STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

I/M/O THE PETITION OF PUBLIC SERVICE ELECTRIC & GAS COMPANY FOR APPROVAL OF THE ENERGY STRONG PROGRAM	))))	**BPU Docket Nos. EO13020155 and GO13020156**

DIRECT TESTIMONY OF ANDREA C. CRANE ON BEHALF OF THE DIVISION OF RATE COUNSEL

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I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is 90 Grove Street, Suite 211, Ridgefield, Connecticut 06877. (Mailing address: PO Box 810, Georgetown, Connecticut 06829)

Q. By whom are you employed and in what capacity?

A. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various studies relating to utility rates and regulatory policy. I have held several positions of increasing responsibility since I joined The Columbia Group, Inc. in January 1989. I became President of the firm in 2008.

Q. Please summarize your professional experience in the utility industry.

A. Prior to my association with The Columbia Group, Inc., I held the position of Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product Management, Treasury, and Regulatory Departments.

Q. Have you previously testified in regulatory proceedings?

A. Yes, since joining The Columbia Group, Inc., I have testified in over 350 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii, Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, Washington, West Virginia and the District of Columbia. These proceedings involved electric, gas, water, wastewater, telephone, solid waste, cable television, and navigation utilities. A list of dockets in which I have filed testimony since January 2008 is included in Appendix A.

Q. What is your educational background?

A. I received a Master of Business Administration degree, with a concentration in Finance, from Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in Chemistry from Temple University.

II. <u>PURPOSE OF TESTIMONY</u>

Q. What is the purpose of your testimony?

A. On or about February 20, 2013, Public Service Electric and Gas Company ("PSE&G" or "Company") filed a Petition with the New Jersey Board of Public Utilities ("BPU" or "Board") requesting approval for an Energy Strong Program. The proposed Energy Strong Program is a ten-year investment program whereby the Company plans to invest approximately $2.762 billion in its electric distribution business and $1.180 billion in its gas distribution business in order to improve the Company's "ability to withstand and recover from severe storms." In its Petition, PSE&G is requesting approval for the first five years of the Energy Strong program. The Company also seeks to implement an Energy Strong Adjustment Mechanism ("ESAM") to recover costs associated with the Energy Strong Program.

The Columbia Group, Inc. was engaged by The State of New Jersey, Division of Rate Counsel ("Rate Counsel") to review PSE&G's filing and to provide recommendations to the BPU with regard to certain policy and accounting issues. Testimony is also being filed on behalf of Rate Counsel by Matthew Kahal on cost of capital issues, by David Dismukes on certain policy issues, by Edward McGee on specific engineering issues associated with the Company's Natural Gas Distribution proposals and by Charles Salamone on the specific program electric distribution system components of the Energy Strong Program.

III. <u>SUMMARY OF CONCLUSIONS</u>

Q. Please summarize your conclusions and recommendations.

A. Based on my analysis of the Company's filing and other documentation in this case, my conclusions and recommendations are as follows:

1. PSE&G has had, and continues to have, an obligation to provide safe and reliable utility service.
2. PSE&G has not demonstrated that an alternative cost recovery mechanism is necessary in order to ensure adequate investment in the utility.

3. The BPU should reject the Energy Strong Program and the associated cost recovery mechanism as proposed by PSE&G.

4. If the BPU finds that some extraordinary ratemaking treatment is required in order to increase investment in the Company, then it should:

    a) require the Company to meet minimum levels of investment (exclusive of investment relating to new business and the Energy Strong Program);

    b) permit PSE&G to defer recovery of return on net investment until the next base rate case;

    c) adopt the updated rate of return recommended by Rate Counsel witness Matthew Kahal as the applicable carrying cost;

    d) permit the Company to delay depreciating the Energy Strong Program assets for up to three years following completion of each project;

    e) deny the Company's request to recover or defer operating expenses associated with the Energy Strong Program until such costs are included in the Company's next base rate case.

IV. DISCUSSION OF THE ISSUES

A. Background of the Energy Strong Program

Q. Please provide a brief background of the Energy Strong Program being proposed by PSE&G.

A. PSE&G is proposing a ten-year investment program of approximately $2.762 billion for electric distribution investment and approximately $1.180 billion for gas distribution investment. In this case, PSE&G is requesting that the BPU approve the first five years of the program. The Company estimates costs during the first five years of the program as $1.703 billion for the electric delivery program and $906 million for the gas delivery projects.

PSE&G contends that the proposed Energy Strong Program will improve the Company's ability "to withstand and recover from severe storms" such as Hurricane Irene, the October 2011 snow storm, and Superstorm Sandy.[1] The Company claims that the Energy Strong Program "will harden electric and gas assets infrastructure to make them less susceptible to damage from extreme wind, flying debris and water damage in anticipation of...changing weather patterns."[2]

Q. What program segments is PSE&G proposing for the Energy Strong Program?

A. PSE&G is proposing six sub-programs related to electric delivery infrastructure hardening, two sub-programs related to electric delivery infrastructure resiliency investments, two supplemental electric sub-programs, and two gas delivery infrastructure hardening programs. A brief description of each sub-program is provided below:

A. Electric Delivery Infrastructure Hardening Investments - The Company's proposal includes six sub-programs for its electric distribution system relating to hardening:

1 February Petition, paragraph 1.
2 Id., paragraph 2.

1. Station Flood and Storm Surge Mitigation – This program involves the identification of switching stations and/or substations that could benefit from flood and/or storm surge mitigation measures, which may include installation of flood walls, raising or replacement of certain structures, or relocation.

2. Outside Plant Higher Design and Construction Standards – This program involves changing construction standards for certain areas to a higher voltage level so circuits will be better able to withstand severe weather events and vegetation impacts.

3. Strengthening Pole Infrastructure – This program involves "targeted investment in enhanced guying systems, larger diameter poles and reduced spans between poles, and the potential use of non-wood and composite material poles where appropriate."[3]

4. Rebuilding Backyard Pole Lines – In lieu of relocating backyard pole lines, the Company proposes to rebuild lines "located in customers' backyards to current overhead standards along with additional vegetation management to facilitate construction...."[4]

5. Targeted Undergrounding to Mitigate Storm Impacts – The Company proposes to convert certain subtransmission and distribution facilities from overhead to underground in areas where it believes that such conversion will provide substantial benefits. As part of this project, PSE&G also proposes to replace approximately 75 ground level pad-mounted Automatic Transfer Switches and approximately 200 pad-mounted transformers.

3 Petition, paragraph 37.
4 Petition, paragraph 44.

6. Relocate Operations Centers and Emergency Response Centers – PSE&G proposes to relocate certain control rooms and emergency facilities that are currently below sea level to higher elevation.

B. Electric Delivery Infrastructure Resiliency Investments - The Company's proposal includes two sub-programs for its electric distribution system relating to resiliency:

1. Advanced Technologies – PSE&G proposes to implement new technologies to improve storm and emergency response as well as to improve customer communications.

