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Irene Kim Asbury, Secretary
New Jersey Board of Public Utilities
Division of Economic Development and Energy Policy
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COMMENTS OF PSE&G ON THE STRAW PROPOSAL CONCERNING UTILITY INFRASTRUCTURE PROGRAMS

Public Service Electric and Gas Company ("PSE&G") appreciates the opportunity to submit written comments to the New Jersey Board of Public Utilities ("Board") on the straw proposal concerning infrastructure programs ("Infrastructure Straw") issued by the Board on April 26, 2017.

PSE&G has a long history of partnership with the State and aligning its interests with those of New Jersey. With respect to infrastructure improvement, PSE&G has championed innovative approaches, and have worked actively with the Board and its Staff, the New Jersey Division of Rate Counsel, and numerous other interested parties in developing, advocating for, and implementing several infrastructure programs accelerating investment to harden and modernize New Jersey's electric and gas distribution systems, while enhancing employment, economic development, and the environment, at the lowest possible cost to consumers.

Nevertheless, in light of the uncertainty that has accompanied the Board's case-by-case approach to consideration and approval of these programs, and particularly in light of the limited duration of the programs approved to date, PSE&G supports the Board's consideration of regulations and filing requirements for additional infrastructure projects that will not be included as part of a utility's base capital expenditures ("CapEx"). PSE&G is joining in the written comments being submitted today on behalf of the New Jersey Utilities Association ("NJUA"), with respect to the Infrastructure Straw as well as the establishment of provisional rates.[1] With respect to the Infrastructure Straw, PSE&G recommends necessary modifications and enhancements that should be incorporated to effectively ensure the success of these important programs.

[1] The intent of PSE&G's comments is to merely supplement those submitted by NJUA. PSE&G joins in those comments in their entirety.

(1) The Infrastructure Straw advances the process of codifying (for the better) the types of infrastructure programs the Board has approved on numerous occasions over the past decade.

Simply stated, codification of infrastructure program processes as proposed by the Board would not involve any significant changes to Board policy or process. Rather, the proposed regulations would involve a codification of procedures, similar in purpose and nature to (1) procedures already codified and consistently implemented since 2012 (the Distribution System Improvement Charge rules applicable to water utilities), and (2) procedures previously authorized and implemented, on quite a significant scale, consistently since 2008-2009, on a somewhat ad hoc basis. Under those procedures, PSE&G and the other New Jersey utilities have made significant investments to upgrade the State's infrastructure while supporting employment and economic development goals; under the Infrastructure Straw, that work would continue in a more predictable manner, with a key difference that this straw proposal provides significantly more customer safeguards.

While the current "case-by-case" approach has certainly resulted in some successes, the uncertainties inherent in the somewhat ad hoc process followed by the Board could be improved to be more efficient, uniform, and predictable for all parties. PSE&G agrees that the process the parties undertook in resolving PSE&G's Gas System Modernization Program ("GSMP") matter reflected a constructive dialogue and sharing of information that provided a sense of confidence to all involved in the process that PSE&G would have the capability of doing what it said it would do. The conditions necessitating that filing have not gone away, however, and the need to continue - - and accelerate - - the replacement of cast iron and bare steel main remains. PSE&G has demonstrated that it can perform these programs successfully, and agrees with Board Staff that it will be beneficial to have more assurance and clarity surrounding programs of this nature going forward.

(2) The annual base spending requirement should be set at the annual depreciation expense established in the public utility's most recent distribution base rate case.

PSE&G emphasizes that, as also noted in NJUA's submission of this date, incremental capital investments in excess of a company's depreciation expense should be eligible for recovery under this mechanism. PSE&G agrees that the proposal in the Infrastructure Straw requiring that "[a]ny Infrastructure Program . . . be incremental to the Utility's average CapEx over the past five years" would essentially penalize companies that invested heavily in recent years to address the directives of the Board and the needs of customers, as well as meet reliability and resiliency goals. PSE&G also agrees that this would run counter to the Board's goal of supporting utility infrastructure investment to promote reliability and resiliency. Incremental capital spending in excess of depreciation expense represents investments that are benefiting customers, but the company is not currently able to recover those investments in rates until its next base rate case. Encouragement of infrastructure spending above depreciation levels would be sound public policy and should be reflected in this proposal.

(3) The 2% rate impact limitation would unduly discourage accelerated investment in natural gas infrastructure.

Paragraph 9 of the Infrastructure Straw provides that "[t]he maximum annual increase in rates attributable to an infrastructure program will be two percent."

PSE&G is concerned that the two percent "cap" on total bill set forth in this section of the Infrastructure Straw[2] may not adequately accommodate gas infrastructure projects such as GSMP, much less permit PSE&G to address any other components of its gas system that would be contemplated under the Infrastructure Straw. The sharp decline in natural gas prices over the past several years is well known and a great value for our customers. This decline has created meaningful relief on customer bills, making it the most advantageous time from our customers' standpoint for PSE&G to pursue large-scale, accelerated modernization of aged gas infrastructure, such as gas main. Given a decline in gas bills of approximately 50% over the past several years, simple math illustrates that 2% of the gas bill in 2009 is equivalent to 4% of the gas bill in 2017. As a result, an across-the–board 2% cap on bills that benefit from low commodity prices shouldn't serve as a limiter on investment for certain projects, at a time when those projects are most economical for customers.

