Agenda Date: 9/11/19
Agenda Item: 2F

Board of Public Utilities
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ENERGY

IN THE MATTER OF THE PETITION OF PUBLIC SERVICE ELECTRIC AND GAS COMPANY FOR APPROVAL OF THE SECOND ENERGY STRONG PROGRAM (ENERGY STRONG II)	)))))	FINAL DECISION AND ORDER APPROVING STIPULATION DOCKET NOS. EO18060629 and GO18060630

Parties of Record:

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Steven S. Goldenberg, Esq., Giordano, Halleran and Ciesla, P.C., for New Jersey Large Energy Users Coalition
Janine Bauer, Esq., Szaferman, Lakind, Blumstein & Blader, P.C., for AARP, Inc.

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 Public Service Electric and Gas Company ("PSE&G" or "Company"), the New Jersey Division of Rate Counsel ("Rate Counsel"), Board Staff, the New Jersey Large Energy Users Coalition ("NJLEUC") and AARP, Inc. ("AARP") (collectively, "Parties"), which resolves the Company's requests related to the above-captioned matter.

BACKGROUND

By Order[1] dated May 21, 2014, the Board authorized PSE&G to implement its Energy Strong Program. Pursuant to the Energy Strong Order, PSE&G was to invest up to $1 billion ($0.6 billion electric and $0.4 billion gas), to be recovered through future base rate adjustments, to harden its infrastructure, thereby making it less susceptible to damage from wind, flying debris, and water damage in anticipation of future Major Storm Events[2] and to strengthen the resiliency

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[1] In re the Board's Review of the Petition of Public Service Electric and Gas Company for Approval of the Energy Strong Program, BPU Docket Nos. EO13020155 and GO13020156 (May 21, 2014) ("Energy Strong Order").
[2] "Major Storm Event" is defined as a sustained impact on or interruption of utility service resulting from conditions beyond the control of the utility that affects at least 10 percent of the customers in an area. In re the Board's Establishing a Generic Proceeding to Review the Prudency of Costs Incurred by NJ Utility Companies in Response to Major Storm Events in 2011 and 2012, BPU Docket No. AX 13030196, (March 20, 2013).

of the Company's delivery system.[3] The Energy Strong Order also approved a cost recovery mechanism that allowed for semi-annual rate adjustments for spending related to electric investments and annual rate adjustments for spending related to gas investments.

On December 19, 2017, pursuant to subchapter N.J.A.C. 14:3-2A.1 et seq. ("II&R Rules"), the Board established a regulatory mechanism supporting the implementation of an Infrastructure Investment Program ("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. Through an IIP approved by the Board, a utility may obtain accelerated recovery of qualifying investments, subject to the terms of the subchapter, and any other conditions set forth by the Board in approving an individual utility's IIP. The II&R Rules became effective on January 16, 2018.

ENERGY STRONG II PROGRAM PETITION

On June 12, 2018, PSE&G filed a petition for approval to implement the next phase of its Energy Strong Program ("Energy Strong II" or "Program") and an associated cost recovery mechanism, pursuant to the II&R Rules and any other provision deemed applicable by the Board. The Company proposed a five (5) year Program with a total investment level of approximately $2.5 billion, consisting of $1.5 billion of electric infrastructure projects and $1.0 billion of gas infrastructure projects. PSE&G provided that the Program was aimed at improving the reliability and resiliency of the Company's electric and gas systems by rebuilding and raising critical electrical equipment, installing stronger poles and wires, deploying advanced technology, building backup pipes, modernizing critical gas equipment, and improving customer service.

The proposed electric projects were grouped into four (4) subprograms: Station Subprogram ($906 million), Outside Plant Higher Design and Construction Standards Subprogram ($345 million), Contingency Reconfiguration Subprogram ($145 million), and Grid Modernization Subprogram ($107 million). The gas projects were grouped into two (2) subprograms: Curtailment Resiliency Subprogram ($863 million) and Metering and Regulation Upgrade Subprogram ($136 million). Based on its proposed Program, the Company estimated that a typical residential electric customer would experience an increase in their bill of approximately $4.04 per month, or 3.99% on an average annual bill, and a typical residential gas customer would experience an increase of approximately $4.98 per month, or 6.80%, on an average annual bill. The Company proposed to make semi-annual roll in filings to recover revenue requirements for plant placed in service, but not yet placed in rates.

By Order dated July 25, 2018 ("July 25 Order"), the Board determined that the petition should be retained by the Board for hearing and, pursuant to N.J.S.A. 48:2-32, designated President Joseph L. Fiordaliso as the presiding officer authorized to rule on all motions that arise during the pendency of these proceedings and modify any schedules. Further, the July 25 Order directed that any entities seeking to intervene or participate in this matter file the appropriate application with the Board by August 17, 2018.

On November 30, 2018, President Fiordaliso issued a Prehearing Order establishing the prehearing schedule in this matter. The Prehearing Order also granted intervener status to NJLEUC and AARP. Participant status was granted to the New Jersey Laborers-Employers

[3] The Company was to invest an additional $220.0 million into the electric portion of the Energy Strong Program related to substations, which would not be recoverable through the Energy Strong Program rate recovery mechanism.

Cooperation and Education Trust ("NJLECET"), the Engineers Labor-Employment Cooperative ("ELEC"), Ferreira Construction Company, Inc. ("Ferreira"), Jersey Central Power & Light Company (JCP&L), Local Union 94 of the International Brotherhood of Electrical Workers ("IBEW"), Creamer-Sanzari Joint Venture ("CSJV"), Waters and Bugbee, Inc. ("W&B"), Joseph Jingoli & Son, Inc. ("Jingoli"), Henkels & McCoy, Inc. ("H&M"), Environment New Jersey ("ENJ") and New Jersey Conservation Foundation ("NJCF").

Following proper notice, public hearings were held in Hackensack, New Jersey on January 7, 2019, in Mount Holly, New Jersey on January 8, 2019 and in New Brunswick, New Jersey on January 9, 2019. Hearings were held each day at 4:00 p.m. and 5:30 p.m. All hearings were well attended by the public, the parties, and municipal officials. The Board also received 11 letters from constituents in support of the Program.