2. Contingency Reconfiguration Strategies – PSE&G proposes to increase loop sections utilizing smart switches, smart fuses, and redundancy.

C. Supplemental Investments – PSE&G is proposing two additional investment programs for its electric distribution system:

1. Emergency Back-up Generator and Quick Connect Stockpile Program **–** This program would include stockpiling back-up generators and quick connect facilities that the Company would be able to distribute throughout affected communities in the event of a storm.

2. Municipal Pilot Program – The Company is proposing a pilot program to work with a municipality to develop a municipal storm plan to address vegetative maintenance and mobile field applications.

D. Gas Delivery Infrastructure Hardening Investments – PSE&G is proposing two sub-programs for its gas distribution system:

1. Metering and Regulating ("M&R") Station Flood and Storm Surge Mitigation - The Company proposes mitigation measures for nine M&R Stations and one Liquefied Natural Gas facility to raise facilities above flood elevation. In addition, other sites would be evaluated for possible mitigation.

2. Replacement of Utilization Pressure Cast Iron and Associated Services – PSE&G is proposing to replace approximately 750 miles of cast iron mains and 40,000 unprotected steel service pipes in select locations.

Q. What are the total costs of the Energy Strong Program?

A. For the electric utility, the capital costs during the first five years of the program are projected to be $1.703 billion. An additional $1.059 billion is projected for years six through ten, bringing the total capital costs of the electric program to $2.762 billion, as shown below:

Electric Delivery Infrastructure Hardening Investments ($ Millions)

Program	Years 1-5	Years 6-10	Total
Station Floor Mitigation	$819	$859	$1,678
Outside Plant – Higher Design and Construction Standards	$135		$135
Strengthening Pole Infrastructure	$105	$0	$105
Rebuild/Relocate Backyard Poles	$100		$100
Undergrounding	$76		$76
Relocate Control and Emergency Facilities	$15		$15
Subtotal	$1,250	$859	$2,109

Electric Delivery Infrastructure Resiliency Investments ($ Millions)

Program	Years 1-5	Years 6-10	Total
Advanced Technologies	$251	$200	$451
Contingency Reconfiguration Strategies	$200	$0	$200
Subtotal	$451	$200	$651

Supplemental Electric Investments ($ Millions)

Program	Years 1-5	Years 6-10	Total
Emergency Back-up Generator and Quick Connect Program	$2	$0	$2
Municipal Pilot Program	TBD	TBD	TBD
Subtotal	$2+	$0+	$2+

For the gas utility, costs for the initial five year program are estimated at $906 million, with an additional $274 million for years six through ten. The total projected cost of the Energy Strong Program for the gas utility is $1.180 billion.

Gas Delivery Infrastructure Hardening Investments ($ Millions)

Program	Years 1-5	Years 6-10	Total
Metering and Regulating Station Flood Mitigation	$76	$64	$140
Utilization Pressure Cast Iron	$830	$210	$1,040
Subtotal	$906	$274	$1,180

Q. How does the Company propose to recover the costs associated with the Energy Strong Program?

A. The Company proposes to recover the costs of the Energy Strong Program through a new surcharge mechanism, the Energy Strong Adjustment Mechanism ("ESAM"). PSE&G would implement separate mechanisms for its electric and gas utilities. In each case, the ESAM would recover return on net investment, depreciation/amortization expense, operation and maintenance expenses, and other charges such as uncollectible costs and regulatory assessments. These costs would be rolled into base rates when the Company had a new base rate case.

Q. When does the Company propose to begin recovery of the Energy Strong Program costs?

A. PSE&G plans to implement recovery mechanisms immediately upon approval of the Energy Strong Program, based on estimated annual revenue requirements and estimated annual billing determinants. PSE&G is proposing to make annual filings thereafter, allowing the parties an opportunity to conduct a prudency review of the actual Energy Strong Program costs. In subsequent base rate cases, any unrecovered net investment and operating costs associated with the Energy Strong Program would be rolled into base rates. At the conclusion of the Energy Strong Program, the Company will propose a final roll-in of unrecovered net investment into base rates. Any final under/over-recovered balance would be credited to the electric or gas Energy Efficiency Economic Stimulus Program Clause.

Q. How would the annual revenue requirements associated with the Energy Strong Program be determined?

A. As described on page 2 of Mr. Swetz's Revised Direct Testimony, filed on March 20, 2013, PSE&G plans to calculate a monthly revenue requirement associated with the Energy Strong Program, based on the following formula:

Revenue Requirements = ((Net of Tax Cost of Capital * Net Investment) + Net of Tax Amortization and/or Depreciation + Net of Tax Operation and Maintenance Costs +Tax Adjustments) * Revenue Factor

In addition, the Company is proposing that interest be applied to any monthly over/under recovery balance based on the average deferred balance for the month, pursuant to the following formula:

Monthly Carrying Charge = Monthly WACC * (Beginning Deferred Balance + Ending Deferred Balance) / 2 * (1- Tax Rate)

The Company is also proposing that the monthly carrying charge be added to the deferred balance each month, so the Company's proposal would result in compounding of monthly interest on over/under-recovered balances.

Q. How does PSE&G propose to design the actual surcharge rates that will be implemented to recover the costs of the Energy Strong Program?

A. Through the ESAM, PSE&G plans to implement Energy Strong Adjustment Charges ("ESAC") that would correspond with each base rate element. With regard to electric rates, the Company proposes that each rate schedule have a unique associated Energy Strong Adjustment Factor ("ESAF" or "Adjustment Factor"), which would be an equal percentage of the corresponding base rate charge. Thus, the Company proposes to implement a rider for each rate element that would effectively increase each rate element by the same percentage.

With regard to gas service, a similar structure is proposed. However, implementation of the gas ESAC is somewhat more complex because of certain credits that are flowed back to customers. As noted on page 6 of Mr. Swetz's Revised Direct Testimony, Non-Firm Transportation Gas Service ("TSG-NF") distribution revenues are flowed back to firm customers via the Margin Adjustment Clause ("MAC"). Distribution increases applied to customers who are being charged Firm Transportation Gas Service ("TSG-F") and Cogeneration Interruptible Service ("CIG") are proposed to flow back to firm customers as a reduction in the Non-Gulf Coast Cost of Gas component in their Basic Gas Supply Service ("BGSS") rate. Therefore, while the Company is proposing a unique ESAC for each gas base rate schedule, which would be based on the ESAF applied to each rate component, the gas rate mechanism would also include credits applied to the MAC, BGSS-RSG, and BGSS-Firm rate schedules.

Q. What rate of return does the Company propose to apply to the net investment associated with the Energy Strong Program?