PSE&G proposed to replace substantial amounts of cast iron main under its GSMP program, and has in fact exceeded its targets, while satisfying all safety requirements. Increased investment under GSMP in the 2016-2018 timeframe demonstrates PSE&G's ability to manage a larger program, safely and cost-effectively, bringing the operational and environmental benefits of the GSMP program to New Jersey more quickly than anticipated. Continuing to increase our annual investment in gas infrastructure modernization, however, would be undermined by a rule limiting rate impacts as proposed in the Infrastructure Straw. Specifically, a 2% annual cap would equate to a limit of approximately $300 million per year. As such, PSE&G would be precluded from accelerating GSMP and also would have no head room to even consider addressing any other components of its gas system that would be covered under the Infrastructure Straw. This result would be inconsistent with the purpose of the state policy sought to be advanced via the Infrastructure Straw.

As such, PSE&G believes that if a cap mechanism is to be used, then a higher cap – at least with respect to gas infrastructure projects – is appropriate. To that end, PSE&G recommends consideration of any of the following three options to replace the across-the-board 2% cap in Paragraph 9 of the Infrastructure Straw:

(a) four percent (4%) of the average monthly bill for the typical residential customer over an annual period;

or

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[2] PSE&G understands the average total bill for all customers as the base against which the cap is applied. Appling it to anything else (e.g., distribution charges only) would be regressive and negate the intent of the Infrastructure Straw.

(b) four percent (4%) of the average monthly bill for the typical residential gas customer and two percent (2%) of the average monthly bill for the typical residential electric customer over an annual period;

or

(c) the higher of two percent (2%) or $35/year for the typical residential customer.

PSE&G wishes to continue - - and accelerate - - modernization of its gas system at this most important time, and appreciates the Board's attention to these concerns.

(4) The definition of included projects can be modified to better align with the type of work that would be included in gas modernization programs like GSMP.

Paragraph 5 of the Infrastructure Straw specifically sets forth a list of projects that could be included in infrastructure programs under this proposal. It is recognized that the "may include, but are not limited to" phrase in this paragraph reflects that the list is not intended to be an exhaustive. That said, PSE&G submits that the list of projects could be modified to better align with the type of work that would be included in gas modernization programs like GSMP.

Sections 5(a) and 5(b) of this paragraph reference "replacement" of main. While replacement is certainly the core part of programs like GSMP, there are instances where the main itself does not need to be replaced, but does require important rehabilitation work (*e.g.*, lining, bell joint encapsulations, internal joint sealing, *etc.*). Rehabilitation of this type, if feasible, can provide a more cost effective alternative to replacing the main in its entirety. As such, it is requested that the phrase "replacement" in sections 5(a) and 5(b) be changed to "replacement/rehabilitation."

Additionally, section 5(a) of this paragraph identifies "Utilization Pressure Cast Iron mains," which would leave unclear whether *elevated* pressure cast iron would be included. PSE&G's gas main inventory includes hundreds of miles of elevated pressure cast iron, which should be replaced or rehabilitated because it is aging infrastructure having the same breakage and methane leakage concerns as utilization pressure cast iron. As such, it is requested that the phrase "Utilization Pressure Cast Iron mains" in section 5(a) be changed to "Utilization and Elevated Pressure Cast Iron main."

(5) Longer-term programs are good public policy.

As noted above, the Board, over the past decade, has approved numerous accelerated infrastructure programs, and for good reason: utilities in older, built-up areas like New Jersey, are not seeing the kind of demand and load growth that is necessary to harden and modernize their systems through the base case model. While PSE&G sees programs of seven (7) or more years as benefitting all parties, the recognition of five (5) years as set forth in the Infrastructure Straw strikes a reasonable balance and reflects a good start toward acknowledging the benefits of longer-term programs.

In addition, longer-term programs as contemplated by the Infrastructure Straw would create a more standardized process for making large scale infrastructure investments that focus on resiliency, modernization and preparedness. Utilities and their customers would benefit, as these programs would: (a) provide for more efficient planning that maximizes expenditure efficiencies; (b) enable utilities to establish hiring programs and improve workforce management and employment; (c) provide opportunity to build supply chain in New Jersey through larger, longer-term orders; and (d) increase regulatory efficiency, while still providing regular oversight of all spending.

Conclusion

A clear, long-term approach to ensure that essential utility infrastructure work is completed, rather than restarting a negotiation about these investments every few years, better facilitates economic development, creates jobs, and furthers reliability. PSE&G appreciates Board staff's effort to initiate this process, and requests that the enhancements to Infrastructure Straw, as proposed in these comments, be considered for implementation.

Respectfully submitted,

Joseph F. Accardo Jr.