PSE&G provided direct testimony in support of its petition from the following six (6) witnesses: Wade E. Miller, Edward F. Gray, Stephen Swetz, William D. Williams, CBA Electric Panel (Krystal Richart, Craig Preuss and Andrew Trump, Black & Veatch) and CBA Gas Panel (Russell Feingold, Michael Nushart, Krystal Richart and Andrew Trump, Black & Veatch). On March 1, 2019, Rate Counsel submitted the direct testimony of five (5) witnesses: Andrea C. Crane, David E. Dismukes, Kevin O'Donnell, Edward A. McGee, and the joint testimony of Charles Salamone and Maximilian Chang. Rate Counsel's witnesses recommended a five (5) year $107 million electric program for the Company with an annual baseline spending level of $223.6 million. Rate Counsel also recommended that the gas program be rejected or reduced to $60.4 million with an annual baseline spending level of $155 million. On April 18, 2019, PSE&G submitted the rebuttal testimony of five (5) witnesses: Wade E. Miller, Edward F. Gray, Stephen Swetz, Ann E. Bulkley and the CBA Panel (Russell A. Feingold, Krystal R. Richart and Andrew L. Trump, Black & Veatch).

Evidentiary hearings were held before President Fiordaliso at the Board's offices in Trenton, New Jersey on June 10, 11, 14, and 17, 2019. On June 10, PSE&G witness Wade E. Miller and Rate Counsel witnesses David E. Dismukes and Edward A. McGee were presented and subjected to examination by the Parties. On June 11, PSE&G witness Ann E. Bulkley and Rate Counsel witness Kevin O'Donnell were presented and cross-examined by the Parties. On June 14, PSE&G witness Edward F. Gray was presented and Rate Counsel witnesses Charles Salamone and Maximilian Chang were presented as a panel and subjected to examination by the Parties. On June 17, PSE&G witness Stephen Swetz and Rate Counsel witness Andrea C. Crane were presented and cross-examined by the Parties. Board Staff, NJLEUC and AARP participated in cross-examination of the witnesses, but did not present any witnesses.

STIPULATION

Following discovery, the filing of testimony, evidentiary hearings and several settlement conferences, the Parties executed a stipulation of settlement ("Stipulation") resolving this matter on August 23, 2019. The Stipulation provides for the following:[4]

18. The Parties agree that, subject to Board approval of the Stipulation, PSE&G may implement Energy Strong II under the terms and conditions described in the Stipulation. The Program will include investment in PSE&G's electric and gas

[4] Although described at some length in this Order, should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusion in this Order. Paragraphs are numbered to coincide with the Stipulation.

distribution systems, an accelerated rate recovery mechanism ("Energy Strong II Rate Mechanism"), including scheduled rate adjustments for investments included in the Energy Strong II Rate Mechanism, authorized electric and gas distribution base investments in projects that are not recoverable through the Energy Strong II Rate Mechanism ("Stipulated Base"), an annual baseline for electric and gas capital expenditures, and other provisions as described in the Stipulation.

I. Program Term

19. The project work under this Program will commence on October 1, 2019, with all project work expected to conclude on or about December 31, 2023, except as provided in the Stipulation. The Company may undertake Program non-construction expenditures, such as planning and engineering, upon Board approval of the Program.

20. The Company will have the option of seeking Board approval to extend the Program beyond the term provided in the Stipulation. Any such extension proposal shall be supported by the results of activities from the first three (3) years under this Program.

II. Energy Strong II Accelerated Rate Recovery Mechanism

21. The Parties agree to include maximum subprogram investment levels for accelerated recovery up to the following, reflecting a 35% risk and contingency, without any inflation adjustments:

		$ Million
A.	Electric Energy Strong II Program	
•	Electric Station Flood Mitigation	$389
•	Contingency Reconfiguration	$145
•	Grid Modernization, Communication System	$72
•	Grid Modernization, ADMS	$35
	Electric Energy Strong II Total	$641
B.	Gas Energy Strong II Program	
•	M&R Station Upgrades	$50.5
	Gas Energy Strong II Total	$50.5
Total Energy Strong II Accelerated Recovery		**$691.5**

22. While investment funds may not be moved between the Energy Strong II electric and gas programs, funds may be reallocated among the electric subprograms. The Parties recognize that the infrastructure initiatives covered under the Energy Strong II electric program will be of a significant scale and scope, and although the Energy Strong programs were completed within budget, there are many variables associated with this type of work that make it difficult to precisely budget each subprogram project initiative. Accordingly, the Parties agree that a process enabling the Company to make adjustments to subprogram budgets in response to real market and service conditions experienced is justified. The process shall be as follows: For reallocation among Energy Strong II electric subprograms in the cumulative amount five percent (5%) or less of the overall

Energy Strong II electric program investment set forth in the Stipulation, PSE&G shall be authorized to make adjustments on an immediate basis. PSE&G shall notify Board Staff and Rate Counsel of the changes within 30 days following the change. PSE&G shall not make reallocations among the Energy Strong II electric subprograms exceeding five percent (5%) of the Energy Strong II electric program investments without 15 days prior written and electronic notification to Board Staff (Director, Division of Energy or designee) and Rate Counsel providing them with the opportunity to object within that time period. If there is no objection by Board Staff or Rate Counsel within 15 days of receipt of the electronic notice, the Company may move forward with the change.

Electric Station Flood Mitigation

23. The Company will mitigate the 16 stations identified in the Stipulation. The cost estimates in paragraph 21 of the Stipulation for the Electric Station Flood Mitigation projects include a 35% risk and contingency.

Flood Mitigation					
#	**Station**	**Anticipated Method**	**#**	**Station**	**Anticipated Method**
1	Academy Street	Raise	9	Meadow Road	Raise
2	Clay Street	Raise	10	Orange Valley	Raise
3	Constable Hook	Raise	11	Ridgefield 13kV	Raise
4	Hasbrouck Heights	Raise	12	Ridgefield 4kV	Eliminate
5	Kingsland	Raise	13	State Street	Raise
6	Lakeside Avenue	Raise	14	Toney's Brook	Raise
7	Leonia	Raise	15	Waverly	Raise
8	Market Street	Eliminate	16	Woodlynne	Raise

24. PSE&G may change the mitigation method for a station if it concludes that an alternative method would provide the same benefits to customers at a lower cost, or if permitting or other circumstances make it impossible or inappropriate to use the method specified in the filing. Any change in the mitigation method for a station will not be made without 15 days prior written and electronic notification to Board Staff (Director, Division of Energy or designee) and Rate Counsel providing them with the opportunity to object within that time period. The notification will include detailed supporting information to support the Company's position that the proposed alternative will provide the same benefits to customers at a lower cost, or if permitting or other circumstances make it impossible or inappropriate to use the method specified in the filing. If there is no objection by Board Staff or Rate Counsel within 15 days of receipt of the electronic notice, the Company may move forward with the change.

