STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE WALTER J. BRASWELL

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,	)	**BPU DOCKET No. GR09050422**
B.P.U. N.J. NO. 14 ELECTRIC AND	)	**OAL DOCKET No. PUC-7559-09**
B.P.U. N.J. NO. 14 GAS PURSUANT TO	)	
N.J.S.A. 48: 2-21 AND N.J.S.A. 48: 2-21.1	)	
AND FOR APPROVAL OF GAS	)	
WEATHER NORMALIZATION;	)	
A PENSION EXPENSE TRACKER AND	)	
FOR OTHER APPROPRIATE RELIEF	)	

DIRECT TESTIMONY OF RICHARD LELASH ON BEHALF OF THE NEW JERSEY DEPARTMENT OF THE PUBLIC ADVOCATE DIVISION OF RATE COUNSEL

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FILED: NOVEMBER 19, 2009

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
DOCKET NO. GR09050422
TESTIMONY OF RICHARD W. LELASH

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I. STATEMENT OF QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Richard W. LeLash and my business address is 18 Seventy Acre Road, Redding, Connecticut.

Q. WHAT IS YOUR CURRENT BUSINESS AFFILIATION?

A. I am an independent financial and regulatory consultant working on behalf of several state public utility commissions and consumer advocates.

Q. PRIOR TO YOUR WORK AS AN INDEPENDENT CONSULTANT, WHAT WAS YOUR BUSINESS AFFILIATION, AND WHAT WAS YOUR REGULATORY EXPERIENCE?

A. I was a principal with the Georgetown Consulting Group for twenty years. During my affiliation with Georgetown, and continuing to date, I testified on regulatory issues in more than 300 regulatory proceedings. These testimonies were presented before the Philadelphia Gas Commission, the Federal Energy Regulatory Commission and in the following jurisdictions: Alabama, Arizona, Colorado, Delaware, District of Columbia, Georgia, Illinois, Kansas, Maine, Maryland, Minnesota, Missouri, New Jersey, New Mexico, New York, Ohio, Oklahoma, Pennsylvania, Rhode Island, U.S. Virgin Islands, and Vermont.

Q. MR. LELASH, WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated in 1967 from the Wharton School with a BS in Economics and in 1969 from the Wharton Graduate School with an MBA.

Q. DURING THE COURSE OF YOUR REGULATORY WORK, WHAT HAS BEEN YOUR EXPERIENCE WITH UTILITY POLICY AND REGULATORY ISSUES?

A. As a regulatory consultant, I have worked on matters involving natural gas, electric, telephone, transportation, and water utilities. My testimonies have addressed rate of return, revenue requirements, service metrics, and various regulatory policy issues. In my Appendix there is a listing of the recent cases in which I have sponsored testimony. With respect to Public Service Electric and Gas Company ("PSE&G" or "Company"), my two most recent testimonies have involved its proposed merger with Exelon and its prior base rate proceeding in Docket No. GR051008945.

II. SCOPE AND PURPOSE OF TESTIMONY

Q. WOULD YOU PLEASE STATE THE SCOPE AND PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I was hired by the New Jersey Rate Counsel ("Rate Counsel") to review the filing made by the Company and evaluate various policy issues based on regulatory considerations. My review focused on the Company's proposed changes to its Margin Adjustment Clause ("MAC") and its Capital Adjustment Charge ("CAC") as well as a proposed Weather Normalization Clause ("WNC"). In addition, my review assessed the Company's performance concerning various customer service metrics.

The purpose of my testimony is to present findings and recommendations to the New Jersey Board of Public Utilities ("Board" or "BPU") concerning issues raised by the Company's filing.

Q. IN PERFORMING YOUR REVIEW AND ANALYSIS, WHAT DATA SOURCES DID YOU UTILIZE?

A. My review and analysis encompassed the Company's filing, responses to discovery requests, informal discovery, and information provided in previous proceedings.

Q. WERE THERE ANY LIMITATIONS PLACED ON YOUR REVIEW AND ANALYSIS OF THE COMPANY'S FILING?

A. As of the time this testimony was prepared, certain data and information was still being sought concerning service metrics and the impact of updates to the Company's revenue requirement request. Accordingly, I would like to reserve the right to amend or supplement this testimony if required.

Portions of this testimony were also developed in collaboration with Dian Callaghan, another Rate Counsel witness. We worked together on the specification of service metrics and performance benchmarks. Additionally, I have relied upon Andrea Crane's testimony concerning various aspects of the Company's proposed modifications to the CAC.

Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes, this testimony was prepared by me.

III. OVERVIEW AND CONCLUSIONS

- Overview of Company's Positions

Q. WHAT PROVISIONS OF THE COMPANY'S FILING WILL YOU ADDRESS IN THIS TESTIMONY?

A. My testimony covers the Company's requests for various clause mechanisms and its performance in certain customer service areas. The clause requests involve the introduction of a weather normalization clause ("WNC") and modifications to the existing margin adjustment clause ("MAC") and capital adjustment clause ("CAC"). With respect to customer service, my review discusses the Company's recent call center performance and the need to establish customer service metrics and performance benchmarks prospectively.

Q. WHAT SPECIFIC ASPECTS OF THE CLAUSE MECHANISMS REQUIRE EVALUATION BY THE BOARD?

A. In its filing the Company proposes to set its MAC rate to zero in order to recover past amounts that were credited to ratepayers. The original MAC provisions went into effect in 2002 based on the Board's order in Docket No. GR01050328. In that case the MAC amount was established to credit ratepayers the net revenues associated with TSG-NF rates. However, because of declines in the level of volumes for TSG-NF, the credit amounts fell short of the margin amount that was factored into the Company's base rate structure. Additionally, the Company chose not to adjust the credit level on an annual basis, and the margin deficiency continued to increase. In this matter the Company forecasted that the under recovered MAC deferral balance plus accrued interest will equal $47.5 million by February 2010, and it will take about four years to amortize the total deferral. During this period the deferral amount will effectively add about $12 million a year of additional costs to ratepayers.

