

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

**IN THE MATTER OF THE PETITION OF )  
PUBLIC SERVICE ELECTRIC AND GAS )  
COMPANY FOR APPROVAL OF AN ) BPU DKT. NO. GR09050422  
INCREASE IN ELECTRIC AND GAS RATES ) OAL DKT. NO. PUCRL 07559-2009N  
AND FOR CHANGES IN THE TARIFFS FOR )  
ELECTRIC AND GAS SERVICE, B.P.U.N.J. )  
NO. 14 ELECTRIC AND 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 A GAS )  
WEATHER NORMALIZATION CLAUSE; A )  
PENSION TRACKER AND FOR OTHER )  
APPROPRIATE RELIEF )**

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**DIRECT TESTIMONY OF  
MICHAEL J. MCFADDEN, A. E. MIDDENTS, AND JOHN N. PETERS  
RELATING TO THE  
CAPITAL ECONOMIC STIMULUS INFRASTRUCTURE INVESTMENT PROGRAM  
ON BEHALF OF THE  
NEW JERSEY DEPARTMENT OF THE PUBLIC ADVOCATE  
DIVISION OF RATE COUNSEL**

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**TABLE OF CONTENTS**

**I. INTRODUCTION AND BACKGROUND.....1**

**II. PURPOSE OF TESTIMONY .....2**

**III. INFORMATION REVIEWED.....3**

**IV. CAPITAL INFRASTRUCTURE INVESTMENT PROGRAM.....5**

**APPENDIX-RESUMES**

**ATTACHMENTS**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
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**I. INTRODUCTION AND BACKGROUND**

**Q. Please state your name, title, and business address.**

A. My name is Michael J. McFadden and I am the president of McFadden Consulting Group, Inc. (“McFadden Consulting”). My business address is 625 S. York Street, Denver, Colorado 80209.

My name is A. E. “Pete” Middents and I am an independent Natural Gas Industry Consultant. I am currently retained as a Senior Consultant by McFadden Consulting. My business address is 3 University Lane, Greenwood Village, Colorado 80121.

My name is John N. Peters and I am an independent Natural Gas Industry Consultant. I am currently retained as a Senior Consultant by McFadden Consulting. My business address is 8629 East Pawnee Drive, Parker, CO 80134.

**Q. Please provide a summary of your qualifications and experience.**

A. Copies of our resumes are contained in the Appendix.

**Q. Please identify the Attachments provided with your testimony.**

A. The following documents are provided as Attachments:

- Attachment MCGI-1
- Attachment MCGI-2
- Attachment MCGI-3
- Attachment MCGI-4

**Q. Were the testimony and the accompanying exhibits prepared by you or under your direct supervision?**

A. Yes.



1 decided to present the results of our review of the gas portion of the Capital  
2 Infrastructure Investment Program in a separate set of testimony.

3 This testimony addresses issues and concerns related to expenditures for  
4 projects included in the gas portion of the Capital Infrastructure Investment Program.

5 Our companion panel testimony addresses our review of the overall  
6 management of PSE&G's gas distribution and transmission infrastructure, as it relates  
7 to the Company's requested increase in gas base rates.

8 **III. INFORMATION REVIEWED**

9 **Q. Please describe the material or data sources analyzed in conducting the**  
10 **McFadden Consulting's review and evaluation of the Capital Infrastructure**  
11 **Investment Program projects.**

12 A. As stated in our companion testimony in this proceeding, the Company's management  
13 of its gas distribution and transmission system is inextricably intertwined with the  
14 Company's economic stimulus infrastructure program. Therefore, the information we  
15 reviewed actually related to both subject matters.

16 In conducting our analyses, McFadden Consulting reviewed PSE&G's Petition  
17 in this case, including the testimony and exhibits filed by PSE&G in support of said  
18 petition. McFadden Consulting conducted a detailed review of the direct testimonies  
19 and exhibits submitted by the Company's witnesses, with particular emphasis on the  
20 testimony of:

- 21 • Ralph A. LaRossa, President and Chief Operating Officer;
- 22 • Jorge L. Cardenas, Vice President – Gas Delivery; and
- 23 • Mark G. Kahrer, Vice President – Finance.

1           Based on our review of these documents, and our experience and expertise in  
2 gas distribution company system planning, engineering, construction, and operations,  
3 McFadden Consulting initially prepared data requests seeking additional information  
4 and clarification on how PSE&G manages its physical facilities as well as additional  
5 information pertained to the Capital Infrastructure Investment Program.

6           Subsequently, we filed 23 additional data requests. We conducted a detailed review  
7 of the Company's responses to those data requests.

8           We also reviewed the Company's responses to the numerous data requests  
9 submitted by other consultants retained by Rate Counsel and the Board Staff.

10           On October 22 and 23, 2009 we conducted an onsite visit of PSE&G, during  
11 which time we reviewed documents and interviewed key personnel responsible for  
12 managing the Company's Gas Delivery facilities. In addition to PSE&G and the  
13 McFadden Consulting team, representatives from Rate Counsel, BPU Staff, and  
14 Cozen O'Connor on behalf of intervening electric generation customers attended.

15           Earlier, McFadden Consulting was retained by Rate Counsel to assist in  
16 reviewing PSE&G's petition for approval of the Capital Infrastructure Investment  
17 Program. In that docket, McFadden Consulting reviewed the Company's initial filing  
18 dated January 21, 2009, and its supplemental filing dated February 4, 2009.

19           As part of our review of the Company's instant filing, we prepared 65 data  
20 requests pertaining to the gas portion of the Capital Infrastructure Investment Program  
21 and conducted a detailed review of the Company's responses to said data requests.  
22 Additionally, we reviewed the Company's responses to the numerous data requests  
23 submitted by other consultants retained by Rate Counsel and the Board Staff. Finally,

1 we also reviewed the Stipulation (“CIIP Stipulation”) resolving that matter, which  
2 was subsequently approved by the BPU on April 28, 2009.<sup>2</sup> We also reviewed  
3 PSE&G’s first two Quarterly Reports filed with the BPU pursuant to the CIIP Order.

4 The review of this information and material, and the interviews we conducted,  
5 provide the basis for our findings.

6 **IV. CAPITAL INFRASTRUCTURE INVESTMENT PROGRAM**

7 **Q. Please briefly describe PSE&G's Gas Capital Infrastructure Investment**  
8 **Program.**

9 A. PSE&G’s original petition for approval to implement and administer a Capital  
10 Infrastructure Investment Program was filed on January 21, 2009. The total project  
11 expenditures in the original petition were estimated to be \$292 million, which was  
12 later modified to \$294 million in the Company's February 4, 2009 filing.  
13 Subsequently, on February 13, 2009, the Company withdrew its \$18 million Oradell  
14 Headquarters Relocation Project from the CIIP, and substituted an additional \$18  
15 million to the RF Blanket Project. Likewise, prior to responding to McFadden  
16 Consulting’s initial data requests in the CIIP case, PSE&G eliminated four blanket  
17 projects and shifted the proposed dollars to other blankets.

18 The four CIIP projects eliminated by PSE&G were:

- 19 • Funds for the relocation and replacement of mains & services as a result  
20 of road/bridge construction;
- 21 • Funds for disconnect of gas services to buildings (cut-offs);
- 22 • Reinforcement of system to meet existing loads; and

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<sup>2</sup> See CIIP Order.

- 1 • Investment in new technologies that improve productivity.

2 During subsequent discussions, the Company eliminated approximately \$21  
3 million of blanket budget items from their proposed CIIP which resulted in final total  
4 of \$273 million, as embodied in the April 9, 2009 CIIP Stipulation. The blanket  
5 budget items eliminated or removed consisted of:

- 6 • Vehicles;
- 7 • Green Initiatives-Building Efficiency;
- 8 • Computer Equipment;
- 9 • PC Replacement;
- 10 • Dist. Structures and Improvements/Building Renovations;
- 11 • Fuel Management Systems; and
- 12 • Dist. Tools, Shop and Garage Equipment.

13 **Q. Have you prepared a summary of the PSE&G's Capital Infrastructure Program**  
14 **Projects?**

15 A. Yes. PSE&G's finalized gas Capital Infrastructure Investment Program projects and  
16 the estimated costs of each are summarized in the schedule appended hereto as  
17 Attachment MCGI-1. This schedule lists both the overall infrastructure projects using  
18 the traditional PSE&G general blanket budget categories as well as the sub-categories  
19 within PSE&G's general blanket categories, which are identified by BPU Project  
20 Numbers. The sub-projects, i.e. those projects identified by BPU Project Numbers,  
21 are the specific projects which were finally identified and agreed upon to be included  
22 as the Company's gas infrastructure projects in the CIIP Stipulation.