25. If the Company determines the work on the 16 aforementioned substations identified in the flood mitigation subprogram can be completed under the $389 million investment ceiling associated with substations, PSE&G may reallocate any funds to those stations identified in the life cycle station upgrade portion of the petition for accelerated recovery.

26. If the Company cannot complete its work on the 16 substations within the $389 million clause recovery allotment, PSE&G may seek recovery of any excess

amount in its next base rate case. Additionally, any prudently incurred costs for work on the 16 substations that exceed $389 million will be credited toward the Company's baseline capital expenditure requirement provided in paragraph 35 of the Stipulation.

Contingency Reconfiguration

27. PSE&G will invest up to $145 million to harden its electric distribution system and increase system resiliency by implementing contingency reconfiguration strategies, which were also part of the Energy Strong program. These strategies will increase the sections in present loop designs by utilizing reclosers, convert all existing two (2)-section overhead 13kV circuits to three (3)-section circuits by installing additional three (3)-phase reclosers, and install single phase recloser devices on branch lines that operate with only fuses.

Grid Modernization, Communication System

28. An investment of up to $72 million will be made by the Company to install a private wireless communications network and eliminate the use of dedicated phone lines for remote communication for both PSE&G and customer equipment. The overall network will use wireless and fiber technology to provide coverage for all switching devices on the system to facilitate both system and customer equipment communication moving forward. The system will be private and encrypted to ensure the security of PSE&G's capability to monitor and control the distribution system.

Grid Modernization, ADMS

29. The Company will invest up to $35 million to develop an Advanced Distribution Management System ("ADMS") that will incorporate data from Geographic Information System and SCADA, intelligent fault indicators, Smart Meters, and other advanced metering infrastructure. The system will replace the existing Outage Management System.

Gas Metering & Regulating ("M&R") Station Upgrades

30. Up to $50.5 million will be invested by the Company to rebuild/modernize the following gas M&R stations:
- Camden
- Central
- East Rutherford
- Mount Laurel
- Paramus
- Westampton

31. If the Company cannot complete its work on the six (6) M&R stations within the $50.5 million clause recovery allotment, PSE&G may seek recovery of any excess amount in its next base rate case. Additionally, any prudently incurred costs for work on the six (6) M&R stations that exceed $50.5 million will be

credited toward the Company's stipulated base requirement provided in paragraph 34 of the Stipulation. The cost estimates for the M&R Station Upgrade projects include a 35% risk and contingency.

32. Costs eligible for recovery under the Energy Strong II Rate Mechanism shall not exceed $691.5 million, which excludes the cost associated with the Stipulated Base and Allowance for Funds Used During Construction ("AFUDC").

III. Capital Structure/Return on Equity

33. PSE&G's weighted average cost of capital ("WACC") for Energy Strong II will be set based on the WACC established in the Company's most recently approved base rate case. The current WACC based on the approved 2018 base rate case is 6.99%, or 6.48% on an after-tax basis based on current tax rates.

IV. Stipulated Base

34. The Company shall spend a total of $150.5 million on certain capital projects during the Program term that will not be recovered through the Energy Strong II Rate Mechanism, but that will be considered Stipulated Base expenditure to be recovered in the Company's next base rate case as long as this investment is found to be prudent. Of that $150.5 million, $100 million will be spent at the Company's discretion toward electric outside plant higher design and construction standards ("outside plant") and/or electric life cycle subprograms identified in the Energy Strong II petition. The remaining $50.5 million will be used to complete the six (6) gas M&R station upgrades specified in the Stipulation. If the completion of the six (6) M&R station upgrades requires less than the estimated $50.5 million, the Company will have the option of achieving the $50.5 million of Stipulated Base expenditure through additional gas M&R station upgrades. If the completion of the six (6) M&R station upgrades requires more than the estimated $50.5 million of Stipulated Base expenditure, the excess can be counted toward the Company's baseline capital expenditure requirement as described in paragraph 35 of the Stipulation. The total $150.5 million Stipulated Base expenditure shall be recoverable from base rates and not recoverable through the Energy Strong II Rate Mechanism. In total, the Company shall spend a maximum of $842 million to complete the Program, with $691.5 million within the Energy Strong II Rate Mechanism and $150.5 million within Stipulated Base. All prudently incurred costs on Energy Strong II projects above $842 million will count toward baseline capital expenditures as discussed in paragraph 35 of the Stipulation.

V. Baseline Capital Expenditure

35. During the term of the Energy Strong II Program, in addition to the Stipulated Base expenditures set forth in paragraph 34 of the Stipulation, the Company agrees to maintain an annual baseline capital expenditure level of at least $223.6 million on electric investments, and at least $155 million in gas investments. The capital investments made by the Company as part of its baseline capital expenditure requirements are within the discretion of the Company and may include, *inter alia,* additional life cycle station upgrades, additional outside plant, and/or other costs incurred by the Company in excess of the maximum spending

levels provided under the Energy Strong II Rate Mechanism. Investments made by the Company to extend service to new customers will not be included as part of the annual baseline capital expenditures required pursuant to the Stipulation. If the Company fails to maintain an annual baseline capital expenditure level of at least $223.6 million for electric and $155 million for gas capital investments in any year, the amount of investment eligible for recovery through the Energy Strong II Rate Mechanism for the subsequent year will be reduced by an amount equal to the difference between the electric and gas baselines and the actual annual electric and gas capital expenditures made by the Company. PSE&G may request and the Board may grant an exception from the requirements of the Stipulation based on extraordinary circumstances, such as extreme weather, acts of war or terrorism, or other *force majeure* extraordinary circumstances.

VI. Cost Recovery

36. The Company may seek recovery through the Energy Strong II Rate Mechanism for the costs covered under Paragraph 21 of the Stipulation via a rate adjustment request with schedules, procedures, and filings as detailed in the Stipulation. Consistent with N.J.A.C. 14:3-2A.6(d), the Company proposes to recover its costs associated with the Energy Strong II Rate Mechanism through a new component of its Electric and Gas tariff, the Infrastructure Investment Recovery Charge.

37. The Company anticipates it will make six (6) rate adjustments over the term of the Program in accordance with the schedule in the Stipulation. Consistent with the IIP, each rate adjustment made by the Company must include a minimum investment level of 10% of the total amount authorized to be recovered via the Energy Strong II Rate Mechanism. The Company must also meet the earnings test as specified in the IIP.

