Agenda Date: 6/8/22
Agenda Item: 2C

STATE OF NEW JERSEY

Board of Public Utilities
44 South Clinton Avenue, 1st 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	))))))	DECISION AND ORDER APPROVING STIPULATION OF SETTLEMENT DOCKET NO. GR20110726

Parties of Record:

Deborah M. Franco, Esq., SJI Utilities, on behalf of South Jersey Gas Company
Brian O. Lipman, Esq., Director, New Jersey Division of Rate Counsel
Martin C. Rothfelder, Esq., Rothfelder Stern, L.L.C., on behalf of the Environmental Defense Fund

BY THE BOARD:

By this Decision and Order, the New Jersey Board of Public Utilities ("Board" or "BPU") considers a stipulation of settlement ("Stipulation") executed by South Jersey Gas Company ("SJG" or "Company"), Board Staff, the New Jersey Division of Rate Counsel ("Rate Counsel"), and the Environmental Defense Fund ("EDF") (collectively, "Parties"), which resolves the Company's requests related to the above docketed matter.

PETITION

On November 19, 2020, SJG filed a petition with the Board seeking approval to implement an Infrastructure Investment Program ("IIP" or "Program") and related cost recovery mechanism, pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:3-2A ("Petition").[1] In the Petition, SJG proposed to conduct a five (5)-year Program in which the Company would replace vintage, at-risk facilities, including the replacement of 825 miles of vintage, at-risk coated steel main installed prior to the 49 C.F.R. 192 code adoption ("pre-code") and vintage plastic main in SJG's distribution system, as well as the installation of 43,500 excess flow valves ("EFVs") on new service lines. The

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[1] On December 19, 2017, the Board adopted new regulations for utility "Infrastructure Investment and Recovery" supporting the implementation of an IIP, which allows a utility to accelerate its investment in the construction, installation, and rehabilitation of certain non-revenue producing utility plant and facilities that enhance safety, reliability, and/or resiliency ("II&R Regulations"). The rules are codified at N.J.A.C. 14:3-2A.1 et seq. and became effective on January 16, 2018.

projected total expenditures associated with the Company's proposed IIP totaled 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.

According to the Petition, the Company's pre-code coated steel pipe was constructed in a manner that does not align with current standards, making this pipe more prone to leaks over time. Additionally, the Company explained that the United States Department of Transportation issued various Pipeline and Hazardous Materials Safety Administration ("PHMSA") advisory bulletins about vintage plastic ("Aldyl-A") pipe, which has an oxidized inner surface that predisposes the pipe to initiate cracks faster when certain stresses are applied. Specifically, according to SJG, the leak rate for the pre-code coated steel main is 0.617 leaks per mile, while the leak rate for Aldyl-A main is 0.234 leaks per mile. In comparison, the overall leaks per mile of all post-code coated steel main and all Aldyl-A main regardless of year of installation is 0.174 leaks per mile.

In accordance with the II&R Regulations, the Company proposed to maintain two (2) annual baseline capital spending level amounts over the IIP period. SJG indicated that it would 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 pursuant to N.J.A.C. 14:3-2A.2(c). 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 baseline capital spending level amount proposed by SJG was established using a five (5)-year forecasted average of base capital expenditures from 2020 through 2024 (including nine [9] months of actual spending in 2020), adjusted to exclude certain unique or nonrecurring capital expenditures.

SJG proposed to recover costs of the IIP through a new Rider "B" to its tariff, thereby allowing recovery of revenue requirements based upon actual plant in-service for six (6)-month periods pursuant to N.J.A.C. 14:3-2A.6(a). SJG proposed semi-annual rate adjustment filings during the five (5)-year Program, with rate adjustments effective approximately 60 days after each filing. SJG proposed to include the following costs in rates: 1) depreciation expenses providing for the recovery of the invested capital over its useful book life, and 2) a return on the net investment, which would be calculated as the gross investment, plus AFUDC and independent 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, 6.9 percent (6.418 percent after-tax), which is based upon a return on equity of 9.60 percent and an equity component of 54 percent.[2] As proposed by SJG, any change in the WACC authorized by the Board in a subsequent base rate case would be reflected in the subsequent monthly revenue requirement calculations.

[2] In re the Petition of South Jersey Gas Company for Approval of Increased Base Tariff Rates and Charges for Gas Service, Changes to Depreciation Rates and Other Tariff Revisions, Decision and Order Adopting Initial Decision and Stipulation, BPU Docket No. GR20030243, OAL Docket No. PUC 04830-20, Order dated September 23, 2020 ("2020 Base Rate Case").

PROCEDURAL HISTORY

By Order dated January 7, 2021, the Board retained the Petition for hearing and, pursuant to N.J.S.A. 48:2-32, designated Commissioner Dianne Solomon as the Presiding Commissioner authorized to rule on all motions that arise during the pendency of the proceedings and modify any schedules.[3] Further, the January 2021 Order directed that any entities seeking to intervene or participate in this matter file the appropriate application with the Board by January 27, 2021.

On January 4, 2021, a motion to intervene was filed by EDF. By letter dated January 15, 2021, SJG indicated that it did not object to the motion filed by EDF, subject to EDF's involvement in this proceeding being limited to advanced leak detection and related issues. On January 26, 2021, a motion to participate was filed by Public Service Electric and Gas Company ("PSE&G"). By letter dated January 26, 2021, SJG indicated that it did not object to the motion filed by PSE&G. On February 24, 2021, EDF filed a letter opposing SJG's request that its involvement in this proceeding be limited to certain issues. By letter dated March 1, 2021, SJG withdrew its request to limit EDF's involvement in this proceeding.

On March 8, 2021, Commissioner Solomon issued a Prehearing Order establishing the procedural schedule and granting EDF intervenor status, and PSE&G participant status.[4]

Following proper notice, telephonic public hearings were held on April 29, 2021.[5] No members of the public appeared or provided comments at the hearings. However, the Board received letters from several entities in support of the Program.[6]

On April 29, 2021, SJG submitted a letter proposing a revised procedural schedule to afford the Parties additional time to conduct discovery and discuss settlement. By Order dated May 4, 2021, Commissioner Solomon granted SJG's request to modify the procedural schedule.[7]

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[3] In re 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 of Service and Bar Date, BPU Docket No. GR20110726, Order dated January 7, 2021 ("January 2021 Order").

[4] In re 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, Prehearing Order Setting Procedural Schedule and Ruling on Motions to Intervene and Participate, BPU Docket No. GR20110726, Order dated March 8, 2021 ("Prehearing Order").

[5] Due to the COVID-19 pandemic, public hearings were held telephonically.

[6] Letters of support were received from the New Jersey State Chamber of Commerce, the Chamber of Commerce Southern New Jersey, the New Jersey Energy Coalition, and the New Jersey Alliance for Action.

[7] In re 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 Modifying Procedural Schedule, BPU Docket No. GR20110726, Order dated May 4, 2021.

On June 29, 2021, SJG submitted a letter requesting that the procedural schedule be suspended in order to allow the Parties to discuss factual issues raised by the Company's filing and explore possibilities for settlement. By Order dated July 9, 2021, Commissioner Solomon granted SJG's request to suspend the procedural schedule.[8]

On September 27, 2021, SJG submitted the Direct Testimony and supporting schedule of Kevin C. Garrity, in further support of the Company's proposed replacement of coated steel gas main.

On February 14, 2022, Rate Counsel submitted the direct testimony of four (4) witnesses: David E. Dismukes, Ph.D., Robert J. Henkes, Rod Walker, and John L. Piazza, II. EDF submitted the direct testimony of one (1) witness: Dr. Joseph C. von Fischer.

By Order dated February 24, 2022, Commissioner Solomon reinstated and modified the procedural schedule in this matter.[9]

On March 14, 2022, SJG submitted the rebuttal testimony of three (3) witnesses: the Gas Safety Panel (Brent W. Schomber, Raymond A. Wenzel, Brian J. Ritz, and Kevin C. Garrity), Isaac Gabel-Frank, and James G. Fredericks. In its rebuttal testimony, SJG modified its proposed Program to a five (5)-year, $571.1 million Program consisting of the replacement of approximately 634 miles of gas main.

On April 20, 2022, SJG submitted a letter requesting that the procedural schedule be suspended in order to provide the Parties with additional time to engage in settlement discussions.

