

**BEFORE THE STATE OF NEW JERSEY  
OFFICE OF ADMINISTRATIVE LAW  
BOARD OF PUBLIC UTILITIES**

**I/M/O THE JOINT PETITION OF PUBLIC )  
SERVICE ELECTRIC AND GAS COMPANY ) BPU DKT. NO. EM05020106  
AND EXELON CORPORATION FOR ) OAL DKT. NO. PUC-1874-05  
APPROVAL OF A CHANGE IN CONTROL )  
OF PUBLIC SERVICE ELECTRIC AND GAS )  
COMPANY AND RELATED AUTHORIZATIONS )**

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**TESTIMONY OF RICHARD W. LELASH  
ON BEHALF OF THE  
NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE**

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Filed: November 14, 2005

PSEG - EXELON MERGER  
DOCKET NO. EM05020106  
TESTIMONY OF RICHARD W. LELASH

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1 I. STATEMENT OF QUALIFICATIONS

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

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

5 Q. WHAT IS YOUR CURRENT BUSINESS AFFILIATION?

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

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

11 A. I was a principal with the Georgetown Consulting Group for twenty years. During my  
12 affiliation with Georgetown, and continuing to date, I testified on cost of service, rate  
13 of return, and regulatory policy issues in more than 275 regulatory proceedings. These  
14 testimonies were presented before the Federal Energy Regulatory Commission and in  
15 the following jurisdictions: Alabama, Arizona, Colorado, Delaware, District of  
16 Columbia, Georgia, Illinois, Kansas, Maine, Maryland, Minnesota, Missouri, New  
17 Jersey, New Mexico, New York, Ohio, Oklahoma, Pennsylvania, Rhode Island,  
18 U.S. Virgin Islands, and Vermont.

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

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

4 Q. DURING THE COURSE OF YOUR REGULATORY WORK, WHAT HAS BEEN  
5 YOUR EXPERIENCE WITH GAS POLICY AND PROCUREMENT?

6 A. Since 1980, I have worked extensively on gas policy and procurement issues. In my  
7 Appendix there is a listing of the recent cases in which I have sponsored testimony. In  
8 addition to these cases, I have reviewed and analyzed many other gas policy filings  
9 which were resolved through stipulation. Among other issues, my testimonies have  
10 involved gas service unbundling, physical and economic bypass, gas supply incentives,  
11 gas plant remediation costs, gas price hedging, demand and capacity planning, gas  
12 storage options, gas price forecasting, and least cost gas standards. In addressing these  
13 issues, I have analyzed gas regulatory filings involving about 30 different local  
14 distribution companies (“LDCs”).

15 Q. WHAT HAS BEEN YOUR EXPERIENCE WITH RESPECT TO THE GAS  
16 OPERATIONS OF PUBLIC SERVICE ELECTRIC & GAS COMPANY (“PSE&G” OR  
17 “COMPANY”)<sup>1</sup> AND PECO ENERGY COMPANY (“PECO”)?

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<sup>1</sup>In this testimony the utility Public Service Electric & Gas Company will be designated as (“PSE&G” or “Company”). Its parent company, Public Service Enterprise Group, will be

1 A. During the past several years, I have presented testimony in PSE&G proceedings  
2 involving its Gas Unbundling, Capacity Contract Transfer, and its annual LGAC and  
3 BGSS gas cost filings. I have also presented testimony concerning PECO's retail  
4 restructuring and its 1307(f) annual gas cost filings during each of the past five years.

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designated as "PSEG".

1 II. SCOPE AND PURPOSE OF TESTIMONY

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

4 A. I was hired by the New Jersey Division of the Ratepayer Advocate (“Ratepayer  
5 Advocate”) to review and evaluate the gas related issues associated with the Joint  
6 Petition of PSE&G and Exelon (“Petitioners”) concerning a change in control of  
7 PSE&G and related authorizations. The purpose of my testimony is to present findings  
8 and recommendations to the Administrative Law Judge (“ALJ”) and the New Jersey  
9 Board of Public Utilities (“BPU” or “Board”) concerning issues raised by the Joint  
10 Petition and whether the proposed change in control will result in positive benefits to  
11 the public interest and more specifically to PSE&G’s ratepayers.

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

14 A. My review and analysis encompassed data from the Petitioners’ filing, responses to  
15 discovery requests, and informal discovery meetings. I also utilized information from  
16 PSE&G’s previous proceedings and general data concerning its gas operations.

1 III. OVERVIEW OF MERGER ISSUES

2 - Merger Impact on PSE&G Gas Operations

3 Q. PLEASE PROVIDE AN OVERVIEW OF THE MERGER PROPOSED BY THE  
4 PETITIONERS AND ITS IMPACT ON THE GAS DISTRIBUTION OPERATION OF  
5 PSE&G.

6 A. In the proposed merger, PSE&G would continue to receive its total firm gas supply  
7 requirements from a PSEG affiliate, Energy Resources & Trade (“ER&T”), or a  
8 successor entity formed by the merged companies. There would be no major  
9 operational or structural changes in PSE&G’s gas acquisition or distribution functions,  
10 and, based on current post-merger plans, PSE&G and PECO gas operations would not  
11 be combined.

12 On this basis, one might conclude that the envisioned merger would not affect  
13 the Company’s gas business and the customers that it serves. It might further appear  
14 that the merger would neither harm nor benefit the gas operations over time. However,  
15 this is not accurate. With the potential change in ownership and the economic need to  
16 recoup acquisition costs, there are various factors that the Board should consider in its  
17 evaluation of the merger.

1 Q. PLEASE PROVIDE A SUMMARY OF THE TYPES OF FACTORS THAT NEED TO  
2 BE ADDRESSED IN THIS PROCEEDING.

3 A. As highlighted by a related review at the Federal Energy Regulatory Commission  
4 (“FERC”), Docket No. EC05-43-000 (“FERC Merger Order”), the merger will impact  
5 both the gas and electric supply markets. Regarding gas, the merger would combine the  
6 ownership of the gas supply resources of PSE&G and PECO and the gas trading and  
7 retail gas businesses of PSEG and Exelon. Material submitted to the FERC and to the  
8 Pennsylvania Public Utilities Commission (“PaPUC”) in Docket No. A-110550F0160  
9 indicates that the merged entity will have undue market power in the natural gas market  
10 in the defined PJM East market area<sup>2</sup>.

11 Additionally, there are serious concerns associated with the on-going availability  
12 of reasonably priced gas supply for PSE&G. The Company obtains its gas supply  
13 under a Requirements Contract with ER&T, but a change in ownership and possible  
14 future operational changes may affect provisions of the existing Contract, and will not  
15 ensure on-going supply under commensurate terms and conditions.

16 Q. IN ITS PROCESS OF EVALUATING THE PROPOSED MERGER, WHAT SPECIFIC  
17 ASPECTS OF GAS OPERATIONS REQUIRE THE BOARD’S ATTENTION?

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<sup>2</sup>PJM East includes New Jersey, part of Pennsylvania, part of Maryland and Delaware.

