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BOARD OF PUBLIC UTILITIES
TRENTON, NJ

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April 19, 2018

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CASE MANAGEMENT
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Aida Camacho-Welch, Secretary
Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
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BOARD OF PUBLIC UTILITIES
TRENTON, NJ

Re: I/M/O Petition of PSE&G for Approval of the Next Phase of the Gas System
Modernization Program and Associated Cost Recovery Mechanism (GSMP II)
Docket No. GR17070776

Dear Secretary Camacho-Welch:

This letter is written on behalf of the New Jersey Large Energy Users Coalition (“NJLEUC”) to explain why NJLEUC cannot support the settlement that has been presented to the Board for its approval in this proceeding.

The proceeding addresses the second iteration of PSE&G’s program to upgrade the Company’s natural gas delivery infrastructure. GSMP I responded to the federal government’s “Call to Action” which encouraged gas utilities to improve their distribution systems and reduce dangerous gas leaks, thereby improving service reliability. NJLEUC has supported these worthy goals and joined in the settlement that implemented a three-year upgrade program that targeted “priority” pipes and mains and utilized an accelerated clause mechanism to recover the approximately \$700 million in program costs.

In GSMP II, PSE&G proposed an expanded \$3 billion, five-year program with aggressive mileage targets in each year, that again utilized a clause mechanism for accelerated cost recovery. In settlement negotiations, NJLEUC indicated its support for the initial proposals of Rate Counsel and Board staff, which was limited to a second three-year program on terms similar to GSMP I and that capped costs at about \$650 million. Unfortunately, the settlement that is now being presented to the Board features an extended five-year program, valued at \$1.575 billion, together with a five-year base rate case stay-out provision.

Notwithstanding our continued willingness to support a more limited program that mirrors the first phase of the GSMP program, for the reasons that follow, NJLEUC cannot support the expanded program now pending before the Board for approval.

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First and foremost, this is a very expensive program. As large volume energy users, NJLEUC members will pay a disproportionate share of its costs. It should be underscored that this is not the only expensive program that PSE&G has advanced as of late and PSE&G has provided notice that more multi-billion program proposals are imminent. It is critical that the Board not view these programs in isolation; their combined effect is a primary reason why NJLEUC cannot support this settlement. At present, the following PSE&G programs, both pending and impending, have affected, and will dramatically affect ratepayers' energy costs:

-- If approved by the Governor, ratepayers would be compelled to pay a total of \$3 billion in nuclear subsidies over the next ten years or longer;

-- PSE&G's transmission rates have increased almost 450% since 2009 due to the billions of dollars of investment in transmission infrastructure during that period;

-- PSE&G's combined electric and natural gas rate case is now pending, in which the Company seeks significant increases to its distribution rates;

-- PSE&G has announced its intention to bring a "significant" energy efficiency petition that will likely propose billions of dollars in spending;

-- PSE&G has announced its intention to file an Energy Strong II petition, which is anticipated to be another multi-billion dollar offering designed to expand the existing billion dollar Energy Strong infrastructure "hardening" program, to which NJLEUC was a signatory.

Perhaps we are becoming too accustomed to these billion dollar utility offerings, which are now being presented with increasing regularity, so that we fail to fully consider their combined impact on rates and ratepayers. However, when the costs associated with these programs are viewed holistically, what emerges is a combined energy bill that ratepayers, and in particular large volume customers, will find intolerable. The nuclear subsidy bill alone will cost NJLEUC members up to \$1.5 million each, per year. When the multiple billions of dollars associated with these other programs are taken into account, the burden on large businesses can only be described as crushing.

These circumstances should be of concern to the Board and the State. High energy costs have already been a major contributor to the "death spiral" being experienced by the State's business community, particularly by national companies that have comparable manufacturing facilities located in other states with lower costs. As costs rise, the managements of these companies tend to invest less capital in their New Jersey facilities and shift production to other, less costly facilities. In the near term, such decisions cause job losses and the deterioration of local facilities. In the longer term, these decisions can culminate in plant closures. NJLEUC can speak from experience on this subject, having been founded by companies like Hoffmann-LaRoche that have long since abandoned the State.

We urge the Board to remain acutely sensitive to the crushing financial burden these billion dollar programs will place on all ratepayers, from large businesses to AARP members. There is a financial breaking point and we are coming perilously close to arriving at that point.

Second, the proliferation of accelerated cost recovery mechanisms reflects unsound regulatory policy and should be discouraged. We are rapidly reaching the point where more utility assets will be held outside of rate base than within, thereby reducing the Board's authority over these assets and the utilities that control them. The clause mechanisms also represent a form of single issue ratemaking that will increase the likelihood that utilities will over-recover their allowed rate of return, possibly for extended periods of time. The Board should not encourage these largely risk-free investments and should instead encourage investments through rate base, subject to normal prudence review.

Finally, NJLEUC objects to the inclusion of the five-year stay-out provision for the Company's next base rate case. In light of the proliferation of clause mechanisms and their potential to increase the risk that utilities will over-earn their allowed rate of return, the Board should require PSE&G and the other utilities that utilize these clauses to file rate cases more frequently, rather than less.

For these reasons, NJLEUC respectfully declines to support the Stipulation of Settlement.

Respectfully submitted,

Steven S. Goldenberg

SSG:ssg

cc: Joseph L. Fiordaliso, President
Mary-Anna Holden, Commissioner
Dianne Solomon, Commissioner
Uendra J. Chivukula, Commissioner+
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In the Matter of the Petition of Public Service Electric and Gas Company for Approval of the Next Phase of the Gas System Modernization Program and Associated Cost Recovery Mechanism ("GSMP II")
BPU Docket No. GR17070776

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