STIPULATION

Following discovery, the filing of testimony, and several settlement conferences, the Parties executed the Stipulation resolving this matter. The Stipulation provides, in pertinent part, as follows:[10]

1. SJG may implement the IIP pursuant to the terms of N.J.A.C. 14:3-2A.1 et seq., subject to the terms of the Stipulation and approval of the Stipulation by the Board. The Company's IIP will include accelerated capital investment in SJG's gas distribution system and a related cost recovery mechanism ("IIP Cost Recovery Mechanism"), as described in the Stipulation. In addition, the Stipulation includes Baseline Capital Spending amounts (defined below in paragraph 7) to be made by the Company and recovered in the ordinary course of business through base rates as described below.

2. The IIP shall consist of capital investment of up to $200 million, excluding the Baseline Capital Spending amounts (defined below in paragraph 7), and any AFUDC ("IIP

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[8] In re 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 Suspending Procedural Schedule, BPU Docket No. GR20110726, Order dated July 9, 2021.

[9] In re 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 Reinstating and Modifying Procedural Schedule, BPU Docket No. GR20110726, Order dated February 24, 2022.

[10] Although summarized in this Order, should there be any conflict between this summary and the Stipulation, the detailed terms of the Stipulation are controlling, subject to the findings and conclusions of this Order. Paragraphs are numbered to coincide with the Stipulation.

Capital Investment Cap") in the Company's gas distribution system over the five (5)-year period beginning July 1, 2022 through June 30, 2027.[11] The capital investments may be recovered through the IIP Cost Recovery Mechanism permitted pursuant to N.J.A.C. 14:3-2A.6. The Company will not include any meter relocation costs in the IIP. Such costs may be included as Baseline Capital Spending.

3. The IIP Capital Investment Cap of $200 million is derived by applying a cost per mile cap of $0.8 million per mile to an IIP mileage of 250 miles over the five (5)-year IIP term. The projects to be recovered through the IIP Cost Recovery Mechanism consist of the replacement of pre-code coated steel and pre-1971 vintage Aldyl-A plastic mains and related services, as well as the installation of EFVs on new service lines ("IIP Projects"). The Company states these IIP Projects are intended to enhance distribution system safety and reliability to the benefit of SJG's customers, to help support the environment, and to facilitate economic development and employment in New Jersey. The IIP Projects and amounts are incremental to the Company's normal capital spending budget.

4. Costs recoverable under the IIP Cost Recovery Mechanism may not exceed $0.8 million per mile. Costs incurred by the Company in excess of $0.8 million per mile will be credited toward the Baseline Capital Spending requirement set forth in paragraph 7 below. To the extent that the Company can implement the IIP Projects at less than $0.8 million per mile, the Company may replace more than 250 miles of facilities through the IIP. However, the costs reconciled through the IIP Cost Recovery Mechanism may not exceed the $200 million IIP Capital Investment Cap during the term of the IIP. Recovery of costs in excess of the IIP Capital Investment Cap may be sought in future base rate proceedings.

5. The annual budget for IIP Projects for each year of the Program is as follows:

July 1, 2022 – June 30, 2023	$40,000,000
July 1, 2023 – June 30, 2024	$40,000,000
July 1, 2024 – June 30, 2025	$40,000,000
July 1, 2025 – June 30, 2026	$40,000,000
July 1, 2026 – June 30, 2027	$40,000,000
5 Year Total	$200,000,000

6. The Parties recognize that the initiatives included in the IIP are significant in scale and scope, and that flexibility in budgeting the IIP is appropriate. The Parties further recognize that the Company's ability to meet the annual budget from year to year may be affected by unusual or extraordinary operating circumstances including, but not limited to, extreme weather, labor disputes, shortages, acts of war or terrorism or other

[11] As discussed more fully below and in the Stipulation, the costs eligible for recovery through the IIP Cost Recovery Mechanism also include any operation and maintenance ("O&M") expense associated with Advanced Leak Detection Plus and the costs associated with the independent monitor, which are excluded from the IIP Capital Investment Cap.

force majeure circumstances. Accordingly, consistent with N.J.A.C. 14:3-2A.4(f), year-to-year variations in the IIP approved annual budget of up to 10% shall be permitted, provided that the total IIP budget is not exceeded. To the extent that year-to-year variations in the IIP budget exceed the 10% variation level, SJG shall seek Board approval of any amount in excess of 10%.

Baseline Capital Spending

7. In addition to the IIP expenditures described in paragraphs one (1) through six (6) above, over the five (5)-year IIP investment period, July 1, 2022 through June 30, 2027, the Company agrees to maintain Baseline Capital Spending amounts consisting of: (i) a Total Capital Baseline Spend; and (ii) an IIP Baseline Spend as defined below. SJG shall seek recovery of the Baseline Capital Spend amounts in a base rate case consistent with N.J.A.C. 14:3-2A.1 et seq. SJG may request, and the Board may consider, an exception from the Baseline Capital Spend requirements contained in the Stipulation based on extraordinary circumstances, including, but not limited to, extreme weather, labor disputes, acts of war or terrorism, and/or other *force majeure* circumstances.

8. The Total Capital Baseline Spend will be equal to an annual amount of $88.7 million per IIP year beginning July 1, 2022 through June 30, 2027. This amount was derived from the five (5)-year forecasted average of base capital expenditures from 2020 through 2024 (including actual spending in 2020), adjusted to exclude certain unique or nonrecurring capital expenditures. The specific capital investments made by the Company as part of the Total Capital Baseline Spend are within the discretion of SJG and will include all capital expenditures. New business expenditures included in the Total Capital Baseline Spend shall not exceed $46 million per IIP year, which is the five (5)-year forecasted average of new business expenditures from 2020 through 2024 (including actual spending in 2020). The Total Capital Baseline Spend shall not include expenditures associated with the IIP Baseline Spend.

9. The IIP Baseline Spend will be equal to $4 million per IIP year or $20 million over the five (5)-year IIP investment period beginning July 1, 2022 through June 30, 2027. The IIP Baseline Spend will consist of expenditures on projects similar to those eligible for recovery under the IIP Cost Recovery Mechanism.

Term

10. The IIP five (5)-year investment period shall commence on July 1, 2022 and end on June 30, 2027. The Company may include IIP non-construction expenditures, such as planning and engineering of IIP Projects incurred as of July 1, 2022 in revenue requirements associated with IIP Projects for the first year of the IIP from July 1, 2022 to June 30, 2023, provided that such expenditures were incurred for plant placed in service as part of the Program on or after the effective date of the Board's Order approving the Program pursuant to N.J.A.C. 14:3-2A.6(c). The Company shall have the option of seeking Board approval to extend the Program beyond the term provided in the Stipulation.

Prioritization of Projects

11. IIP Projects will be prioritized utilizing SJG's Distribution Integrity Management Plan

("DIMP"), which is a risk-based process followed by the Company. In prioritizing IIP Projects, SJG will integrate advanced leak detection plus ("ALD+") technology, information and methane emission flow rates (as discussed more fully below), as appropriate, and consider additional factors such as construction, efficiencies, logistics and other risk factors within SJG's discretion, including the prioritization ranking methodology within the Company's DIMP. If construction, logistics and/or other issues on a project area (*i.e.* municipal/county paving costs, traffic control, etc.) make work within that project area impossible, impracticable, and/or significantly more expensive, SJG may postpone that project and proceed to work on subsequent prioritized projects. SJG may resume work on a postponed project after resolution of the issues within the project area.

12. Beginning no later than September 1, 2022, the Company will integrate vehicle-based ALD+ technology and leak quantification methods into its operations, either in-house or, in the Company's sole discretion, through a third-party contractor. The Company will conduct methane leak surveys as described in Appendix E of the Stipulation, subject to the limitation that the Company will limit the total number of leak surveys conducted using ALD+ technology so that its costs to use ALD+ technology as part of the IIP, as determined through a competitive bidding process, do not exceed $1 million over the term of the Program. The Company will incorporate leak flow data derived from ALD+ as an additional prioritization factor for investments in the IIP in the years beginning July 1, 2023 through July 1, 2026. The Company will also incorporate leak flow data derived from ALD+, to the extent available, as a prioritization factor for repairs and pipeline replacement outside of the IIP. The Company will also include information on its use of ALD+ in the updated inspection and maintenance plans required by the Protecting our Infrastructure of Pipelines and Enhancing Safety Act of 2020 and further described in the bulletin published by the Pipeline Hazardous Materials Safety Administration on June 4, 2021.[12]

13. Any future IIP or similar proposal involving pipeline replacement will explicitly address whether and how ALD+ technology and information will be used in such IIP. All costs incurred by SJG in connection with methane leak surveying using ALD+ technology will be recovered through the IIP Cost Recovery Mechanism, and shall be in addition to the $200 million recovered through the IIP Cost Recovery Mechanism. SJG will report on the above-referenced methane leak survey activity as set forth in paragraphs 23 and 24 below.