38. The Parties agree that the review of the prudency of all projects undertaken in the Program will not take place prior to or in connection with the rate adjustments established in the Stipulation. PSE&G therefore agrees that the rate adjustments established in the rate filing proceedings (assuming the 10% minimum threshold has been met) scheduled in the Stipulation shall be provisional and subject to refund based upon a Board finding that PSE&G imprudently incurred capital expenditures under the Program. Such prudency review shall take place in a future base rate case. Nothing in the Stipulation will preclude any party from raising in the base rate case prudency review any objection that could have been raised in a prior IIP rate filing.

39. To effectuate the cost recovery process for the Energy Strong II Rate Mechanism investments, PSE&G shall proceed on the schedule in the Stipulation following public notice and public hearing, recognizing that the prudency of the investments will be determined in the base rate case following the placement of the investments into service. The effective dates for the adjustments may be revised by agreement of the Parties.

40. The proposed schedule for the Rates Effective, Initial Filing, Investment as of, and True-up Filing dates for all rate adjustments are listed in the Stipulation:

	Proposed Energy Strong II Rate Adjustment Schedule			
Rate Adj. #	Initial Filing no earlier than:	Investment as of:	Update for actual data by:	Rate Effective no earlier than:
1[5]	November 1, 2020	January 31, 2021	February 21, 2021	May 1, 2021
2	November 1, 2021	January 31, 2022	February 21, 2022	May 1, 2022
3	May 1, 2022	July 31, 2022	August 21, 2022	November 1, 2022
4	November 1, 2022	January 31, 2023	February 21, 2023	May 1, 2023
5	May 1, 2023	July 31, 2023	August 21, 2023	November 1, 2023
6[6]	November 1, 2023	December 31, 2023	February 21, 2024	May 1, 2024

41. In the rate adjustment proceedings provided for in the Stipulation, the revenue requirement associated with the investments recovered through the Energy Strong II Rate Mechanism shall be calculated as summarized in the Stipulation:

Energy Strong II Rate Mechanism Costs - All capital expenditures recoverable through the Energy Strong II Rate Mechanism, including actual costs of engineering, design and construction, and property acquisition, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects ("Energy Strong II Rate Mechanism Costs"), will be recovered through rate adjustments for each of the time periods described in the Stipulation. The Energy Strong II Rate Mechanism capital expenditures will be recorded, during construction, in an associated Construction Work In Progress ("CWIP") account or in a Plant in Service account upon the respective project being deemed used and useful. The Company will follow its current policies and practices with regard to capitalizing costs, including overheads.

Net Investment - Is equal to the Energy Strong II Rate Mechanism Investment Costs that have been placed into service less the associated accumulated depreciation less accumulated deferred income taxes.

WACC – PSE&G shall earn a return on its net investment in the Energy Strong II based upon the authorized WACC including income tax effects decided by the Board in the Company's most recently approved base rate case.

The rate adjustments will be calculated using the following formula:
Revenue Requirement = ((Energy Strong II Rate Mechanism Rate Base * After Tax WACC) + Depreciation Expense (net of tax) + Tax Adjustments) * Revenue Factor

[5] This date is only applicable if at least 10% of Energy Strong II Rate Mechanism investment is in-service.
[6] The final rate adjustment dates may vary due to the timing for the completion of Program work.

i. Energy Strong II Rate Mechanism Rate Base – The Energy Strong II Rate Mechanism Rate Base will be calculated as Plant in Service, including CWIP transferred into service and associated AFUDC, less accumulated depreciation and less associated accumulated deferred income taxes. AFUDC will be calculated using the same methodology used for current distribution assets consistent with the Company's AFUDC policy, and as permitted by Federal Energy Regulatory Commission ("FERC") Order 561, which includes compounding AFUDC on a semi-annual basis.

ii. Depreciation Expense – Depreciation expense will be calculated as the Energy Strong II Rate Mechanism Investment Costs by asset class multiplied by the associated depreciation rate applied to the same asset in current base rates and then calculated net of tax.

iii. Tax Adjustments - Includes 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.

iv. Revenue Factor – The Revenue Factor adjusts the Revenue Requirement Net of Tax for federal and state income taxes and the costs associated with the Board and Rate Counsel Annual Assessments and Gas Revenue Uncollectibles. The then-current statutory state and federal income tax rates and the then-current Board/Rate Counsel Assessment rates will be utilized. The percentage used to calculate the uncollectible expense will be based upon the percentage determined in the Company's most recently approved base rate case.

Attached as Attachment A of the Stipulation is a sample revenue requirement calculation based on the estimated revenue requirement for the first rate adjustment.

VII. Rate Design

42. The rate design for the rate adjustments agreed upon in the Stipulation will be structured consistent with the rate design methodology used to set rates in the Company's most recently concluded base rate case. Specifically, the Company will utilize the corresponding billing determinants, including the weather normalized billing determinants approved in the most recent base rate case. To the extent the Company seeks to utilize more current weather normalized billing determinants for any future rate adjustment filings subsequent to the most recently approved base rate case, or to change the methodology used to weather normalize billing determinants, PSE&G shall provide those updated billing determinants and supporting data to Board Staff and Rate Counsel a minimum of 60 days prior to any Energy Strong II rate adjustment filing for review and approval.

VIII. Base Rate Case Filing Requirement

43. Consistent with the IIP and with the settlement agreement in the Gas System Modernization Program II case (Docket No. GR17070776), approved by the Board in an Order dated May 22, 2018, the Company will file a base rate case no later than December 31, 2023.

IX. Reporting Requirements and Performance Metrics

44. Minimum Filing Requirements ("MFRs") - Each rate change filing will be accompanied by the MFRs that are set forth in Attachment B of the Stipulation.
45. PSE&G will provide quarterly reports on the Energy Strong II Program to Board Staff and Rate Counsel ("Quarterly Report") setting forth the following for each of the electric and gas Energy Strong II programs:
    - The estimated quantity of work and the quantity completed to date or, if the project cannot be quantified with numbers, the major tasks completed, e.g., design phase, material procurement, permit gathering, phases of construction;
    - The forecasted and actual Energy Strong II costs-to-date for the quarterly reporting period and for the Program-to-date; where projects are identified by major category (with the actual variances from forecasted amounts expressed in dollar and percentage terms);
    - The estimated Energy Strong II project completion date, and estimated completion dates for each Energy Strong II subprogram and the Program as a whole;
    - Anticipated changes to Energy Strong II projects, if any;
    - Actual capital expenditures made in the normal course of business on similar projects, identified by comparable Energy Strong II subprogram; and
    - Any other performance metrics concerning the IIP required by the Board.