A second clause related issue is associated with the Company's proposed WNC. Unlike the other WNC mechanisms that are in place in New Jersey, the Company's proposal is asymmetric. Where other WNC mechanisms charge or credit ratepayers based on variation from normal heating degree days ("HDD"), the Company has placed a major limitation on customer credits when weather is colder than normal. In effect, if the Company does not achieve its authorized return level, then it does not have to credit ratepayers for colder than normal weather.

Q. YOU ALSO MENTIONED THAT THE COMPANY IS SEEKING TO MODIFY ITS CAC. WHAT SPECIFIC MODIFICATIONS ARE ASSOCIATED WITH THE COMPANY'S PROPOSAL?

A. In the current proceeding, filed just months after the CAC was authorized, the Company is now seeking to expand the CAC to encompass all capital expenditures (except those related to servicing new customers) and costs related to the Company's pension expense. The inclusion of such additional capital expenditures and operating expenses was not contemplated in the establishment of the CAC and it does not fulfill the stated objectives concerning immediate investment and job creation.

Q. WHAT ARE THE ISSUES INVOLVED WITH THE COMPANY'S CUSTOMER SERVICE LEVELS?

A. During 2009 the Company began to experience service problems which it now links to its implementation of an updated computer system. The service issues manifested themselves in the Company's call center operation and its overall number of complaints to the Board. Surprisingly, the Company represents the third utility seeking a base rate increase at a time when certain of its service metrics have fallen below industry standards. As in the cases of New Jersey Natural Gas ("NJNG") and Elizabethtown Gas ("ETG") service deficiencies in the Company's operation were not reported to the Board.

The experiences with the three utilities indicate a need for the establishment of customer service benchmarks and periodic reporting of service levels. NJNG now has such metrics and a quarterly reporting framework and a comparable program is pending for ETG. Accordingly, at a time when the Company is seeking an increase in its rates, it is also time to institute increased surveillance of the Company's service levels.

- Summary of Findings and Recommendations

Q. WOULD YOU PLEASE SUMMARIZE YOUR DIRECT TESTIMONY IN THIS MATTER?

A. Based on my review and analysis, I propose that the Board adopt the following findings and recommendations:

1. The Board should make a finding that it was improper for the Company to maintain its MAC rate thereby crediting ratepayers for TSG-NF revenues in excess of those actually realized. By not instituting annual MAC rate changes, the excess credits are now forecasted to be about $43 million with an additional accrued interest amount that is approaching $5 million.

2. The Company's proposal is to prospectively set the MAC at zero and deny ratepayers any TSG-NF credits for about four years. I recommend that the Board order the current MAC balance to be amortized over seven years and

that the Company not be allowed to accrue interest on the unamortized balance.

3. The Company should be required prospectively to adjust its MAC credit level on an annual basis as part of its on-going Basic Gas Supply Service ("BGSS") filings. Further, no interest should accrue on existing and future balances, since such an accrual could make the Company indifferent to clause adjustments which discourages efficient utility ratemaking.

4. Conceptually, the Company's proposed WNC methodology is similar to those of the other New Jersey gas utilities. However, the methodology is unique in placing a constraint on payments made to ratepayers when actual weather is colder than normal and revenues exceed normalized levels.

5. The Board should not approve the Company's WNC proposal unless the following provision is removed: " . . . the Company will not refund any portion of a WNC margin revenue excess that will cause the Gas Utility to earn less than its allowed rate of return on equity of 11.5% for the Annual Period."

6. Such a provision concerning excess margin revenues would negate the symmetrical benefit concept that fundamentally justifies the use of a normalization mechanism. No other WNC in New Jersey has such a limitation that penalizes ratepayers.

7. The Company's modification of the CAC should be rejected by the Board. The additional recovery provisions proposed by the Company lack the justifications associated with the Board's treatment for Qualified Projects. Additionally, the Company's modified CAC would improperly adjust rates for capital expenditures without similar adjustment for capital reductions associated with accumulated depreciation on existing gross plant accounts.

8. A review of the Company's customer service levels showed recent problems in several areas. While overall service levels were generally acceptable, recent deficiencies were seen particularly in the operation of the Company's call center activities. While these appear to be linked to the Company's computer system update, there is a need for better customer service monitoring.

9. The Board should require the establishment of customer service metrics with associated performance benchmarks. Such metrics should be

measured monthly and reported quarterly. The envisioned service metrics, benchmarks, and reporting should be comparable to those recently instituted for New Jersey Natural Gas and as proposed for Elizabethtown Gas in its pending proceeding.

IV. REVENUE REQUIREMENTS AND POLICY ISSUES

- Margin Adjustment Clause - MAC

Q. WOULD YOU BEGIN BY DESCRIBING THE MAC AND ITS PURPOSE?

A. In Docket No. GR01050328, the clause was authorized to pass through credits associated with the TSG-NF rates since all TSG-NF investment and operating expense had been included in the derivation of the Company's revenue requirement. At that time, and in the current proceeding, the MAC was set at a specific rate subject to change in the next base rate proceeding. Moreover, the Company acknowledges in its Response RCR-RDG-5 that the MAC adopted by the Board "allows the Company to reset the MAC annually." However, despite the Company's contention that "Neither the Company nor any other party saw or raised the need for further adjustment to the MAC at what would have been the time for an annual change" the overall trend in TSG-NF credits was declining.

Q. DID THE COMPANY DURING THE INTERVENING PERIOD EVER HIGHLIGHT THE FACT THAT THE MAC WAS OVER CREDITING RATEPAYERS?

A. To my knowledge, information on the excess credits was never highlighted by the Company. The logical venue for any review of the MAC credit level was in the

Company's annual BGSS filings, but again excess credits were not addressed even when the level of credits became significant. As shown on Schedule 1, the level of excess credits was $11.5 million at the beginning of 2006, and it is expected to reach $47.5 million by March of 2010. Also of note is the fact that the interest on the excess credit amount alone totals $4.7 million since 2006.