[12] Statutory Mandate to Update Implementation and Maintenance Plus to Address Eliminating Hazardous Leaks and Managing Releases of Natural Gas from Pipeline Facilities, 86 FR 21002 (June 10, 2021).

Cost Recovery

14. SJG shall be permitted to recover the revenue requirement associated with a maximum of $200 million in IIP investments, plus AFUDC and other costs described in the Stipulation, through the IIP Cost Recovery Mechanism as described below and in Appendix B of the Stipulation, in accordance with a separate clause in the Company's tariff, a sample of which is set forth in Appendix C of the Stipulation. The prudence of the IIP Projects will be reviewed by the Board in the Company's subsequent base rate proceedings. The Company will file a base rate case no later than June 30, 2027. If the costs for IIP Projects exceed the amount allowable under the IIP, SJG may seek recovery of those additional costs, not otherwise recovered through the IIP Cost Recovery Mechanism, in a subsequent base rate case.

15. The Company may seek cost recovery for completed IIP Projects in accordance with the annual cost recovery filing schedule and rate effective dates contained in Appendix B of the Stipulation. The cost recovery filing requirements are set out in N.J.A.C. 14:3-2A.1 et seq., with Minimum Filing Requirements contained in Exhibit D of the Stipulation. Consistent with the requirement contained in N.J.A.C. 14:3-2A.6(b), SJG will make annual filings to recover IIP costs when eligible in-service amounts exceed 10% of the total proposed Program spending.

16. As reflected in Appendix B of the Stipulation, the following costs to be included in rates are: (i) depreciation expense providing for the recovery of the invested capital over its useful book life; and (2) a return on the net investment, which is the gross investment, plus AFUDC, less depreciation expense and deferred income taxes. The return on this net investment shall be calculated utilizing the WACC approved in the Company's 2020 Base Rate Case in Docket No. GR20030243. The WACC is 6.900%, which is based upon a return on equity ("ROE") of 9.60% and an equity component of 54%. 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. The revenue requirement will also utilize a revenue factor of 1.418291 to reflect State and Federal income taxes, as well as the costs associated with Board and Rate Counsel's annual assessments and uncollectibles. The Company will apply the revenue factor applied in the 2020 Base Rate Case. Any future changes to the revenue factor will be reflected in the subsequent monthly revenue requirement calculations.

17. As reflected in Appendix B of the Stipulation, the IIP Cost Recovery Mechanism revenue requirement will be reduced by an O&M credit of $100,000 per year, or prorated annual amount where applicable, to reflect an O&M savings associated with leak repair on facilities replaced in connection with the IIP.

18. Cost recovery under the IIP is contingent on an earnings test. If the product of the earnings test calculation exceeds the Company's most recently approved ROE by fifty (50) basis points or more, cost recovery under the IIP shall not be allowed. Any disallowance resulting from the earnings test will not be charged to customers in a subsequent IIP filing period, but the Company may seek such recovery in a subsequent base rate case.

19. The Company's rate of return on common equity shall be calculated by dividing the Company's regulated jurisdictional net income for the annual period by the Company's average jurisdictional common equity balance for such annual period. The average

jurisdictional common equity balance will be derived by multiplying the average of the Company's beginning and ending net rate base for the annual period by the Board-approved equity ratio in the Company's most recent rate case. The Company's regulated jurisdictional net income shall be calculated by subtracting from total net income the Company's share of margins from: (1) Interruptible Sales; (2) Interruptible Transportation; (3) On-System Capacity Release; (4) Off-System Sales and Capacity Release; (5) the Storage Incentive Mechanism; (6) the Energy Efficiency Tracker; (7) the Accelerated Infrastructure Replacement Program; and (8) the Storm Hardening and Reliability Program. The earnings test is consistent with the requirements of N.J.A.C. 14:3-2A.6.

20. If funding or credits from any subsequent state or federal action or program becomes available to the Company through the federal government, State of New Jersey, a County or Municipality for project reimbursement, the Company agrees that any such funds or credits obtained by the Company applicable to work related to any of the infrastructure programs or the ALD+ work referenced in the Stipulation will be used to benefit customers by offsetting the costs for which recovery will be sought to the extent permitted by law.

Rates And Rate Design

21. There is no rate impact on customers at this time from the IIP. Any future rate impacts will be determined in the Company's initial and subsequent annual rate adjustments. The estimated annual bill impacts of the IIP on a typical residential heating customer using 100 therms per month for the initial adjustment to become effective October 1, 2023 and the cumulative adjustments are as follows:

Estimated Initial Annual Bill Impact	Estimated Cumulative Annual Bill Impact
$11.96	$59.86
0.7%	3.5%

The Company will allocate the total revenue to each firm customer class and firm special contract customers based upon the level of distribution revenues from the rate design approved in the 2020 Base Rate Case. A volumetric distribution charge will be determined for each class utilizing the billing determinants used to set rates in the Company's most recent base rate case. The Margin Revenue Factor set forth in the Company's Conservation Incentive Program tariff will be revised to reflect the IIP annual rate adjustments authorized by the Stipulation. To the extent a rate design methodology that differs from the rate design methodology used to set base rates in the 2020 Base Rate Case is adopted in a future base rate or other similar proceeding, then that rate design shall be utilized for the IIP Cost Recovery Mechanism in IIP filings subsequent to the adoption of such methodology.

Monitor

22. Within six (6) months of a final Board Order in this proceeding, SJG, following consultation with Board Staff and Rate Counsel, will retain an independent monitor to review and report to Board Staff and Rate Counsel the information contained in N.J.A.C. 14:3-2A.5(c)(2) which provides as follows: (i) the effectiveness of IIP investments in meeting project objectives; (ii) the cost-effectiveness and efficiency of

investments; (iii) the appropriateness of cost assignments; and (iv) any other information required by the Board. Independent monitor expenses shall be capitalized to the extent consistent with Generally Accepted Accounting Principles and shall be in addition to the $200 million recovered through the IIP Cost Recovery Mechanism.

Reporting Requirements

23. The Company agrees to file semi-annual status reports with the Board, and provide copies to Board Staff, Rate Counsel, and all Parties, for project management and oversight purposes. The semi-annual status reports shall contain the following requirements consistent with N.J.A.C. 14:3- 2A.5(e):

    a. Forecasted and actual costs of the IIP for the applicable reporting period, and for the IIP to date, where IIP Projects are identified by major category;

    b. Estimated total quantity of work completed under the IIP identified by major category. In the event that the work cannot be quantified, major tasks completed shall be provided;

    c. Estimated completion dates for the IIP as a whole;

    d. Anticipated changes to IIP Projects, if any;

    e. Actual capital expenditures made by SJG in the normal course of business on similar projects, identified by major category; and

    f. Any other performance metrics concerning the IIP required by the Board.

24. In addition to information set forth above, the semi-annual status report shall include the methane leak survey information contained in Appendix A of the Stipulation.

Climate Oriented Long-Term Business Plan

25. In any future petition or request to extend the current IIP or establish a new IIP, the Company will include with its initial filing a climate policy oriented long term business plan ("Climate Business Plan") to address future plans and any proposed investment in light of then effective federal and state climate policy requirements. The Climate Business Plan will specifically address (i) how the Company plans to evolve its business in the future to meet federal and state climate policy requirements; (ii) the Company's anticipated capacity requirements for the foreseeable future; and (iii) whether continued investments in replacing facilities are reasonable and appropriate concerning the anticipated usage of the system and the climate policy requirements. If the Board commences a generic proceeding to consider the issues to be addressed by the Climate Business Plan prior to when it would be required by the Stipulation, then the Company will not be required to meet the requirement described in the Stipulation to the extent items are being addressed in the generic proceeding. The Company will prepare a Climate Business Plan to address items not included in the generic proceeding in any future petition or request to extend the current IIP or establish a new IIP. The Company will be permitted to defer the costs of preparing a Climate Business Plan and seek recovery of such costs in a future IIP or base rate proceeding.

Non-Pipes Alternatives

26. To the extent that the Board establishes a program that permits gas utilities to explore and/or implement non-pipes alternatives, the Company will utilize commercially reasonable efforts to participate in such a program and develop and implement at least one (1) non-pipes alternative demonstration project.

Environmental Justice

27. Following the IIP years ending June 30, 2025, and June 30, 2027, the Company will report gas leak density (collected through ALD+ surveys and other surveys) by census tracts and census blocks. The Company will analyze whether overburdened communities in its service territory as defined by the New Jersey Department of Environmental Protection are subject to greater leak density than surrounding communities and develop a plan and program to address any disproportionate circumstances. The Company will submit any such plans to the Parties for comment. Any disputes as to the Company's plans will be submitted to the Board for resolution.