1 A. First and foremost, the Board should ensure that the gas operations and the interests of  
2 gas ratepayers do not get lost among a host of electric related issues. About 1.5  
3 million customers rely on PSE&G for their essential gas service; consequently, the gas  
4 issues in this matter require their own thorough review. (Petitioners' Response RAR-  
5 SQ-165)

6 - Standards For Merger Approval

7 Q. WHAT STANDARDS WILL BE APPLIED TO THE PROPOSED MERGER?

8 A. At the FERC, under the provisions of Section 203(a) of the Federal Power Act, approval  
9 is predicated on the merger's being consistent with the public interest. The FERC's  
10 Merger Policy Statement specifies that the public interest involves consideration of the  
11 merger's effect on competition, rates, and regulation. (FERC Merger Order at 3-4)

12 The Board has determined that the standard of review in this proposed merger  
13 is to be that of "positive benefits". (Transcript of Board Meeting, 06/22/05) Under this  
14 standard the merger of PSEG and Exelon must provide positive benefits to the  
15 stakeholders regarding: 1) its impact on competition; 2) the rates of utility ratepayers;  
16 3) utility employees; and 4) the utility's ability to provide safe and adequate service at  
17 just and reasonable rates. (Id. at 8)

18 These criteria identify the various factors that determine whether or not the  
19 proposed merger harms or benefits the present operation of the Company. The criteria

1 also appropriately focus upon the interests of various stakeholders that are not given  
2 a direct opportunity to vote on the merger proposal. Thus, while Exelon and PSEG  
3 stockholders can directly grant or withhold approval, other stakeholders cannot.  
4 Accordingly, the Board in this proceeding needs to evaluate the merger's impact on  
5 competitors, ratepayers, and employees in order to protect the public interest.

6 Q. BASED ON YOUR REVIEW AND ANALYSIS, DO YOU BELIEVE THAT THE  
7 PROPOSED MERGER IS COMPATIBLE WITH THE PUBLIC INTEREST?

8 A. My review, which focused on the gas related issues, did not indicate that the merger as  
9 filed would be in the public interest. Indeed, the merger is deficient as to each of the  
10 merger criteria. The Petitioners have not shown that there would be any material benefit  
11 with respect to future gas operations, and in fact are silent as to several associated rate  
12 risks. As for employees, there have been inadequate commitments made concerning  
13 job security, termination provisions, and pension and general employment benefits.  
14 While Petitioners' various transition teams continue their evaluation of best practices  
15 and the integration of the two entities' various operations, there still are no specific  
16 commitments concerning employee impacts.

17 Q. WITH RESPECT TO FUTURE GAS OPERATIONS, WHAT ARE YOUR SPECIFIC  
18 CONCERNS ASSOCIATED WITH THE MERGER?

1 A. My primary concern is that the Petitioners have not provided any definitive description  
2 of how the gas operation will be structured after the envisioned merger. There have  
3 been no commitments that PSE&G's gas operations will not be merged with the gas  
4 operations of PECO, or for that matter, with the Philadelphia Gas Works ("PGW").  
5 Many of the Company's gas supply and distribution functions remain uncertain pending  
6 final analyses, evaluations, and potential new "platforms" being developed by various  
7 transition teams that will not be completed until after the merger is approved. The gas  
8 trading function of ER&T is to be transferred to Pennsylvania despite the fact that the  
9 bulk of its gas transactions serve the Company's regulated utility operations in New  
10 Jersey. The Petitioners' frequent statements that they are not planning various actions  
11 or changes do not adequately address concerns about potential degradation of the  
12 existing New Jersey gas utility operation.

13 Q. YOU STATE THAT THERE ARE NO SPECIFIC COMMITMENTS CONCERNING  
14 EMPLOYEE IMPACTS. WOULD YOU DISCUSS THIS ISSUE FURTHER?

15 A At present, the Company has stated that there will only be three position reductions that  
16 are related to gas operations. (Petitioners' Response S-JAC-REL-117) However, this  
17 statement is, at best, disingenuous. The three position reductions were derived from  
18 Mr. William Arndt's synergy study that appears to be little more than a "guesstimate"  
19 of the effects of the proposed merger. Mr. Arndt performed no actual study of the  
20 Company's gas operations, and, as Petitioners acknowledge, the ultimate operational

1 blueprint is still a work-in-process for various transition teams. (Petitioners' Response  
2 RAR-GAS-52)

3 Merged utilities often gain earnings accretion through aggressive headcount  
4 reductions in operations, middle management, and support services. Capital  
5 expenditures for automated meter reading, centralized customer service centers, and  
6 reduced field personnel are often evident in the post-merger period. Absent concrete  
7 commitments on the part of the acquiring entity, the collateral headcount synergy  
8 forecasts and statements concerning best practices and intentions are not sufficient.

9 As for gas ratepayers, their post-merger prospects are even more uncertain.

10 Although the Petitioners initially stated that, "The transaction will have no adverse  
11 impact on existing PSE&G rates" ( Petition at 19), on Sept. 30, 2005 the Company  
12 filed a petition, Docket No. GR05100845 ("Gas Base Rate Case"), requesting a gas  
13 base rate increase of \$132.8 million prior to the Board's order on the merger. This  
14 filing and the Petitioner's statement that "PSE&G will hold its public utility customers  
15 harmless from any Merger-related costs to the extent that these costs are not offset by  
16 Merger-related savings" (Petition at 20), clearly do not translate into benefits for  
17 ratepayers.

18 Q THE COMPANY HAS STATED THAT THERE WILL BE APPROXIMATELY \$18.6  
19 MILLION OF NET SAVINGS IN THE FIRST FOUR YEARS, OR ABOUT \$4.7  
20 MILLION OF ANNUAL SAVINGS ASSOCIATED WITH THE GAS OPERATIONS IN

1 NEW JERSEY. WHY WOULDN'T SUCH SAVINGS PROVIDE A TANGIBLE  
2 RATEPAYER BENEFIT DERIVED FROM THE MERGER, ALL OTHER THINGS  
3 BEING EQUAL?

4 A. As long as there is no commitment on the part of the Petitioners to have shareholders  
5 rather than ratepayers be responsible for the estimated \$4.0 billion in goodwill  
6 associated with the envisioned merger, any net savings remain inconsequential. The  
7 Petitioners have stated, "It is undetermined at this time, pending the resolution of the  
8 Merger proceeding, how the approximately [\$4.0 Billion] of goodwill will be  
9 recognized for ratemaking purposes in setting electric and/or gas distribution rates."  
10 (Petitioners' Response S-OCI-RATES-1) Given the "undetermined" ratemaking for  
11 goodwill, the uncertainty and magnitude of possible synergy savings, and the unknown  
12 timing and extent of any cost savings or increases being factored into gas rates, there  
13 is ample risk that ratepayers will be harmed rather than realize any benefits from the  
14 merger.

15 In terms of regulatory oversight, again the merger presages problems by virtue  
16 of having regulatory agencies forced into reactive rather than proactive control over the  
17 gas utility function. Increasingly, the Company's gas operations have become  
18 dependent upon the policies and performance of non-regulated affiliated entities; this  
19 trend will only be compounded by the merger. Already, the FERC has failed to fully  
20 examine all of the competitive implications of the merger's impact on the gas market.  
21 In its Merger Order the FERC, broadly, and without any supporting evidence, stated,

1 “Applicants have shown that the transaction will not harm any state’s ability to regulate  
2 any of the merging parties.” (FERC Merger Order at 74) This finding was made despite  
3 the fact that the FERC never addressed the issue that, after the merger, many utility  
4 functions will become reliant on non-regulated, out of state entities with no public  
5 interest constraints. There is no reason for the FERC’s failure to fully assess the  
6 merger’s impact in areas where the Petitioners may invoke federal preemption in state  
7 jurisdictions. (Id.) This failure is particularly important since the Petitioners do not  
8 clearly delineate, nor do they acknowledge, the Board’s authority over all of the merged  
9 companies’ operations. Thus, regulatory oversight might well be impaired by the  
10 merger.

11 Q. ARE THERE SIMILAR ISSUES ASSOCIATED WITH THE MERGER’S IMPACT ON  
12 COMPETITION AND THE UTILITY’S ABILITY TO PROVIDE SAFE AND  
13 ADEQUATE SERVICE?