Q. HOW HAS THE COMPANY PROPOSED TO ADDRESS THE EXCESS CREDITS IN THIS PROCEEDING?

A. According to the Company's Response RCR-RDG-6, it proposes to set the MAC rate at zero in order not to turn the MAC credit into a charge. Given the forecasted credit balance of $47.5 million as of March 2010 and average prospective MAC margins of approximately $12 million per year, the zero MAC rate would need to be in place for at least four years in order to eliminate the excess credits.

Q. WHAT IS THE EFFECTIVE IMPACT ON RATEPAYERS AND DO YOU BELIEVE THAT THE COMPANY'S PROPOSAL IS REASONABLE?

A. Setting the MAC rate at zero makes it appear that ratepayers will not be affected by the rate, but this is not the case. In reality, ratepayers will pay an additional $12 million per year by virtue of the fact that they will not receive credits to which they are entitled. On this basis, the Company's proposal is not reasonable given the fact that the extra credits could have been avoided and customers would not have to pay close to $5.0 million in carrying charges (interest) on the balance.

Q. DO YOU HAVE ANY RECOMMENDATION CONCERNING THE COMPANY'S PROPOSAL AND HOW THE EXCESS CREDIT AMOUNT SHOULD BE RECOVERED?

A. Yes, I recommend that the amortization be spread over a longer time period and that the unauthorized balance not accrue interest. By utilizing a seven year amortization period, which approximates the time period in which the excess credits arose, the MAC rate could continue at about 50% of the credits actually being earned on the TSG-NF rates. As for the prohibition on accrued interest, the impact should be approximately equal to the amount of interest that the ratepayers needlessly will have to pay on a deferral that could have been avoided.

One has to wonder whether the Company would have allowed the excess credits to accumulate if it had not been authorized to accrue interest on the MAC balance in the first place. Therefore, the Board should also require that the MAC be incorporated into the annual BGSS filing for review and for modification as necessary. With such a requirement, the need for any interest accrual should be lessened if not eliminated.

- <u>Weather Normalization Clause - WNC</u>

Q. WHAT IS THE NATURE OF A WNC, AND TO WHAT EXTENT HAS IT BEEN UTILIZED BY OTHER NEW JERSEY UTILITIES?

A. A WNC seeks to levelize revenues based on the fact that customer usage is highly dependent on weather. This is particularly true for gas utilities where temperatures, as measured by heating degree days, greatly affect peak winter usage. For many years the other gas utilities in New Jersey have utilized weather clauses which typically have provided symmetrical benefits to both the utility and its ratepayers.

For gas utilities, heating degree days ("HDD") are used to analyze the variation in winter usage by defining a normalized HDD level for the winter season. Typically this is developed based on the average HDD during the past 20 to 30 years. Then, variation from normalized monthly data is compared to actuals and the difference is multiplied by usage and revenue factors. Conceptually, the weather normalization should be revenue neutral over time, that is, increases to certain years' revenues should be offset by decreases in other years.

Q. AS PROPOSED BY THE COMPANY, WHAT SPECIFIC PARAMETERS WILL BE USED FOR ITS WNC?

A. The Company has proposed to utilize its WNC for the eight months of October through May. It will define normal HDD levels using the average of twenty years of historical actuals based on data from the National Oceanic and Atmospheric Administration ("NOAA") weather station at Newark airport. The Company's degree day consumption factors are to be updated annually and will be based on the forecasted number of customers and usage. The revenue factors will be based on a weighted average of the margin revenue component for the applicable rate schedules and they will be updated when base rates are revised.

Q. ARE THERE ANY OTHER FACTORS THAT AFFECT THE AMOUNT OF THE WNC RATE?

A. Yes, there are several. The Company has incorporated a 0.5% dead band for monthly degree day measurements. This provision means that the WNC will not be applicable if the HDD variation for a winter season is not greater than the dead band percentage. There is also a prohibition on the recovery of margin deficiencies to the degree they would result in the Company's earning in excess of its authorized return on equity.

The Company's proposal likewise contains a limitation on the recovery of margin deficiencies if their recovery in any given year would increase the effective total residential per therm rate by more than 3%. In such cases margin deficiencies in excess of 3% would be carried over to the next WNC period.

Another provision in the Company's WNC mechanism would limit ratepayer recovery of margin surpluses if they would result in the Company earning less than its authorized return on equity. Additionally, the Company's return on equity would be determined by excluding net income derived from any clause mechanisms that provide a return that is "outside" of base rates. It is assumed that this refers to below-the-line net income items such as the Regional Greenhouse Gas Initiative ("RGGI") recovery, the CAC, and presumably any current or potential non-base rate items such as incentive sharing.

Q. BASED ON YOUR UNDERSTANDING OF THE PROPOSED WNC, ARE THERE ANY RELATED PROVISIONS THAT YOU BELIEVE ARE UNREASONABLE?

A. While the Company's proposal differs from other utility normalization mechanisms in several respects, all aspects of the WNC will be subject to annual review to ensure that they effectively reflect appropriate weather variations. There is, however, one provision that should not be approved by the Board.