1 **Q. You previously mentioned that the rate proceeding and the Capital**  
2 **Infrastructure Investment Program are inextricably linked. Please explain why.**

3 A. Paragraph 21 of the CIIP Stipulation states:

4 The Parties stipulate that the Company shall file a base  
5 rate petition between April 3, 2009 and April 1, 2011.  
6 The Parties further stipulate that, in the context of that  
7 base rate case, all of the Qualifying Projects will be  
8 subject to a full and thorough examination. The Parties  
9 further stipulate that, if required, full evidentiary  
10 hearings concerning Qualifying Projects will take place  
11 in that base rate case proceeding. In any prudency  
12 review, the record of this proceeding, including this  
13 Stipulation and all discovery, shall be fully incorporated  
14 and considered.

15  
16 Therefore, although the gas CIIP projects were approved in Docket No.  
17 EO090110050, the CIIP Stipulation provided for a “full and thorough examination” in  
18 this base rate proceeding.

19 **Q. Do you have any concerns about conducting a full and thorough examination of**  
20 **the infrastructure projects in this proceeding?**

21 A. We have several concerns. First, the infrastructure program is a 24-month program  
22 and expenditures associated with it did not begin to be reflected in the Company’s  
23 books and records until May 2009. Therefore, there are only two months of  
24 expenditures included in the base rate case test period. That means there are 22  
25 months of CIIP-related expenditures remaining.

26 It is impossible to conduct a full and thorough examination of the  
27 infrastructure projects in the base rate filing, when data for only 2 of 24 months  
28 expenditures have been recorded. Furthermore, it is impossible to determine if the

1 expenditures associated with the various blankets were prudently incurred because the  
2 vast majority of the expenditures have yet to have been expended.

3 Paragraph 21 of the CIIP Stipulation provides that a full and thorough  
4 examination of projects included in the Test Year will be conducted as part of the  
5 review in the current base rate filing. For other projects, the parties and Rate Counsel  
6 have the right to consider the prudence of the expenditures associated with the Capital  
7 Infrastructure Investment Program in either subsequent base rate proceedings or in  
8 reviews of the Electric and Gas Capital Adjustment Mechanisms (“CAMs”) or the  
9 associated Capital Adjustment Charges (“CACs”).

10 **Q. Please continue with your concerns about expenditures associated with the**  
11 **Capital Infrastructure Investment Program.**

12 A. PSE&G’s Gas Capital Infrastructure Investment Program is comprised almost entirely  
13 of blanket type budget items, in contrast to the other New Jersey gas distribution  
14 companies whose infrastructure programs consist primarily of specific construction  
15 projects. The only specific budget type item in PSE&G’s gas Capital Infrastructure  
16 Investment Program is the East Rutherford M&R Station. More than 98% of the  
17 dollars in PSE&G’s gas Capital Infrastructure Investment Program are earmarked for  
18 blanket-type budget items.

19 Also, it is important to note that \$166.8 million, or 61% of the total PSE&G  
20 gas Capital Infrastructure Investment Program expenditures is for the Replacement  
21 Main Project (GSTM-01A), under which the Company plans to replace approximately  
22 180 miles of aging cast iron and bare steel gas mains. In comparison, PSE&G’s 2009  
23 normal Construction Budget for this same blanket item contains only \$11.1 million

1 for this activity. In other words, over a two year period, expenditures for this CIIP  
2 blanket project are 15 times more than what PSE&G would normally spend this year.

3 **Q. Why are you concerned that the majority of PSE&G's gas Capital**  
4 **Infrastructure Investment Program projects are for blanket-type expenditures?**

5 A. Monitoring or auditing of the blanket-type projects to ensure that the Company's  
6 actual infrastructure expenditures are incremental over and above the Company's  
7 normal (baseline) expenditures will be difficult. Likewise, future monitoring of the  
8 blanket-type projects to ensure that they are in fact being accelerated will be difficult,  
9 if not impossible.

10 These concerns are exacerbated by the lack of detail contained in the Gas  
11 Delivery organization's 5-Year Capital Expenditure Plan as it pertains to blanket type  
12 expenditures.<sup>3</sup> First, Gas Delivery only budgets expenditures by projects, which  
13 consist primarily of blankets, for the first year of the 5-Year Capital Expenditure Plan.  
14 The capital expenditures for the last four years of the 5-Year Capital Expenditure Plan  
15 are simply dollar amounts, and do not reflect anticipated capital expenditures by  
16 specific projects. In other words, years 2 through 5 are more of a financial forecast,  
17 which simply reflect a total amount of projected capital expenditures. The result is  
18 that the Company's normal or baseline level of expenditures cannot be accurately  
19 determined by reviewing previous PSE&G Capital Expenditure Plans.

20 Second, the blanket type expenditures that are reflected in the first year of the  
21 5-Year Capital Expenditure Plan do not contain sufficient detail. The expenditures  
22 reflected are only identified for broad blanket categories. In reality, each overall

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<sup>3</sup> See responses to RCR-GR-85 and RC-INF-6

1 blanket budget category is comprised of a number of unrelated sub categories or sub  
2 accounts. Attachment MCGI-1 shows the sub-categories for the “RF” and “SR”  
3 blankets. The projects identified by BPU Project Number in the Capital Infrastructure  
4 Investment Program, including both qualifying and non-qualifying projects, are not  
5 contained in the 5-Year Capital Expenditure Plan.

6 Cost/benefit analyses are not typically performed for blanket-type  
7 expenditures. Absent any cost/benefit analysis of blanket type expenditures, it is  
8 unknown if the blanket-type expenditures provide any safety, financial, or operational  
9 related benefits to the customers. To put this in perspective, in its Capital  
10 Infrastructure Investment Program, PSE&G is spending approximately \$273 million  
11 without any documented cost/benefit analyses that indicates the expenditures are in  
12 the customers' best interest.

13 **Q. Do you have any comments regarding the subject of PSE&G's gas Capital**  
14 **Infrastructure Investment Program projects meeting the Governor's Economic**  
15 **Stimulus Plan requirements dealing with prudence - particularly that the**  
16 **projects are, in fact, incremental and accelerated in nature?**

17 A. Yes, the subject of prudence is addressed in a number of areas within the Board-  
18 approved CIIP Stipulation executed by the Company, Board Staff, Rate Counsel, and  
19 intervenor New Jersey Large Energy Users Coalition. Paragraph 9 of the CIIP  
20 Stipulation states:

21 The Company represents that the 38 projects identified  
22 in Appendix A (“Qualifying Projects” or “QP”) will  
23 assist the Company in providing safe, adequate and  
24 proper service to its customers; **are incremental in**  
25 **nature**, and will create jobs in support of the

1 Governor's Economic Stimulus Plan. **Based on these**  
2 **representations, the Parties agree that the projects**  
3 **appear to be prudent and consistent with the**  
4 **Governor's Economic Stimulus Plan** and that the  
5 costs associated with the Qualifying Projects may be  
6 recovered through the implementation of electric and  
7 gas CACs subject to review, as set forth below.  
8 [emphasis added]  
9

10 Paragraph 21 of the CIIP Stipulation states:

11 The Parties further stipulate that, in the context of that  
12 base rate case, all of the **Qualifying Projects will be**  
13 **subject to a full and thorough examination.** The  
14 Parties further stipulate that, if required, full evidentiary  
15 hearings concerning Qualifying Projects will take place  
16 in that base rate case proceeding. [emphasis added]  
17

18 Paragraph 22 of the Stipulation states:

19 The Parties further stipulate that during the Company's  
20 base rate case, referenced in Paragraph 21, the net  
21 capitalized amounts for the **Qualifying Projects that**  
22 **are deemed to be reasonable and prudent,** will be  
23 rolled into the Company's rate base and the associated  
24 revenue requirements will be recovered through base  
25 rates. [emphasis added]  
26

27 Two of the primary tests or factors in determining the prudence of an  
28 infrastructure project are:

- 29
- Is the project accelerated, e.g. was the project identified to be  
30 constructed prior to the announcement of the Capital Infrastructure  
31 Investment Program?
  - Is the project incremental, e.g. is the project over and above normal or  
32 "non-qualifying" work?  
33

34 More than 98% of the Company's projects are blanket-type projects, which are  
35 typically only identified for the current year in the 5-Year Capital Expenditure Plan.