14 A. In the next sections of this testimony these issues will be discussed in detail, since  
15 there are serious concerns about the merger’s impact in both these areas. The FERC  
16 did not directly address either the horizontal market power issue in the gas market or  
17 the merger’s impact on PSE&G’s ability to ensure on-going safe and adequate service.

18 In the final analysis, the Petitioners have not shown that the merger will  
19 meaningfully benefit the Company’s gas operations, and their merger proposal raises

1 several areas where it is likely that ratepayers, competitors, and employees will be  
2 harmed.

1 IV. GAS MARKET POWER ISSUES

2 Q. TO WHAT DEGREE DOES THE PETITION ADDRESS MARKET POWER ISSUES AS  
3 THEY RELATE TO NATURAL GAS?

4 A. In their Petition, Exelon and PSEG extensively discuss electric market power and their  
5 proposed mitigation plan. However, they pay little attention to the issue of combined  
6 gas capacity resources. The Petition states that, “The combined company also will have  
7 a large gas distribution portfolio to complement its electric distribution business”, but  
8 provides no direct analysis or discussion concerning the merger’s impact on the gas  
9 market. (Petition at 14)

10 In his direct testimony, Mr. Rodney Frame, who addresses market power issues  
11 on behalf of the Petitioners, provides no analysis of the consolidated gas resources that  
12 will result from the merger. He acknowledges that his “analysis focuses on the  
13 horizontal effects of the merger on wholesale electric markets, as I conclude that the  
14 merger does not create or enhance any vertical competitive concerns.” (Frame  
15 Testimony at 4)

16 Mr. Frame’s lack of review of the gas market is evident when he concludes that  
17 the vertical aspects of the proposed merger will not present competitive problems given  
18 “the underlying competitiveness of upstream natural gas markets” and “pipeline  
19 alternatives to LDC delivery of natural gas for non-affiliated generators . . .” (Id. at 17)

1 Mr. Frame concludes, with no supporting evidence, that upstream natural gas markets  
2 are competitive and thus pose no market power concerns.

3 Q. IF MR. FRAME HAS NOT ANALYZED OR EVALUATED THE PROPOSED  
4 MERGER'S EFFECT ON THE NATURAL GAS MARKET, HOW WILL THE BOARD  
5 BE ABLE TO MAKE NECESSARY FINDINGS ON THE ISSUE?

6 A. The Board will have to look to the Petitioners' Application and supporting testimony  
7 before the FERC in the recent merger proceeding. In that proceeding, the Petitioners  
8 sponsored Dr. William Hieronymus' testimony concerning market power issues for  
9 both the gas and electric markets.

10 - Hieronymus Analysis of Market Power

11 Q. WHAT WERE DR. HIERONYMUS' CONCLUSIONS CONCERNING THE  
12 MERGER'S IMPACT ON THE PJM EAST GAS MARKET?

13 A. According to Dr. Hieronymus' FERC testimony, the PJM East delivered gas  
14 transportation market has 5,934 million cubic feet ("MMcf") per day of capacity. Of  
15 this total, the merged Exelon-PSEG entity would account for 2,115 MMcf per day or  
16 about 35.6% of the total (Hieronymus Exhibit J-16). This analysis develops a  
17 Herfindahl-Hirshman Index ("HHI") for the post-merger delivered gas transportation  
18 market for the PJM East region. Based on Dr. Hieronymus' analysis, the HHI would

1 be 1,572. From this analysis, Dr. Hieronymus concludes that “the PJM East upstream  
2 market is not highly concentrated and thus the competitive conditions in the market are  
3 not conducive to a vertical foreclosure strategy”. (Hieronymus Testimony at 73)

4 Q. DO YOU TAKE ISSUE WITH THE ANALYSIS DEVELOPED BY DR. HIERONYMUS?

5 A. Dr. Hieronymus has provided only summary data on pipelines flowing gas into the PJM  
6 East territory and the shares of such capacity controlled by various entities. He provides  
7 no data on market control for individual pipelines, nor does he provide information  
8 concerning the control of storage capacity held by the entities with interstate  
9 transportation entitlements. Furthermore, he fails to analyze what entities are involved  
10 in asset management agreements concerning relevant pipeline capacity. Without such  
11 gas related data, the testimony is deficient and Petitioners have failed to provide a  
12 complete picture of all factors relevant to market power in the Mid-Atlantic gas market.

13 Different gas users have different needs, and their reliance upon pipeline  
14 transportation may differ. Depending upon the supply resources utilized, individual LDCs  
15 and their residential ratepayers, large commercial and industrial (“C&I”) end users, and  
16 gas-fired electric generators may face very diverse market power concerns. A gas user  
17 that has only one pipeline supplier or that places high reliance on bundled peaking service  
18 is far more susceptible to market power abuses.

1 Q. ARE THERE OTHER ISSUES THAT SHOULD BE CONSIDERED IN EVALUATING  
2 MARKET POWER IN THE GAS MARKET?

3 A. Yes, another area of concern involves the growing trend for LDCs to utilize asset  
4 managers to operate some or all of their pipeline capacity. With the Petitioners  
5 controlling at least 35.6% of the capacity in the PJM East area, and, given their expertise  
6 in managing gas portfolios, it is not hard to envision the Petitioners performing asset  
7 management for other entities and thereby effectively controlling an even greater  
8 percentage of market capacity. Although gaining control of capacity by providing asset  
9 management of incremental capacity is not subject to direct regulatory review or  
10 approval, it does impact upon the Board's review of the combined companies' potential  
11 control of the interstate Mid-Atlantic gas market.

12 Dr. Hieronymus states that "Applicants cannot withhold [their capacity] rights to  
13 reduce supply since failure to use rights simply increases the amount of release capacity  
14 available to competitors." (Hieronymus Testimony at 71) This statement is misleading,  
15 since a capacity holder is free to nominate any level of its entitlement and is not  
16 obligated to release capacity into the market. Moreover, if the capacity holder requests  
17 more gas from the pipeline than is needed ("over-nominates"), the pipeline can only  
18 provide incremental transportation capacity on an interruptible basis. This becomes a  
19 concern since unutilized capacity could increase cost to gas customers and potentially  
20 distort the PJM price to electric customers.

1 - Other Gas Market Considerations

2 Q. DO YOU HAVE ANY OTHER COMMENTS CONCERNING THE MERGER'S  
3 POTENTIAL EFFECT ON THE GAS SUPPLY MARKET?

4 A. The availability of interstate gas pipeline transportation and storage capacity is limited,  
5 particularly during peak winter periods in the markets when restrictions on pipeline  
6 deliveries ("pipeline operational flow orders" or "OFOs") and excessive day-ahead gas  
7 prices have become on-going concerns. With Petitioners holding 35.6% or more of  
8 available capacity in the PJM East market area, any additional control of gas capacity  
9 resources (for example, through asset management agreements) would place the  
10 Petitioners in a position where they could exert market power through various actions.

11 At the current time, and for the foreseeable future, there is limited gas supply to  
12 meet growing gas demand. As a result, relatively small variations in gas supply or demand  
13 can affect gas pricing. Accordingly, even an entity with less than 35.6% of available  
14 capacity could influence the level of gas prices.

15 Q. YOU STATE THAT INTERSTATE GAS PIPELINE TRANSPORTATION AND STORAGE  
16 IS LIMITED. WOULD YOU DISCUSS THIS FURTHER?

17 A. Over the past few years, the wholesale natural gas market has exhibited extreme volatility  
18 with price levels reaching record highs. This pricing and volatility are related to  
19 dwindling gas supplies and steady increases in demand. As a result, there have been

1 increases in operational flow orders on the interstate pipelines and instances of day-ahead  
2 prices reaching levels in excess of \$20 per dekatherm (“Dth”). These factors have led  
3 the federal government to recognize that, without the importation of foreign natural gas  
4 supplies, the economy may face serious economic consequences.