This provision involves the limitation that "the Company will not refund any portion of a WNC margin revenue excess that will cause the Gas Utility to earn less than its allowed rate of return on equity of 11.5% for the Annual Period." (Exhibit P-1, Original Sheet No. 47). To my knowledge, no other utility has a weather normalization provision that is comparable to this one. Indeed, based on my experience, there is no comparable provision for any other aspect of utility regulation. Such a provision would negate the symmetrical benefit concept that fundamentally justifies the use of such a normalization mechanism. Regulation has long adhered to the basic concept that a utility is entitled to an opportunity, but not a guarantee, to earn its fair rate of return. This WNC provision, to a certain degree, would enforce the concept of a guaranteed return. As such, it no longer justifies weather normalization as a mutual benefit to both the Company and its ratepayers. While it could be argued that the return on equity upper limitation on a marginal revenue deficiency is a comparable constraint on any Company benefit, the position is specious. The Company is not guaranteed equity return in excess of its authorized level and thus any normalization revenue in excess of that level is not warranted. Additionally, to ask ratepayers to forfeit their portion of normalized revenue because the Company's stockholders are not earning their authorized return is unreasonable. Ratepayers, through a normalization clause, are not obligated to make up shortfalls for shareholders. The normalization clause should only address shortfalls related to weather.

Q. BASED ON YOUR EVALUATION OF THE COMPANY'S WNC, WHAT RECOMMENDATIONS DO YOU BELIEVE THE COMMISSION SHOULD ADOPT?

A. The Commission should adopt the Company's overall proposal subject to annual reconciliation and review as part of the Company's annual BGSS filing. However, the Board should not accept the limitation on revenue surplus to be paid back to ratepayers. If that limitation is not removed from the WNC, then the clause itself should not be adopted.

- Capital Adjustment Clause - CAC

Q. WOULD YOU PLEASE PROVIDE YOUR UNDERSTANDING OF THE NATURE AND PURPOSE OF THE CAC?

A. The CAC was adopted by the Board as a one time defined mechanism for the Company "to increase its planned electric and gas infrastructure capital spending at this time to enhance the reliability of its system and to support economic development and job growth in New Jersey." (Board Decision and Order, Docket Nos. E009010049 and G009010050).

In the Board's Order it also stated that "The Board recognizes that the acceleration of utility infrastructure projects and the treatment of capital expenses on an expedited schedule outside the purview of a rate case is not part of the normal course of utility regulation." (Ibid, p.7). Thus, the CAMs and the CACs are one time mechanisms which covered "projects originally scheduled for future years which can be brought forward into the 2009-2010 time period . . ." (Ibid, p.8)

Q. FROM A REGULATORY PERSPECTIVE, WHAT IS YOUR OPINION CONCERNING THE COMPANY'S CAC MODIFICATIONS?

A. As an initial matter, it should be remembered that the Board itself characterizes its CAC mechanism as being "not part of the normal course of utility regulation" However, the basic CAC (1) seeks to accomplish objectives that the Board has determined are in the public interest; (2) targets specific projects, and (3) terminates in a specified time interval. The Company's modified CAC proposal has none of these constraints and does not even limit its scope to capital expenditures.

With respect to the pension component of the Company's CAC, inclusion of this operating expense constitutes piecemeal ratemaking, in my opinion, and there is no justification for including it in a capital adjustment clause. As discussed further in Ms. Crane's testimony, a methodology intended to address a need to expedite capital investment is now proposed by the company to become an operating cost tracker mechanism which reaches far beyond the Board's explicit intent. It should be rejected.

Q. ARE THERE SIMILAR ISSUES CONCERNING THE COMPANY'S PROPOSED MODIFICATION TO THE CAC?

A. Yes, in addition to the matters discussed in Ms. Crane's testimony, there appears to be a mismatch that would be created by the Company's CAC modification. In developing its new regulatory framework, the Company has failed to factor in the impact of accumulated depreciation. In the pending rate case, the Company will receive a return on and the recovery of existing investment through deprecation. It likewise will receive a return on all incremental investment through the CAC. The Company's proposal, however, does not reflect in base rates is the fact that because it will be recovering capital expenses through the CAC, its rate base will be declining along with its revenue requirement. In effect, the Company's modification of the CAC would immediately recognize incremental capital investment but would not recognize capital reductions from depreciation on the historical rate base. Such a situation is neither logical nor reasonable, and it shows the danger of recovery methods that are not part of the normal course of regulation.

Q. DO YOU HAVE DATA THAT WOULD ILLUSTRATE THE AMOUNTS INVOLVED WITH RATE BASE RECOVERY?

A. Yes. On page 1 of Schedule 2 there is data showing the forecasted capital expenditures relative to the CAC during the period March through December

2010. As shown, the Board's treatment for qualified projects involves about 46% of expenditures, while the Company's proposal would add an additional 38%. The remaining 16% would involve revenue producing expenditures. On this basis, over $700 million of expenditures, or 85% of all expenditures, would receive rate treatment through the CAC mechanism.

In comparison, it is useful to review the total Company's historical net plant balances. As shown on page 2 of Schedule 2, over the period 2005 through 2008 the Company's average annual increase in gross plant was about $527 million and its accumulated depreciation increased annually by about $127 million. Therefore, excluding incremental capital expenditures, which are covered by the CAC, net existing utility plant, which constitutes the bulk of rate base, would decline by about half a billion dollars over a four year period. It is this reality that the Company failed to reflect in its proposed modification of the CAC.

Q. ON THE BASIS OF THE NATURE OF THE COMPANY'S MODIFIED CAC AND YOUR OVERALL REVIEW, WHAT RECOMMENDATIONS WOULD YOU MAKE?

A. First, the current CAC mechanism, as approved by the Board in April 2009, should remain in place as it was specified in the associated stipulation. Second, lacking the public interest justification and the limitations associated with that CAC, the Company's proposed modification should be rejected.

- Service Metrics and Performance Levels

Q. WOULD YOU PLEASE BEGIN BY EXPLAINING WHY SERVICE METRICS SHOULD BE ADDRESSED IN BASE RATE PROCEEDINGS?

A. There has always been an inherent linkage between a utility's service quality, efficiency, and the level of its rates. With increases in utility mergers during the past several years, regulators have increasingly established service quality standards in order to ensure that service levels did not deteriorate as a result of excess cost cutting and staffing reductions.