1           Therefore, it is difficult, if not impossible, to confirm that the expenditures are in fact  
2           accelerated.

3                       These projects do appear to be necessary to maintain a safe and reliable gas  
4           distribution system. However, the Company's budgeting practices appear to make it  
5           difficult for the Company to provide documentation that would definitively indicate  
6           the projects are incremental.

7   **Q.   Is there another way to determine if the Capital Infrastructure Investment**  
8   **Program expenditures are incremental?**

9   A.   If the level of Capital Infrastructure Investment Program expenditures exceeded the  
10   expenditures the Company would normally make, they could be considered  
11   incremental. The normal level of expenditures for the blanket-type projects needs to  
12   be determined. Expenditures in excess of the normally incurred expenditures could  
13   be considered incremental. For purposes of our discussion, the normal level of  
14   expenditures will be referred to as the "baseline."

15                   Initially, PSE&G proposed that its Revised 2009 Gas Construction Budget  
16   should be considered the baseline or starting point for its Capital Infrastructure  
17   Investment Program. However, as indicated earlier in this testimony, PSE&G's  
18   Revised 2009 Gas Construction Budget (i.e. the first year of PSE&G's Gas Delivery  
19   5-Year Capital Expenditure Plan), only identifies overall blanket budget categories.  
20   In actuality, each overall blanket budget category is comprised of a number of sub  
21   categories or sub accounts. Consequently, the projects that are identified by "BPU  
22   Project Number" in the Capital Infrastructure Investment Program are not identified  
23   in PSE&G's Revised 2009 Gas Construction Budget.

1 **Q. Have you been able to determine if the gas Capital Infrastructure Investment**  
2 **Program blanket expenditures are incremental?**

3 A. No. Neither the Company's Quarterly Reports nor its responses to discovery  
4 questions posed by Rate Counsel contain adequate information to determine whether  
5 the projects were incremental,

6 **Q. Have you reviewed the Stipulation pertaining to the settlement of the Capital**  
7 **Infrastructure Investment Program in Docket No. EO09010050, particularly as**  
8 **it applies to the Company's reporting requirements?**

9 A. Yes, the two principal paragraphs addressing this subject, paragraphs 23 and 26, state:

10 23. The Company will provide the information set  
11 forth in the MFR attached hereto as Appendix D and  
12 made a part of this Stipulation, in its Annual Filing and  
13 as part of its required base rate case filing. The  
14 Company will also **provide in each filing a detailed**  
15 **description, along with corresponding plant**  
16 **accounts, of the expenditures that are reflected in**  
17 **each blanket project** in Appendix A, together with  
18 measurable parameters, such as line-feet installed or  
19 number of installations completed, associated with each  
20 blanket project. [emphasis added]  
21

22 26. "The Parties stipulate that the Company will provide  
23 the Parties with a **quarterly report** ("Quarterly  
24 Report,") **detailing the capital expenditures**  
25 **individually for each of the Qualifying Projects**  
26 identified in Appendix A and the job growth resulting  
27 from the implementation of each Qualifying Project on  
28 a quarterly basis, in the format attached hereto as  
29 Appendix F and made a part of this Stipulation. The  
30 Quarterly Report should also include a Gantt chart  
31 showing the status of the projects, tasks completed,  
32 percentage of projects completed, and the actual money  
33 spent to date. Additionally, **the Company will include**  
34 **in the Quarterly Report budgeted capital**  
35 **expenditures for non-Qualifying Projects for**

1 **comparison to the actual costs incurred for the non-**  
2 **Qualifying Projects.** [emphasis added]  
3

4 **Q. Has the Company filed the quarterly reports required by the CIIP Stipulation?**

5 A. The Company has filed the first two quarterly reports. The first report pertained to  
6 May and June 2009.<sup>4</sup> The second report pertained to July through September 2009.<sup>5</sup>  
7 However, the test year in the Company's base rate proceeding is the 12 months ending  
8 December 31, 2009.<sup>6</sup>

9 **Q. Do you believe that the Company's first Quarterly Report contains adequate**  
10 **information so as to satisfy the requirements of Paragraphs 23 and 26 above?**

11 A. No. As stated in Paragraph 26 of the CIIP Stipulation, the Company will include  
12 budgeted capital expenditures for non-qualifying projects for comparison to the actual  
13 costs incurred for the non-qualifying projects. The only data for non-qualifying  
14 projects included in the Quarterly Report is column (n) which shows "non-qualifying  
15 actual spending for the budget year." However, the data reported only identifies  
16 overall blanket budget categories; not the sub categories or sub accounts that  
17 constitute the types of work being performed under the Capital Infrastructure  
18 Investment Program projects that are identified by "BPU Project Number." As a  
19 result, there is no data being supplied in the Quarterly Report that facilitates a  
20 comparison of budgeted and actual capital expenditures for non-qualifying projects to  
21 the actual expenditures for non-qualifying projects. Such information is required to  
22 determine if the Capital Infrastructure Investment Program expenditures are

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<sup>4</sup> See 1<sup>st</sup> Quarterly Report; Page 121 of response to RCR-ER-22

<sup>5</sup> See 2<sup>nd</sup> Quarterly Report: Page 40 of 11/5/09 Petition and Supporting Documents in BPU Docket No. EO09010049 and G009010050.

<sup>6</sup> See PSE&G's petition filed May 29 in Docket No. GR09050422, paragraph 10, page 4.

1 incremental to the Company's normal or baseline level of expenditures. Also, this  
2 data is required to compare the per unit costs of qualifying projects and non-  
3 qualifying projects. Unit cost comparisons are a measurement tool useful in  
4 identifying any discrepancies between qualifying vs. non-qualifying projects in the  
5 areas such as crew composition, contractor rates, project difficulty, and other similar  
6 construction related costs.

7 **Q. Has the Company provided any additional data for its gas Capital**  
8 **Infrastructure Investment Program projects?**

9 A. No. PSE&G did not provide such information, notwithstanding numerous discovery  
10 requests asking for supporting information.<sup>7</sup> Other than the data that is shown in  
11 PSE&G's Quarterly Report, Attachment MCGI-3, and what is shown in Attachment  
12 MCGI-2, cost data for individual projects identified by BPU Project Numbers (both  
13 "qualifying" and "non-qualifying" projects) has not been made available by the  
14 Company.

15 **Q. Have you reviewed Capital Infrastructure Investment Program BPU Project**  
16 **Number GSTM-03B which is identified as the Hamilton lbs. to lbs. Regulator in**  
17 **the Company's first Quarterly Report?**

18 A. Yes. This project is referred to in the CIIP Stipulation and elsewhere as the "lbs. to  
19 lbs. regulation station to support pressure in the Ewing Twp. Area." The Company  
20 indicated in response to discovery response RC-PS-IN-A-31 that this project was  
21 identified in 2008, with an expected in-service during the 2009-10 winter. This  
22 response generated the question of why this project would qualify as an accelerated

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<sup>7</sup> See October 28, 2009 responses to RCR-INFRA-12 thru RCR-INFRA-17 & RCR-INFRA-19 & RCR-INFRA-20.

1 project. The Company now indicates, in discovery response RCR-INFRA-18, that  
2 this project was removed from its Revised 2009 Gas Construction Budget.

3 **Q. Have you reviewed Capital Infrastructure Investment Program BPU Project**  
4 **Number GSTM-05 which is identified as the East Rutherford M&R Station**  
5 **Upgrade?**

6 A. Yes. The East Rutherford M&R Station upgrade was not included in PSE&G's  
7 original 2009 budget nor was it included in the revised 2009 budget. The Company  
8 indicates in discovery response RC-PS-IN-P-13 that this project was identified as a  
9 potential expenditure in 2014 or 2015. The Company also indicates, in discovery  
10 response RCR-INFRA-20, that no alternatives to the upgrade were analyzed nor were  
11 any cost/benefits analyses completed.

12 During the on-site visits, the Company stated the upgrade represents life cycle  
13 replacement of station equipment. Two estimates have been made for the upgrade:

- 14 • The first estimate was \$5,000,000, as set forth in the CIIP Stipulation.
- 15 • The second estimate, which was made by an experienced engineering  
16 firm after field investigation, is \$6,522,436.

17 McFadden Consulting believes that any overrun of the \$5,000,000 CIIP  
18 estimate for this project should be charged against the Company's normal construction  
19 budget and should not be recovered through the infrastructure CAC.