    The project expenditures shall be broken out between material and other costs. This reporting will begin two (2) months after the end of the first full calendar quarter following the issuance of a written Board Order authorizing the Program and continue through the completion of the construction phase.

46. For the Energy Strong II electric program, PSE&G will report to Board Staff and Rate Counsel, on a quarterly basis, SAIDI results for Major Event performance (where "Major Event" is defined as per paragraph (1) of the definition of Major Event in N.J.A.C. 14:5-1) at the circuit level (redacted and confidential unredacted) for all circuits improved by Energy Strong II and affected by a Major Event and at the operating area level and system wide. The SAIDI results will be reported and measured against a baseline that reflects performance for each circuit under Major Event conditions for the prior five (5) years from the Program start date. The report will include the SAIDI results at the circuit level for the report quarter.

47. Circuit-level data will be provided for circuits in which Energy Strong II electric investments were made under the Contingency Reconfiguration Subprogram as

detailed in the Stipulation. Additionally, PSE&G will report quarterly to Board Staff and Rate Counsel for all circuits improved by Energy Strong II on non-Major Event performance (where a non-Major Event excludes all "Major Events" as defined at N.J.A.C. 14:5-1.2.) including circuit designation (information to be provided redacted and confidential unredacted), that reflects non-Major Event conditions for the prior quarters, on an annual basis per the current reporting to the Board pursuant to the Board's Energy Strong Order. The Company will also report quarterly non-Major Event CAIDI, SAIFI, SAIDI and MAIFI for all circuits improved by Energy Strong II. This material, which will be provided together in a single submission to Board Staff and Rate Counsel, will begin two (2) months after the end of the first full calendar quarter following the issuance of a written Board Order authorizing the Energy Strong II Program, and continue through the review of the prudency of the Program investments. The performance of the Contingency Reconfiguration Subprogram will be reported and measured against a baseline that reflects performance for each circuit under non-Major Event conditions for the prior five (5) years from the Program start date.

48. PSE&G, following consultation with Board Staff and Rate Counsel, will retain an independent monitor to review and report to Board Staff and Rate Counsel on the impact of the Program on overall system performance during severe weather events; cost effectiveness and efficiency; appropriate cost assignment; and other information deemed appropriate by the Company, Board Staff and Rate Counsel. The independent monitor shall continue until one (1) quarter following the completion of the Energy Strong II investments unless the Company, Board Staff and Rate Counsel agree that the services of the independent monitor should continue. Independent monitor expenses shall be capitalized to the extent consistent with Generally Accepted Accounting Principles and shall be included as part of the Energy Strong II Rate Mechanism Costs and counted against the maximum investment levels for accelerated recovery set forth in paragraph 21 of the Stipulation.

49. The reporting requirements and metrics set forth in the Stipulation will allow the Board to review the performance of the investments:
   - <u>Electric Stations and Gas M&R Stations</u>. Any station with flood mitigation work completed should not go out of service due to water intrusion from flooding or storm surge within the applicable Federal Emergency Management Agency ("FEMA") Advisory Base Flood Elevation that the station is designed to withstand.
   - <u>Contingency Reconfiguration Strategies</u>. Storm Circuit SAIDI savings (customers outages and customer minutes saved due to increased sectionalization) will be measured for all Major Events.
   - <u>Grid Modernization ADMS</u>. System SAIDI savings (customers outages and customer minutes saved) will be measured for all Major Events and non-Major Events once the system is implemented.

These metrics shall be reported quarterly and following any Major Event as defined in paragraphs 46 and 47 of the Stipulation. This reporting will begin two (2) months after the end of the first full calendar quarter following the issuance of a written Board Order authorizing the Program and continue through review of the prudency of the Energy Strong II investments. The performance of these subprograms will be reported and measured against a baseline that reflects performance for each circuit under both Major Event and non-Major Event conditions for the prior five (5) years to the Program start date.

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. The II&R Rules 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. After carefully considering the record in this proceeding and the terms of the Stipulation, the Board is persuaded that the current settlement satisfies these goals.

The Board agrees that replacement of aging infrastructure, as well as the implementation of certain investments in the Company's system, 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 stipulated cost recovery mechanism, the Board is persuaded that the mechanism proposed in the Stipulation allows the Company rate recovery for all expenditures related to plant that have been placed in service, but on a provisional basis, subject to refund. These costs will be subject to review in the next base rate case, which the Company has committed to filing no later than December 31, 2023. The Board, in its discretion, may require PSE&G to file its next base rate case within a shorter period. The Board believes the cost recovery mechanism adopted in the Stipulation strikes an effective 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. No rates will be charged to customers until the facilities for which the rates are being charged are in service. The Stipulation also mandates that the Company maintain certain reporting requirements, which provides additional protection to ratepayers.

Based on 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 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 President Fiordaliso during the pendency of this proceeding for the reasons stated in his 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 September 21, 2019.

DATED: 9\11\19

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BY:

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COMMISSIONER

DIANNE SOLOMON
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UPENDRA J. CHIVUKULA
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ROBERT M. GORDON
COMMISSIONER

ATTEST:
AIDA CAMACHO-WELCH
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities.

IN THE MATTER OF THE PETITION OF PUBLIC SERVICE ELECTRIC AND GAS COMPANY FOR APPROVAL OF THE SECOND ENERGY STRONG PROGRAM (ENERGY STRONG II)
DOCKET NOS. EO18060629 and GO18060630

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PSEG
Services Corporation

August 23, 2019

In The Matter of the Petition of
Public Service Electric and Gas Company
for Approval of The Second Energy Strong Program
(Energy Strong II)

BPU Docket Nos. EO18060629 and GO18060630

VIA ELECTRONIC & OVERNIGHT MAIL

Aida Camacho-Welch, Secretary
Board of Public Utilities
44 South Clinton Avenue, 3rd Flr.
P.O. Box 350
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Attn.: President Joseph Fiordaliso

Dear President Fiordaliso:

Attached please find the fully executed Stipulation (of which 10 copies are enclosed) in the above-referenced matter resolving all aspects of this matter. All the parties have signed the Stipulation: Public Service Electric and Gas Company, the Staff of the New Jersey Board of Public Utilities, the New Jersey Division of Rate Counsel, New Jersey Large Energy Users Coalition and AARP, Inc.