Recent experience in New Jersey has also prompted the establishment of service metrics and service monitoring. Both New Jersey Natural Gas and Elizabethtown Gas had certain service metrics fall below what are generally accepted as industry standards. As a result, in recent base rate cases, service metrics and monitoring were incorporated into rate settlements. Such metrics and monitoring are more relevant now because the Board's service report card program has recently been suspended.

In the case of PSE&G, service metrics have historically reflected adequate performance, but in select areas the Company's metrics show service deterioration during 2009. Therefore, this base rate proceeding presents a timely venue for the establishment of service measurement and a reporting framework.

Q. BY LOOKING AT VARIOUS PERFORMANCE MEASURES THAT HAVE BEEN COMPILED BY THE COMPANY, CAN ONE IDENTIFY SPECIFIC RESULTS FOR CERTAIN SERVICE AREAS?

A. Yes. There is sufficient data to track the Company's performance in several areas. The schedules attached to this testimony provide data on several service metrics which are addressed in Ms. Callaghan's direct testimony in which she explains the metrics and recommends what she and I believe are reasonable benchmarks commensurate with standard service levels in the utility industry. The basic metrics involve field operations, meter reading and billing, call center operations, and overall service. Every performance measure in these areas is important because collectively they reflect the interaction between the Company and its customers. Whether it involves call center operations, billing, or field operations, these are the components that determine customer satisfaction.

Q. WOULD YOU BEGIN BY DISCUSSING THE COMPANY'S PERFORMANCE IN FIELD OPERATIONS?

A. Yes. The first area that should be reviewed involves the Company's service appointments met or appointment attainment. This activity includes appointments for disconnects and reconnects, billing investigations, and starting and final meter readings.

Unfortunately, while the Company has historically maintained data on service appointments met, its data covered only its appliance service activities. Beginning this year, the Company has initiated a new service metric for traditional utility service appointments. As such, while it is recommended that this metric be incorporated into a perspective service reporting framework, it was not possible to assess the Company's past performance. Prospectively, the metric should allow customers to specify an appointment, during one of four intervals on days other than Sundays and holidays as the basis for measurement.

The second measure of field operations involves perhaps the most critical metric in the gas industry. This measures response time for customer gas leak calls between the time the call is received until qualified utility personnel arrive at the customer's premise. The metric is normally a 95% response within 30 to 60 minutes.

On Schedule 3, the Company's data is shown by year for the period 2005-2009, using the Company's 60 minute requirement. As a general matter, all the years show an excellent level of leak response when compared against the industry benchmark of 95%. However, even with the Company's level of leak response, it is recommended that the Company be required to file exception reports when its 60 minute response time is not achieved. Such reporting will disclose any instances where an excessive response time occurred even if the Company has achieved excellent response time averages.

Q. TURNING TO THE SECOND AREA OF SERVICE METRICS INVOLVING METER READING AND BILLING, WHAT HAS BEEN THE COMPANY'S PERFORMANCE?

A. Referring to the first page of Schedule 4, the Company's percentage of actual meter reads has been at about 90% since 2006. While this level of meter reads on cycle is relatively good, it does fall below the typical industry level of 95%. As a general matter, lower percentages of meters read on cycle normally reflect a relatively high percentage of indoor meter locations which should be addressed by relocating meters outside or by introducing AMR equipment where access to the customer meter is restricted.

A second service metric involving the Company's rebilled levels should also be included in any service reporting program. Such a measure of billing accuracy utilizes rebills to evaluate meter reading, billing errors, or poorly estimated bills. Page 2 of Schedule 4 provides data on the Company's level of rebills per 1,000 customers. As shown by the data, while the Company has achieved levels of less than 20 rebills per 1,000 customers, there have been quarters when average rebills have exceeded 23 per 1,000 customers. To place these levels in context, it should be noted that the typical industry benchmark is less than 20 rebills per month.

Q. WOULD YOU NOW DISCUSS THE COMPANY'S PERFORMANCE RELATIVE TO ITS CALL CENTER OPERATIONS?

A. In order to analyze the Company's call center, three service metrics were evaluated. The first involves the Company's average speed of answer ("ASA") time, which reflects the average time it takes for a customer to reach a customer representative. Based on the data shown on page 1 of Schedule 5, the Company went from about a 50 second average during 2006-2008 to a 306 second average in the second quarter of 2009.

In addition to monitoring call answering times, the Company tracks calls answered within 30 seconds. To put such data into perspective, the industry standard is typically 80% of calls being answered in 30 seconds.

Q. WHAT HAS BEEN THE COMPANY'S PERFORMANCE DURING THE PAST FIVE YEARS?

A. As shown on the second page of Schedule 5, the Company has only sporadically achieved an 80% compliance level. On a quarterly basis, the 80% level was only reached during two quarters between 2005 and 2008. However, since the start of the second quarter of 2009, the compliance level has fallen below 60%, and according to the Company is the result of computer related issues.

Q. WHAT OTHER METRICS DID YOU ANALYZE TO ASSESS THE COMPANY'S CALL CENTER OPERATION?

A. The last measure reviewed involved the percentage of calls that were terminated before reaching a customer service representative. This service metric is perhaps the most informative because it effectively measures customer satisfaction. When a customer terminates a call, it is a very good indication that the customer was dissatisfied with the Company's ability to meet the customer's expectation.

The Company's abandoned call percentages ("ACP") are shown on the third page of Schedule 5. For the years 2006 through 2008 the Company generally met or was close to the 5% rate that is typically used in the utility industry. However, in both early 2005 and beginning in April of 2009, the Company's ACP levels were about four times higher than the industry standard. Again, the underlying problem in 2009 was linked to the Company's upgrade of its computer system according to Company personnel.

As recommended in Ms. Callaghan's testimony, this should be an on-going metric for the Company, and it should be reported as the percentage of calls that were terminated (or abandoned). Prospectively, the standard for this service metric should be a 5% or lower percentage of abandoned calls.