20 **Q. Please summarize your conclusions and recommendations regarding the**  
21 **Company's gas Capital Infrastructure Investment Program.**

22 A. To date, McFadden Consulting has received two Quarterly Reports. The 1<sup>st</sup> Quarterly  
23 Report covers the two month period of May 1, 2009 through June 30, 2009. The 2<sup>nd</sup>

1 Quarterly Report covers the five months ended September 30, 2009. Consequently,  
2 our conclusions and recommendations are based on the limited data provided to date  
3 and we reserve the right to supplement and update our recommendations based on  
4 additional Quarterly Reports, responses to any outstanding discovery requests, and  
5 Company rebuttal testimony.

6 Paragraph 9 of the CIIP Stipulation indicates the Company represents that the  
7 "Qualifying Projects" in its gas Capital Infrastructure Investment Program will assist  
8 the Company in providing safe, adequate, and proper service to its customers; are  
9 incremental in nature; and will create jobs in support of the Governor's Economic  
10 Stimulus Plan. In other words, the Company represents the prudence of the Capital  
11 Infrastructure Investment Program projects.

12 It will be difficult to determine if the Company's expenditures on gas Capital  
13 Infrastructure Investment Program projects are consistent with or comply with the  
14 Company's representations as contained in Paragraph 9 of the CIIP Stipulation. First,  
15 more than 98% of its Gas Delivery's CIIP projects are comprised of blanket-type  
16 budget items. Second, the Company's 5-Year Capital Expenditure Plan does not  
17 contain detailed information pertaining to its planned capital expenditures beyond the  
18 first year.

19 On the surface, expenditures on these types of projects may appear to be  
20 accelerated because the total dollars spent is higher in the current year. However, the  
21 Company has not identified if, and when, these expenditures would have occurred  
22 absent the Economic Stimulus program. Therefore, it is impossible to determine if

1 the expenditures truly represent accelerated projects or projects that may have never  
2 received executive approval absent the CIIP.

3 The Company also represents that the Projects will assist the Company in  
4 providing safe, adequate, and proper service to its customers. Since the majority of  
5 the expenditures in the gas Capital Infrastructure Investment Program are for blanket-  
6 type projects that encompass facility replacements, bell joint encapsulations,  
7 upgrades, and reinforcements, one cannot take issue with the fact that these projects  
8 will broadly provide safe, adequate, and proper service. However, this is not to say  
9 that these projects are in the customers' best financial interest, because absent the  
10 CIIP, the Company apparently believed these facilities were safe, adequate, and  
11 proper as evidenced by their exclusion from the originally approved budget. With the  
12 information supplied by the Company, it is difficult, if not impossible, to confirm  
13 with the information available, that these projects are prudent from an economic or  
14 cost/benefit perspective.

15 It would be feasible to monitor or confirm whether the gas Capital  
16 Infrastructure Investment Program projects are in fact incremental as the Company  
17 represents, if the Company is forthcoming with the necessary data. On balance, in  
18 order to apply the prudence test of "is the project incremental?" to blanket type  
19 projects, one must only know the expenditure levels and schedules of normal  
20 budgeted work (i.e. referred to as "non-qualifying" projects in the Stipulation).  
21 Project expenditures over and above normal budgeted work (baseline) would meet the  
22 prudence test.

1                   In order to define the data necessary for monitoring or confirming that  
2 PSE&G's gas Capital Infrastructure Investment Program projects are indeed  
3 incremental, McFadden Consulting has generated a spreadsheet, as contained in  
4 Attachment MCGI-4 that shows recommended additions to the "Quarterly Report on  
5 Capital Expenditures and Job Creation Related to Qualifying Projects." McFadden  
6 Consulting believes the additional information as contained on Attachment MCGI-4  
7 is necessary to determine if the CIIP projects are incremental.

8 **Q. Do you have any addition recommendations?**

9 A. Yes. For specific gas projects such as GSTM-03B, (Hamilton Regulator), and  
10 GSTM-05, (East Rutherford Upgrade), McFadden Consulting recommends that any  
11 overrun of the CIIP cost estimates be charged against the Company's normal  
12 construction budget and not recovered through the infrastructure CAC.

13 **Q. Does that conclude you testimony?**

14 A. Yes. However, we reserve the right to supplement our testimony based responses to  
15 any outstanding discovery requests, and Company rebuttal testimony.

# **APPENDIX**

# MICHAEL J. MCFADDEN

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## AREAS OF QUALIFICATION

Rates, regulatory affairs, strategic planning, gas and electric utility operations, corporate finance, financial analysis, asset valuation, fuel supply planning and procurement, accounting, and budgeting.

## EMPLOYMENT HISTORY

- President, McFadden Consulting Group, Inc., 1995-present
- Chairman, Colorado Low-Income Energy Assistance Commission, appointed as member by Governor Owens 2005-2008. Commissioner 2002-2008.
- Board of Directors, Chairman Audit Committee & Treasurer, Energy Outreach Colorado, formerly the Colorado Energy Assistance Foundation, 2003-present
- University of Phoenix, Colorado Division, Faculty Member, 1982-2005, Finance Area Chair, 1992-1993, Accounting Area Chair, 2000-2004
- Board of Advisors, Full Power Corporation, Los Angeles, CA, 1998-2000
- Senior Advisor, Hagler Bailly Consulting, Inc., Boulder, CO, 1995-2000
- Metropolitan State College, Denver, CO, Adjunct Faculty Member, 1989-1995
- Principal, Hagler Bailly Consulting, Inc., Boulder, CO, 1993-1995
- Vice President, Treasurer, Secretary and Member of the Board of Directors, WestGas Gathering, Inc., WestGas InterState, Inc., WestGas TransColorado, Inc., 1989-1993
- Manager, Financial Services and Administration, Assistant Treasurer and Assistant Secretary, Western Gas Supply Company, 1989-1993
- Staff Assistant to Senior Vice President, Finance and Chief Financial Officer, Public Service Company of Colorado, 1986-1989
- Regis University, Adjunct Faculty Member, 1981-1982
- Director, Rate Regulatory Services Department, Public Service Company of Colorado, 1974-1986

## EDUCATION

- University of Denver, MBA, Business Administration, 1973
- Regis University, BS, Business Administration, 1972

## PROFESSIONAL EXPERIENCE

**Michael J. McFadden** is a rate, regulatory affairs, finance, strategic planning, and utility operations expert with 35 years experience in the electric utility and natural gas industries. He has appeared as an expert witness and provided testimony in numerous hearing before the Federal Energy Regulatory Commission (FERC), regulatory Commissions in Arkansas, Colorado, Georgia, Indiana, Kansas, New Jersey, Ohio, Texas, Wyoming, Utah, and British Columbia, and the United States District Court. He has also filed testimony in Montana and

Ontario. Mr. McFadden headed a combination gas, electric, and steam heat utility company's rate regulatory services department where he was responsible for various submittals to regulatory agencies that had jurisdiction over the company's rates, facilities, and services. In addition, he previously served as chief financial officer for a natural transmission, gas gathering, and processing company where he was responsible for rate and regulatory affairs, financial and managerial accounting, financial policy and planning, business opportunity and financial analysis, strategic planning, and information and computer administration. He has dealt with such issues as Order 636 restructuring strategies, customer choice programs, development of gas transportation tariffs, practices and procedures, development and implementation of gas purchasing strategies, development of avoided costs, mains extensions policies, and producer take or pay issues. On the electric side of the business, he has participated in numerous rate cases and regulatory proceedings and has been involved in such issues as the utilization of purchased power, economic dispatching of generating stations, coal inventory measurement and management, generating station performance measures, incentive cost recovery mechanisms for a nuclear generating plant, generating plant maintenance schedules and management, unit coal train economics and management, and the development and administration of electric cost adjustment mechanisms. Mr. McFadden was also on the advisory board of Full Power Corporation, an electric marketing company serving the California markets. He previously served as the accounting area chair and the finance area chair for the University of Phoenix, Colorado Division. He is a past Chair and commissioner of the Colorado Commission on Low-Income Energy Assistance. Mr. McFadden is currently a member of the Board of Directors, Chairman of the Audit Committee, and Treasurer for Energy Outreach Colorado, a non-profit organization helping low-income energy users. He has a BS in business administration from Regis University and an MBA from the University of Denver.