A. The Company is proposing to apply the Weighted Average Cost of Capital ("WACC") approved in the last electric or gas base rate case. The currently approved WACC for both gas and electric is 8.21% (11.85% pre-tax), based on a cost of equity of 10.3%, as shown below:

	Percent	Embedded Cost	After-Tax Weighted Cost	Pre-Tax Weighted Cost	Net-of-Tax Weighted Cost
Common Equity	51.20%	10.30%	5.27%	8.92%	5.27%
Other Capital	48.80%	6.02%	2.94%	2.94%	1.74%
Total	100.00%		8.21%	11.85%	7.01%

Q. What is the initial electric and gas revenue requirement proposed by PSE&G for the Energy Strong Program?

A. The initial revenue requirements are $16.411 million for the electric utility and $12.970 million for the gas utility, as shown in Schedule SS-ES-5. These amounts include the revenue requirements projected for calendar year 2014, as well as deferred balances that the Company projected through December 31, 2013 in its filing. PSE&G's filing assumed that the Energy Strong Program would begin in July 2013 but that rates would not be implemented effective until January 1, 2014.

Q. What is the magnitude of the increases being proposed?

A. The initial electric increase would result in an Adjustment Factor of 1.5419%. The electric Adjustment Factor, applied to base rates, would increase each year during the term of the Energy Strong Program, as new investment is added to rate base. By 2019, the electric Adjustment Factor would be 20.6210% over current base rates , and the total annual revenue requirement would be $219.665 million, as shown in Schedule SS-ES-6E, page 12.

With regard to the gas utility, the initial Adjustment Factor applied to base rates would be 1.9222% in 2014, increasing to 16.2087% in 2019. The gas utility revenue requirement would increase to $110.062 million by 2019, as shown in Schedule SS-ES-6G, page 12. The impact in later years would continue to increase, as the Company continued to add additional plant during the second five-year period of the Energy Strong Program.

B. Evaluation of the Energy Strong Program

Q. What factors should the BPU consider as it evaluates the Company's request for approval of an Energy Strong Program?

A. First, the BPU should consider whether an enhanced investment program is necessary in order for the Company to meet its service obligations. While the details of the specific Energy Strong Programs components are being reviewed by other Rate Counsel witnesses, it does not appear that the Energy Strong Program is necessary for the provision of safe and reliable utility service, at least as those terms have been defined by PSE&G. As noted in paragraph 9 of the Petition,

> PSE&G has continued to invest in its delivery system over its 100 year history. Those investments have allowed PSE&G to meet its obligations as well as win numerous awards for reliability. PSE&G is proud of the system that it has built and the decisions made many years ago to invest in the current system. PSE&G believes that we are at a critical point where choices need to be made. We can continue to invest prudently in the electric and gas system and their current designs, providing service to our customers with incremental improvements and repairs being made as necessary and appropriate. Alternatively we can make more comprehensive enhancements to our delivery systems now. The instant Petition takes the latter approach and proposes to make infrastructure investments where such investments will have the greatest impact. (footnotes excluded)

In response to RCR-E-109, PSE&G stated that,

> The Company would not initiate the Energy Strong Program as part of its regular capital expenditures. Regular capital expenditures are for the purpose of providing new service and maintaining the existing system to provide safe and reliable service. The Company has been recognized as award winning for its reliability and will continue to make regulatory capital expenditures to maintain its system under normal operating conditions, with or without approval of the Energy Strong Program. Through the Energy Strong Program, PSE&G proposes to make extraordinary investments in hardening and resiliency to potentially eliminate outages and reduce outage durations during severe weather events. As the proposed Energy Strong investments are not for safety or reliability, they are not and would not be part of PSE&G's regular capital expenditures.

Thus, the Company is not suggesting that the Energy Strong Program, or any new program, must be implemented in order to meet its service obligations. Therefore, the first issue for the BPU is whether any new optional program should be implemented at this time. In making this determination, the BPU should consider the fact that the Energy Strong Program is at least a five-year investment program, and perhaps a ten-year investment program, with some plant additions not being fully recovered until more than 60 years after they are placed into service. Therefore, the decisions made today with regard to the Energy Strong Program will have far-reaching and long-term consequences for ratepayers.

If the BPU believes that incremental investment is desirable, then it must decide whether to require cost recovery through the base rate case process or to permit recovery through some other mechanism such as a rider or surcharge. In addition, it must determine the types of costs that would be eligible for recovery.

Q. Do you have any conceptual concerns with the proposed Energy Strong Program cost recovery mechanism?

A. Yes, I do. While other Rate Counsel witnesses will address the details of the specific programs being proposed by PSE&G, the BPU should consider whether it wants to establish a new regulatory mechanism for the recovery of costs incurred for projects that the Company claims are not required to meet reliability and service standards. Moreover, even if the BPU finds that the Energy Strong Programs should be undertaken to ensure reliability in the event of a major storm, reliability is not a new concept for the Company or for the BPU. Rather, insuring reliability is an integral part of managing any utility distribution system. The regulatory compact provides that in exchange for being granted a monopoly franchise area, a utility will provide safe and reliable utility service at reasonable rates. The obligation to provide safe and reliable service is a cornerstone of the utility's obligations. Thus, the concept of undertaking reliability improvements, when required, is not new or novel. Rather, this is a fundamental obligation of any electric or gas distribution company.

Q. Has the Company's obligation with regard to reliability changed over the years?

A. No, it has not. While there may have been changes in certain regulations with regard to safety and reliability over the years, the utility has always had, and continues to have, an obligation to operate its business in a reliable manner. This has not changed. While several severe weather events have caused the BPU to further examine the utilities' ability to continue service in the event of a major storm, the ability to meet changing operating conditions, including possible changes in weather conditions, does not require the BPU to abandon traditional cost recovery mechanisms.

PSE&G has not shown why an alternative recovery mechanism is necessary in order to undertake those investments necessary to provide safe and reliable utility service. From a cost recovery prospective, investments are either necessary in order to meet the Company's service obligation or they are not. While it would be ideal to ensure a 100% reliable utility system, 100% reliability is neither possible nor is it a cost-effective goal. I will defer to Rate Counsel's other consultants to determine the level of investment necessary to ensure that the Company meets its service obligation to ratepayers. However, that level of investment should be recovered pursuant to the base rate case methodology that has traditionally been used by the Company to recover its cost of service.

Q. How does the recovery mechanism envisioned for the Energy Strong Program fundamentally differ from base rate recovery?

A. The Company's proposed Energy Strong recovery mechanism is an accelerated recovery mechanism - one that will require ratepayers to pay for certain costs earlier than they would under traditional ratemaking. In addition, not only does the proposed Energy Strong recovery mechanism accelerate recovery of costs that would not otherwise be recoverable until the Company filed a base rate case, but the Company's proposal further accelerates recovery by requiring ratepayers to pay for not only actual expenditures, but projected expenditures as well. According to Mr. Swetz's testimony, the Energy Strong Program rates would be based on forecasted investment each year, so ratepayers would be required to begin to pay for plant that was not yet in-service and which will not be in-service until several months into the future, if at all.