If you have any questions, please do not hesitate to contact me. Thank you for your consideration in this matter.

Respectfully submitted,

Matthew Weissman

Attach.
C Attached Service List (E-Mail)

HARD COPY *
CD ^
01/22/2019

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF) PUBLIC SERVICE ELECTRIC AND GAS) COMPANY FOR APPROVAL OF THE) SECOND ENERGY STRONG PROGRAM) (ENERGY STRONG II))	PETITION BPU DOCKET NOS. EO18060629 and GO18060630

STIPULATION OF SETTLEMENT AND AGREEMENT

APPEARANCES:
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Emma Yao Xiao, Esq., Deputy Attorney General, for the Staff of the New Jersey Board of Public Utilities (**Gurbir S. Grewal, Esq.,** Attorney General of New Jersey)

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TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

It is hereby AGREED, by and between Public Service Electric and Gas Company ("Public Service", "PSE&G" or the "Company"), the Staff of the New Jersey Board of Public Utilities ("Board Staff"), the New Jersey Division of Rate Counsel ("Rate Counsel"), and the undersigned intervenors (collectively the "Parties" or the "Signatories"), to execute this Stipulation of Settlement and Agreement resolving PSE&G's Petition in this docket and to join in recommending that the Board issue a Final Decision and Order approving this Stipulation of Settlement and Agreement ("Stipulation").

BACKGROUND

1. On June 8, 2018, the Company filed a petition with the New Jersey Board of Public Utilities (the "Board") seeking approval of the Energy Strong II Program ("ES II" or "Program") and associated cost recovery mechanism for a five (5) year period. The Company asserts that the Program builds upon the Energy Strong Program ("Energy Strong" or "ES I") which was approved by a Board order dated May 21, 2014 in BPU Docket Nos. EO13020155 and GO13020156 ("Energy Strong Order"). The Company claims that the Program is also designed to comply with the Board's rules on Infrastructure Investment Programs ("IIPs"), N.J.A.C. 14:3-2A.

2. The petition states that the ES II proposed infrastructure investments would enhance safety, reliability, and/or resiliency through four (4) electric and two (2) gas subprograms. The Program proposed an estimated investment of $1.503 billion in electric infrastructure over five (5) years, and $0.999 billion in gas infrastructure over five (5) years, with cost recovery consistent with the cost recovery for electric investments in ES I.

3. On July 25, 2018, the Board issued an Order designating Board President Joseph L. Fiordaliso as the presiding officer in the matter to rule on all motions that arise during the pendency of the proceeding, establish and modify any schedules that may be set as necessary, and to conduct public and evidentiary hearings.

4. By way of Order dated November 30, 2018, President Fiordaliso issued a procedural schedule and ruled on Motions to Intervene or Participate in the proceeding. Intervention status was granted to the New Jersey Large Energy Users Coalition ("NJLEUC") and AARP, Inc. ("AARP"). Participant status was accorded to the following: Jersey Central Power and Light Company ("JCP&L"); Local Union 94 of the International Brotherhood of

Electrical Workers ("IBEW"); Ferreira Construction Company, Inc.; Henkels & McCoy, Inc. ("H&M"); Joseph Jingoli & Son, Inc. ("Jingoli"); Creamer-Sanzari Joint Venture; New Jersey Laborers-Employers Cooperation and Education Trust ("NJLECET"); the Engineers Labor-Employment Cooperative ("ELEC"); Waters and Bugbee, Inc. ("W&B"); and Environment New Jersey ("ENJ") and the New Jersey Conservation Foundation ("NJCF").

5. Public hearings were held at 4 p.m. and 5:30 p.m. in Hackensack, New Jersey on January 7, 2019; Mt. Holly, New Jersey on January 8, 2019; and in New Brunswick, New Jersey on January 9, 2019. A variety of comments were received at each of these hearings as reflected in their respective transcripts.

6. Pursuant to the procedural schedule issued by President Fiordaliso, the Parties engaged in substantial discovery.

7. The Parties and participants to this case met on several occasions to facilitate further information gathering, including at a technical conference held on January 22, 2019.

8. Settlement conferences were held on February 13, 19, 21, and 25, 2019.

9. By way of Order dated February 26, 2019, the Board amended the procedural schedule allotting for further settlement conferences between the parties, and setting evidentiary hearings for June 10, 11, 14, and 17, 2019.

10. On March 1, 2019 Rate Counsel submitted pre-filed direct testimony, with the Company filing its rebuttal testimony thereafter on April 18, 2019.

11. Additional settlement conferences were held on April 15 and May 21, 2019.

12. Since the parties were unable to come to a resolution of the matter, evidentiary hearings were held before President Fiordaliso on June 10, 11, 14, and 17, 2019.

13. Settlement efforts continued in parallel with the evidentiary hearings as well as throughout the initial post-hearing briefing period.

14. During the evidentiary hearings, the Parties requested that President Fiordaliso extend the deadline for the filing of Initial Briefs in order to provide the parties with additional time to explore amicable resolution of the matter.

15. On July 16, 2019, the Parties notified the Board that the Parties reached an agreement in principle and requested that President Fiordaliso grant a suspension of the briefing schedule pending a final agreement.

16. The Signatories have reached an agreement resolving all issues in the instant proceeding.

17. In light of the foregoing, the Signatories agreed to submit this Stipulation of Settlement and Agreement, the terms of which are set forth below. Specifically, the Signatories hereby STIPULATE AND AGREE to the following:

STIPULATED MATTERS

18. The Signatories agree that, subject to Board approval of this Stipulation of Settlement and Agreement, PSE&G may implement ES II under the terms and conditions described herein. The Program will include investment in PSE&G's electric and gas distribution systems, an accelerated rate recovery mechanism ("ES II Rate Mechanism"), including scheduled rate adjustments for investments included in the ES II Rate Mechanism, authorized electric and gas distribution base investments in projects that are not recoverable through the ES II Rate Mechanism ("Stipulated Base"), an annual baseline for electric and gas capital expenditures, and other provisions as described herein.

I. Program Term

19. The project work under this Program will commence on October 1, 2019, with all project work expected to conclude on or about December 31, 2023, except as provided herein. The Company may undertake Program non-construction expenditures, such as planning and engineering, upon Board approval of the Program.