### **SPECIAL TRAINING**

- Cornell University, Johnson Graduate School of Management. Merger and Acquisitions Forum. 1989.
- Irving Trust Company, New York City. Financial Seminar. 1985. Security analysis, types of securities, method of offering securities, project financing, capital structure and financial policy and others.
- University of Idaho, Moscow, Idaho. Executive Development. 1982. Financing through capital markets, strategic planning and management, managing human resources, financial management and others.

### **PRESENTATIONS AND TESTIMONY**

“The Difference between Pipelines and Gas Distributors: What You Need to Know.” New Mexico State University Center for Public Utilities. Basic Utilities Course. October 2008.

Testimony in New Jersey Natural Gas Company's rate case proceeding on the management of its gas distribution and transportation infrastructure on behalf of the New Jersey Division of the Rate Counsel. Newark, New Jersey. June 2008.

Testimony and cross-examination cost impact of Tri-State Transmission and Generation Association, Inc. proposed 115 KV transmission line before the Public Utilities Commission of Colorado. April 2008.

Testimony and cross examination on Columbia Gas of Ohio's gas supply planning and procurement practices before the Ohio Public Utilities Commission. January 2007.

Testimony on cost allocation and rate design issues before the Texas Railroad Commission in Atmos Energy Corporation's request to increase rates for its Mid-Tex division in Texas on behalf of the City of Dallas, Texas. Austin, Texas. November 2006.

Testimony in Public Service Electric and Gas Company's rate case proceeding on the management of its gas distribution and transportation infrastructure on behalf of the New Jersey Division of the Ratepayer Advocate. Newark, New Jersey. July 2006.

Testimony on electric and gas department revenue requirement, cost allocation, and rate design analyses on behalf of Cheyenne Light, Fuel and Power Company before the Wyoming Public Service Commission. Cheyenne, Wyoming. October 2005.

Testimony on decoupling, revenue forecasting and rate design issues before the Georgia Public Service Commission in Atmos Energy Corporation's request to increase rates in Georgia. Atlanta, Georgia. October 2005.

Testimony on revenue forecasting, cost of service, and rate design issues before the Georgia Public Service Commission in Atlanta Gas Light Company's rate application. Atlanta, Georgia. March 2005.

Presentation to the Tennessee Valley Public Power Association, which is comprised of 158 municipal and cooperative distribution system served by the Tennessee Valley Authority on TVA's Cost of Service Methodologies. Franklin, Tennessee. November 2004.

Presentation to the Tennessee Valley Authority Board of Directors on TVA's Cost of Service Methodologies. Knoxville, Tennessee. August, 2004.

Testimony before the Arkansas Public Service Commission on Arkansas Oklahoma Gas Corporation's gas supply planning and procurement activities. Little Rock, Arkansas. May 2004.

Testimony on cost of service and rate design issues before the Georgia Public Service Commission in Atlanta Gas Light Company's earnings review proceeding. Atlanta, Georgia. April 2002.

Testimony before the Public Utilities Commission of Colorado in KN Wattenberg Transmission LLC application for a CPCN to operate facilities it constructed to serve two industrial customers within the city limits of Fort Morgan, Colorado. June 2001.

Testimony on behalf of the Colorado Office of Consumer Counsel before the Public Utilities Commission of Colorado in its investigation into price stabilization mechanisms of regulated gas utilities. June 2001.

Testimony before the Public Utilities Commission of Colorado in Totem Gas Storage Company, LLC's Application for a Certificate of Public Convenience and Necessity to Construct and Operate a Gas Storage Using Competitive Market-Based Rates. Denver, Colorado. June 2000.

Testimony before the Utah Public Service Commission in Questar Gas Company's Application for an Increase in Rates and Charges in Docket No. 99-057-20. Salt Lake City, Utah. June 2000.

Testimony before the Kansas Corporation Commission on Kansas Gas Service Company's Application for Approval to Restructure Gas Supply Contracts. Topeka, Kansas. March 2000.

Presentation to City Council on Proposed Electric and Gas Department Rate Changes. City of Fort Morgan, Colorado City Council Meeting. Fort Morgan, Colorado. January 2000.

Testimony on Questar Gas Company's Application to Recover Costs Associated with Constructing a CO<sub>2</sub> Extraction Plant. Salt Lake City, Utah. June 1999.

Presentation to City Council on Proposed Electric and Gas Department Rate Changes. City of Fort Morgan, Colorado City Council Meeting. Fort Morgan, Colorado. October 1998.

"Potholes on the Road to Unbundling" presented to the 57th Annual Western Conference of Public Service Commissioners. Sunriver, Oregon. June 1998.

Testimony on Incorporating Riders in Performance-Based Rate Mechanisms for Atlanta Gas Light Company. Atlanta, Georgia. March 1998.

Testimony on the Management and Financial Review of Atlanta Gas Light Company's Manufactured Gas Plant Site Environmental Clean-Up Efforts. Atlanta, Georgia. March 1998.

Keynote address on Electric Utility Restructuring at the University of Kansas' 21st Annual Economic Outlook Conference. Lawrence, Kansas. October 1997.

"An Analysis of the Impact of Retail Wheeling on the State of Kansas" presented to the Kansas Legislative Task Force on Retail Wheeling. Topeka, Kansas. August 1997.

A presentation to the Rocky Mountain Natural Gas Strategy Conference and Marketing Fair on restructuring of natural gas and electric utility industries. Denver, Colorado. August 1997.

Testimony on the Public Utilities Commission of Colorado's proposed rules on gas cost adjustments. Denver, Colorado. February 1997.

"Restructuring of the Natural Gas Industry" presented to the Governor's Energy Assistance Reform Task Force. Denver, Colorado. February 1997.

"The Feasibility of Allowing Nondiscriminatory Access to Retail Natural Gas Distribution Services in Colorado" presented to the Colorado Legislative Council. Denver, Colorado. December 1996.

Presentation to Rocky Mountain Natural Gas Association on the issues associated with providing transportation service to residential and small commercial customers. Denver, Colorado. October 1996.

Testimony and cross-examination on the Public Utilities Commission of Colorado's proposed rules on cost allocation between regulated and non-regulated affiliates. Denver, Colorado. July 1996.

"Planning in a Competitive Environment." Power Engineering Society, Institute of Electrical and Electronic Engineers Summer Conference. Denver, Colorado. July 1996.

Presentation to City Council on Proposed Electric Department Rate Changes. City of Fort Morgan, Colorado City Council Meeting. Fort Morgan, Colorado. May 1996.

Testimony and cross examination on East Ohio Gas Company gas planning and procurement practices before the Ohio Public Utilities Commission. December 1995.

"Economic Impact of Fuel Switching at Selected Denver Area Power Plants," presented on behalf of Colorado Oil and Gas Association before the Colorado Air Quality Council and the Regional Air Quality Council. Denver, Colorado. November 1995.

Presentation to City Council on Proposed Gas Department Rate Changes. City of Fort Morgan, Colorado City Council Meeting. Fort Morgan, Colorado. November 1995.

Testimony and cross examination on BC Gas Utility, Ltd. extension policy before the British Columbia Utilities Commission. Vancouver, BC. June 1995.

Testimony and cross examination on BC Gas Utility, Ltd. avoided costs before the British Columbia Utilities Commission. Vancouver, BC. June 1995.

"Development of Long Run Avoided Costs for a Gas Distributor." Gas Research Institute Avoided Cost Conference. Milwaukee, Wisconsin. June 1994.

## PROFESSIONAL AFFILIATIONS

- Board of Directors, Chairman of Audit Committee & Treasurer, Energy Outreach Colorado
- Commissioner, Colorado Commission on Low Income Energy Assistance
- Rocky Mountain Natural Gas Association
- Colorado Association of Commerce and Industry, 50 For Colorado
- American Gas Association, former member
- Interstate Natural Gas Association of America, former member of Rate and Policy Committee
- Regis University Alumni Association
- Former Member, Regis University Business and Industry Group
- University of Denver Alumni Association
- Listed in *Who's Who in America*, *Who's Who in Executives and Professionals*, *The National Registry of Who's Who*, and *Who's Who International*

# A. E. MIDDENTS

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## AREAS OF QUALIFICATION

Gas operations, gas industry restructuring, supply planning and procurement, regulatory matters, engineering, marketing, transportation, business development, and strategic planning.