C. Impact of the Energy Strong Program on Stakeholders

Q. What is the impact on shareholders of the Company's proposed Energy Strong Program?

A. Contrary to economic theory and good ratemaking practice, the proposed Energy Strong Program will increase shareholder return while significantly reducing risk. Shareholder return is directly proportional to the amount of investment made by the utility. Since shareholders benefit from every investment dollar that is spent by a utility, the proposed Energy Strong Program will increase overall return to shareholders and accelerate recovery of that return.

The proposed program will result in a significant increase in shareholder return and at the same time will reduce the risk of recovery. In the Company's last electric and gas base rate cases, the gross electric and gas plant-in-service was established at $6.016 billion and $4.746 billion respectively. During the first five years of the Energy Strong Program, electric utility plant-in-service is projected to increase by over 28% relative to the plant-in-service established in the last electric base rate case. By year 10, the Energy Strong Program will increase electric plant-in-service by almost 45% relative to the amount established in the last case.

With regard to the gas utility, the proposed Energy Strong Program will increase plant-in-service by approximately 19% during the first five years of the program and by approximately 25% over the ten-year period of the plan, relative to the gas plant-in-service established in the last gas rate case.

A review of the Company's electric workpapers indicates that over the useful life of the proposed electric assets, the Energy Strong Program will generate approximately $1.87 billion of return for investors on a net-of-tax basis. Approximately 75% of this amount, or $1.4 billion, relates to return on equity. While shareholders would reap the benefit of this $1.4 billion electric income stream, ratepayers would actually have to pay the income taxes and other assessments associated with these earnings. The Company is projecting that electric ratepayers will be charged $4.78 billion in incremental charges over the useful life of the Energy Strong electric assets.

With regard to the gas utility, the Energy Strong Program includes a total projected revenue requirement of $3.31 billion over the useful life of the assets. Approximately 32% of this amount, or $1.06 billion, relates to net-of-tax return on equity. Thus, shareholders stand to reap substantial benefits if the Energy Strong Program is approved. Moreover, these electric and gas amounts are based on investment made in the initial five-years of the program. Shareholders would benefit from significant additional earnings if the Energy Strong Program was extended for a full 10-year period.

Instead of viewing the Energy Strong Program as an investment burden, investors are likely to view the Energy Strong Program as an opportunity to increase their returns and to reduce their risk. Regulators should not lose sight of the fact that the there are two primary ways that shareholders can increase their returns – by increasing the rate base on which a return in earned or by increasing the rate of return that is applied to that rate base. In the current interest rate environment, it would be very difficult for the Company to argue that the 10.3% return on equity that was authorized in the last base rate case should be increased. Therefore, the Company must increase its earnings by increasing the amount of investment on which it can earn a return.

Every dollar of investment made by PSE&G results in greater earnings for shareholders. Moreover, under the Company's proposal, those earnings are guaranteed until the Company implements new base rates as part of a base rate case. The Company did not in its Petition propose to file a base rate case within a specified time period and, given the number of costs that are now recovered through surcharge mechanisms instead of through base rates, in my opinion it could be some time before the Company files another base rate case, thereby guaranteeing shareholder returns for a number of years.

Q. What is the impact of the Company's proposal on its customers?

A. Pursuant to the current ratemaking mechanism, plant additions are only included in rate base, and therefore in utility rates, once the plant is completed and placed into service. Between general base rate cases, plant that is booked to utility plant-in-service is not reflected in utility rates until the Company's next base rate case.

However, under the Company's proposal, ratepayers will bear higher costs sooner, as a result of the Energy Strong Program. Pursuant to the Energy Strong Program, ratepayers will pay an additional surcharge each year, beginning with an Order in this proceeding, related to the Energy Strong Program. Moreover, these charges will include not only plant that has been completed to date, but also plant that is projected to be completed over the upcoming twelve months. From a financial perspective, these are serious detriments to ratepayers.

Q. Would the Company's proposal to implement an Energy Strong surcharge also shift additional risk onto ratepayers?

A. Yes, it would. The Company's proposed mechanism would shift risk from shareholders, where it properly belongs, to ratepayers without any commensurate reduction in the Company's return on equity. In addition, the Company's proposal would require the BPU to increase rates even if the Company was earning its authorized rate of return.

The Energy Strong will reduce shareholder risk, in two ways. First, since the Energy Strong Program will accelerate recovery, shareholders will no longer have to wait for a general base rate case to receive a return on this investment. Nor will shareholders have to wait for a general base rate case in order to begin recovery of depreciation associated with the investment. Second, given the true-up mechanism included in the Energy Strong recovery mechanism, recovery of and on this investment is guaranteed. Under traditional ratemaking, shareholders are awarded a risk-adjusted return on equity and given the opportunity, but not a guarantee, to earn this return. Under the true-up mechanism proposed by PSE&G, shareholders would be guaranteed to recover both the return on this investment as well as the return of this investment. This guarantee results from the fact that any shortfalls would be charged to ratepayers in a subsequent period. This mechanism effectively eliminates all shareholder risk involving recovery of projects funded through the Energy Strong Program until the time that such projects are rolled into base rates.

Moreover, under the Company's proposal, not only are shareholders guaranteed a return on and of their investment between base rate cases, but there is also a guarantee that the Company will recover its operating and maintenance expenses and certain other costs, such as uncollectible costs and regulatory assessments. Since PSE&G intends to include these costs in its Energy Strong revenue requirement, then recovery of these operating costs is guaranteed between base rate cases.

The Energy Strong Program also results in rate uncertainty for ratepayers. These annual rate increases will make it difficult for customers to anticipate their charges for electric utility service or to assess the accuracy of their bills. Rate stability can be especially important to residential and small commercial customers. Permitting these costs to be recovered between base rate cases will also reduce the Company's incentive to control and manage these costs. If the Company is required to file a base rate case to recover these costs, it is likely to work harder to keep costs down between base rate cases by investing in the most efficient projects and by managing construction of such projects effectively.

Adoption of a cost recovery surcharge mechanism also puts the BPU in the position of pre-approving rate increases without knowing the exact magnitude of those increases. Moreover, these rate increases would occur even if the Company were earning more than its currently authorized rate of return.

Q. Is this an appropriate time to place millions of dollars of additional costs on ratepayers?

A. No, it is not. While there has been some general improvement in overall economic conditions over the past year, the economy is still fragile. Unemployment in New Jersey was 8.5% in August 2013, significantly above the United States average of 7.3%. Ratepayer resources, like Company resources, are not unlimited and now is not the time to impose significant new utility costs on ratepayers for programs that may not be necessary to provide safe and reliable utility service. The BPU has not examined important issues such as gradualism, rate stability, and the avoidance of rate shock, issues which should be thoroughly explored prior to implementing an Energy Strong adjustment mechanism.

Q. Doesn't the Company state that electric and gas rates will actually decline by 2018, assuming that the Energy Strong Program is approved?