Q. YOUR LAST IDENTIFIED PERFORMANCE AREA WAS OVERALL SERVICE. CAN YOU EXPLAIN HOW YOU MEASURED THIS AND WHAT HAS BEEN THE TREND FOR THE METRIC?

A. The last measure involves the number of customer complaints. This is measured by complaints made to the BPU (but does not include complaints that were made to the Company directly). One can assume, that at least in some cases, complaints to the BPU reflect instances where the customer contacted the Company and could not resolve the associated problem.

The number of complaints to the BPU are shown by month on Schedule 6. There are also averages shown at the bottom of the schedule in order to put these customer complaint levels on a complaints per 1,000 customers basis. As a general guideline, the industry standard is less than 1 complaint per year per 1,000 customers. As indicated, the Company's complaints, while consistent during the period, have not met the accepted industry benchmark.

Q. BASED ON YOUR REVIEW, PLEASE DISCUSS THE SERVICE METRICS, THE COMPANY'S RELATIVE PERFORMANCE, AND ACTIONS THAT THE BOARD SHOULD CONSIDER.

A. As an initial matter, the Board should require that the Company specify and report its service metrics. This will involve several steps. The metrics themselves need to be identified and benchmark or baseline levels need to be established. Based on the data provided by the Company, there are a few areas where additional metrics are necessary. For example, in the area of field operations, the leak response data should be augmented with exception reporting. In instances where the established metric is not met, the Company should report the actual response time and there should be a discussion of why the 60 minute response time was not met. While the Company's metric requires a response in 60 minutes 95% of the time, there is no way of evaluating the nature of responses that exceed the time interval. While 5 or 10 minutes may be acceptable, if the delays are excessive, then such deficient performance needs to be addressed. Exception reporting allows evaluation and appropriate remedial action as required. A second area that should be incorporated into the metrics would involve data on service appointments met as discussed previously.

Q. MR. LELASH, DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS MATTER?

A. Yes, it does at this time.

V. SUPPORTING SCHEDULES

Public Service Electric & Gas Company
MAC Balances – As of March 1st
($000's)

	Balance	Interest	Total	Change
2002	$ 2,267	$ 16	$ 2,283	$ -
2003	(6,090)	117	(5,973)	(8,256)
2004	(3,877)	(9)	(3,661)	2,312
2005	(6,770)	(22)	(6,567)	(2,906)
2006	(11,404)	(87)	(11,491)	(4,924)
2007	(17,692)	(709)	(18,402)	(6,911)
2008	(28,188)	(1,906)	(30,094)	(11,692)
2009	(32,924)	(3,248)	(36,172)	(6,078)
2010E	(42,705)	(4,772)	(47,477)	(11,305)

SOURCE: Company Exhibit P-9, Schedule SS-G9, page 5.

Public Service Electric and Gas Company
Historical Plant Balances
($ millions)

	Utility Plant	Change	Accumulated Depreciation	Change	Net Utility Plant	Change
2005	$10,696	$ –	$4,033	$ –	$6,663	$ –
2006	11,119	423	4,130	97	6,989	326
2007	11,552	433	4,218	88	7,334	345
2008	12,279	727	4,415	197	7,864	530
Average	–	$ 527	–	$ 127	–	$ 400

SOURCE: 2006 and 2008 Company Annual Reports to the New Jersey BPU.

Public Service Electric and Gas Company
Capital Expenditures – March – December 2010
($ thousands)

	Electric	Gas	Total	Percent
Board Approved CAC	$216,504	$166,821	$383,325	45.9%
Company Proposed CAC	200,148	117,847	317,995	38.1
Total CAC Expenditures	$416,652	$284,668	$701,320	84.0%
Revenue Producing	75,441	58,219	133,660	16.0
Total Expenditures	$492,093	$342,887	$834,980	100.0%

SOURCE: Company Response RCR-PT-12, Page 10.

Public Service Electric and Gas Company
Percentage Leak Response in 60 Minutes

	2005	2006	2007	2008	2009
January	99.9	99.9	99.8	99.9	99.9
February	99.9	99.9	99.9	100.0	100.0
March	99.9	99.9	99.9	100.0	100.0
1st Quarter	99.9	99.9	99.9	100.0	100.0
April	99.9	99.9	99.9	100.0	99.8
May	99.9	100.0	100.0	100.0	99.9
June	99.9	99.9	100.0	99.9	99.8
2nd Quarter	99.9	99.9	100.0	100.0	99.8
July	99.9	99.9	99.9	99.9	–
August	99.9	99.9	100.0	100.0	–
September	100.0	99.9	99.9	99.9	–
3rd Quarter	99.9	99.9	99.9	99.9	–
October	99.8	99.9	100.0	100.0	–
November	99.9	100.0	100.0	99.9	–
December	99.9	99.9	100.0	100.0	–
4th Quarter	99.9	99.9	100.0	100.0	–
Average	99.9	99.9	99.9	100.0	99.9

SOURCE: Company Response RCR-CI-3 and Company Workpaper.

Public Service Electric & Gas Company
Percentage Residential Meter Read

	2006	2007	2008	2009
January	88.0	90.1	90.2	87.3
February	87.9	88.4	88.8	88.1
March	88.9	89.2	90.2	89.3
1st Quarter	88.3	89.2	89.7	88.2
April	89.4	89.7	90.5	88.7
May	89.6	90.2	89.6	87.6
June	89.7	90.3	89.5	88.9
2nd Quarter	89.6	90.1	89.9	88.4
July	90.3	90.1	89.7	–
August	89.7	89.9	89.8	–
September	89.9	90.3	89.7	–
3rd Quarter	90.0	90.1	89.7	–
October	89.9	90.5	90.1	–
November	90.0	90.3	90.1	–
December	90.2	89.9	88.0	–
4th Quarter	90.0	90.2	89.4	–
Average	89.5	89.9	89.7	88.2

SOURCE: Company Response RCR-CI-16.