## EMPLOYMENT HISTORY

- Senior Consultant, McFadden Consulting Group, Inc., Denver, CO, 1996-present
- Independent Natural Gas Industry Consultant, Greenwood Village, CO, 1996-present
- Vice President, Technical Services, Northern Pipeline Construction Company, 1995-1996
- Independent Consultant, 1993-1995
- Senior Vice President, Public Service Company of Colorado, 1988-1993
- Vice President Gas Operations, Public Service Company of Colorado, 1986-1988
- Manager, Engineer and Construction, Western Gas Supply Company, 1983-1986
- Engineering Manager, Western Gas Supply Company, 1981-1983
- Assistant to the President, Fuelco, 1981-1983
- Assistant to the Vice President Gas Operations, Public Service Company of Colorado, 1980-1981
- Gas Distribution Operations Manager, Public Service Company of Colorado, 1976-1980
- Superintendent of Gas Utilization, Public Service Company of Colorado, 1976
- Superintendent, Division Gas Distribution, Public Service Company of Colorado, 1972-1976
- Superintendent, Planning and Analysis, Public Service Company of Colorado, 1970-1972
- Supervisor, System Planning, Public Service Company of Colorado, 1966-1970
- Various positions, Public Service Company of Colorado, 1960-1966

## EDUCATION

- Iowa State University, BS, Industrial Engineering
- University of Colorado, Business Courses
- University of Colorado, Executive Education Program for the Gas Industry
- University of Michigan, Public Utility Executive Program

## PROFESSIONAL EXPERIENCE

A. E. "Pete" Middents has 42 years of broad experience in all segments of the natural gas industry. This includes the entire spectrum of technical and economic issues associated with the utilization of natural gas, including engineering and construction, gas supply, gas contracts, transmission and distribution, storage, compression, processing, economic feasibility, regulatory issues, long-range planning, and operations issues.

Mr. Middents was previously employed by Northern Pipeline Construction Company as Vice President, Technical Services. NPL is headquartered in Phoenix, Arizona and was acquired by Southwest Gas Corporation, headquartered in Las Vegas, Nevada in 1996. He was responsible

for the overall management of Northern's Technical Services Division as well as marketing and new product development.

Mr. Middents was an independent consultant specializing in the natural gas industry from 1993 to 1995. His consulting assignments have primarily been in the areas of new business development, gas industry restructuring, economic feasibility and evaluation, overall planning and engineering design (pipeline processing and distribution), and natural gas marketing. Recent clients include:

- Utah Committee of Consumer Services
- Questar Pipeline Corporation, Salt Lake City, UT
- New Jersey Rate Counsel
- Arkansas Public Service Commission
- Northern Pipeline Construction Company, Phoenix, AZ
- K & M Engineering and Consulting Corp., Washington, D.C.
- Premier Enterprises, Inc., Englewood, CO
- U.S. Agency for International Development (U.S. State Department), Washington, D.C. and Montevideo, Uruguay
- Benjamin Schlesinger and Associates, Bethesda, Maryland
- Minister of Industry, Energy and Minerals, Government of Uruguay, Montevideo, Uruguay

In 1993 he exercised an early retirement option from Public Service Company of Colorado. As Senior Vice President of Gas Operations for Public Service Company (a combination gas and electric utility serving the majority of the state of Colorado), Mr. Middents had full executive responsibility for the Company's natural gas operations. He was also President and a Director of Western Gas Supply Company (WestGas, a gas gathering, processing, and transmission subsidiary company), President and a Director of Fuel Resources Development Company (Fuelco, a gas and oil exploration and production subsidiary company), Chairman and a Director of Natural Fuels Corporation (a full service natural gas vehicle subsidiary company), and Vice President and a Director of Cheyenne Light, Fuel and Power Company (a combination gas and electric utility serving a portion of Wyoming). Mr. Middents also served as chairman and director of the following companies: WestGas Interstate Gas Company, WestGas Gathering, Inc. and WestGas TransColorado, Inc.

Mr. Middents joined the Public Service Company in 1960 as a gas engineer. He held numerous management positions with WestGas and Public Service Company prior to his election as Vice President in 1986. He was promoted to Senior Vice President in 1988.

### **PROFESSIONAL AFFILIATIONS**

- Past Chairman of the Board, Midwest Gas Association
- American Gas Association
- Board of Directors, Interstate Natural Gas Association of America
- Industrial Technical Advisory Committee, Gas Research Institute
- Board of Directors, Natural Gas Vehicle Coalition

- Past President and Director, Rocky Mountain Gas Association

### **PRESENTATIONS AND TESTIMONY**

Mr. Middents has appeared as an expert witness and provided testimony in hearings before the Federal Energy Regulatory Commission (FERC), the United States District Court in Iowa, South Dakota, and Washington, and state regulatory Commissions in Colorado and Utah. During the past ten years, these included:

- Testimony in New Jersey Natural Gas Company's rate case proceeding on the management of its gas distribution and transportation infrastructure on behalf of the New Jersey Division of the Rate Counsel. Newark, New Jersey. June 2008.
- Filed testimony and testified before the State of New Jersey Board of Public Utilities in 2006, regarding Public Service Electric and Gas Company's application for Approval of an Increase in Gas Rates, Depreciation Rates for Gas Property, and for Changes in the Tariff for Gas Service. (State of New Jersey Board of Public Utilities; BPU Docket No. GR05100845).
- Filed an expert report and made depositions in the civil case of Northwester Public Service, a Division of Northwestern Corporation -vs- Union Carbide Corporation in 2002 (United States District Court District of South Dakota, Southern Division; Civil No. 99-4182).
- Filed testimony before the Public Utilities Commission of Utah in 1999, regarding Questar Gas Company's application to recover costs associated with constructing a CO<sub>2</sub> extraction plant (Public Service Commission of Utah; Docket No. 98-057-12).
- Filed an expert report and made depositions in the civil case of MidAmerica Energy Company-vs- Union Carbide Corporation in 1998 (United States District Court District for Black Hawk County, Iowa; Case No. LACV076851).
- Filed an expert report and testimony in the civil case of March Point Cogeneration Company -vs- Puget Sound Power & Light Company in 1997 (United States District Court District, State of Washington; specific case number unknown).

Prior to 1997, Mr. Middents' expert witness and testimony experience included the following (specific dates and case numbers are not available):

- Numerous testimonies on gas transmission tariff issues on behalf of Public Service Company before the Public Utilities Commission of Colorado from 1986 thru 1993.
- Numerous testimonies on gas department tariff issues on behalf of Western Gas Supply Company before the Public Utilities Commission of Colorado from 1986 thru 1993.
- Numerous intervening testimonies before the Federal Energy Regulatory Commission regarding gas transmission tariff issues filed by Colorado Interstate Gas Company from 1985 thru 1993.

# JOHN N. PETERS

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## AREAS OF QUALIFICATION

Gas operations, supply planning and procurement, engineering design, construction management, bid proposal & contract preparation, permit & ROW acquisition, material specification & procurement, training, and operations support.

## EDUCATION

- University of Colorado, BS, Mechanical Engineering
- University of Colorado, Business Courses
- University of Colorado, Executive Education Program for the Gas Industry
- University of Idaho, Public Utilities Executive Course

## PROFESSIONAL EXPERIENCE

**John N. Peters** has 45 years experience in the natural gas utility industry. He has extensive experience in the engineering, design, construction, and operation of gathering, transmission, and distribution systems, including compressor stations and processing plants. Mr. Peters was division manager of gas operations for a natural gas gathering and transmission company, responsible for 180 employees and an annual O&M budget of \$15 million and capital budgets up to \$50 million. In addition, Mr. Peters developed a Natural Gas Vehicle (NGV) program and took it through a very critical and successful research, testing, development, and implementation phase, resulting in the conversion of more than 600 fleet vehicles to natural gas and the genesis of a fueling station infrastructure throughout Colorado. In recent years, Mr. Peters has been working as a consultant to the natural gas industry and has been involved in various projects in Arizona, Alaska, Nevada, Maryland, and Wyoming.

## EMPLOYMENT HISTORY

### **Consultant to the Natural Gas Industry** 9/94 to present

Independent consultant providing technical support on various projects in Alaska, Arizona, Maryland, Nevada, and Wyoming. Responsibilities include feasibility studies, engineering design, bid proposal & contract preparation, permit & ROW acquisition, material specification & procurement, construction management, training and operations support.