A. Yes, on pages 14-15 of his Revised Direct Testimony, Mr. Swetz notes that "[b]y 2018, the typical combined electric and gas residential customer is projected to experience an annual decrease of $12.08 or 0.49% compared to the current typical bill." However, the Energy Strong Program is responsible for none of this decrease. Instead, the decrease relates to termination of, or significant reductions in, the Transitional Energy Facility Assessment Tax, the Securitization Transition Charge, the Non-Utility Generation Charge, and the Capital Adjustment Charge. The projected decrease also depends upon assumptions regarding future prices for Basic Generation Service and Basic Gas Supply Service, as well as projected reductions in other surcharge rates. The Company is attempting to use the termination or reduction of some surcharges to which ratepayers are entitled, as a means to mitigate the impact of billions of dollars in new charges associated with the Energy Strong Program. The fact is that the proposed Energy Strong Program will result in electric rate increases of up to 20.62% and gas rate increases of up to 16.21% by 2019 in the Company's base rate components.

Q. Is the Company proposing any reduction to its cost of equity to reflect the lower risk inherent in the Energy Strong Program?

A. No, it is not. In spite of the fact that the Energy Strong Program will reduce shareholder risk, and will transfer that risk to ratepayers, the Company has not proposed any reduction to the cost of equity to be paid by ratepayers. As stated earlier, PSE&G is proposing that the return authorized in its last electric and gas base rate cases be used to calculate the revenue requirement associated with the Energy Strong Program. However, since this return will be accelerated, the impact to shareholders is an increase in the earned return on equity between base rate cases even though there is virtually no risk of cost recovery. Thus, the Energy Strong Program provides exactly the wrong movement in return on equity that one would expect, given the significant reduction in shareholder risk.

Q. Don't shareholders bear the risk of having the BPU deny recovery in an annual prudence review?

A. In my opinion, the Energy Strong Program is essentially risk-free to shareholders. Since the BPU will have already approved the Energy Strong sub-programs, there is virtually no risk of disallowance unless actual spending varies greatly from what is projected. Under the Company's proposal, only Energy Strong actual costs will be subject to a prudency review. Moreover, as stated in the response to RCR-ROR-26, PSE&G "has not been denied recovery of any costs as a result of an imprudence finding associated with its tracker mechanisms for infrastructure investment, energy efficiency and renewable resources." In addition, the

Company has received recovery of costs incurred in its various Solar Loan and Solar Investment programs, even though in many cases the costs of those programs have been significantly greater than originally projected, due to declining prices for Solar Renewable Energy Certificates ("SRECs"). The fact is that disallowance of costs recovered through a rider or surcharge mechanism is extremely rare.

Q. Could the Energy Strong Program change the process currently used by PSE&G to prioritize distribution projects?

A. Yes, it could. The Energy Strong Program could reduce the Company's incentive to undertake reliability projects based on identified need, and instead could provide an incentive to spend up to a pre-approved, arbitrary allowance, knowing that shareholders will earn a return on any such expenditures and that recovery of such expenditures is guaranteed. Under the present regulatory mechanism, PSE&G has to prioritize not only its total expenditures, but also the expenditures earmarked for reliability projects. Therefore, the Company must make choices about how much to spend and how to spend it, while meeting its mandate to provide safe and reliable utility service. If, however, certain projects will be subject to advance recovery, PSE&G will have much less incentive to prioritize capital investment based on actual need and more incentive to undertake specific Energy Strong projects, which are subject to accelerated cost recovery.

Q. Does the Company's proposal result in single-issue ratemaking?

A. Absolutely. The Company's proposal clearly constitutes single-issue ratemaking since it proposes to increase rates for one component of the ratemaking equation without consideration of the overall revenue requirement or revenue levels being earned by PSE&G. Single-issue ratemaking violates the regulatory principle that all components of a utility's ratemaking equation be considered when new rates are established. The ESAM would permit the Company to impose increases each year on captive customers without regard for other ratemaking components. This is especially troublesome given the fact that it may be some time before the BPU has the opportunity to examine the Company's entire revenue requirement as part of a base rate case.

Q. Hasn't the BPU approved similar single-issue cost recovery mechanisms in other cases?

A. Yes, however, it is my understanding that the vast majority of single-issue cost recovery mechanisms approved by the BPU relate either to significant costs that are largely outside of the Company's control (e.g., fuel), or to executive or legislative mandates (previous infrastructure investment programs, energy efficiency programs, solar programs, etc.). Moreover, in my view, the existence of these other surcharge recovery mechanisms makes it more critical, not less critical, for the BPU to move away from single-issue ratemaking and to return to base rate cases as the vehicle for establishing rates to New Jersey ratepayers.

Over the past few years, there have been numerous programs approved for recovery through a surcharge mechanism. In addition to base rates, electric ratepayers are currently paying a Societal Benefits Charge, a Non-utility Generation Charge, a Securitization Transition Charge, a Solar Pilot Recovery Charge, a Capital Adjustment Charge, a Basic Generation Service Charge, and a Regional Greenhouse Gas Initiative Charge, which is composed of separate surcharges to recover costs associated with the Carbon Abatement Program, Energy Efficiency Economic Stimulus Program, Energy Efficiency Economic Extension Program, Demand Response Program, Solar Generation Investment Program, Solar Generation Investment Extension Program, Solar Loan II Program, and Solar Loan III Program.

In addition to base rates, current gas ratepayers are paying a Societal Benefits Charge, a Weather Normalization Charge, a Capital Adjustment Charge, a Basic Gas Supply Service Charge, and a Regional Greenhouse Gas Initiative Charge, which is composed of separate surcharges to recover costs associated with the Carbon Abatement Program, Energy Efficiency Economic Stimulus Program, and Energy Efficiency Economic Extension Program.

Ratemaking is supposed to be a substitute for competition. In a competitive marketplace, a company is not guaranteed to recover costs and shareholders are not guaranteed to earn a specific level of profit. The entire regulatory paradigm appears to be at risk as utilities have successfully argued that the base rate case recovery mechanism, which provided incentives for effective management and permitted shareholders the opportunity to earn a reasonable return, should be discarded in place of a myriad of surcharges that guarantee recovery, reduce shareholder risk, and remove incentives for effective cost control.

Q. Has the Company demonstrated that the proposed ESAM is necessary in order to meet its service obligations to New Jersey ratepayers?

A. No, it has not. PSE&G has not demonstrated that the accelerated recovery mechanism proposed in the filing is necessary. PSE&G stated that it will not undertake the Energy Strong Program if the proposed surcharge mechanism is not approved, since "Rating Agencies would view this level of discretionary capital spend without a pre-approved collection as a credit negative...".[5.] Thus, PSE&G seems to acknowledge that the Energy Strong Program is "discretionary." The Company did provide Rating Agency reports indicating that its credit ratings "could" be downgraded if "the company makes material investments within its regulated businesses without contemporaneous returns" or "if there were a negative change in our view of the regulatory framework...." However, Rating Agencies are in the business of protecting investors' interests, not ratepayers' interests. Rating Agencies always view high earnings and low risk as being more favorable than lower earnings and higher risk. The Energy Strong Program is a discretionary program, one that PSE&G indicates is not necessary to provide safe and reliable service, but one that will result in billions of dollars of return to shareholders and billions of dollars of new charges for New Jersey electric and gas customers.