5 The mismatch between natural gas supply and demand is particularly evident in the  
6 Mid-Atlantic region where there is a question as to whether the interstate pipelines have  
7 the capacity to meet demand were there to be two or three days of design or near-design  
8 winter weather. In addition, with crude oil prices in excess of \$50 per barrel, there is  
9 little prospect of diminution of natural gas demand from end users with dual fuel  
10 capabilities. Despite the supply shortfalls, the Mid-Atlantic region has seen few pipeline  
11 expansion programs, and those that have become available are expensive sources of  
12 deliverability. It is therefore not surprising that the east coast has seen upgrades to its  
13 existing liquified natural gas (“LNG”) terminal facilities, with several incremental  
14 terminal projects in various stages of development.

15 - Carpenter Analysis of Market Power

16 Q. WITH RESPECT TO DR. HIERONYMUS’ HHI ANALYSIS, HAVE YOU DEVELOPED  
17 YOUR OWN ANALYSIS TO VERIFY HIS RESULTS?

18 A. No, I have not. I have, however, reviewed an HHI analysis for the gas market that was  
19 developed by Dr. Paul Carpenter on behalf of the Philadelphia Gas Works (“PGW”). Dr.

1 Carpenter's analysis is contained in his testimony filed in the parallel proceeding in this  
2 matter in Pennsylvania, and submitted into the record in the FERC docket referenced  
3 above.

4 In his analysis, he determined that the HHI in the PJM East delivered gas market  
5 would increase from 1,469 to 1,942 if the merger were approved (Carpenter Testimony  
6 (Pa.) at 4) As can be seen on my Schedule 1, Dr. Carpenter's HHI is significantly higher  
7 than the HHI derived by Dr. Hieronymus, and his analysis shows PSEG/Exelon control  
8 over 39.8% of the defined capacity. Dr. Carpenter states that the merger "raises  
9 significant vertical market power concerns." (Id. at 3) He concludes that, "the merged  
10 entity would possess market power in the downstream electricity market represented by  
11 PJM East, and it would possess market power in the upstream market for delivered gas  
12 in the same geographic area." (Id. at 3-4)

13 Q. WHAT ARE THE REASONS FOR THE SIGNIFICANT DIFFERENCES BETWEEN THE  
14 PETITIONER'S HHI ANALYSIS AND THAT OF DR. CARPENTER?

15 A. Dr. Carpenter adjusted the study performed by Dr. Hieronymus for additional contracts  
16 that have delivery into the market, the elimination of capacity that provides delivery  
17 outside of the PJM East region, and adjustments to pipeline capacity in cases where  
18 delivery rights were not equal to delivery capacity. (Id. at 17-18)

1 V. PSE&G'S GAS SUPPLY REQUIREMENTS

2 Q. WOULD YOU PLEASE EXPLAIN HOW PSE&G HAS HISTORICALLY OBTAINED  
3 GAS TO MEET ITS DEMAND REQUIREMENTS?

4 A. Historically, PSE&G contracted directly for its pipeline and storage capacity as well as  
5 its commodity gas requirements. These gas supply resources were used to meet firm  
6 requirements for tariffed services as well as for demand associated with PSEG's Electric  
7 Business Unit ("EBU") and special contract customers. However, effective May 1,  
8 2002, all PSE&G's capacity and supply resources were transferred to its non-regulated  
9 affiliate, ER&T, and the Company entered into a Requirements Contract ("Contract") with  
10 ER&T, wherein ER&T provided gas to the utility. (Contract Transfer Order, Docket No.  
11 GM00080564; Petitioners' Response RAR-GAS-1)

12 - The Current Requirements Contract and Provisions

13 Q. WHAT ARE THE BASIC PROVISIONS OF THE REQUIREMENTS CONTRACT?

14 A. Broadly, the Contract requires ER&T to provide delivered gas supply services needed by  
15 the Company to meet its specified retail load for as long as PSE&G is the Basic Gas  
16 Supply Service ("BGSS") supplier in its service territory. (Contract at 1) The only  
17 exception to ER&T's total control over gas supply resources involves PSE&G's

1 supplemental gas facilities such as LNG which the Company continues to own and  
2 operate.

3 Under the Contract, ER&T must meet the Company's gas requirements, using the  
4 transferred gas purchase contracts specified in the Contract. These gas purchase  
5 contracts are summarized on my Schedule 2, which shows the provider and the daily  
6 capacities. The Contract also allows ER&T to unilaterally amend, extend, replace or  
7 supersede any of the gas purchase contracts in order to meet its full requirements  
8 obligation to PSE&G. (Contract at 6)

9 Q. WHAT IS THE TERM OF THE CONTRACT BETWEEN PSE&G AND ER&T?

10 A. The initial term of the Contract was from May 1, 2002 through March 31, 2004. As of  
11 that date, PSE&G exercised its option to extend the Contract until March 31, 2007.  
12 After that date the Contract will continue on a year-to-year basis unless modified by  
13 either ER&T or PSE&G, by giving written notice 12 months prior to the end of any  
14 subsequent contract year. If ER&T gives such notice, it must continue to provide  
15 PSE&G's requirements at the level existing as of the date of the notice, as long as  
16 PSE&G is still serving BGSS load. (Contract at 9-10)

17 Q. WHAT OTHER CONTRACT TERMS ARE RELEVANT TO AN EVALUATION OF THE  
18 MERGER?

1 A. Section 15.3 in the Contract specifies that PSE&G will make commercially reasonable  
2 efforts to curtail or interrupt loads as directed by ER&T based on its gas scheduling. This  
3 was clarified to mean that, “The Requirements Contract provides that [ER&T] has the  
4 authority to direct [PSE&G] to curtail or interrupt non-firm customers consistent with  
5 the terms and conditions of all applicable rate schedules and service agreements.”  
6 (Petitioners’ Response RAR-GAS-39) This provision is relatively broad in that PSE&G’s  
7 tariffs permit interruptions of supply to ensure operational reliability of supply or if the  
8 sales would not be economically justified.

9 Section 2.2 in the Contract provides that PSE&G will pay ER&T for delivered gas  
10 volumes at PSE&G’s currently effective tariff or contract rate for each respective  
11 service. PSE&G and subsequently its ratepayers will thus pay all associated gas supply  
12 and capacity charges since these costs form the basis for PSE&G’s tariffed rates.

13 Finally, the Contract is silent concerning the capacity management function of  
14 ER&T with respect to non-jurisdictional transactions that utilize capacity paid for by  
15 PSE&G’s customers. There is no specification as to the types of transactions that  
16 generate margins or credits, the methodology for determining such margins or credits,  
17 or ER&T’s obligation to pay such margins or provide such credits to PSE&G.

1 - Requirements Contract Regulatory Concerns

2 Q. WOULD YOU PLEASE ADDRESS ANY ISSUES REGARDING THE GAS SUPPLY  
3 PORTFOLIO MAINTAINED BY ER&T TO MEET PSE&G'S REQUIREMENTS?