### **Manager, Operations Division - WestGas/Public Service Company of Colorado**

3/83 to 9/94

Responsible for the operations and maintenance of natural gas gathering, transmission, processing, and storage facilities including gas plants, CO<sub>2</sub> processing plants, meter stations, and more than 2100 miles of pipelines. Also responsible for an operations support staff involved with hazardous material coordination, operations training, and the gas

dispatching function performed at the Gas Load Control Center. Key accomplishments included:

- Served as member of the WestGas senior management team helping develop business plans, marketing plans, supply strategies, and financial forecasts
- Responsible for the operations of six geographic divisions within Colorado with a work force of approximately 180 employees
- Responsible for a \$12 - \$15 million annual O&M expense and capital budget
- Initiated cost management programs that more than doubled productivity in less than 9 years, saving \$8-10 million
- Developed a Products and Services Program that generated revenues approaching \$3 million
- Involved in labor union grievance hearings, arbitrations, and negotiations
- Developed an extremely proactive safety team whose programs resulted in significant reduction in the number of accidents
- Responsible for the corporate natural gas vehicle program during a very critical and successful research, development, and implementation phase -- involved with live TV news conferences with the mayor and governor

**Administrative Assistance to the President - WestGas** 12/81 to 3/83

This was a temporary assignment designed to enhance executive management skills. Provided research and support as follows:

- Participated in the design and implementation of new employee evaluation and compensation system
- Assisted with FERC rate hearings in Washington, D.C.
- Assisted attorneys with franchise disputes, law suit investigations, and settlements
- Provided support to the gas exploration subsidiary
- Filled in for gas managers during lengthy vacations and illnesses

**Engineering Manager - Western Slope Gas Co.** 1/78 to 12/81

Responsible for the budgeting, engineering, and construction of all WSG pipelines, plants, and treating facilities. Key accomplishments included:

- Structured a new engineering group to streamline and standardize engineering and design
- Set up policies and procedures to be responsive to changes in gas codes and regulations
- Managed and oversaw the design and installation of a major underground gas storage facility
- Testified as an expert witness in court and at PUC hearings

**Operations Superintendent - Western Slope Gas Company** 1/73 to 1/78

Responsible for the operation and maintenance of gathering and transmission facilities in the Durango division. Oversaw the operation of facilities on the Southern Ute Indian Reservation.

**Senior Engineer - Western Slope Gas Company** 12/70 to 1/73

Responsible for O&M engineering and troubleshooting on Western division facilities, equipment, controls, and telemetering. Also constructed meter stations, plant modifications, well connects, and several hundred miles of pipeline.

**Distribution Engineer - Public Service Company of Colorado** 6/69 to 12/70

Responsible for the design of distribution facilities in the Denver metro area. Constructed 20 miles of 20 & 24-inch intermediate pressure pipeline. Was on call to respond to gas emergencies, explosions, and outages.

**Engineer - Public Service Company of Colorado** 5/68 to 6/69

As Engineer-in-Training, worked in eight different gas departments within Public Service Company. Designed a low cost, one-piece, house meter bracket that is still in use today. Also worked with plastic pipe and plastic/steel transition fittings. Designed a mobile unit for flame ionization gas leak detection.

**Senior Technician - Public Service Company of Colorado** 2/65 to 5/68

Responsible for setting up a gas analysis lab in the Gas Utilization and Standards Department. Conducted gas quality tests using instruments such as the gas chromatograph, supercompressibility apparatus and the specific gravity balance. Also given special projects such as designing an impact tester for plastic pipe. Tested natural gas appliances and gas regulators/meters for performance at high altitude.

**Technician - Public Service Company of Colorado** 3/62 to 2/65

Responsible for the industrial gas customers in the Denver metro area, installing automatic chart changers, testing meters, and conducting gas quality tests.

**PRESENTATIONS AND TESTIMONY**

In the last five years, Mr. Peters has testified before various courts and county planning commissions, as follows:

- June 2009 – Testimony in New Jersey Natural Gas Company’s rate case proceeding on the management of its gas distribution and transportation infrastructure on behalf of the New Jersey Division of the Rate Counsel. Newark, New Jersey.
- September 2007 – Ted Koutsoubos v. Kinder Morgan before the Pitkin County (Colorado) Planning Commission regarding the final route selection and easement of the Snowmass pipeline across landowner’s property.
- April 2007 – Six Landowners v. Williams Overland Pass Pipeline - Immediate Possession Hearing before Yuma County.
- May 2006 – Protect Marshall Group v. Xcel Energy (Public Service Co. of Colorado) before Boulder County Planning Commission regarding the proposed site of the Foothills Compressor Station.

- March 2006 – Ted Koutsoubos v. Kinder Morgan - Immediate Possession Hearing before the Pitkin County (Colorado) regarding Snowmass pipeline across landowner's property.

# **ATTACHMENTS**

## PSE&amp;G Infrastructure Program - Gas

(A)	(B)	(C)	(D)	(E)	(E)	(F)	(G)	(H)
Infrastructure Project	BPU Project Number	Sub-Project	Description	Total Estimated Cost Infrastructure Projects	Total Estimated Cost BPU Projects	2009 Estimated Cost Infrastructure Projects	2010 Estimated Cost Infrastructure Projects	2011 Estimated Cost Infrastructure Projects
Replace Facilities (RF) Blanket								
	GSTM-01A	Replacement Main	Replacement of $\approx$ 180 miles of aging cast iron and bare steel gas mains (due to active corrosion or high hazard index)		\$ 166,800,000			
	GSTM-01B	Replacement Services	Replacement of $\approx$ 9550 bare steel gas services associated with main replacement		\$ 37,500,000			
	GSTM-01C	Replacement Regulators	Replacement of $\approx$ 43 aging and obsolete gas pressure regulators		\$ 7,500,000			
	GSTM-01D	M&R Replacements	Replacement of M&R equipment including 10 water bath heaters, pressure regulators, ancillary pressure control equipment and instruments at various M&R Station locations		\$ 10,100,000			
Sub Total - RF Blanket				\$ 221,900,000		\$ 75,262,000	\$ 137,019,000	\$ 9,619,000
Environmental Regulatory (ER) Blanket	GSTM-02	BPU Gas Services	Replacement of $\approx$ 9500 bare steel gas services as mandated by the BPU and the 20% rule (NJAC 14:7-1.16e)	\$ 37,600,000	\$ 37,600,000	\$ 7,218,000	\$ 27,727,000	\$ 2,655,000
System Reinforcement (SR) Blanket								
	GSTM-03A	Bell Joint Encapsulation	Installation of $\approx$ 400 life extending cast iron bell joint encapsulations		\$ 2,000,000			
	GSTM-03B	Hamilton lbs. to lbs. Regulator	A new lbs. to lbs. regulating station (Hamilton) to support pressure in the Ewing Twp. Area to meet existing loads		\$ 400,000			
	GSTM-03C	Distribution Reinforcements	Installation of various new reinforcement mains and regulating stations		\$ 3,500,000			
	GSTM-03D	M&R Reinforcements	Upgrade of various M&R station regulators and piping		\$ 2,100,000			
Sub Total - SR Blanket				\$ 8,000,000		\$ 2,850,000	\$ 4,804,000	\$ 346,000
Support Facilities (SF) Blanket	GSTM-04	M&R Station Emergency Generators	Installation of emergency generators at six M&R Stations	\$ 500,000	\$ 500,000	\$ 250,000	\$ 250,000	\$ -
East Rutherford M&R	GSTM-05	East Rutherford M&R Station Upgrade	M&R Station upgrade to current standards	\$ 5,000,000	\$ 5,000,000	\$ 1,100,000	\$ 3,900,000	\$ -
Total Infrastructure Projects				\$ 273,000,000	\$ 273,000,000	\$ 86,680,000	\$ 173,700,000	\$ 12,620,000

Note: Annual and monthly cost data for individual BPU Project Numbers has not been made available

## Summary

### PSE&G Co Responses to Data Requests RCR-INFRA-12 thru RCR-INFRA-17 plus RCR-INFRA-19 & RCR-INFRA-20 (Responses are for June 2009 YTD)