5 Response to RCR-ROR-21.

The Company has not demonstrated that its financial condition warrants an accelerated recovery mechanism. There is no evidence that PSE&G has had difficulty in the past attracting the capital necessary to invest in reliability projects. The Company has not provided any evidence that it has had, or will have, difficulty attracting capital if the Energy Strong Program is not approved, or in funding incremental projects if the BPU approves certain sub-components of the Program. In this case, there is no evidence that either operational issues or financial issues necessitate implementation of a new accelerated recovery mechanism for distribution reliability projects. Thus, PSE&G has not demonstrated that its financial integrity will be jeopardized if the cost recovery mechanism proposed for the Energy Strong Program is rejected by the BPU.

Q. Should the Board approve a new cost recovery mechanism associated with PSE&G's Energy Strong program?

A. No, it should not. If the BPU finds that an additional level of investment is required, then the associated costs should be recovered by PSE&G through the existing base rate case process. Use of a surcharge mechanism will result in a guaranteed return to shareholders, a transfer of risk from shareholders to ratepayers, and a further erosion of the integrity of the regulatory process. I recommend that the BPU reject the Company's proposal to accelerate recovery of costs associated with the Energy Strong Program projects.

The Energy Strong Program results in single-issue ratemaking, provides a disincentive for utility management to control costs, and shifts risk from shareholders to ratepayers. The Energy Strong Program will put a further (and unnecessary) financial burden on ratepayers. Investment in reliability projects should be treated no differently from other investment that is necessary to provide safe and adequate utility service, and should be recovered only through a general base rate case where all parties can undertake a thorough review of the costs. Accordingly, the Company's request for an extraordinary recovery mechanism for the Energy Strong Program should be denied.

D. <u>Modifications to the Cost Recovery Mechanism</u>

Q. If, in spite of your recommendations, the BPU does approve an extraordinary recovery mechanism for the Energy Strong Program, should they authorize the ESAM as proposed by the Company?

A. No, they should not. I have several concerns about the specific cost recovery mechanism proposed by PSE&G. Therefore, in the event that the Energy Strong Program is approved and the BPU finds that some extraordinary cost recovery mechanism is appropriate, then I recommend the following:

1. Recovery should not be permitted between base rate case proceedings. Instead, if the BPU believes that some extraordinary ratemaking treatment is necessary, it should permit the Company to defer recovery between base rate cases.

2. Deferred recovery should be limited to a return on the net investment in the Energy Strong Program. The cost of capital used for carrying

costs should be based on current market conditions, as recommended by Mr. Kahal.

3. In order to defer recovery, the Company should demonstrate that the level of capital expenditures for the Energy Strong Program is incremental to the annual capital expenditures that would otherwise be made by PSE&G.

4. The Company should be permitted to delay the booking of depreciation charges, provided that it files a base rate case within three years of a project going into service.

5. The Company should not be permitted to defer operating expenses.

The alternative recovery mechanism that I am recommending is similar to the mechanism approved for PSE&G's Capital Infrastructure Program II ("CIP-II"). Under this approach, the return on net investment would be deferred between base rate case proceedings. This approach would provide shareholders the opportunity to earn a full return on the Energy Strong Program investment, but would provide for recovery of this deferred return through a base rate case.

Q. What rate of return should be utilized for any deferrals associated with the Energy Strong Program?

A. Mr. Kahal is addressing the issue of an appropriate rate of return on investment. However, it is clear that the return on equity of 10.3% approved in the Company's last base rate case proceedings is no longer reasonable.

Q. Why do you believe that the Company's currently authorized equity return of 10.3% is excessive?

A. The currently authorized return on equity of 10.3% was the result of a complex settlement in a base rate case that reflected compromises by several parties on many different issues.[6] Moreover, that case was filed in May 2009 and new rates were effective in July 2010. Since the Company's last base rate case, market conditions have changed, a fact not reflected in the Company's request to earn its currently authorized WACC on investment made in the Energy Strong Program. Moreover, since that case, the BPU has approved a number of settlements that reflected a lower return on equity than the 10.3% approved in that case.

Q. Has the Company's embedded cost of debt declined as well?

A. Yes, it has. As discussed in Mr. Kahal's testimony, it is my understanding that the Company's embedded cost of debt has fallen from the 6.14% utilized in PSE&G's last base rate case.

Q. What is the significance of these declines in capital costs since the last case?

A. The message is clear. While the parties can debate the specific impact of these reductions on the Company's overall cost of capital, the fact is that capital costs have declined since the decision in BPU Docket No. GR09050422. Regardless of how a party chooses to determine the cost of capital, it is clear that the 10.3% cost

6 I/M/O the Petition of Public Service Electric and Gas Company for Approval of an Increase in Electric and Gas Rates and For Changes in the Tariffs for Electric and Gas Service B.P.U.N.J. No. 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, BPU Docket No. GR09050422.

of equity reflected in the WACC is no longer appropriate. It is also clear that a reduction to the cost of debt approved in the last base rate case is warranted. Therefore, if the BPU approves a ratemaking mechanism that includes deferral of return on the Energy Strong Program investment, it should utilize the updated return recommended by Mr. Kahal.

Q. If a deferral mechanism is approved, why should the BPU ensure that the Energy Strong Program investment is incremental to the annual investment that would normally be made by the Company in the absence of the Program?

A. The BPU should ensure that the Company does not shift capital resources that would otherwise be invested in the utility into the Energy Strong Program. PSE&G has stated that it will continue to undertake investments that are necessary for the provision of safe and reliable utility service regardless of whether the Energy Strong Program is approved. To ensure that the Company meets this commitment, I recommend that deferral of any costs associated with the Energy Strong Program be contingent upon the Company meeting its commitment to continue investment in the utility. As a condition of approval in the CIP-2 proceeding, PSE&G agreed to certain minimum levels of base capital expenditures that would need to be made in order to obtain recovery for CIP-2 projects. This commitment included capital spending of $188.8 million in 2013 for the electric utility and of $133.9 million in 2012 for the gas utility. These capital commitments excluded new business investment. If the BPU approves an

Energy Strong Program, it should require that the Company maintain an annual base level of spending that is at least commensurate with the levels previously agreed to by the Company for 2013 (electric) and 2012 (gas).

Q. Do you recommend that depreciation expenses be deferred as part of any Energy Strong deferral mechanism?

A. No, rather than defer depreciation expenses for future recovery, I recommend that the BPU authorize the Company to delay depreciating this investment until the investment is reflected in base rates, provided that the Company has a base rate case within three years of the completion date for each project. If the Company does not have a base rate case within three years, then I recommend that the Company begin to depreciate the investment three years after the in-service date, and that the investment be rolled-into base rates at its net book value at the time of the next base rate case.