DISCUSSION AND FINDINGS

In evaluating a proposed settlement, the Board must review the record, balance the interests of the ratepayers and the shareholders, and determine whether the settlement represents a reasonable disposition of the issues that will enable the Company to provide its customers in this State with safe, adequate, and proper service at just and reasonable rates.[13] The II&R Regulations were created to provide a rate recovery mechanism that encourages and supports all necessary accelerated construction, installation, and rehabilitation of certain utility plant and equipment. The Board believes that IIPs are important for continued system safety, reliability, resiliency, and sustained economic growth. Additionally, the Board agrees that replacement of aging infrastructure, as well as the installation of EFVs, if properly executed, should mitigate potential damage to the system, as well as enhance public safety and result in increased long-term reliability.

With respect to the proposed cost recovery mechanism, the Company may recover all expenditures related to the utility plant placed in service, but on a provisional basis, subject to refund. The cost recovery mechanism also strikes a balance between giving the Company a reasonable opportunity to earn its allowed rate of return over the life of the investment while still protecting ratepayers from paying more than reasonably necessary. These costs will be subject to review in SJG's next base rate case, which the Company will file no later than June 30, 2027 unless the Board, in its discretion, requests that it be filed earlier. No rates will be charged to customers until the facilities are placed in service. The Stipulation also mandates the Company to maintain certain reporting requirements, which provides additional protection to ratepayers.

As such, based upon the Board's careful review and consideration of the record in this proceeding, the Board **HEREBY FINDS** the Stipulation to be reasonable and in accordance with the law, striking an appropriate balance between the needs of customers and of the Company.

Accordingly, the Board **HEREBY ADOPTS** the Stipulation in its entirety, and **HEREBY**

[13] In re Petition of Pub. Serv. Elec. & Gas, 304 N.J. Super. 247 (App. Div.), cert. denied, 152 N.J. 12 (1997).

INCORPORATES its terms and conditions as though fully set forth herein, subject to any terms and conditions set forth in this Order.

The Board **HEREBY RATIFIES** the decisions made by Commissioner Solomon during the pendency of this proceeding for the reasons stated in her decisions and Orders.

The Company's costs, including those related to the Program, will remain subject to audit by the Board. This Decision and Order shall not preclude, nor prohibit, the Board from taking any actions determined to be appropriate as a result of any such audit.

This Order shall be effective on June 15, 2022.

DATED: June 8, 2022

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:

CARMEN D. DIAZ
ACTING 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

DOCKET NO. GR20110726

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May 23, 2022

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Re: 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

Dear Acting Secretary Diaz:

Enclosed for filing in the above-referenced proceeding is a Stipulation executed by representatives of South Jersey Gas Company, the Staff of the Board of Public Utilities, Division of Rate Counsel and the Environmental Defense Fund. It is respectfully requested that the Board consider the Stipulation at its next agenda meeting.

Should you have any questions, please do not hesitate to contact me.

Respectfully,

Deborah M. Franco

DMF:caj
Enclosures

cc: See attached Service List (with enclosures)

IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY FOR APPROVAL OF A RATE ADJUSTMENT PURSUANT TO THE INFRASTRUCTURE INVESTMENT PROGRAM ("IIP")
BPU DOCKET NO. GR20110726

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IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY FOR APPROVAL OF A RATE ADJUSTMENT PURSUANT TO THE INFRASTRUCTURE INVESTMENT PROGRAM ("IIP")
BPU DOCKET NO. GR20110726

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IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY FOR APPROVAL OF A RATE ADJUSTMENT PURSUANT TO THE INFRASTRUCTURE INVESTMENT PROGRAM ("IIP")
BPU DOCKET NO. GR20110726

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IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY FOR APPROVAL OF A RATE ADJUSTMENT PURSUANT TO THE INFRASTRUCTURE INVESTMENT PROGRAM ("IIP")
BPU DOCKET NO. GR20110726

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

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	)))))))	**STIPULATION** **BPU Docket No. GR20110726**

APPEARANCES:

Deborah M. Franco, Esq., Vice President of Rates, Regulatory & Sustainability, South Jersey Utilities, Inc. and **Sheree Kelly**, Esq. Regulatory Affairs Counsel – South Jersey Utilities, Inc. on behalf of South Jersey Gas Company
Kenneth T. Maloney, Cullen and Dykman LLP on behalf of South Jersey Gas Company

Maura Caroselli, Esq., Managing Attorney – Gas, New Jersey Division of Rate Counsel, and **Maria Novas-Ruiz, Esq.**, Assistant Deputy Rate Counsel, New Jersey Division of Rate Counsel (**Brian O. Lipman**, Director, New Jersey Division of Rate Counsel)

Terel Klein, Deputy Attorney General, for the Staff of the New Jersey Board of Public Utilities (**Matthew J. Platkin**, Acting Attorney General of New Jersey)

Martin C. Rothfelder, Esq., Rothfelder Stern, L.L.C. on behalf of Intervenor Environmental Defense Fund

TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

BACKGROUND

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 a 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”). As reflected in the petition, SJG sought authority for a five (5)-year Program designed to modernize and enhance the safety and reliability of its gas distribution system by replacing 825 miles of (i) coated steel main installed prior to the adoption of the federal pipeline safety code set forth in 49

CFR 192 ("pre-code coated steel") and (ii) vintage plastic mains. SJG also proposed to install 43,500 excess flow valves ("EFVs") on new service lines. The projected total expenditures associated with the proposed IIP were approximately $742.5 million, excluding Allowance for Funds Used During Construction ("AFUDC") and the costs of an independent IIP monitor. SJG proposed to recover the costs of the IIP through a proposed IIP Rider to be in effect during the term of the IIP.

In accordance with the II&R Rules, the Company proposed two (2) annual baseline capital spending level amounts over the IIP period. First, SJG proposed to 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 during the period June 2021 through May 2026, which is equal to ten percent (10%) of the total Program budget. These expenditures would consist of investments in projects similar to the IIP projects and would be made in the normal course of business, and the costs of these investments would be requested in future base rate proceedings, subject to Board approval. 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 IIP.

By Order dated January 7, 2021, the Board determined that SJG's petition would be retained by the Board, and designated Commissioner Dianne Solomon as the Presiding Commissioner.[1] The Board further directed that motions to intervene and participate should be filed by January 27, 2021. A Motion to Intervene was filed on behalf of the Environmental Defense Fund ("EDF") and a Motion to Participate was filed on behalf of Public Service Electric

[1] In re 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 of Service and Bar Date, BPU Docket No. GR20110726, Order dated January 7, 2021.

and Gas Company. SJG did not oppose the granting of either of the motions and they were granted by the Presiding Commissioner by Order dated March 8, 2021.[2]

Notices of this proceeding, including the dates of public hearings, were placed in newspapers having circulation within SJG's service territory and served on the county executives and clerks of all municipalities in the Company's service territory. Public hearings were held by telephone on April 29, 2021.[3] No members of the public submitted written comments or appeared at the hearings.

The Company's petition was supported by the written testimony of two (2) witnesses, Brent W. Schomber – then SJG's Vice President of Operations[4] and Nicole Gatyas, Associate Rate Analyst.[5] In addition, during discovery, the Company supplied a cost-benefit analysis prepared by Isaac Gabel-Frank of Gabel Associates Inc. SJG further supplemented the record with the testimony of Kevin C. Garrity, Executive Vice President of Mears Corp., Inc. on September 27, 2021.

At the request of the parties, Commissioner Solomon modified, suspended and reinstated the procedural schedule by Orders dated May 4, 2021, July 9, 2021 and February 24, 2022.[6] In

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[2] In re 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, Prehearing Order Setting Procedural Schedule and Ruling on Motions to Intervene and Participate, BPU Docket No. GR20110726, Order dated March 8, 2021.

[3] Public hearings were held telephonically due to the COVID-19 pandemic.

[4] Mr. Schomber is now the President of SJG.

[5] Ms. Gatyas has since left the Company and her testimony was subsequently adopted by James G. Fredericks, a Rate Analyst at SJG.

