summer and winter kWh changes be an equivalent percentage below the indicated cost. As a practical matter, however, since I am objecting to Mr. Swetz's proposed three-year rate plan for adjusting the residential service charge and the kWh charges, it is not reasonable to force the summer and winter kWh charges to an equivalent percentage below indicated cost in a single step. Therefore, Mr. Swetz's proposal in this regard should be implemented gradually over this and future rate cases.

[4] See Mr. Swetz's Direct Testimony, Exhibit P-9E, page 46.
[5] *Ibid.*

Q. DOES THIS CONCLUDE YOUR TESTIMONY AS THIS TIME?

A. Yes, it does. I reserve the right to update my testimony based on 12 and 0s.

SCHEDULES DEP-1 THROUGH DEP-4

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

Electric Division

Summary of Company Proposed Revenue Increase

(Revenues in Thousands)

		Distribution Revenue					PSE&G Class Cost Study ROR				Staff Class Cost Study ROR			
		Present	Proposed	Increase	Percent	Indexed	Present Rates	Indexed	Proposed Rates	Indexed	Present Rates	Indexed	Proposed Rates	Indexed
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
1.	Residential	$517,875	$599,743	$81,868	15.81%	1.67	2.16%	0.44	5.75%	0.78	4.60%	0.94	7.38%	1.00
2.	Residential Heating	3,706	4,320	614	16.57%	1.75	2.85%	0.59	5.96%	0.81	5.97%	1.23	7.39%	1.00
3.	Residential Load Management	7,024	7,978	954	13.58%	1.43	3.15%	0.65	6.06%	0.82	3.96%	0.81	7.37%	1.00
4.	Water Heating	51	55	4	7.84%	0.83	-6.40%	(1.31)	-5.13%	(0.69)	-5.58%	(1.15)	-4.19%	(0.57)
5.	Water Heating Storeage	0.127	0.148	0.021	16.54%	1.75	-19.16%	(3.93)	-18.78%	(2.54)	-21.01%	(4.31)	-20.57%	(2.78)
6.	Building Heating	688	721	33	4.80%	0.51	7.71%	1.58	8.99%	1.21	11.24%	2.31	12.93%	1.75
7.	General Lighting and Power	262,876	275,323	12,447	4.73%	0.50	7.53%	1.55	8.98%	1.21	6.33%	1.30	7.69%	1.04
8.	Large Power & Lighting - Sec	227,624	238,402	10,778	4.74%	0.50	7.56%	1.55	9.01%	1.22	2.71%	0.56	6.24%	0.84
9.	Large Power & Lighting - Pri	39,436	41,303	1,867	4.73%	0.50	5.48%	1.13	6.80%	0.92	2.14%	0.44	5.69%	0.77
10.	High Tension - Subtr.	28,203	30,534	2,331	8.27%	0.87	3.72%	0.76	6.24%	0.84	5.57%	1.14	7.39%	1.00
11.	High Tension - HV	2,140	2,241	101	4.72%	0.50	246.35%	50.59	269.59%	36.43	179.31%	36.82	199.01%	26.89
12.	Body Politic Lighting	53,101	53,101	0	0.00%	0.00	11.43%	2.35	11.43%	1.54	11.03%	2.26	11.03%	1.49
13.	Body Politic Lighting - POF	319	319	0	0.00%	0.00	-1.45%	(0.30)	4.62%	0.62	-4.38%	(0.90)	-4.38%	(0.59)
14.	Private Street & Area Lighting	29,169	29,169	0	0.00%	0.00	20.78%	4.27	20.78%	2.81	15.73%	3.23	15.73%	2.13
15.	Total	$1,172,212	$1,283,209	$110,997	9.47%	1.00	4.87%	1.00	7.40%	1.00	4.87%	1.00	7.40%	1.00

Sources:

Columns B,C,D: PSE&G Exhibit P-9E, Schedule SS-E9, pages 2,3

Columms G,I: PSE&G response to RCR-RD-0006-UPDATE

Columns K,M: PSE&G response to RCR-RD-0007-UPDATE

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

Gas Division
Summary of Company Proposed Increase
(Revenues in Thousands)