Q. What is the rationale for your recommendation regarding depreciation expense?

A. My recommendation provides a balance between providing the Company with a realistic opportunity for recovery of all capital costs and the need to provide an incentive for periodic base rate cases in order to minimize the opportunity for over-recovery. If the Energy Strong Program is approved, periodic base rate cases will serve as an important check on the Company's earnings. Without some incentive to file a base rate case, PSE&G could continue to defer the return (and depreciation expense) on the Energy Strong investment indefinitely, creating a significant deferral that would ultimately need to be recovered from ratepayers. In my view, permitting the Company to delay depreciation expense for up to three years is a reasonable compromise.

Q. Why do you recommend that operating expenses be excluded from any deferrals?

A. This recommendation is consistent with the mechanism approved for the CIP-2 program, which excluded operating expenses from the deferral. But more importantly, I recommend that operating expenses be excluded because of the difficulty of tracking and verifying the incremental expenses associated with Energy Strong Program projects. In response to RCR-A-3, the Company claimed that "PSE&G has several control processes in place to track operating and maintenance expenses associated with projects. The Company will create orders in its work management system and financial accounting system to track, collect and manage the operating and maintenance expenses associated with the proposed Energy Strong program." However, it is virtually impossible to audit and verify the expenses reported by the Company's internal tracking system. This will be especially difficult for Energy Strong Program projects since in many cases the Company will be replacing and/or relocating facilities that have associated operating expenses already reflected in base rates. Thus, not only would PSE&G have to keep track of operating expenses associated with each Energy Strong sub-program but the Company would also need to eliminate the operating expenses associated with current facilities that are being recovered through base rates. A further complication results from the fact that a significant amount of overhead costs are spread among all projects undertaken by the Company. It would be virtually impossible to verify that all appropriate adjustments to both operating expenses and overhead costs were being made when the deferrals were rolled into base rates. Therefore, if the BPU approves a deferral mechanism for the Energy Strong Program, I recommend that it exclude operating and maintenance costs from the deferrals.

Q. How would uncollectible costs and regulatory assessments be handled under your alternative recommendation?

A. Since I am not recommending recovery of any deferrals between base rate cases, there is no need to address the deferral of uncollectible costs or regulatory assessments. Once the deferrals are reflected in base rates and recovery begins, the appropriate uncollectible costs and regulatory assessments would be recovered through the revenue multiplier used in the base rate case to establish the overall level of any rate increase. Accordingly, no separate adjustment to, or tracking of, these costs would be necessary during the deferral period.

Q. Please briefly summarize your recommendations.

A. If the BPU approves any of the Energy Strong Program components, then I recommend that associated costs be recovered through the traditional base rate case process. If the BPU decides that some other cost recovery mechanism is appropriate, then I recommend that the BPU permit the Company to defer the return associated with Energy Strong Program projects, provided a) that the return applied to any such investments reflects updated market conditions, b) that the Company continues to make a reasonable level of other investments in the electric and gas utilities, and c) that operating expenses be excluded from any such deferral. If an alternative cost recovery mechanism is approved, I also recommend that the Company be permitted to delay booking depreciation expenses for up to three years after a project is completed and goes into service.

Q. Does this conclude your testimony?

A. Yes, it does.

APPENDIX A

List of Prior Testimonies

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Southwestern Public Service Company	E	New Mexico	12-000350-UT	8/13	Cost of Capital, RPS Rider, Gain on Sale, Allocations	New Mexico Office of Attorney General
Westar Energy, Inc.	E	Kansas	13-WSEE-629-RTS	8/13	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	13-115	8/13	Revenue Requirements	Division of the Public Advocate
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	13-MKEE-447-MIS	8/13	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Jersey Central Power & Light Company	E	New Jersey	ER12111052	6/13	Reliability Cost Recovery Consolidated Income Taxes	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	13-MKEE-447-MIS	5/13	Transfer of Certificate Regulatory Policy	Citizens' Utility Ratepayer Board
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	13-MKEE-452-MIS	5/13	Formula Rates	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	12-450F	3/13	Gas Sales Rates	Attorney General
Public Service Electric and Gas Co.	E	New Jersey	EO12080721	1/13	Solar 4All - Extension Program	Division of Rate Counsel
Public Service Electric and Gas Co.	E	New Jersey	EO12080726	1/13	Solar Loan III Program	Division of Rate Counsel
Lane Scott Electric Cooperative	E	Kansas	12-MKEE-410-RTS	11/12	Acquisition Premium Policy Issues	Citizens' Utility Ratepayer Board
Kansas Gas Service	G	Kansas	12-KGSG-835-RTS	9/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	12-KCPE-764-RTS	8/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Woonsocket Water Division	W	Rhode Island	4320	7/12	Revenue Requirements	Division of Public Utilities and Carriers
Atmos Energy Company	G	Kansas	12-ATMG-564-RTS	6/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	11-258	5/12	Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company (Western)	E	Kansas	12-MKEE-491-RTS	5/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atlantic City Electric Company	E	New Jersey	ER11080469	4/12	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	12-MKEE-380-RTS	4/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	11-381F	2/12	Gas Cost Rates	Division of the Public Advocate
Atlantic City Electric Company	E	New Jersey	EO11110650	2/12	Infrastructure Investment Program (IIP-2)	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	11-384F	2/12	Gas Service Rates	Division of the Public Advocate
New Jersey American Water Co.	W/WW	New Jersey	WR11070460	1/12	Consolidated Income Taxes Cash Working Capital	Division of Rate Counsel

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Westar Energy, Inc.	E	Kansas	12-WSEE-112-RTS	1/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Puget Sound Energy, Inc.	E/G	Washington	UE-111048 UG-111049	12/11	Conservation Incentive Program and Others	Public Counsel
Puget Sound Energy, Inc.	G	Washington	UG-110723	10/11	Pipeline Replacement Tracker	Public Counsel
Empire District Electric Company	E	Kansas	11-EPDE-856-RTS	10/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable	C	New Jersey	CR11030116-117	9/11	Forms 1240 and 1205	Division of Rate Counsel
Artesian Water Company	W	Delaware	11-207	9/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS (Remand)	7/11	Rate Case Costs	Citizens' Utility Ratepayer Board
Midwest Energy, Inc.	G	Kansas	11-MDWE-609-RTS	7/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power & Light Company	E	Kansas	11-KCPE-581-PRE	6/11	Pre-Determination of Ratemaking Principles	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	10-421	5/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company	E	Kansas	11-MKEE-439-RTS	4/11	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
South Jersey Gas Company	G	New Jersey	GR10060378-79	3/11	BGSS / CIP	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	10-296F	3/11	Gas Service Rates	Division of the Public Advocate
Westar Energy, Inc.	E	Kansas	11-WSEE-377-PRE	2/11	Pre-Determination of Wind Investment	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	10-295F	2/11	Gas Cost Rates	Attorney General
Delmarva Power and Light Company	G	Delaware	10-237	10/10	Revenue Requirements Cost of Capital	Division of the Public Advocate
Pawtucket Water Supply Board	W	Rhode Island	4171	7/10	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey Natural Gas Company	G	New Jersey	GR10030225	7/10	RGGI Programs and Cost Recovery	Division of Rate Counsel
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atmos Energy Corp.	G	Kansas	10-ATMG-495-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Empire District Electric Company	E	Kansas	10-EPDE-314-RTS	3/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	09-414 and 09-276T	2/10	Cost of Capital Rate Design Policy Issues	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	09-385F	2/10	Gas Cost Rates	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	09-398F	1/10	Gas Service Rates	Division of the Public Advocate