[6] In re 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 Modifying Procedural Schedule, BPU Docket No. GR20110726, Order dated May 4, 2021; In re 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 Suspending Procedural Schedule, BPU Docket No. GR20110726, Order dated July 9, 2021; and In re 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 Reinstating and Modifying Procedural Schedule, BPU Docket No. GR20110726, Order dated February 24, 2022.

accordance with the reinstated procedural schedule, written testimony on behalf of the Division of Rate Counsel ("Rate Counsel") was submitted by David Dismukes, Ph.D, Robert J. Henkes, John L. Piazza II and Rod Walker on February 14, 2022. On the same date, EDF submitted the Direct Testimony of Dr. Joseph Von Fischer, Ph.D. On March 14, 2022, SJG filed written rebuttal and update testimony of its Gas Safety Panel,[7] Isaac Gabel-Frank and James G. Fredericks. In its rebuttal testimony, the Company updated its IIP proposal to reduce the amount of facilities it proposed to replace to 618.4 miles of pre-code coated steel facilities and 16.2 miles of pre-1971 Aldyl-A plastic facilities at a projected total cost of $571.1 million. Extensive discovery was conducted among the parties and several settlement conferences were held. As a result, the Company, Board Staff, Rate Counsel and EDF (collectively the "Signatory Parties" and each individually a "Signatory Party") have reached a resolution of all matters at issue in this proceeding as set forth in this Stipulation.

STIPULATED MATTERS

The Signatory Parties Hereby Stipulate and Agree as follows:

<u>IIP Investments</u>

1. SJG may implement the IIP pursuant to the terms of *N.J.A.C.* 14:3-2A.1 *et seq.*, subject to the terms of this Stipulation and approval of the Stipulation by the Board. The Company's IIP will include accelerated capital investment in SJG's gas distribution system and a related cost recovery mechanism ("IIP Cost Recovery Mechanism"), as described herein. In addition, this Stipulation includes Baseline Capital Spending amounts (defined below in paragraph

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[7] The Gas Safety Panel consisted of witness Brent W. Schomber, Raymond A. Wenzel 3rd and Brian J. Ritz, all of SJG, and Kevin C. Garrity of Mears Group Inc.

7) to be made by the Company and recovered in the ordinary course of business through base rates as described below.

2. The IIP shall consist of capital investment of up to $200 million, excluding the Baseline Capital Spending amounts (defined below in paragraph 7), and any AFUDC ("IIP Capital Investment Cap") in the Company's gas distribution system over the five (5)-year period beginning July 1, 2022 through June 30, 2027.[8] The capital investments may be recovered through the IIP Cost Recovery Mechanism permitted pursuant to *N.J.A.C.* 14:3-2A.6. The Company will not include any meter relocation costs in the IIP. Such costs may be included as Baseline Capital Spending.

3. The IIP Capital Investment Cap of $200 million is derived by applying a cost per mile cap of $0.8 million per mile to an IIP mileage of 250 miles over the five (5)-year IIP term. The projects to be recovered through the IIP Cost Recovery Mechanism consist of the replacement of pre-code coated steel and pre-1971 vintage Aldyl-A plastic mains and related services, as well as the installation of EFVs on new service lines ("IIP Projects"). The Company states these projects are intended to enhance distribution system safety and reliability to the benefit of SJG's customers, to help support the environment, and to facilitate economic development and employment in New Jersey. The IIP Projects and amounts are incremental to the Company's normal capital spending budget.

4. Costs recoverable under the IIP Cost Recovery Mechanism may not exceed $0.8 million per mile. Costs incurred by the Company in excess of $0.8 million per mile will be credited toward the Baseline Capital Spending requirement set forth in paragraph 7 below. To the extent

[8] As discussed more fully below, the costs eligible for recovery through the IIP Cost Recovery Mechanism also include any operation and maintenance expense associated with Advanced Leak Detection Plus and the costs associated with the independent monitor, which are excluded from the IIP Capital Investment Cap.

that the Company can implement the IIP Projects at less than $0.8 million per mile, the Company may replace more than 250 miles of facilities through the IIP. However, the costs reconciled through the IIP Cost Recovery Mechanism may not exceed the $200 million IIP Capital Investment Cap during the term of the IIP. Recovery of costs in excess of the IIP Capital Investment Cap may be sought in future base rate proceedings.

5. The annual budget for IIP Projects for each year of the Program is as follows:

July 1, 2022 – June 30, 2023	$40,000,000
July 1, 2023 – June 30, 2024	$40,000,000
July 1, 2024 – June 30, 2025	$40,000,000
July 1, 2025 – June 30, 2026	$40,000,000
July 1, 2026 – June 30, 2027	$40,000,000
5 Year Total	$200,000,000

6. The Signatory Parties recognize that the initiatives included in the IIP are significant in scale and scope, and that flexibility in budgeting the IIP is appropriate. The Signatory Parties further recognize that the Company's ability to meet the annual budget from year to year may be affected by unusual or extraordinary operating circumstances including, but not limited to, extreme weather, labor disputes, shortages, acts of war or terrorism or other *force majeure* circumstances. Accordingly, consistent with *N.J.A.C.* 14:3-2A.4(f), year-to-year variations in the IIP approved annual budget of up to 10% shall be permitted, provided that the total IIP budget is not exceeded. To the extent that year-to-year variations in the IIP budget exceed the 10% variation level, SJG shall seek Board approval of any amount in excess of 10%.

<u>Baseline Capital Spending</u>

7. In addition to the IIP expenditures described in paragraphs one (1) through six (6) above, over the five (5)-year IIP investment period, July 1, 2022 through June 30, 2027, the

Company agrees to maintain Baseline Capital Spending amounts consisting of: (i) a Total Capital Baseline Spend; and (ii) an IIP Baseline Spend as defined below. SJG shall seek recovery of the Baseline Capital Spend amounts in a base rate case consistent with *N.J.A.C.* 14:3-2A.1 *et seq.* SJG may request, and the Board may consider, an exception from the Baseline Capital Spend requirements contained herein based on extraordinary circumstances, including, but not limited to, extreme weather, labor disputes, acts of war or terrorism, and/or other *force majeure* circumstances.

8. The Total Capital Baseline Spend will be equal to an annual amount of $88.7 million per IIP year beginning July 1, 2022 through June 30, 2027. This amount was derived from the five (5)-year forecasted average of base capital expenditures from 2020 through 2024 (including actual spending in 2020), adjusted to exclude certain unique or nonrecurring capital expenditures. The specific capital investments made by the Company as part of the Total Capital Baseline Spend are within the discretion of SJG and will include all capital expenditures. New business expenditures included in the Total Capital Baseline Spend shall not exceed $46 million per IIP year, which is the five (5)-year forecasted average of new business expenditures from 2020 through 2024 (including actual spending in 2020). The Total Capital Baseline Spend shall not include expenditures associated with the IIP Baseline Spend.

9. The IIP Baseline Spend will be equal to $4 million per IIP year or $20 million over the five (5)-year IIP investment period beginning July 1, 2022 through June 30, 2027. The IIP Baseline Spend will consist of expenditures on projects similar to those eligible for recovery under the IIP Cost Recovery Mechanism.

Term

10. The IIP five (5)-year investment period shall commence on July 1, 2022 and end on June 30, 2027. The Company may include IIP non-construction expenditures, such as planning and engineering of IIP Projects incurred as of July 1, 2022 in revenue requirements associated with IIP Projects for the first year of the IIP from July 1, 2022 to June 30, 2023, provided that such expenditures were incurred for plant placed in service as part of the Program on or after the effective date of the Board's Order approving the Program pursuant to *N.J.A.C.* 14:3-2A.6(c). The Company shall have the option of seeking Board approval to extend the Program beyond the term provided herein.

Prioritization of Projects

11. IIP Projects will be prioritized utilizing SJG's Distribution Integrity Management Plan ("DIMP"), which is a risk-based process followed by the Company. In prioritizing IIP Projects, SJG will integrate advanced leak detection plus ("ALD$_{+}$") technology, information and methane emission flow rates (as discussed more fully below), as appropriate, and consider additional factors such as construction, efficiencies, logistics and other risk factors within SJG's discretion, including the prioritization ranking methodology within the Company's DIMP. If construction, logistics and/or other issues on a project area (*i.e.* municipal/county paving costs, traffic control, etc.) make work within that project area impossible, impracticable, and/or significantly more expensive, SJG may postpone that project and proceed to work on subsequent prioritized projects. SJG may resume work on a postponed project after resolution of the issues within the project area.