4 A. Given that ER&T has full discretion concerning the composition and extent of the gas  
5 supply portfolio related to the Contract, there are both regulatory and cost concerns.  
6 During a July 14, 2005 discovery meeting, the Company acknowledged that, although  
7 ER&T consults PSE&G as to the utility's capacity needs and proposed modifications to  
8 the capacity portfolio, ER&T has the ultimate authority concerning such matters. The  
9 relevant provisions of the Contract are troubling for several reasons. For example, the  
10 Board has no explicit authority over any changes to the capacity portfolio. Were ER&T  
11 to maintain excess capacity levels, the associated charges would be paid by PSE&G. If  
12 the charges were to be disallowed by the Board, it would be unclear as to whether PSE&G  
13 or ER&T would incur the economic consequences.

14 Additionally, the Company acknowledges that capacity retained to meet future  
15 peak day requirements may be excess or surplus in some years. This will be all the more  
16 likely if, under the proposed generation mitigation plan, the Company were to divest  
17 some of its gas fired generation without contracting to provide the associated gas supply  
18 or requiring gas capacity assignment to the buyer.

19 The prospect of excess capacity is troubling because it burdens ratepayers with  
20 unnecessary costs and it rewards PSE&G's parent company, PSEG, with incremental

1 profits if such capacity can be used for secondary market transactions. Thus, PSEG has  
2 a potential conflict of interest in matters relating to the matching of demand and supply  
3 for ER&T's gas supply and capacity portfolio.

4 My Schedule 3 provides a perspective on this capacity related issue. The  
5 schedule shows ER&T's portfolio modifications since the inception of the Contract.  
6 During this period, ER&T has increased the total portfolio's overall transportation  
7 capacity by 168,010 Dth and reduced its storage capacity by 75,000 Dth.  
8 Transportation capacity to the Company's city gate has increased by 168,010 Dth, while  
9 storage has decreased by 11,581 Dth.

10 The cost impact of these capacity changes is shown on Schedule 4. As indicated,  
11 PSE&G's total annual capacity costs increased by about \$9.1 million. Such an increase  
12 in capacity costs is a concern because it relates to the inherent conflict of interest  
13 involved when a utility has an affiliate providing the asset management function.  
14 Conceptually, a utility can obtain excess capacity, recover related capacity costs from its  
15 customers, and have its affiliate benefit from increased margins or credits associated  
16 with the utilization of the incremental capacity.

17 Q. WHAT OTHER PROVISIONS OF THE CONTRACT PRESENT REGULATORY  
18 CONCERNS IN LIGHT OF THE PENDING MERGER?

19 A. With the merger, the year-to-year nature of the Contract causes additional concern. At  
20 a minimum, this situation gives ER&T the right to give notice and thereby negate the full

1 requirements provision of the Contract. With such a notice, ER&T would no longer be  
2 responsible to meet PSE&G's gas requirements in excess of those existing on the date  
3 of the notice. If the merged entity were to decide it no longer wanted to continue the  
4 Contract, it could direct its subsidiaries to terminate the Contract.

5 Moreover, the fact that ER&T, as a gas supplier, has the authority to dictate when  
6 PSE&G will not supply its interruptible customers is not typical or reasonable in full  
7 requirements agreements. Whether interruptible load is served under certain conditions  
8 can have a material impact on interruptible margin credits. From a gas supply  
9 perspective, elimination of interruptible sales can increase the potential for high margin  
10 non-jurisdictional transactions. From a utility perspective, interruptible sales on a  
11 consistent basis provide contribution toward overall gas costs. PSE&G has considerable  
12 latitude concerning both operational and economic interruption, and the ultimate decision  
13 on interruption should not be delegated to ER&T.

14 Q. PREVIOUSLY, IT WAS NOTED THAT THE CONTRACT DOES NOT PROVIDE ANY  
15 GUIDANCE CONCERNING THE MARGINS OR CREDITS REALIZED ON  
16 SECONDARY MARKET TRANSACTIONS THAT UTILIZE UNUSED UTILITY  
17 CAPACITY. PLEASE EXPLAIN THIS ISSUE IN GREATER DETAIL.

18 A. Traditionally, the margins and credits associated with secondary market transactions were  
19 shared 85% to ratepayers and 15% to the Company. (Final Stipulation, Docket No.

1 GR97110839, at 10) After the transfer of PSE&G's gas supply portfolio to ER&T, the  
2 Board issued an Order in Docket No. GR01110768 that adopted a stipulation requiring  
3 that residential customers receive 100% of such margins and credits. However, neither  
4 this Order nor the Board's Contract Transfer Order fully set forth the mechanics and  
5 sharing of capacity margins obtained by ER&T. Absent specification in the Contract, the  
6 margin issue could be subject to interpretation should the merger be approved.

7 It is useful at this point to put the capacity margins into perspective. Since the  
8 contract transfer became effective on May 1, 2002, an average of about \$38.5 million per  
9 year of capacity margins has been realized. (Petitioners' Responses RAR-GAS-57 and  
10 58) These margin levels are well above the margins obtained during the three years prior  
11 to the contract transfer. The monthly and annual amounts for capacity margins,  
12 principally associated with off-system sales, are set forth in my Schedule 5. As shown,  
13 the annual margins increased by more than 80% from the year prior to the transfer to the  
14 first year under ER&T control.

15 From PSEG's perspective, this higher level of capacity margins is quite beneficial  
16 since it retains, through PSE&G, about 30% of total margins. This margin retention  
17 stems from the fact that only the residential ("BGSS-RSG") customers' allocated portion  
18 of the margins is returned to gas ratepayers. My Schedule 6 shows the derivation of the  
19 total capacity margins and the allocation factors, along with the BGSS-RSG portion of  
20 the margins. On this basis, ER&T and, ultimately, PSEG have received over \$35 million  
21 in capacity related margins.

1           Accordingly, what is needed is a clear specification of which ER&T transactions  
2 will generate margins or credits, how such margins or credits will be determined and the  
3 mechanism for allocation of the margins or credits among various customers that receive  
4 and pay for the associated gas supply.

5 Q.    ARE THERE ISSUES CONCERNING THE BOARD'S REGULATORY AUTHORITY  
6 AND REGULATORY OVERSIGHT THAT RELATE TO THE PROPOSED MERGER,  
7 AND IF SO, WOULD YOU PLEASE DISCUSS THEM?

8 A.    In the Contract Transfer Order, the Board conceded that, "The gas contracts transfer  
9 would mean that the Board would not have the ability to delve into the gas procurement  
10 practices of [ER&T]. Nor will it have the ability to alter the pricing agreements between  
11 PSE&G and [ER&T] or any contractual terms of the PSE&G/[ER&T] agreement."  
12 (Contract Transfer Order at 10)) Moreover, these limitations were noted in the context  
13 of entities with their ownership and control by an entity headquartered in New Jersey.  
14 Prospectively, a merged successor entity based potentially in Pennsylvania and owned by  
15 an Illinois company would control the portfolio management and gas supply procurement.

16           With respect to a successor entity to ER&T, the Petitioners have asserted that  
17 "The Merger will not affect the existing authority of the Board over the Requirements  
18 Contract." (Petitioners' Response RAR-GAS-14) Unfortunately, the authority of the  
19 Board regarding the Contract has never been specifically established, and, as discussed,  
20 the Contract is vague or silent on many aspects of the provision of gas supply. For

1 example, when asked whether the current residential/C&I allocation methodology for  
2 portfolio costs would be retained and subject to modification only with Board approval,  
3 the Petitioners responded that, “There is no intention or expectation that the current  
4 allocation methodology will be modified.” (Petitioners’ Response RAR-GAS-17)

5 However, this is a question regarding the Board’s authority over PSE&G’s gas  
6 procurement program. The Board has acknowledged that it would not have the ability to  
7 delve into the gas procurement practices of ER&T. (Contract Transfer Order at 10) The  
8 Company has made conflicting statements regarding this authority. In one discovery  
9 response it has stated that “The Board will continue to have authority over gas  
10 procurement by ER&T or any comparable successor entity” (Petitioners’ Response RAR-  
11 GAS-22), whereas in another response it has stated that “The Board does not have  
12 jurisdiction over ER&T’s operations as such.” (Petitioners’ Response RAR-GAS-33)  
13 These conflicting statements are particularly troubling because the Requirements  
14 Contract is neither clear nor comprehensive on procurement matters, and there is a  
15 need to fully define and obtain commitments concerning the Board’s prospective  
16 authority over procurement and the Requirements Contract provisions.