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Public Service Electric and Gas Company	E	New Jersey	ER09020113	11/09	Societal Benefit Charge Non-Utility Generation Charge	Division of Rate Counsel
Delmarva Power and Light Company	G	Delaware	09-277T	11/09	Rate Design	Division of the Public Advocate
Public Service Electric and Gas Company	E/G	New Jersey	GR09050422	11/09	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	09-MKEE-969-RTS	10/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy, Inc.	E	Kansas	09-WSEE-925-RTS	9/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08050326 EO08080542	8/09	Demand Response Programs	Division of Rate Counsel
Public Service Electric and Gas Company	E	New Jersey	EO09030249	7/09	Solar Loan II Program	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	09-MDWE-792-RTS	7/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy and KG&E	E	Kansas	09-WSEE-641-GIE	6/09	Rate Consolidation	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	09-60	6/09	Cost of Capital	Division of the Public Advocate
Rockland Electric Company	E	New Jersey	GO09020097	6/09	SREC-Based Financing Program	Division of Rate Counsel
Tidewater Utilities, Inc.	W	Delaware	09-29	6/09	Revenue Requirements Cost of Capital	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	08-269F	3/09	Gas Service Rates	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	08-266F	2/09	Gas Cost Rates	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	09-KCPE-246-RTS	2/09	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08090840	1/09	Solar Financing Program	Division of Rate Counsel
Atlantic City Electric Company	E	New Jersey	EO06100744 EO08100875	1/09	Solar Financing Program	Division of Rate Counsel
West Virginia-American Water Company	W	West Virginia	08-0900-W-42T	11/08	Revenue Requirements	The Consumer Advocate Division of the PSC
Westar Energy, Inc.	E	Kansas	08-WSEE-1041-RTS	9/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Artesian Water Company	W	Delaware	08-96	9/08	Cost of Capital, Revenue, New Headquarters	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR08020113	9/08	Form 1205 Equipment & Installation Rates	Division of Rate Counsel
Pawtucket Water Supply Board	W	Rhode Island	3945	7/08	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey American Water Co.	W/WW	New Jersey	WR08010020	7/08	Consolidated Income Taxes	Division of Rate Counsel

Company	Utility	State	Docket	Date	Topic	On Behalf Of
New Jersey Natural Gas Company	G	New Jersey	GR07110889	5/08	Revenue Requirements	Division of Rate Counsel
Kansas Electric Power Cooperative, Inc.	E	Kansas	08-KEPE-597-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Company	E	New Jersey	EX02060363 EA02060366	5/08	Deferred Balances Audit	Division of Rate Counsel
Cablevision Systems Corporation	C	New Jersey	CR07110894, et al..	5/08	Forms 1240 and 1205	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	08-MDWE-594-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	07-246F	4/08	Gas Service Rates	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR07100717-946	3/08	Form 1240	Division of Rate Counsel
Generic Commission Investigation	G	New Mexico	07-00340-UT	3/08	Weather Normalization	New Mexico Office of Attorney General
Southwestern Public Service Company	E	New Mexico	07-00319-UT	3/08	Revenue Requirements Cost of Capital	New Mexico Office of Attorney General
Delmarva Power and Light Company	G	Delaware	07-239F	2/08	Gas Cost Rates	Division of the Public Advocate
Atmos Energy Corp.	G	Kansas	08-ATMG-280-RTS	1/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board

APPENDIX B

Referenced Data Requests

RCR-A-3

RCR-E-109

RCR-ROR-21

RCR-ROR-26

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

O&M EXPENSES

QUESTION:
Please explain how the Company proposes to identify and track specific operating and maintenance expenses associated with the proposed Energy Strong program.

ANSWER:
PSE&G has several control processes in place to track operating and maintenance expenses associated with projects. The Company will create orders in its work management system and financial accounting system to track, collect and manage the operating and maintenance expenses associated with the proposed Energy Strong program.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
CAPITAL EXPENDITURES

QUESTION:
Can the Company initiate elements of the Energy Strong Program as a part of its regular capital expenditures? If not, please explain why not. If so, please explain.

ANSWER:
The Company would not initiate the Energy Strong Program as part of its regular capital expenditures. Regular capital expenditures are for the purpose of providing new service and maintaining the existing system to provide safe and reliable service. The Company has been recognized as award winning for its reliability and will continue to make regulatory capital expenditures to maintain its system under normal operating conditions, with or without approval of the Energy Strong Program. Through the Energy Strong Program, PSE&G proposes to make extraordinary investments in hardening and resiliency to potentially eliminate outages and reduce outage durations during severe weather events. As the proposed Energy Strong investments are not for safety or reliability, they are not and would not be part of PSE&G's regular capital expenditures.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

FINANCIAL IMPLICATIONS

QUESTION:
Please provide any analyses conducted by or for the Company concerning the financial implications (e.g., credit quality, access-to-capital, etc.) if the Company were to undertake the Energy Strong Program but be required to recover costs through conventional base rate cases rather than its proposed tracker mechanism.

ANSWER:
The Company does not propose to pursue Energy Strong investments without a tracker. The proposed investments are for resiliency and hardening PSE&G's infrastructure and are not required to meet reliability standards.

Rating Agencies would view this level of discretionary capital spend without a pre-approved collection mechanism as a credit negative:

Excerpt from Moody's report on PSE&G dated May 6, 2013; see attachment for RCR-ROR-4, page 4

"*PSE&G's ratings could be downgraded if there were a negative change in our view of the regulatory framework (which could include disallowances or instances of increasing regulatory lag)…"*

Excerpt from S&P's PSE&G research update dated April 23, 2013; see attachment for RCR-ROR-4, page3

"We could lower the ratings … (if) the company makes material investments within its regulated businesses without contemporaneous returns"

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

PRUDENCY DISALLOWANCE FOR INFRASTRUCTURE, ENERGY EFFICIENCY AND RENEWABLE PROGRAMS

QUESTION:
The response to RCR-ROR-10 states that under the proposed Energy Strong cost recovery mechanism the Company is subject to risks associated with a prudence disallowance. Please identify any and all costs for which PSE&G has been denied recovery by the Board due to an imprudence finding associated with its tracker mechanisms for infrastructure investment, energy efficiency and renewable resources.

ANSWER:
The Company has not been denied recovery of any costs as a result of an imprudence finding associated with its tracker mechanisms for infrastructure investment, energy efficiency and renewable resources. However, the Company is always at risk for an imprudence disallowance in the future cost recovery filing.