12. Beginning no later than September 1, 2022, the Company will integrate vehicle-based ALD+ technology and leak quantification methods into its operations, either in-house or, in

the Company's sole discretion, through a third-party contractor. The Company will conduct methane leak surveys as described in Appendix E, subject to the limitation that the Company will limit the total number of leak surveys conducted using ALD+ technology so that its costs to use ALD+ technology as part of the IIP, as determined through a competitive bidding process, do not exceed $1 million over the term of the Program. The Company will incorporate leak flow data derived from ALD+ as an additional prioritization factor for investments in the IIP in the years beginning July 1, 2023 through July 1, 2026. The Company will also incorporate leak flow data derived from ALD+, to the extent available, as a prioritization factor for repairs and pipeline replacement outside of the IIP. The Company will also include information on its use of ALD+ in the updated inspection and maintenance plans required by the Protecting our Infrastructure of Pipelines and Enhancing Safety Act of 2020 and further described in the bulletin published by the Pipeline Hazardous Materials Safety Administration on June 4, 2021.[9]

13. Any future IIP or similar proposal involving pipeline replacement will explicitly address whether and how ALD+ technology and information will be used in such IIP. All costs incurred by SJG in connection with methane leak surveying using ALD+ technology will be recovered through the IIP Cost Recovery Mechanism, and shall be in addition to the $200 million recovered through the IIP Cost Recovery Mechanism. SJG will report on the above-referenced methane leak survey activity as set forth in paragraphs 23 and 24 below.

Cost Recovery

14. SJG shall be permitted to recover the revenue requirement associated with a maximum of $200 million in IIP investments, plus AFUDC and other costs described herein,

[9] Statutory Mandate to Update Implementation and Maintenance Plus to Address Eliminating Hazardous Leaks and Managing Releases of Natural Gas from Pipeline Facilities, 86 FR 21002 (June 10, 2021).

through the IIP Cost Recovery Mechanism as described below and in Appendix B, in accordance with a separate clause in the Company's tariff, a sample of which is set forth in Appendix C. The prudence of the IIP Projects will be reviewed by the Board in the Company's subsequent base rate proceedings. The Company will file a base rate case no later than June 30, 2027. If the costs for IIP Projects exceed the amount allowable under the IIP, SJG may seek recovery of those additional costs, not otherwise recovered through the IIP Cost Recovery Mechanism, in a subsequent base rate case.

15. The Company may seek cost recovery for completed IIP Projects in accordance with the annual cost recovery filing schedule and rate effective dates contained in Appendix B. The cost recovery filing requirements are set out in *N.J.A.C.* 14:3-2A.1 *et seq.*, with Minimum Filing Requirements contained in Exhibit D. Consistent with the requirement contained in *N.J.A.C.* 14:3-2A.6(b), SJG will make annual filings to recover IIP costs when eligible in-service amounts exceed 10% of the total proposed Program spending.

16. As reflected in Appendix B, the following costs to be included in rates are: (i) depreciation expense providing for the recovery of the invested capital over its useful book life; and (2) a return on the net investment, which is the gross investment, plus AFUDC, less depreciation expense and deferred income taxes. The return on this net investment shall be calculated utilizing the Weighted Average Cost of Capital ("WACC") approved in the Company's 2020 base rate case in Docket No. GR20030243 ("2020 Base Rate Case").[10] The WACC is 6.900%, which is based upon a return on equity ("ROE") of 9.60% and an equity component of 54%. Any change in the WACC authorized by the Board in a subsequent base rate case will be

[10] In re the Petition of South Jersey Gas Company for Approval of Increased Base Tariff Rates and Charges for Gas Service, Changes to Depreciation Rates and Other Tariff Revisions, Decision and Order Adopting Initial Decision and Stipulation, BPU Docket No. GR20030243, OAL Docket No. PUC 04830-20, Order dated September 23, 2020.

reflected in the subsequent monthly revenue requirement calculations. The revenue requirement will also utilize a revenue factor of 1.418291 to reflect State and Federal income taxes, as well as the costs associated with Board and Rate Counsel's annual assessments and uncollectibles. The Company will apply the revenue factor applied in the 2020 Base Rate Case. Any future changes to the revenue factor will be reflected in the subsequent monthly revenue requirement calculations.

17. As reflected in Appendix B, the IIP Cost Recovery Mechanism revenue requirement will be reduced by an operations and maintenance ("O&M") credit of $100,000 per year, or prorated annual amount where applicable, to reflect an O&M savings associated with leak repair on facilities replaced in connection with the IIP.

18. Cost recovery under the IIP is contingent on an earnings test. If the product of the earnings test calculation exceeds the Company's most recently approved ROE by fifty (50) basis points or more, cost recovery under the IIP shall not be allowed. Any disallowance resulting from the earnings test will not be charged to customers in a subsequent IIP filing period, but the Company may seek such recovery in a subsequent base rate case.

19. The Company's rate of return on common equity shall be calculated by dividing the Company's regulated jurisdictional net income for the annual period by the Company's average jurisdictional common equity balance for such annual period. The average jurisdictional common equity balance will be derived by multiplying the average of the Company's beginning and ending net rate base for the annual period by the Board-approved equity ratio in the Company's most recent rate case. The Company's regulated jurisdictional net income shall be calculated by subtracting from total net income the Company's share of margins from: (1) Interruptible Sales; (2) Interruptible Transportation; (3) On-System Capacity Release; (4) Off-System Sales and Capacity Release; (5) the Storage Incentive Mechanism; (6) the Energy Efficiency Tracker; (7) the

Accelerated Infrastructure Replacement Program; and (8) the Storm Hardening and Reliability Program. The earnings test is consistent with the requirements of *N.J.A.C.* 14:3-2A.6.

20. If funding or credits from any subsequent state or federal action or program becomes available to the Company through the federal government, State of New Jersey, a County or Municipality for project reimbursement, the Company agrees that any such funds or credits obtained by the Company applicable to work related to any of the infrastructure programs or the ALD+ work referenced in this Stipulation will be used to benefit customers by offsetting the costs for which recovery will be sought to the extent permitted by law.

Rates And Rate Design

21. There is no rate impact on customers at this time from the IIP. Any future rate impacts will be determined in the Company's initial and subsequent annual rate adjustments. The estimated annual bill impacts of the IIP on a typical residential heating customer using one hundred therms per month for the initial adjustment to become effective October 1, 2023 and the cumulative adjustments are as follows:

Estimated Initial Annual Bill Impact	Estimated Cumulative Annual Bill Impact
$11.96	$59.86
0.7%	3.5%

The Company will allocate the total revenue to each firm customer class and firm special contract customers based upon the level of distribution revenues from the rate design approved in the 2020 Base Rate Case. A volumetric distribution charge will be determined for each class utilizing the billing determinants used to set rates in the Company's most recent base rate case. The Margin Revenue Factor set forth in the Company's Conservation Incentive Program tariff will be revised to reflect the IIP annual rate adjustments authorized by this Stipulation. To the extent a rate design methodology that differs from the rate design methodology used to set base rates in the 2020 Base Rate Case is adopted in a future base rate or other similar proceeding, then that rate design shall be utilized for the IIP Cost Recovery Mechanism in IIP filings subsequent to the adoption of such methodology.

Monitor

22. Within six (6) months of a final Board Order in this proceeding, SJG, following consultation with Board Staff and Rate Counsel, will retain an independent monitor to review and report to Board Staff and Rate Counsel the information contained in *N.J.A.C.* 14:3-2A.5(c)(2) which provides as follows: (i) the effectiveness of IIP investments in meeting project objectives; (ii) the cost-effectiveness and efficiency of investments; (iii) the appropriateness of cost assignments; and (iv) any other information required by the Board. Independent monitor expenses shall be capitalized to the extent consistent with Generally Accepted Accounting Principles ("GAAP") and shall be in addition to the $200 million recovered through the IIP Cost Recovery Mechanism.

Reporting Requirements

23. The Company agrees to file semi-annual status reports with the Board, and provide copies to Board Staff, Rate Counsel, and all Signatory Parties, for project management and oversight purposes. The semi-annual status reports shall contain the following requirements consistent with *N.J.A.C.* 14:3- 2A.5(e):

(a) Forecasted and actual costs of the IIP for the applicable reporting period, and for the IIP to date, where IIP Projects are identified by major category;

(b) Estimated total quantity of work completed under the IIP identified by major category. In the event that the work cannot be quantified, major tasks completed shall be provided;

(c) Estimated completion dates for the IIP as a whole;

(d) Anticipated changes to IIP Projects, if any;

(e) Actual capital expenditures made by SJG in the normal course of business on similar projects, identified by major category; and

(f) Any other performance metrics concerning the IIP required by the Board.

24. In addition to information set forth above, the semi-annual status report shall include the methane leak survey information contained in Appendix A.