20. The Company will have the option of seeking Board approval to extend the Program beyond the term provided above. Any such extension proposal shall be supported by the results of activities from the first three (3) years under this Program.

II. <u>ES II Accelerated Rate Recovery Mechanism</u>

21. The Signatories agree to include maximum subprogram investment levels for accelerated recovery up to the following, reflecting a 35% risk and contingency, without any inflation adjustments:

	$ Million
A. Electric Energy Strong II Program	
• Electric Station Flood Mitigation	$389
• Contingency Reconfiguration	$145
• Grid Modernization, Communication System	$72
• Grid Modernization, ADMS	$35
Electric ES II Total	$641
B. Gas Energy Strong II Program	
• M&R Station Upgrades	$50.5
Gas ES II Total	$50.5
Total ES II Accelerated Recovery	$691.5

22. While investment funds may not be moved between the ES II electric and gas programs, funds may be reallocated among the electric subprograms. The Signatories recognize that the infrastructure initiatives covered under the ES II electric program will be of a significant scale and scope, and although the ES I programs were completed within budget, there are many variables associated with this type of work that make it difficult to precisely budget each subprogram project initiative. Accordingly, the Signatories agree that a process enabling the Company to make adjustments to subprogram budgets in response to real market and service conditions experienced is justified. The process shall be as follows: For reallocation among ES II electric subprograms in the cumulative amount five percent (5%) or less of the overall ES II

electric program investment set forth above, PSE&G shall be authorized to make adjustments on an immediate basis. PSE&G shall notify Board Staff and Rate Counsel of the changes within 30 days following the change. PSE&G shall not make reallocations among the ES II electric subprograms exceeding five percent (5%) of the ES II electric program investments without 15 days prior written and electronic notification to Board Staff (Director, Division of Energy or designee) and Rate Counsel providing them with the opportunity to object within that time period. If there is no objection by Board Staff or Rate Counsel within 15 days of receipt of the electronic notice, the Company may move forward with the change.

Electric Station Flood Mitigation

23. The Company will mitigate the 16 stations identified below. The cost estimates in paragraph 21 for the Electric Station Flood Mitigation projects include a 35% risk and contingency.

Flood Mitigation					
#	**Station**	**Anticipated Method**	**#**	**Station**	**Anticipated Method**
1	Academy Street	Raise	**9**	Meadow Road	Raise
2	Clay Street	Raise	**10**	Orange Valley	Raise
3	Constable Hook	Raise	**11**	Ridgefield 13kV	Raise
4	Hasbrouck Heights	Raise	**12**	Ridgefield 4kV	Eliminate
5	Kingsland	Raise	**13**	State Street	Raise
6	Lakeside Avenue	Raise	**14**	Toney's Brook	Raise
7	Leonia	Raise	**15**	Waverly	Raise
8	Market Street	Eliminate	**16**	Woodlynne	Raise

24. PSE&G may change the mitigation method for a station if it concludes that an alternative method would provide the same benefits to customers at a lower cost, or if permitting

or other circumstances make it impossible or inappropriate to use the method specified in the filing. Any change in the mitigation method for a station will not be made without 15 days prior written and electronic notification to Board Staff (Director, Division of Energy or designee) and Rate Counsel providing them with the opportunity to object within that time period. The notification will include detailed supporting information to support the Company's position that the proposed alternative will provide the same benefits to customers at a lower cost, or if permitting or other circumstances make it impossible or inappropriate to use the method specified in the filing. If there is no objection by Board Staff or Rate Counsel within 15 days of receipt of the electronic notice, the Company may move forward with the change.

25. If the Company determines the work on the 16 aforementioned substations identified in the flood mitigation subprogram can be completed under the $389 million investment ceiling associated with substations, PSE&G may reallocate any funds to those stations identified in the life cycle station upgrade portion of the June 8, 2018 filing for accelerated recovery.

26. If the Company cannot complete its work on the 16 substations within the $389 million clause recovery allotment, PSE&G may seek recovery of any excess amount in its next base rate case. Additionally, any prudently incurred costs for work on the 16 substations that exceed $389 million will be credited toward the Company's baseline capital expenditure requirement provided in paragraph 35 of this Stipulation.

Contingency Reconfiguration

27. PSE&G will invest up to $145 million to harden its electric distribution system and increase system resiliency by implementing contingency reconfiguration strategies, which were also

part of ES I. These strategies will increase the sections in present loop designs by utilizing reclosers, convert all existing two (2)-section overhead 13kV circuits to three (3)-section circuits by installing additional three (3)-phase reclosers, and install single phase recloser devices on branch lines that operate with only fuses.

Grid Modernization, Communication System

28. An investment of up to $72 million will be made by the Company to install a private wireless communications network and eliminate the use of dedicated phone lines for remote communication for both PSE&G and customer equipment. The overall network will use wireless and fiber technology to provide coverage for all switching devices on the system to facilitate both system and customer equipment communication moving forward. The system will be private and encrypted to ensure the security of PSE&G's capability to monitor and control the distribution system.

Grid Modernization, ADMS

29. The Company will invest up to $35 million to develop an Advanced Distribution Management System ("ADMS") that will incorporate data from Geographic Information System ("GIS") and SCADA, intelligent fault indicators, Smart Meters, and other advanced metering infrastructure ("AMI"). The system will replace the existing Outage Management System ("OMS").

Gas Metering & Regulating ("M&R") Station Upgrades

30. Up to $50.5 million will be invested by the Company to rebuild/modernize the following gas M&R stations:

- Camden
- Central

- East Rutherford
- Mount Laurel
- Paramus
- Westampton

31. If the Company cannot complete its work on the six (6) M&R stations identified above within the $50.5 million clause recovery allotment, PSE&G may seek recovery of any excess amount in its next base rate case. Additionally, any prudently incurred costs for work on the six (6) M&R stations that exceed $50.5 million will be credited toward the Company's stipulated base requirement provided in paragraph 34 of this Stipulation. The cost estimates for the M&R Station Upgrade projects include a 35% risk and contingency.

32. Costs eligible for recovery under the ES II Rate Mechanism shall not exceed $691.5 million, which excludes the cost associated with the Stipulated Base and Allowance for Funds Used During Construction ("AFUDC").

III. Capital Structure/Return on Equity

33. PSE&G's weighted average cost of capital ("WACC") for ES II will be set based on the WACC established in the Company's most recently approved base rate case. The current WACC based on the approved 2018 base rate case is 6.99%, or 6.48% on an after-tax basis based on current tax rates.

