



Agenda Date: 1/7/21
Agenda Item: 2G

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE PETITION OF SOUTH)
JERSEY GAS COMPANY TO IMPLEMENT AN)
INFRASTRUCTURE INVESTMENT PROGRAM)
("IIP") AND ASSOCIATED RECOVERY)
MECHANISM PURSUANT TO N.J.S.A. 48:2-21 AND)
N.J.A.C. 14:3-2A) ORDER DESIGNATING
COMMISSIONER, SETTING
MANNER OR SERVICE AND
BAR DATE
DOCKET NO. GR20110726

Parties of Record:

Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel
Deborah M. Franco, Esq., SJI Utilities, on behalf of South Jersey Gas Company

BY THE BOARD

On November 19, 2020, South Jersey Gas Company ("SJG" or "Company") filed a petition with the New Jersey Board of Public Utilities ("Board") seeking approval of its proposed Infrastructure Investment Program ("IIP" or "Program"), including an associated cost recovery mechanism pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:3-2A.1 et seq. ("II&R Rules") ("Petition").¹

According to SJG, the proposed IIP is a five (5)-year program designed to modernize and enhance the safety and reliability of its gas distribution system by replacing its vintage, at-risk facilities, including the replacement of 825 miles of vintage, at-risk coated steel main installed prior to the 49 CFR 192 code adoption (pre-code) and vintage plastic mains in SJG's distribution system and the installation of 43,500 excess flow valves on new service lines. The projected total expenditures associated with the proposed IIP total approximately \$742.5 million, excluding Allowance for Funds Used During Construction ("AFUDC"), and the cost of an independent IIP monitor, which SJG proposed to recover under a proposed IIP Rider over the five (5)-year IIP.

In accordance with the II&R Rules, the Company proposed two (2) annual baseline capital spending level amounts over the IIP period. SJG indicated that it will commit to capital expenditures on projects similar to those proposed in the IIP equal to an average of \$14.85 million per year, or a total of \$74.25 million from June 2021 through May 2026, which is equal to 10 percent of the total program budget. These capital expenditures will consist of investments in

¹ On December 19, 2017, the Board adopted new rules for utility "Infrastructure Investment and Recovery" to encourage utilities to implement infrastructure investments. The rules are codified at N.J.A.C 14:3-2A.1 et seq. ("II&R Rules") and became effective on January 16, 2018.

projects similar to the IIP projects, and will be made in the normal course of business and will be recovered in future base rate proceedings. The Company also proposed annual baseline capital spending levels equal to an average annual amount of \$86.9 million per IIP year, or \$434.5 million over the five (5)-year IIP investment period beginning on the effective date of the IIP. The proposed annual baseline capital spending level amount was established using a five (5)-year historical average of base capital expenditures adjusted to exclude certain unique or non-recurring capital expenditures not appropriate to include in the baseline. Consistent with N.J.A.C. 14:3-2A.3(a), the annual baseline spending levels will only be recovered via base rates.

SJG proposed to recover costs of the IIP through a proposed Rider "B" to its tariff which, as proposed, would permit recovery of revenue requirements associated with the IIP based upon actual plant in-service for six (6)-month periods pursuant to N.J.A.C. 14:3-2A.6(a). SJG proposed to make semi-annual rate adjustment filings during the five (5)-year Program, with rate adjustments effective approximately 60 days after each filing. The Company proposed to file semi-annually when eligible in-service amounts exceed 10 percent of the total proposed program spending. SJG estimates that the first rate adjustment filing will not occur until January 1, 2022 based upon actual plant in-service through November 30, 2021 with a rate effective date of March 1, 2022. Therefore, there would be no rate adjustment or customer bill impacts from the Program until March 1, 2022.

SJG proposed that the costs to be included in rates would include depreciation expenses providing for the recovery of the invested capital over its useful book life, and a return on the net investment, which would be calculated as the gross investment, plus AFUDC and Monitor expenses, less the depreciation expense and deferred income taxes. The proposed return on the net investment would be calculated utilizing the Weighted Average Cost of Capital ("WACC") approved in the Company's most recent base rate case (Docket No. GR20030243), 6.9 percent (6.418 percent after-tax), which is based on a return on equity of 9.60 percent and an equity component of 54 percent. As proposed, any change in the WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent monthly revenue requirement calculations.

DISCUSSION

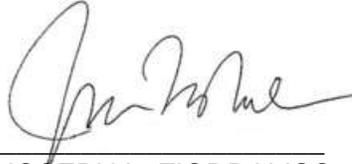
The Board **HEREBY ORDERS** that the Petition described above be retained by the Board for hearing, and pursuant to N.J.S.A. 48:2-32, **HEREBY DESIGNATES** Commissioner Dianne Solomon as the presiding officer with authority to rule on all motions that arise during the pendency of these proceedings and modify any schedules that may be set as necessary to secure a just and expeditious determination of the issues. Further, the Board **HEREBY DIRECTS** that any entity seeking to intervene or participate in this matter file the appropriate application with the Board on or before January 27, 2021. Any party wishing to file a motion for admission of counsel, **pro hac vice**, should do so concurrently with any motion to intervene or participate.

In addition, in compliance with the Board's Order in Docket No. EO20030254, all parties are **HEREBY DIRECTED** to serve all documents electronically. No hard copies shall be filed until the Board lifts the restrictions imposed in that Order. The Board **HEREBY DIRECTS** Staff to post this Order to the Board's website.

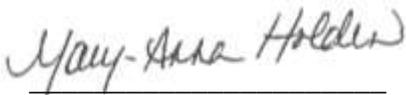
The effective date of this Order is January 10, 2021.

DATED: January 7, 2021

BOARD OF PUBLIC UTILITIES
BY:



JOSEPH L. FIORDALISO
PRESIDENT



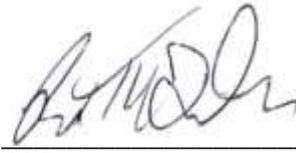
MARY-ANNA HOLDEN
COMMISSIONER



DIANNE SOLOMON
COMMISSIONER

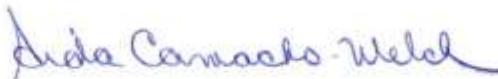


UPENDRA J. CHIVUKULA
COMMISSIONER



ROBERT M. GORDON
COMMISSIONER

ATTEST:



AIDA CAMACHO-WELCH
SECRETARY

IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY TO IMPLEMENT AN
 INFRASTRUCTURE INVESTMENT PROGRAM ("IIP") AND ASSOCIATED RECOVERY MECHANISM PURSUANT
 TO N.J.S.A. 48:2-21 AND N.J.A.C. 14:3-2A

BPU DOCKET NO. GR20110726

SERVICE LIST

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