	Distribution Revenue					PSE&G Class Cost Study ROR				Staff Class Cost Study ROR			
						Present		Proposed		Present		Proposed	
	Present	Proposed	Increase	Percent	Indexed	Rates	Indexed	Rates	Indexed	Rates	Indexed	Rates	Indexed
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
1. RSG	$581,930	$732,760	$150,830	25.92%	1.11	2.97%	0.88	7.40%	1.00	3.09%	0.91	7.41%	1.00
2. GSG	94,253	115,622	21,369	22.67%	0.97	3.68%	1.09	7.40%	1.00	3.77%	1.12	7.40%	1.00
3. LVG	124,364	138,860	14,496	11.66%	0.50	5.24%	1.55	7.40%	1.00	4.52%	1.34	7.38%	1.00
4. SLG	318	318	0	0.00%	0.00	-16.35%	(4.84)	0.71%	0.10	14.64%	4.33	-1.66%	(0.22)
5. Total	$800,865	$987,560	$186,695	23.31%	1.00	3.38%	1.00	7.40%	1.00	3.38%	1.00	7.40%	1.00

Sources:
Columns B,D,E: PSE&G Exhibit P-9G, Schedule SS-G8, page 2
Columns G,I: PSE&G's response to RCR-RD-0008-UPDATE
Columns K,M: PSE&G's response to RCR-RD-0009-UPDATE

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

Electric Division

Rate Counsel's Proposed Spread of the Revenue Reduction

(Revenues in Thousands)

	PSE&G Proposal - Distribution Revenue				Percent of	Rate Counsel Recommendation			
	Present	Proposed	Increase	Percent	Total	Spread of Decrease	Total Revenue	Percent of Total	Percent Decrease
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1. Residential	$517,875	$599,743	$81,868	15.81%	46.738%	($11,051)	$506,824	45.164%	-2.134%
2. Residential Heating	3,706	4,320	614	16.57%	0.337%	(79)	3,627	0.323%	-2.132%
3. Residential Load Management	7,024	7,978	954	13.58%	0.622%	(150)	6,874	0.613%	-2.136%
4. Water Heating	51	55	4	7.84%	0.004%	(3)	48	0.004%	-6.020%
5. Water Heating Storeage	0.127	0.148	0.021	16.54%	0.000%	(0.008)	0.119	0.000%	-6.020%
6. Building Heating	688	721	33	4.80%	0.056%	(41)	647	0.058%	-6.020%
7. General Lighting and Power	262,876	275,323	12,447	4.73%	21.456%	(15,827)	247,049	22.015%	-6.021%
8. Large Power & Lighting - Sec	227,624	238,402	10,778	4.74%	18.579%	(13,704)	213,920	19.063%	-6.020%
9. Large Power & Lighting - Pri	39,436	41,303	1,867	4.73%	3.219%	(2,374)	37,062	3.303%	-6.020%
10. High Tension - Subtr.	28,203	30,534	2,331	8.27%	2.380%	(1,698)	26,505	2.362%	-6.020%
11. High Tension - HV	2,140	2,241	101	4.72%	0.175%	(129)	2,011	0.179%	-6.020%
12. Body Politic Lighting	53,101	53,101	0	0.00%	4.138%	(3,197)	49,904	4.447%	-6.020%
13. Body Politic Lighting - POF	319	319	0	0.00%	0.025%	(19)	300	0.027%	-6.020%
14. Private Street & Area Lighting	29,169	29,169	0	0.00%	2.273%	(1,756)	27,413	2.443%	-6.020%
15. Total	$1,172,212	$1,283,209	$110,997	9.47%	100.000%	($50,028)	$1,122,184	100.000%	-4.268%

Schedule___(DEP-4)

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

Gas Division

Rate Counsel's Proposed Spread of the Revenue Reduction

(Revenues in Thousands)

	PSE&G Proposed Distribution Revenue				Percent of	Rate Counsel Recommendation			
	Present	Proposed	Increase	Percent	Total	Spread of Decrease	Total Revenue	Percent of Total	Percent Decrease
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1. RSG	$581,930	$732,760	$150,830	25.92%	74.199%	($67,072)	$514,858	74.199%	-11.526%
2. GSG	94,253	115,622	21,369	22.67%	11.708%	(13,013)	81,240	11.708%	-13.806%
3. LVG	124,364	138,860	14,496	11.66%	14.061%	(26,796)	97,568	14.061%	-21.547%
4. SLG	318	318	0	0.00%	0.032%	(96)	222	0.032%	-30.175%
5. Total	$800,865	$987,560	$186,695	23.31%	100.000%	($106,977)	$693,888	100.000%	-13.358%

APPENDIX A

STATEMENT OF EDUCATION AND EXPERIENCE
FOR
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Mr. Peterson is employed as a public utility rate consultant by Chesapeake Regulatory Consultants, Inc. Mr. Peterson has over thirty-nine 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-six years as a consultant. Mr. Peterson specializes in utility revenue requirement and cost of service analyses. He has presented testimony in more than 160 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