<u>Climate Oriented Long-Term Business Plan</u>

25. In any future petition or request to extend the current IIP or establish a new IIP, the Company will include with its initial filing a climate policy oriented long term business plan ("Climate Business Plan") to address future plans and any proposed investment in light of then effective federal and state climate policy requirements. The Climate Business Plan will specifically address (i) how the Company plans to evolve its business in the future to meet federal and state climate policy requirements; (ii) the Company's anticipated capacity requirements for the foreseeable future; and (iii) whether continued investments in replacing facilities are reasonable and appropriate concerning the anticipated usage of the system and the climate policy requirements. If the Board commences a generic proceeding to consider the issues to be addressed by the Climate Business Plan prior to when it would be required by this Stipulation, then the Company will not be required to meet the requirement described in this Stipulation to the extent items are being addressed in the generic proceeding. The Company will prepare a Climate

Business Plan to address items not included in the generic proceeding in any future petition or request to extend the current IIP or establish a new IIP. The Company will be permitted to defer the costs of preparing a Climate Business Plan and seek recovery of such costs in a future IIP or base rate proceeding.

Non-Pipes Alternatives

26. To the extent that the Board establishes a program that permits gas utilities to explore and/or implement non-pipes alternatives, the Company will utilize commercially reasonable efforts to participate in such a program and develop and implement at least one (1) non-pipes alternative demonstration project.

Environmental Justice

27. Following the IIP years ending June 30, 2025, and June 30, 2027, the Company will report gas leak density (collected through ALD+ surveys and other surveys) by census tracts and census blocks. The Company will analyze whether overburdened communities in its service territory as defined by the New Jersey Department of Environmental Protection are subject to greater leak density than surrounding communities and develop a plan and program to address any disproportionate circumstances. The Company will submit any such plans to the Signatory Parties for comment. Any disputes as to the Company's plans will be submitted to the Board for resolution.

Miscellaneous

All appendices referenced in and attached to this Stipulation are incorporated by reference herein as if set forth in the body of this Stipulation.

28. This Stipulation will become effective in accordance with N.J.S.A. 48:2-40.

29. This Stipulation is intended to be accepted and approved in its entirety. In the event any particular aspect of this Stipulation is not accepted and approved in its entirety by the Board, then any Signatory Party aggrieved thereby shall not be bound to proceed with this Stipulation, and shall have the right to litigate all issues addressed herein to a conclusion. In the event this Stipulation is not adopted in its entirety by the Board in an Order in this matter, then any Signatory Party hereto is free to pursue legal remedies with respect to all issues addressed in this Stipulation as though this Stipulation had not been signed.

30. It is the intent of the Signatory Parties that the provisions hereof be approved by the Board, as appropriate, as being in the public interest. The Signatory Parties further agree that this Stipulation be binding on them for all purposes herein. It is understood and agreed by the Signatory Parties that this Stipulation represents a negotiated agreement and, except as otherwise expressly provided herein, is intended to be binding only in this proceeding and only as to the matters specifically addressed herein.

WHEREFORE, the Parties hereto do respectfully submit this Stipulation to the Board and request the Board to issue a Decision and Order approving this Stipulation in its entirety in accordance with the terms hereof.

SOUTH JERSEY GAS COMPANY

By: ______________________
Deborah M. Franco,
VP, Rates, Regulatory
and Sustainability

BRIAN LIPMAN, DIRECTOR,
DIVISION OF RATE COUNSEL

By: *Maura Caroselli* 5/23/22
Maura Caroselli
Managing Attorney - Gas
New Jersey Division of Rate Counsel

GR20110726

MATTHEW J. PLATKIN
ACTING ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the New Jersey Board of Public Utilities

By: ______________________
Terel Klein
Deputy Attorney General

ENVIRONMENTAL DEFENSE FUND

By: *Martin C. Rothfelder*
Martin C. Rothfelder, Esq.
Rothfelder Stern, L.L.C.
Attorney For
Environmental Defense Fund

Dated: May 20, 2022

Advanced Leak Detection Plus Reporting Requirements

The reports filed by SJG in accordance with N.J.A.C. 14:3-2A.5(e) will include the following information:

- An explanation of the advanced leak detection ("ALD+") technology and leak quantification methods used, including description of equipment and software, sensitivity and capabilities relative to equipment and technology traditionally used by SJG for these purposes.

- Forecasted and actual costs of ALD+ methane leak surveys for the applicable reporting period and to date, including total cost and cost per mile. If multiple contractors were used or costs include a combination of internal costs and payments to contractors, internal costs and/or costs paid to each contractor will be identified separately. If costs are separated into fixed and variable (e.g., per mile or per hour) components in contracting, billing, or reporting, fixed costs and variable costs will be identified separately.

- A description of methodology used to integrate leak flow rate data into the Company's prioritization scheme, as an additional factor to supplement rankings based on risk.

- Depiction of results, *i.e.*, a table with the leak indication IDs, and associated information, including:[1]
    - Leak indication ID number, GPS coordinates for location of leak indication, and county, municipality, and census block for location of leak indication;
    - Date the leak indication was discovered;
    - Estimated leak flow rate (e.g. liters per minute or standard cubic feet per hour)
    - Date the leak indication was graded, if applicable;
    - Leak grade or a clear indication that the leak has not yet been graded, if applicable
    - Date the leak is scheduled for repair, and the date the leak was actually repaired;
    - Specify which leaks were prioritized for repair based on leak flow rate; and
    - If the Company could not locate a leak corresponding with a leak indication, that should be noted.

- For each defined project area, the following information:
    - Miles of vintage and at risk pipe in the project area,
    - Total estimated flow rate by project area (liters/minute),
    - Estimated flow rate per mile (liters/minute/mile),
    - Risk Score per Mile,
    - Rank by Estimated Flow Rate per Mile, IIP project area Priority Rank after incorporating leak flow rate,
    - Ranked Year of Construction using methane flow rate data
    - Planned Year of Construction Description of factors contributing to prioritization bypass decisions (if Planned Year of Construction does not

[1] This information will be provided to the extent it is available from the vendor.

match Ranked Year of Construction), and

- o A clear indication of which project areas were re-prioritized based on leak flow rate data.

• Total annual methane leak flow rate reduction based on leak repair, pipeline replacement, and pipeline retirement and the leak flow rates estimated for those miles using advanced leak detection plus technology and leak quantification methods.

• An estimate of the total annual GHG emissions reductions achieved via leak repair, pipeline replacement, and pipeline retirement, as well as estimates of the individual GHG emissions reductions achieved for each leak repaired during the year.

• Beginning in 2023, the Company will utilize data from the ALD+ surveys, as well as other relevant data, in developing the metrics included in South Jersey Industries' annual Environmental, Social and Governance reports.

• To the extent that SJG bypassed doing construction in an area for over one year during program due to permitting constraints or other issues, SJG shall in its semi-annual reports identify such areas and provide information on why such areas were bypassed.

• Following the IIP years ending June 30, 2024 and in all subsequent IIP years, the Company will report leak density (collected through ALD+ surveys and other surveys) by census tracts and census blocks. The Company will analyze whether overburdened communities in its service territory as defined by the New Jersey Department of Environmental Protection are subject to greater leak density than surrounding communities and develop a plan and program to address any disproportionate circumstances.

IIP Cost Recovery Mechanism

The revenue requirement associated with the IIP annual rate adjustments will be calculated as follows:

> Revenue Requirement = ((IIP Rate Base * After-Tax WACC) – $100,000 (pre-tax) + Advanced Leak Detection expense (net of tax) + Depreciation Expense (net of tax)) + non-capitalized monitor expense * Revenue Factor.

Notes and Definitions:

IIP Rate Base – The filing period's net IIP investments, which will be calculated as the gross IIP investment, plus Allowance for Funds Used During Construction ("AFUDC"), less depreciation expense and applicable deferred income taxes.

IIP Investments – All IIP capital expenditures associated with IIP projects placed in service, including actual costs of engineering, design and construction, property acquisitions, if any, and monitoring, including actual labor, materials, overhead, and capitalized AFUDC. While the IIP projects are under construction, they will be recorded in a Construction Work In Progress ("CWIP") account and will accrue AFUDC on a monthly basis. The AFUDC will be capitalized and included in the balance to be recovered through the IIP Cost Recovery Mechanism. At the time the project is deemed used and useful, it will be transferred to a utility plant in service account and the booking of AFUDC will cease. The Company will follow its current policies and practices with regard to capitalizing costs, including overheads.

Weighted Average Cost of Capital ("WACC") – The WACC applied to IIP Investments shall be the WACC approved in the Company's 2020 base rate case in BPU Docket No. GR20030243 ("2020 Base Rate Case"). The WACC is 6.900%, which is based on a return on equity ("ROE") of 9.60% and an equity component of 54%. 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.

Deferred Income Taxes – will be calculated by multiplying the difference in the Company's tax depreciation expense and book depreciation expense for the plant subject to the IIP by the effective income tax rate. The Company's tax depreciation expense would be adjusted for any bonus depreciation in accordance with Federal tax laws.