Public Service Electric & Gas Company
Rebills Per 1,000 Customers

	2006	2007	2008	2009
January	22.0	19.9	21.4	23.5
February	21.3	20.3	19.6	22.8
March	20.3	21.2	20.0	23.3
1st Quarter	21.2	20.5	20.3	23.2
April	22.4	21.1	23.3	21.4
May	25.3	24.5	24.0	23.9
June	26.0	20.9	24.3	22.7
2nd Quarter	24.6	22.2	23.9	22.7
July	21.7	18.8	24.1	-
August	20.7	18.3	22.2	-
September	22.9	20.3	22.9	-
3rd Quarter	21.8	19.1	23.1	
October	24.4	21.1	23.0	-
November	23.4	19.3	20.3	-
December	20.3	19.8	19.5	-
4th Quarter	22.7	20.1	20.9	
Average	22.6	20.5	22.1	23.0

SOURCE: Company Response RCR-CI-19.

Public Service Electric & Gas Company
Average Speed of Answer (Seconds)

	2005	2006	2007	2008	2009
January	72	81	47	40	76
February	83	41	70	44	100
March	80	38	95	46	72
1st Quarter	78	53	71	43	83
April	72	25	70	35	385
May	43	35	47	40	261
June	98	42	46	51	272
2nd Quarter	71	34	54	42	306
July	106	79	37	49	290
August	101	57	55	31	384
September	38	57	44	32	–
3rd Quarter	82	64	45	37	–
October	88	52	36	76	–
November	54	46	34	47	–
December	53	46	34	59	–
4th Quarter	65	48	35	61	–
Average	74	50	51	46	195

SOURCE: Company Response RCR-CI-17.

Public Service Electric & Gas Company
Percentage Answered Within 30 Seconds

	2005	2006	2007	2008	2009
January	69.0	64.6	71.7	78.5	69.2
February	64.7	77.1	66.5	74.8	62.7
March	65.5	75.9	59.0	78.3	71.5
1st Quarter	66.4	72.5	65.7	77.2	67.8
April	69.8	84.7	69.2	79.2	58.6
May	80.3	83.9	79.1	78.5	56.8
June	64.6	80.7	80.2	79.3	58.1
2nd Quarter	71.5	83.1	76.2	79.0	57.8
July	64.2	64.7	82.3	75.7	57.2
August	63.0	65.8	73.4	81.1	59.8
September	83.8	69.9	79.6	75.1	–
3rd Quarter	70.3	70.3	78.4	77.3	–
October	69.5	72.0	80.5	65.5	–
November	76.7	77.7	82.4	70.2	–
December	75.1	75.7	81.8	67.2	–
4th Quarter	73.8	75.1	81.6	67.6	–
Average	70.3	74.4	75.4	75.1	61.7

SOURCE: Company Response RCR-CI-12.

Public Service Electric & Gas Company
Abandoned Call Percentage

	2005	2006	2007	2008	2009
January	17.6	6.4	7.7	3.8	7.6
February	22.0	7.2	2.8	6.1	9.5
March	18.8	7.3	2.7	7.6	6.5
1st Quarter	19.5	7.0	4.4	5.8	7.9
April	10.8	7.8	1.7	6.7	24.9
May	14.4	3.7	2.5	5.1	17.5
June	12.2	7.9	3.5	3.7	18.0
2nd Quarter	12.4	6.5	2.6	5.2	20.1
July	13.7	7.3	7.6	5.5	19.0
August	10.8	9.4	4.2	6.4	24.0
September	5.1	3.3	5.4	3.6	-
3rd Quarter	9.9	6.7	5.7	5.2	-
October	6.9	7.9	4.1	2.8	-
November	4.6	6.1	3.2	3.2	-
December	6.0	6.1	3.7	2.6	-
4th Quarter	5.8	6.7	3.7	2.9	-
Average	11.9	6.7	4.1	4.6	15.9

SOURCE: Company Response RCR-CI-12.

Public Service Electric & Gas Company
Complaints Per 1,000 Customers

	2006	2007	2008	2009
January	396	417	381	499
February	375	372	299	657
March	589	493	520	654
April	513	526	559	619
May	474	677	441	612
June	490	450	533	723
July	383	463	499	-
August	584	552	512	-
September	535	459	530	-
October	591	552	677	-
November	431	497	460	-
December	338	339	501	-
Total Complaints	5,700	5,797	5,912	-
Average Customers (000's)	2,389	2,407	2,423	-
Complaints Per 1,000	2.4	2.4	2.4	-

SOURCE: Company Response RCR-CI-15 and 19.

VI. <u>APPENDIX: PRIOR R.W. LELASH TESTIMONIES</u>

R. W. LELASH'S REGULATORY TESTIMONIES
(2004 to Present)

268. Delaware, Delmarva Power & Light Company (Docket No. 03-378F) Evaluation of Gas Procurement and Price Hedging Testimony for the Delaware Public Service Commission (February, 2004).

269. Pennsylvania, Philadelphia Gas Works (Docket Nos. R-00049157 and P-00042090) Purchased Gas Cost Testimony for the Pennsylvania Office of Consumer Advocate (May, 2004)

270. Pennsylvania, Philadelphia Gas Works (Docket Nos. R-00049157 and P-00042090) Purchased Gas Cost Rebuttal Testimony for the Pennsylvania Office of Consumer Advocate (May, 2004)

271. Delaware, Chesapeake Utilities Corporation (Docket No. 02-287F) Gas Supply Plan Review for Chesapeake Utilities and the Delaware Public Service Commission (July, 2004).

272. Georgia, Atmos Energy Corporation (Docket No. 18509-U) Procurement and Capacity Plan Testimony for the Georgia Public Service Commission (August, 2004).

273. Georgia, Atlanta Gas Light Company (Docket Nos. 18437-U and 8516-U) Procurement and Capacity Plan Testimony for the Georgia Public Service Commission (August, 2004).