17 Q. ARE THERE ANY OTHER ISSUES THAT YOU BELIEVE SHOULD BE CONSIDERED  
18 BY THE BOARD WITH RESPECT TO THE REQUIREMENTS CONTRACT?

19 A. Yes, there are three related issues. The first involves a provision within the Stipulation  
20 of Settlement in the Contract Transfer proceeding. Section 4 of the Stipulation states that

1 PSE&G and ER&T are obligated to adhere to all relevant legal requirements regarding  
2 affiliate standards, including those standards approved by the FERC and the Board. In the  
3 Contract the only related provision is a narrow requirement that ER&T will not provide  
4 any undue preferences to retail gas supplier affiliates. (Contract, Article 19.10) It  
5 appears that the Contract must be modified to reflect the Stipulation's full intent.

6 The second issue involves a clarification of the Force Majeure provision of the  
7 Contract. As written, ER&T can be excused for a failure to perform by a Force Majeure  
8 claim which includes causes beyond the reasonable control of ER&T. In discovery, the  
9 Company stated that weather could be the cause of a Force Majeure event. (Petitioners'  
10 Response RAR-GAS-40) During the July 14, 2005 discovery meeting, the Company  
11 clarified that ER&T's responsibility to provide gas supply would not be excused as long  
12 as heating degree days did not exceed those specified in the determination of the  
13 Company's demand requirements. This clarification should be formalized in the  
14 Contract.

15 And finally, the Stipulation contains two provisions concerning capacity release.  
16 (Contract Transfer Order, Stipulation of Settlement, at 4) The first requires an Initial  
17 Firm Transportation ("FT") Capacity Release Program for Third Party Suppliers ("TPSs")  
18 who supply gas to customers that switch to TPS service after the date of the contract  
19 transfer. The second involves a Permanent Capacity Release/Assignment Program which  
20 was to also be made available to TPSs after the effective date of the contract transfer. At  
21 the current time, the status of these two programs and ER&T's or any successor's

1 obligation to make such releases is unknown and therefore should also be clarified in this  
2 proceeding.

3 - Necessary Modifications and Regulatory Protections

4 Q. BASED UPON THE VARIOUS FACTORS THAT YOU HAVE DISCUSSED, WHAT ARE  
5 YOUR SPECIFIC RECOMMENDATIONS TO THE ALJ AND THE BOARD  
6 CONCERNING THE PROPOSED MERGER?

7 A. With reference to PSE&G's gas operations, the proposed merger does not provide any  
8 positive benefit, and, indeed, there is a real possibility that the merger could harm the gas  
9 utility's provision of safe and adequate service at just and reasonable rates. The various  
10 provisions of the proposed merger pose real risks to the competitive gas market and to  
11 the employees and ratepayers of the regulated gas operation. Accordingly, based on the  
12 merger's effect relative to gas operations, the proposed merger should not be approved.

13 Q. IF THE BOARD WERE TO APPROVE THE MERGER, WHAT CONDITIONS AND  
14 REGULATORY PROTECTIONS WOULD BE REQUIRED IN ORDER TO SAFEGUARD  
15 THE COMPANY'S REGULATED GAS OPERATIONS IN NEW JERSEY?

16 A. As conditions of the merger, the Board should require clear assurances that the post-  
17 merger Exelon Electric & Gas ("EE&G") entities will be subject to the Board's oversight  
18 relative to their activities and transactions with the New Jersey regulated utility. For  
19 example, ER&T or any successor entity must agree to provide relevant data and

1 documentation and submit to audits concerning its dealings with PSE&G's gas  
2 operations. Additionally, ER&T or any successor in interest must provide the  
3 information necessary to show that its transactions are reasonable and do not violate any  
4 applicable affiliate interest regulations. The FERC has stated that, "The merger is subject  
5 to review by the NJBPU, who can therefore protect its jurisdictional interests." (FERC  
6 Merger Order, Section 217) Thus, it is important that the Board establish its regulatory  
7 authority and have Petitioners provide positive assurances concerning their acquiescence  
8 to such requirements.

9 Q. WHAT OTHER CONDITIONS SHOULD BE REQUIRED IN THE EVENT THAT THE  
10 MERGER IS APPROVED?

11 A. The Board should require that the Petitioners agree that rate recovery for goodwill and  
12 costs to achieve will not be sought from utility ratepayers. The shareholders, not the  
13 ratepayers, of Exelon and PSE&G approved the proposed merger; consequently, any  
14 premium paid as part of the transaction should be their responsibility. Additionally, the  
15 Board should establish service standards as a condition of the merger in order to ensure  
16 that there is no deterioration in the level of service provided to ratepayers after the  
17 merger.

1 Q. WITH RESPECT TO THE EXISTING REQUIREMENTS CONTRACT, WHAT  
2 PROVISIONS NEED TO BE ADDED OR REVISED IN ORDER TO ENSURE  
3 ADEQUATE GAS SUPPLY AT A REASONABLE COST?

4 A. The most important revision needs to address the on-going availability of PSE&G's gas  
5 requirements. The Contract must therefore be modified to include a provision requiring  
6 Board approval for any material modification to the level or cost of the gas capacity  
7 required by PSE&G. Such material modifications would include Contract termination,  
8 capacity enhancements or substitutions, and any changes to the nature or scope of  
9 operations of ER&T or its successor.

10 A second revision involves the codification of the treatment for capacity related  
11 margins or credits. The Contract should specify all transactions related to the PSE&G  
12 capacity, the determination of margins and credits, and the allocation of such margins to  
13 gas ratepayers. The revision should incorporate all relevant margin provisions as set  
14 forth in applicable Board Orders, and the Board should require that both Exelon and  
15 ER&T to agree to all revisions.

16 A related modification should address the continuation of the current BGSS  
17 service and its pricing provisions. The Board should require that residential customers  
18 continue to have the right to receive cost-based gas supply that is subject to annual  
19 reconciliation. This modification should expressly prohibit PSE&G from adopting any  
20 monthly indexed price procedure for its residential (BGSS-RSG) service.

1 Q. DO YOU HAVE ANY OTHER RECOMMENDATIONS CONCERNING THE  
2 PROVISIONS OF THE REQUIREMENTS CONTRACT?

3 A. Yes. There are three other Contract provisions that need clarification or modification.  
4 First, as discussed previously, only PSE&G should have the authority to control service  
5 interruptions. Second, Force Majeure provisions should only allow weather related  
6 claims if the average daily mean temperature is below the level incorporated into the  
7 Company's latest design day requirements determination.

8 Third, the Board should terminate all TPS transportation or storage capacity  
9 release provisions currently in effect. Subsequently, PSE&G could propose prospective  
10 release programs subject to Board approval.