Depreciation Expense – Depreciation expense will be calculated as the IIP Investments by asset class multiplied by the associated depreciation rate applied to the same asset in current base rates established in the 2020 Base Rate Case and then calculated net of tax. Any future changes to depreciation rates during the IIP construction period will be reflected in the depreciation expense calculation at the time of each subsequent rate adjustment filing. The Company will begin to depreciate an asset once it is placed into service.

AFUDC – AFUDC will be calculated using the Modified FERC Uniform System of Accounts method including compounding AFUDC on a monthly basis.

Revenue Factor – The Revenue Factor adjusts the revenue requirement to reflect State and Federal income taxes, as well as the costs associated with Board and Rate Counsel annual assessments and uncollectibles. The Company will apply the Revenue Factor applied in the 2020 Base Rate Case. Any future changes to the Revenue Factor will be reflected in the subsequent monthly revenue requirement calculations.

Taxes – In developing the IIP rates, the Company will also apply and collect applicable sales and use tax. Tax adjustments include the effects of any flow through items and any tax law changes codified by the Internal Revenue Service, the State of New Jersey or any other taxing authority.

Operations and Maintenance ("O&M") – With the exception of costs associated with ALD+ and the independent monitor, O&M expenses associated with the IIP will not be included in the revenue requirement calculations and will not be subject to deferral.

<u>IIP Rate Recovery Filing Schedule</u>

SJG shall proceed on the following schedule, recognizing that the prudence of the IIP projects shall be reviewed in the Company's next base rate case:

IIP Filing Schedule				
Filing	**Initial 9+3 Filing**	**Program Year Ending Date**	**12+0 Update**	**Rates Effective on or before**
1	April 30, 2023	June 30, 2023	July 15, 2023	October 1, 2023
2	April 30, 2024	June 30, 2024	July 15, 2024	October 1, 2024
3	April 30, 2025	June 30, 2025	July 15, 2025	October 1, 2025
4	April 30, 2026	June 30, 2026	July 15, 2026	October 1, 2026
5	April 30, 2027	June 30, 2027	July 15, 2027	October 1, 2027

The Company acknowledges and agrees that any unreasonable delay in the initial filing or receipt of discovery responses from the Company may push out the rate effective date. The Signatory Parties agree that rates will not be in effect until after public notice and public hearing.

SOUTH JERSEY GAS COMPANY

First Revised Sheet No. 70
B.P.U.N.J. No. 13 - GAS Superseding Orignal Sheet No. 70

RIDER "B"

INFRASTRUCTURE INVESTMENT PROGRAM ("IIP")

Applicable to all customers in classes RSG, GSG, GSG-LV, CTS, LVS, EGS, EGS-LV, NGV, YLS and SLS receiving service through the Company's distribution system. The IIP rate shall be collected on a per therm basis and shall remain in effect until changed by order of the NJBPU.

Incremental Rate Charges per Service Class:

		Pre Tax	Pre Tax
RSG	Residential	$x.xxxx	$x.xxxx
GSG	General Service	$x.xxxx	$x.xxxx
GSG-LV	General Service - Large Volume	$x.xxxx	$x.xxxx
CTS	Comprehensive Firm Transportation Service	$x.xxxx	$x.xxxx
LVS	Large Volume Service	$x.xxxx	$x.xxxx
EGS	Electric Generation Service	$x.xxxx	$x.xxxx
EGS-LV	Electric Generation Service - Large Volume	$x.xxxx	$x.xxxx
NGV	Natural Gas Vehicle Service	$x.xxxx	$x.xxxx
YLS	Yard Lighting Service	$x.xxxx	$x.xxxx
SLS	Street Lighting Service	$x.xxxx	$x.xxxx
Firm Special Contracts		$x.xxxx	$x.xxxx

The charges applicable under this Rider include provision for the New Jersey Sales and Use Tax, and when billed to customers exempt from this tax shall be reduced by the amount of such tax included therein.

The IIP is a (5)-year program to modernize and enhance the reliability and safety of the Company's gas distribution system by replacing its vintage, at-risk facilities which include aging coated steel and vintage plastic mains and related services, as well as the installation of excess flow valves on new service lines. The costs recovered through the IIP Rider rate are based upon the Company's after-tax weighted average cost of capital, depreciation expense, deferred income tax credits and other adjustments as determined by the Board, grossed up by the Company's revenue expansion factor and applicable taxes.

Issued ____________________ **Effective with service rendered**
by South Jersey Gas Company, **on and after ________________**
B. Schomber, President

Filed pursuant to Order in Docket No. GR20110726 of the Board of Public Utilities, State of New Jersey, dated ___________

Minimum Filing Requirements

For each filing seeking recovery of IIP investments, the Company shall provide the following:

1) SJG's income statement for the most recent 12 month period ended on a quarter, as filed with the Board.

2) SJG's balance sheet for the most recent quarter, as filed with the Board.

3) SJG's actual baseline capital spending for both the recovery period and the prior calendar year.

4) SJG's overall approved IIP capital budget broken down by major categories, both budgeted and actual amounts.

5) For each IIP project:

   a. The original project budget;

   b. Expenditures incurred to date;

   c. Work completed, including identified tasks completed, e.g. design phase, material procurement, permit gathering, phases of construction, etc.;

   d. Anticipated project timeline, including estimated completion date, with updates and expected and unanticipated changes, along with an explanation of the reasons for any changes; and

   e. A narrative discussion of the effectiveness of the project in improving system performance; including identification of improved facilities (including specific feeders), where appropriate.

6) Consistent with the methodology set out in Appendix B, a calculation of the proposed revenue requirements related to the IIP projects included in Plant-in-Service in that rate recovery period. The calculation should show the actual capital expenditure for period

for which the filing is made, as well as supporting calculations.

7) A calculation of the associated depreciation expense, based on those projects close to Plant-in-Service during the period.

8) A list of any and all funds or credits received from the United States government, the State of New Jersey, a county or a municipality, for work related to any of the IIP projects, such as relocation, reimbursement, or stimulus money, and an explanation of the financial treatment associated with the receipt of the government funds or credits.

9) The results of an earnings test calculation where ROE shall be determined based upon the actual net income of the Company for the most recent 12-month period divided by the average of the beginning and ending common equity balances for the corresponding period.

10) The earnings test calculation described in Paragraph 9 immediately above is a requirement under the IIP regulations and is used to determine if it is appropriate for the Company to recover, or continue to recover, IIP costs. The following information shall be provided to the Board Staff and Rate Counsel with each earnings review:

   a. The earnings test shall contain information from the Company's official books and records, and shall be consistent with the Company's independently audited results of operations and its most recent annual report to the Board, and shall include the most recent 12 months of actual financial information ended on a calendar quarter (*i.e.*, net income and rate of return on the average balance of common equity, per books); and

   b. Rate base (completed IIP net plant additions that have been deemed used and useful but are not yet included in rate base), revenues (including approved IIP revenues not yet in base revenues), expenses, taxes, capital structure, weighted average cost of capital, approved net IIP plant additions not yet in rate base, and other such relevant financial information as may be known to the Company in determining the calculation in Paragraph 10 (a) above.

Advanced Leak Detection Plus (+)

Survey Commitment

These amounts could be accelerated depending on resource availability, however in no event, will the Company be compelled to spend more than $1 million over the life of the Program to complete ALD+ leak detection surveys as part of the Program or to otherwise comply with the Stipulation approving the Program.

IIP YEAR	Miles Surveyed
September 1, 2022 – June 30, 2023	618 miles of Pre-Code Coated Steel[1] and 554 miles of Vintage Plastic[2]
July 1, 2023 – June 30, 2024	33% of balance of South Jersey System, excluding pipeline replaced since 2009
July 1, 2024 – June 30, 2025	33% of balance of South Jersey System, excluding pipeline replaced since 2009
July 1, 2025 – June 30, 2026	33% of balance of South Jersey System, excluding pipeline replaced since 2009

[1] Mileage would consist of 67.2 miles of pre-code coated steel in Atlantic Division, 66 miles in Glassboro Division, and 214.2 miles in Waterford Division, 122.9 miles of pre-code coated steel in Glassboro Division, 85.3 miles in Cumberland Division and 62.8 miles in Cape May Division.

[2] Mileage would consist of 36 miles in the Atlantic Division, 39 miles in the Glassboro Division, 26.5 miles in Cumberland Division, 5.9 miles in Cape May Division and 90 miles in the Waterford Division on vintage plastic between 1971-1980. The Company further estimates an additional 355 miles of 1981-1985 vintage plastic across all 5 Divisions to be included in this survey.