274. New Jersey, NUI Utilities and AGL Resources (Docket No. GM04070721) Terms and Conditions of Merger Testimony for the New Jersey Ratepayer Advocate (September, 2004).

275. Georgia, Atlanta Gas Light Company (Docket No. 18638-U) Business Risk Testimony for the Georgia Public Service Commission (February, 2005).

276. Pennsylvania, Philadelphia Gas Works (Docket No. R-00050264) Purchase Gas Cost Testimony for the Pennsylvania Office of Consumer Advocate (April, 2005).

277. Federal Energy Regulatory Commission, Exelon and Public Service Enterprise Group (Docket No. EC05-43-000) Market Power Testimony by Affidavits for the New Jersey Division of the Ratepayer Advocate (April and May, 2005).

278. Pennsylvania, PECO Energy Company (Docket No. R-00050537) Gas Procurement and Policy Testimony for the Pennsylvania Office of Consumer Advocate (July, 2005).

279. Georgia, Atmos Energy Corporation (Docket No. 20528-U) Gas Supply Plan Testimony for the Georgia Public Service Commission (August, 2005).

280. New Jersey, Public Service Electric & Gas/Exelon (Docket No. EM05020106) Gas Related Merger Testimony for the New Jersey Ratepayer Advocate (November, 2005).

281. New Jersey, Public Service Electric & Gas/Exelon (Docket No. EM05020106) Gas Related Merger Surrebuttal Testimony for the New Jersey Ratepayer Advocate (December, 2005).

282. New Jersey, Pivotal Utilities Holdings (Docket No. GR05040371) Pipeline Replacement Cost Recovery Testimony for the New Jersey Ratepayer Advocate (February, 2006).

283. New Jersey, Public Service Electric & Gas Company (Docket No. GR05050470) Gas Supply Requirements Testimony for the New Jersey Ratepayer Advocate (May, 2006).

284. New Jersey, Public Service Electric & Gas Company (Docket No. GR05100845) Base Rate Gas Policy Testimony for the New Jersey Ratepayer Advocate (June, 2006).

285. Vermont, Vermont Gas Systems (Docket No. 7109/7160) Report on Gas Price Hedging for Vermont Gas Systems (December, 2006).

286. Delaware, Chesapeake Utilities Corporation (Docket No. 06-287F) Report on Gas Price Hedging for Chesapeake Utilities Corporation (March 2007).

287. Delaware, Chesapeake Utilities Corporation (Docket No. 06-287F) Gas Procurement and Policy Testimony for the Delaware Public Service Commission (March, 2007).

288. Pennsylvania, Philadelphia Gas Works (Docket No. R-00061931) Base Rate Case Testimony for the Pennsylvania Office of Consumer Advocate (April, 2007).

289. Pennsylvania, Philadelphia Gas Works (Docket No. R-00072110) Gas Cost Rate Testimony for the Pennsylvania Office of Consumer Advocate (April 2007)

290. Pennsylvania, Philadelphia Gas Works (Docket No. R-00061931) Base Rate Rebuttal Testimony for the Pennsylvania Office of Consumer Advocate (May 2007).

291. Pennsylvania, Philadelphia Gas Works (Docket No. R-0001931) Base Rate Surrebuttal Testimony for the Pennsylvania Office of Consumer Advocate (May 2007).

292. Pennsylvania, PECO Energy Company (Docket No. R-00072331) Gas Procurement and Policy Testimony for the Pennsylvania Office of Consumer Advocate (July, 2007).

293. Georgia, Atlanta Gas Light Company (Docket No. 18437-U) Capacity Supply Plan Testimony for the Georgia Public Service Commission (August, 2007)

294. Delaware, Chesapeake Utilities Corporation (Docket No. 07-186) Gas Policy Testimony for the Delaware Public Service Commission (December, 2007).

295. Delaware, Chesapeake Utilities Corporation (Docket No. 07-246F) Gas Procurement and Policy Testimony for the Delaware Public Service Commission (April, 2008).

296. Pennsylvania, Philadelphia Gas Works (Docket No. R-2008-2021348) Gas Cost Rate Testimony for the Pennsylvania Office of Consumer Advocate (April, 2008).

297. New Jersey, New Jersey Natural Gas Company (Docket No. GR07110889) Base Rate Policy Testimony for the Division of Rate Counsel (April, 2008).

298. Georgia, Atmos Energy Corporation (Docket No. 27168) Gas Supply Plan Testimony for the Georgia Public Service Commission (August, 2008).

299. Pennsylvania, Philadelphia Gas Works (Docket No. R-2008-2073938) Emergency Rate Relief Testimony for the Pennsylvania Office of Consumer Advocate (December, 2008).

300. Delaware, Delmarva Power & Light Company (Docket No. 08-266F) Gas Procurement and Policy Testimony for the Delaware Public Service Commission (February, 2009).

301. Delaware, Chesapeake Utilities Corporation (Docket No. 08-269F) Gas Procurement and Policy Testimony for the Delaware Public Service Commission (March, 2009).

302. Pennsylvania, Philadelphia Gas Works (Docket No. R-2009-2088076) Gas Procurement and Policy Testimony for the Pennsylvania Office of Consumer Advocate (April, 2009).

303. Pennsylvania, PECO Energy Company (Docket No. R-2009-2108705) Gas Procurement and Policy Testimony for the Pennsylvania Office of Consumer Advocate (July, 2009).

304. Delaware, Chesapeake Utilities Corporation (Docket No. 08-269F, Phase II) Gas Policy Testimony for the Delaware Public Service Commission (August, 2009).

305. Georgia, Atmos Energy Corporation (Docket No. 29554) Gas Supply Plan Testimony for the Georgia Public Service Commission (August, 2009).

306. New Jersey, Pivotal Utilities Holdings (Docket No. GR09030195) Base Rate Policy Testimony for the Division of Rate Counsel (August, 2009).