11 Q. FINALLY, ARE THERE ANY OTHER GAS POLICY MATTERS THAT THE BOARD  
12 SHOULD ADDRESS IN THIS MERGER PROCEEDING?

13 A. Yes, the Board should require that ER&T's (or any successor in interest) gas management  
14 operations or trading should continue to be based in Newark unless otherwise expressly  
15 authorized by the Board. There appears to be no operational need to remove ER&T's gas  
16 operations from New Jersey when its primary activities are conducted predominantly for  
17 PSE&G. Indeed, maintaining ER&T's gas operations in Newark would lessen some  
18 regulatory oversight concerns and would appropriately separate gas operations and trading  
19 from electric operations and trading, thereby averting potential conflict of interest and  
20 affiliate interest issues.

1           Additionally, the Board should not approve, but rather should defer, consideration  
2 of the Company's recently filed gas base rate application until after it has decided the  
3 current matter. It is unreasonable for the Board to determine new base rates for  
4 PSE&G's gas customers given the pending status of the merger. The appropriate revenue  
5 requirement for PSE&G's gas operations cannot be established in the base rate case given  
6 the current uncertainty concerning the future of those gas operations.

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

9 A.   Yes, it does.

VI. SUPPORTING SCHEDULES

**PSEG-Exelon Merger**  
**Comparison of Post-Merger HHI**

	<u>Carpenter Analysis</u>		<u>Hieronimus Analysis</u>	
	<u>MMcf/d</u>	<u>HHI</u>	<u>MMcf/d</u>	<u>HHI</u>
Exelon-PSEG	2,035	1,585	2,115	1,270
New Jersey Resources	686	180	696	138
Pepco	311	37		
Philadelphia Gas Works	295	33	136	5
UGI	256	25	141	6
NUI	250	24	242	17
South Jersey	230	20	231	15
NiSource	215	18	259	19
Williams Energy	116	5	318	29
Dominion	97	4		
Sunoco	93	3		
PPL	74	2		
WGL Holdings	68	2		
Keyspan	55	1	252	18
Southern Union	48	1	128	5
Philadelphia Authority	35	0		
Amerada Hess	34	0		
Others	<u>214</u>	<u>1</u>	<u>1,417</u>	<u>51</u>
Totals	5,112	1,942	5,934	1,572

SOURCES: Hieronymus Testimony, FERC Docket No. EC05-43-000, Exhibit J-16 and  
Carpenter Testimony, PA Docket No. A-110550F0160, page 17.

**PSEG-Exelon Merger**  
**Appendix A Capacity Resources**

<u>Provider</u>	<u>Capacity</u>
<u>Transportation Capacity</u>	
	<u>Dth Per Day</u>
Transcontinental	812,508
Texas Eastern	735,363
Dominion	333,764
Texas Gas	124,616
Gulf South	37,000
Equitrans	25,689
Tennessee	93,636
Trunkline	89,264
Panhandle Eastern	88,498
Columbia	12,500
National Fuel	<u>48,400</u>
Total Daily Capacity	2,401,238
 <u>Storage Capacity</u>	
	<u>Dth W/D</u>
Transcontinental	746,050
Texas Eastern	94,629
Dominion	342,974
Equitrans	25,689
Tennessee	57,222
Steuban	42,066
Hattiesburg	<u>65,000</u>

Total Storage Capacity 1,373,630

SOURCE: Requirements Contract Appendix A.

**PSEG-Exelon Merger**  
**Appendix B Net Capacity Changes**

<u>Provider</u>	<u>Capacity Changes</u>	<u>City Gate Changes</u>
<u>Transportation Capacity</u>	<u>Dth Per Day</u>	<u>Dth Per Day</u>
Transcontinental	190,800	168,010
Texas Eastern	10,508	
Dominion	108,520	
Texas Gas	(25,721)	
Gulf South	(37,000)	
Equitrans	(25,689)	
ANR	<u>50,000</u>	
Total Net Increase	271,418	168,010
<u>Storage Capacity</u>	<u>Dth W/D</u>	<u>Dth W/D</u>
Transcontinental	(48,706)	
Texas Eastern	(11,581)	(11,581)
Dominion	10,976	
Equitrans	<u>(25,689)</u>	
Total Net Decrease	(75,000)	(11,581)

SOURCE: Company Responses to Request RAR-GAS-24.



**PSEG-Exelon Merger**  
**Changes in Capacity Costs**  
(\$000's)

<u>Provider</u>	<u>Capacity Cost Change</u>
 <u>Transportation Capacity</u>	
Transcontinental	\$11,388
Texas Eastern	653
Dominion	4,362
Texas Gas	(1,831)
Gulf South	(2,431)
Equitrans	(1,321)
ANR	<u>1,095</u>
Total Net Increase	\$11,915
 <u>Storage Capacity</u>	
Transcontinental	\$ (664)
Texas Eastern	(940)
Dominion	440
Equitrans	<u>(1,701)</u>
Total Net Decrease	<u>\$(2,865)</u>
 <u>Total Incremental Cost</u>	 \$ 9,050

SOURCE: Company Response to RAR-GAS-56.

Schedule 5

**PSEG-Exelon Merger**  
**Comparative Capacity Margins**  
**(\$000's)**

	<u>1999/2000</u>	<u>2000/2001</u>	<u>2001/2002</u>	<u>2002/2003</u>	<u>2003/2004</u>	<u>2004/2005</u>
May	\$ 294	\$ 544	\$ 923	\$ 1,966	\$ 567	\$ 841
June	163	685	1,303	825	1,253	671
July	761	328	2,430	1,315	726	902
August	394	61	1,275	1,952	1,157	781
September	161	(182)	953	840	1,087	844
October	568	1,221	1,267	901	479	618
November	2,011	2,471	1,871	3,508	4,257	3,796
December	2,667	3,882	3,676	4,151	4,221	6,048
January	3,864	3,776	2,982	6,355	7,408	13,943
February	2,867	2,977	2,442	6,799	7,720	7,437
March	2,682	3,180	1,925	8,208	4,067	6,366

April	<u>252</u>	<u>941</u>	<u>367</u>	<u>2,030</u>	<u>901</u>	<u>606</u>
Totals	\$16,684	\$19,884	\$21,414	\$38,850	\$33,843	\$42,853

SOURCES: Company Responses to RAR-GAS-57 and RAR-GAS-58.

Schedule 6

**PSEG-Exelon Merger**  
**Allocation of Capacity Margins**  
**(\$000's)**

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>Totals</u>
Total Capacity Margins	\$38,850	\$33,843	\$42,853	\$115,546
BGSS-RSG Margins	\$26,864	\$23,489	\$29,961	\$ 80,314
BGSS-RSG Allocation %	69.15%	69.41%	69.92%	69.51%
PSE&G Margins	\$11,986	\$10,354	\$12,892	\$35,232

SOURCE: Company Response to RAR-GAS-57.