(A)	(B)	(C)	(D)	(E)	(F)	(G)	
BPU Project Number	Description	"Non-qualifying" Budget <sup>1</sup>	"Non-qualifying" Estimated Quantity <sup>2</sup>	"Non-qualifying" Quantity Completed to Date <sup>3</sup>	"Non-qualifying" Cost Completed to Date <sup>4</sup>	Percent of "Non-qualifying" Quantity Completed to Date <sup>5</sup>	Percent of "Non-qualifying" Cost Completed to Date <sup>6</sup>
GSTM-01A	Replacement Main	\$ 11,066,000	80,000 feet	68081 feet	\$ 9,072,000	85%	82%
GSTM-01B	Replacement Services	\$ 27,406,000	5,115 services	2,331 services	\$ 16,904,000	45%	62%
GSTM-01C	Replacement Regulators	\$ -	0 Regulators	1 Regulator	\$ 164,000	N/A	N/A
GSTM-01D	M&R Replacements	\$ 1,210,000	N/A	N/A	\$ 472,000	N/A	39%
GSTM-02	BPU Gas Services	\$ 18,079,000	4,656 services	1,520 services	\$ 3,323,000	37%	18%
GSTM-03A	Bell Joint Encapsulation	\$ 17,407,000.00	4,545 bell joints	1,600 bell joints	\$ 8,885,000	35%	51%
GSTM-03B	Hamilton Regulator						
GSTM-03C	Distribution Reinforcements	\$ -	0	0	\$ -	N/A	N/A
GSTM-03D	M&R Reinforcements	\$ 3,162,000.00	N/A	N/A	\$ 326,000		10%
GSTM-04	M&R Station Emergency Gens						
GSTM-05	East Rutherford Upgrade						

#### Data Request Question:

- (1) Provide the total estimated cost, for the same accounts as described by the BPU Project Number, that are included in the Company's normal or traditional annual construction budget.
- (2) Provide the total estimated quantity or number of units, for the same accounts as described by the BPU Project Number, that are included in the Company's normal or traditional annual construction budget.
- (3) Provide the total quantity or number of units, as described in Column (C), which have been completed to date.
- (4) Provide the total expenditures for the items, as described in Column (B), which have been completed to date.
- (5) Column (D) divided by Column (C)
- (6) Column (E) divided by Column (B)

Public Service Electric and Gas Company - Gas Distribution  
 Quarterly Report on Capital Expenditures and Job Creation Related to Qualifying Projects  
 CAC Period 1 - May 1, 2009 through June 30, 2009

BPU Project Number	Proposed Infrastructure Project (a)	Sub-Project	Project Type (b)	Project Completion Date (k)	Major Tasks (d)	Tasks Completed To Date (e)	Units	Estimated Quantity (c)	Quantity Completed To Date (f)	Percent of Quantity/Tasks Completed To Date (g)	Total Estimated Cost (h)	Actual Cost To Date (i)	Percent of Cost To Date [ i / h ] (j)	Total Jobs To Be Created (l)	Jobs Created To Date (m)	Non-Qualifying Actual Spending for the Budget Year (n)	Project Budgeted Spending For the Budget Year (o)	Qualifying Actual Spending For the Rate Period (p)	Qualifying Project Forecast Spending for the Rate Period (q)
GSTM-01A	Replace Facilities Blanket	Replacement Main	Replace Facilities	April-2011			Feet of Main	954,900	48,523	5.1%	\$ 166,800,000	\$6,187,321	3.7%	175	13.0			\$ 6,187,321	\$ 56,600,000
GSTM-01B	Replace Facilities Blanket	Replacement Service	Replace Facilities	April-2011			Services Replaced	9,549	170	1.8%	\$ 37,500,000	\$ 608,096	1.6%	40	3.1			\$ 608,096	\$ 12,700,000
GSTM-01C	Replace Facilities Blanket	Replacement Regulator	Replace Facilities	April-2011			Regulators Replaced	43	-	0.0%	\$ 7,500,000	\$ 45,539	0.6%	7	0.1			\$ 45,539	\$ 2,543,000
GSTM-01D	Replace Facilities Blanket	M&R Replacements	Replace Facilities	April-2011	Engineering & Design, Construction, In-Service			-	-		\$ 10,100,000	\$ -	0.0%	10	-			\$ -	\$ 3,419,000
GSTM-02	Environmental/Regulatory Blanket	BPU Gas Services	Environmental/Regulatory	April-2011			Services Replaced	9,500	3	0.0%	\$ 37,600,000	\$ 167,371	0.4%	66	0.4			\$ 167,371	\$ 7,218,000
GSTM-03A	System Reinforcement Blanket	Bell Joint Encapsulation	System Reinforcement	April-2011			Joints Encapsulated	400	66	16.5%	\$ 2,000,000	\$ 158,401	7.9%	2	0.8			\$ 158,401	\$ 1,000,000
GSTM-03B	System Reinforcement Blanket	Hamilton lbs. to lbs. Regulator	System Reinforcement	Nov-2009	Engineering & Design, Construction, In-Service		Regulators Reinforced	1	-	0.0%	\$ 400,000	\$ -	0.0%	1	-			\$ -	\$ 400,000
GSTM-03C	System Reinforcement Blanket	Distribution Reinforcements	System Reinforcement	April-2011	Engineering & Design, Construction, In-Service			-	-		\$ 3,500,000	\$ 14,668	0.4%	4	0.1			\$ 14,668	\$ 900,000
GSTM-03D	System Reinforcement Blanket	M&R Reinforcements	System Reinforcement	April-2011	Engineering & Design, Construction, In-Service			-	-		\$ 2,100,000	\$ -	0.0%	3	-			\$ -	\$ 550,000
GSTM-04	Support Facilities Blanket	M&R Station Emergency Generators	Support Facilities	April-2011			Generators Installed	6	-	0.0%	\$ 500,000	\$ -	0.0%	1	-			\$ -	\$ 250,000
GSTM-05	East Rutherford M&R Station	East Rutherford M&R Station - Upgrade	Replace Facilities	April-2011	Engineering & Design, Construction, In-Service, Restoration		Station Upgrade	1	-	0.0%	\$ 5,000,000	\$ 17,082	0.3%	15	0.1			\$ 17,082	\$ 1,100,000
GD-Base-NB	Base Projects	New Business	New Business													\$22,396,302	\$ 55,828,566		
GD-Base-SR	Base Projects	System Reinforcements	System Reinforcement													\$10,521,901	\$ 24,122,911		
GD-Base-RF	Base Projects	Replace Facilities	Replace Facilities													\$31,085,167	\$ 56,939,780		
GD-Base-ER	Base Projects	Environmental/Regulatory	Environmental/Regulatory													\$12,345,185	\$ 32,473,516		
GD-Base-SF	Base Projects	Support Facilities	Support Facilities													\$ 633,437	\$ 1,161,073		
<b>Grand Total</b>											\$ 273,000,000	\$7,198,478	2.6%	324	17.6	\$76,981,992	\$ 170,525,846	\$ 7,198,478	\$ 86,680,000

Notes: 1. For column c & d-if the project cannot be quantified with numbers then it should be broken down into major tasks to be completed. e.g. design phase, material procurement, permit gathering, phases of construction etc.

2. For column N & O the amounts includes only normal spending for the budget year and do not include any spending associated with the qualified projects in Exhibit A.

3. See Attached Gantt Chart reflecting each project

4. For columns P & Q, the "Rate Period" is e.g., "CAC Period 1", etc.

5. For the non qualified project spending (columns N & O) the reporting period is January 1 through December 31, 2009.

## Recommended Additions for Quarterly Report on Capital Expenditures and Job Creation Related to Qualifying Projects

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
BPU Project Number	Account(s) <sup>1</sup>	"Non-qualifying" Budget <sup>2</sup>	"Non-qualifying" Estimated Quantity <sup>3</sup>	"Non-qualifying" Quantity Completed to Date <sup>4</sup>	"Non-qualifying" Cost Completed to Date <sup>5</sup>	Percent of "Non-qualifying" Quantity Completed to Date <sup>6</sup>	Percent of "Non-qualifying" Cost Completed to Date <sup>7</sup>
GSTM-01A							
GSTM-01B							
GSTM-01C							
GSTM-01D							
GSTM-02							
GSTM-03A							
GSTM-03B							
GSTM-03C							
GSTM-03D							
GSTM-04							
GSTM-05							

- (1) Provide account number(s) and account description(s) associated with all items under this BPU Project Number
- (2) Provide the total estimated cost, for the same accounts as described by the BPU Project Number, that are included in the Company's normal or traditional annual construction budget.
- (3) Provide the total estimated quantity or number of units, for the same accounts as described by the BPU Project Number, that are included in the Company's normal or traditional annual construction budget.
- (4) Provide the total quantity or number of units, as described in Column (D), which have been completed to date.
- (5) Provide the total expenditures for the items, as described in Column (C), which have been completed to date.
- (6) Column (E) divided by Column (D)
- (7) Column (F) divided by Column (C)

Note: The inclusion of Columns (G) and (H) are not strong recommendations; they are included to conform with PSE&G's Quarterly Report format for "qualifying" projects.