VII. APPENDIX: PRIOR R.W. LELASH TESTIMONIES

**R. W. LELASH'S REGULATORY TESTIMONIES**  
**(2001 to Present)**

232. Rhode Island, Providence and Valley Gas Companies (Docket Nos. 1673 and 1736) Gas Price Mitigation Testimony for the Rhode Island Division of Public Utilities (January, 2001).
233. Delaware, Delmarva Power & Light Company (Docket No. 00-463F) Gas Price Hedging Testimony for the Delaware Public Service Commission (February, 2001).
234. Pennsylvania, Philadelphia Gas Works (Docket No. R-00006042) Base Rate and Policy Testimony for the Pennsylvania Office of Consumer Advocate (April, 2001).
235. Pennsylvania, Philadelphia Gas Works (Docket No. R-00006042) Base Rate and Policy Surrebuttal Testimony for the Pennsylvania Office of Consumer Advocate (May, 2001).
236. New Jersey, Public Service Electric & Gas Company (Docket No. GM00080564) Capacity Contract Transfer Testimony for the New Jersey Division of the Ratepayer Advocate (June, 2001).
237. Vermont, Vermont Gas Systems (Docket No. 6495) Rate Stabilization Plan Testimony for the Vermont Department of Public Service (June, 2001).
238. Pennsylvania, Philadelphia Gas Works (Docket No. R-00016378) Gas Cost Rate Testimony for the Pennsylvania Office of Consumer Advocate (July, 2001).
239. Pennsylvania, PECO Energy Company (Docket No. R-00016366) Gas Cost Rate Testimony for the Pennsylvania Office of Consumer Advocate (July, 2001).
240. Pennsylvania, Philadelphia Gas Works (Docket No. R-00016378) Gas Cost Rate Surrebuttal Testimony for the Pennsylvania Office of Consumer Advocate (August, 2001).
241. Vermont, Vermont Gas Systems (Docket No. 6495) Rate Stabilization Plan Rebuttal Testimony for the Vermont Department of Public Service (August, 2001)
242. Georgia, Atlanta Gas Light Company (Docket No. 14060-U) Procurement and Capacity Plan Testimony for the Georgia Public Service Commission (August, 2001).
243. Rhode Island, New England Gas Company (Docket No. 3401) Earnings Sharing and Gas Policy Testimony for the Rhode Island Division of Public Utilities (March, 2002).
244. Pennsylvania, Philadelphia Gas Works (Docket No. R00017034F002) Extraordinary Rate Relief Testimony for the Pennsylvania Office of Consumer Advocate (March, 2002).
245. New Jersey, Public Service Electric & Gas Company (Docket No. GR01110773) Remediation Adjustment Clause Testimony for the New Jersey Division of the Ratepayer Advocate (April, 2002).
246. Rhode Island, New England Gas Company (Docket No. 3401) Earnings Sharing and Gas Policy Surrebuttal Testimony for the Rhode Island Division of Public Utilities (April, 2002).
247. Pennsylvania, Philadelphia Gas Works (Docket No. R-00027133) Gas Cost Rate Testimony for the Pennsylvania Office of Consumer Advocate (April, 2002).



248. Pennsylvania, Philadelphia Gas Works (Docket No. R-00017034) Base Rate Testimony for the Pennsylvania Office of Consumer Advocate (May, 2002).
249. Georgia, Atlanta Gas Light Company (Docket No. 15527-U) Lost and Unaccounted For Gas Testimony for the Georgia Public Service Commission (July, 2002).
250. Pennsylvania, PECO Energy Company (Docket No. R-00027391) Gas Procurement and Policy Testimony for the Pennsylvania Office of Consumer Advocate (July, 2002).
251. Georgia, Atlanta Gas Light Company (Docket No. 15527-U) Lost and Unaccounted For Gas Rebuttal Testimony for the Georgia Public Service Commission (August, 2002).
252. Pennsylvania, Philadelphia Gas Works (Docket No. M-00021612) Gas Restructuring Testimony for the Pennsylvania Office of Consumer Advocate (September, 2002).
253. Georgia, EDC Generic Rulemaking (Docket No. 15295-U) Service Quality Standards Testimony for the Georgia Public Service Commission (October, 2002).
254. Georgia, Marketer Generic Rulemaking (Docket No. 15296-U) Service Quality Standards Testimony for the Georgia Public Service Commission (October, 2002).
255. Pennsylvania, Philadelphia Gas Works (Docket No. M-00021612) Gas Restructuring Rebuttal Testimony for the Pennsylvania Office of Consumer Advocate (October, 2002).
256. Pennsylvania, Philadelphia Gas Works (Docket No. M-00021612) Gas Restructuring Surrebuttal Testimony for the Pennsylvania Office of Consumer Advocate (November, 2002).
257. Georgia, EDC Generic Rulemaking (Docket No. 15295-U) Service Quality Standards Rebuttal Testimony for the Georgia Public Service Commission (November, 2002).
258. Georgia, Marketer Generic Rulemaking (Docket No. 15296-U) Service Quality Standards Rebuttal Testimony for the Georgia Public Service Commission (November, 2002).
259. Rhode Island, New England Gas Company (Docket No. 3476) Service Quality Testimony for the Division of Public Utilities (November, 2002).
260. New Jersey, Jersey Central Power and Light Company (Docket No. ER02030173) Recovery of Deferred Remediation Cost Testimony for the New Jersey Division of the Ratepayer Advocate (December, 2002).
261. Rhode Island, New England Gas Company (Docket No. 3476) Service Quality Surrebuttal Testimony for the Division of Public Utilities (February, 2003).
262. Pennsylvania, Philadelphia Gas Works (Docket No. R-00038173) Gas Procurement and Policy Testimony for the Pennsylvania Office of Consumer Advocate (April, 2003).
263. New Jersey, Elizabethtown Gas Company (Docket No. GA02020099) Comments Concerning Affiliate Audit for the New Jersey Division of the Ratepayer Advocate (June, 2003).
264. Maine, Northern Utilities (Docket No. 2002-140) Management Audit and Service Quality Report for the Maine Public Utilities Commission (June, 2003).



265. New Jersey, Public Service Electric & Gas Company (Docket No. GR03050400) Pipeline Refund Allocation Testimony for the New Jersey Division of the Ratepayer Advocate (August, 2003).
266. Ohio, Vectren Energy Delivery of Ohio (Case No. 02-220-GA-GCR) Gas Procurement and Policy Testimony for the Ohio Consumers' Counsel (November, 2003).
267. Delaware, Delmarva Power & Light Company (Docket No. 03-378F) Evaluation of Gas Procurement and Price Hedging Testimony for the Delaware Public Service Commission (February, 2004).
268. Pennsylvania, Philadelphia Gas Works (Docket Nos. R-00049157 and P-00042090) Purchased Gas Cost Testimony for the Pennsylvania Office of Consumer Advocate (May, 2004)
269. Pennsylvania, Philadelphia Gas Works (Docket Nos. R-00049157 and P-00042090) Purchased Gas Cost Rebuttal Testimony for the Pennsylvania Office of Consumer Advocate (May, 2004)
270. Delaware, Chesapeake Utilities Corporation (Docket No. 02-287F) Gas Supply Plan Review for Chesapeake Utilities and the Delaware Public Service Commission (July, 2004).
271. Georgia, Atmos Energy Corporation (Docket No. 18509-U) Procurement and Capacity Plan Testimony for the Georgia Public Service Commission (August, 2004).
272. Georgia, Atlanta Gas Light Company (Docket Nos. 18437-U and 8516-U) Procurement and Capacity Plan Testimony for the Georgia Public Service Commission (August, 2004).
273. New Jersey, NUI Utilities and AGL Resources ( Docket No. GM04070721) Terms and Conditions of Merger Testimony for the New Jersey Ratepayer Advocate (September, 2004).
274. Georgia, Atlanta Gas Light Company (Docket No. 18638-U) Business Risk Testimony for the Georgia Public Service Commission (February, 2005).
275. Pennsylvania, Philadelphia Gas Works (Docket No. R-00050264) Purchase Gas Cost Testimony for the Pennsylvania Office of Consumer Advocate (April, 2005).
276. Federal Energy Regulatory Commission, Exelon and Public Service Enterprise Group (Docket No. EC05-43-000) Market Power Testimony by Affidavits for the New Jersey Division of the Ratepayer Advocate (April and May, 2005).
277. Pennsylvania, PECO Energy Company (Docket No. R-00050537) Gas Procurement and Policy Testimony for the Pennsylvania Office of Consumer Advocate (July, 2005).
278. Georgia, Atmos Energy Corporation (Docket No. 20528-U) Gas Supply Plan Testimony for the Georgia Public Service Commission (August, 2005).