IV. Stipulated Base

34. The Company shall spend a total of $150.5 million on certain capital projects during the Program term that will not be recovered through the ES II Rate Mechanism, but that will be considered Stipulated Base expenditure to be recovered in the Company's next base rate case as long as this investment is found to be prudent. Of that $150.5 million, $100 million will be spent at the Company's discretion toward electric outside plant higher design and construction standards ("outside plant") and/or electric life cycle subprograms identified in the June 8, 2018 ES II filing. The remaining $50.5 million will be used to complete the six (6) gas M&R station upgrades specified above. If the completion of the six (6) M&R station upgrades requires less than the estimated $50.5 million, the Company will have the option of achieving the $50.5 million of Stipulated Base expenditure through additional gas M&R station upgrades. If the completion of the six (6) M&R station upgrades requires more than the estimated $50.5 million of Stipulated Base expenditure, the excess can be counted toward the Company's baseline capital expenditure requirement as described in paragraph 35. The total $150.5 million Stipulated Base expenditure shall be recoverable from base rates and not recoverable through the ES II Rate Mechanism. In total, the Company shall spend a maximum of $842 million to complete the Program, with $691.5 million within the ES II Rate Mechanism and $150.5 million within Stipulated Base. All prudently incurred costs on ESII projects above $842 million will count toward baseline capital expenditures as discussed in paragraph 35, below.

V. Baseline Capital Expenditure

35. During the term of the ES II Program, in addition to the Stipulated Base expenditures set forth in paragraph 34 above, the Company agrees to maintain an annual baseline capital expenditure level of at least $223.6 million on electric investments, and at least $155 million in gas investments. The capital investments made by the Company as part of its baseline capital expenditure requirements are within the discretion of the Company and may include, *inter alia,* additional life cycle station upgrades, additional outside plant, and/or other costs incurred by the Company in excess of the maximum spending levels provided under the ES II Rate Mechanism. Investments made by the Company to extend service to new customers will not be included as part of the annual baseline capital expenditures required pursuant to this paragraph. If the Company fails to maintain an annual baseline capital expenditure level of at least $223.6 million for electric and $155 million for gas capital investments in any year, the amount of investment eligible for recovery through the ES II Rate Mechanism for the subsequent year will be reduced by an amount equal to the difference between the electric and gas baselines and the actual annual electric and gas capital expenditures made by the Company. PSE&G may request and the Board may grant an exception from the requirements of this paragraph based on extraordinary circumstances, such as extreme weather, acts of war or terrorism, or other *force majeure* extraordinary circumstances.

VI. Cost Recovery

36. The Company may seek recovery through the ES II Rate Mechanism for the costs covered under Paragraph 21 via a rate adjustment request with schedules, procedures, and filings as detailed in subsequent paragraphs herein. Consistent with N.J.A.C. 14:3-2A.6(d), the

Company proposes to recover its costs associated with the ESII Rate Mechanism through a new component of its Electric and Gas tariff, the Infrastructure Investment Recovery Charge.

37. The Company anticipates it will make six (6) rate adjustments over the term of the Program in accordance with the schedule below. Consistent with the IIP, each rate adjustment made by the Company must include a minimum investment level of 10% of the total amount authorized to be recovered via the ES II Rate Mechanism. The Company must also meet the earnings test as specified in the IIP.

38. The Signatories agree that the review of the prudency of all projects undertaken in the Program will not take place prior to or in connection with the rate adjustments established herein. PSE&G therefore agrees that the rate adjustments established in the rate filing proceedings (assuming the 10% minimum threshold noted above has been met) scheduled herein shall be provisional and subject to refund based upon a Board finding that PSE&G imprudently incurred capital expenditures under the Program. Such prudency review shall take place in a future base rate case. Nothing herein will preclude any party from raising in the base rate case prudency review any objection that could have been raised in a prior IIP rate filing.

39. To effectuate the cost recovery process for the ES II Rate Mechanism investments, PSE&G shall proceed on the below schedule following public notice and public hearing, recognizing that the prudency of the investments will be determined in the base rate case following the placement of the investments into service. The effective dates for the adjustments may be revised by agreement of the Parties.

40. The proposed schedule for the Rates Effective, Initial Filing, Investment as of, and True-up Filing dates for all rate adjustments are listed below:

	Proposed ES II Rate Adjustment Schedule			
Rate Adj.	**Initial Filing no earlier than:**	**Investment as of:**	**Update for actual data by:**	**Rate Effective no earlier than:**
1[1]	November 1, 2020	January 31, 2021	February 21, 2021	May 1, 2021
2	November 1, 2021	January 31, 2022	February 21, 2022	May 1, 2022
3	May 1, 2022	July 31, 2022	August 21, 2022	November 1, 2022
4	November 1, 2022	January 31, 2023	February 21, 2023	May 1, 2023
5	May 1, 2023	July 31, 2023	August 21, 2023	November 1, 2023
6[2]	November 1, 2023	December 31, 2023	February 21, 2024	May 1, 2024

41. In the rate adjustment proceedings provided for above, the revenue requirement associated with the investments recovered through the ES II Rate Mechanism shall be calculated as summarized below:

> ES II Rate Mechanism Costs - All capital expenditures recoverable through the ES II Rate Mechanism, including actual costs of engineering, design and construction, and property acquisition, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects ("ES II Rate Mechanism Costs"), will be recovered through rate adjustments for each of the time periods described above. The ES II Rate Mechanism capital expenditures will be recorded, during construction, in an associated Construction Work In Progress ("CWIP") account or in a Plant in Service account upon the respective project being deemed used and useful. The Company will follow its current policies and practices with regard to capitalizing costs, including overheads.

> Net Investment - Is equal to the ES II Rate Mechanism Investment Costs that have been placed into service less the associated accumulated depreciation less accumulated deferred income taxes.

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1 This date is only applicable if at least 10% of ES II Rate Mechanism investment is in-service.

2 The final rate adjustment dates may vary due to the timing for the completion of Program work.

WACC – PSE&G shall earn a return on its net investment in the ES II based upon the authorized WACC including income tax effects decided by the Board in the Company's most recently approved base rate case.

The rate adjustments will be calculated using the following formula:

Revenue Requirement = ((ES II Rate Mechanism Rate Base * After Tax WACC) + Depreciation Expense (net of tax) + Tax Adjustments) * Revenue Factor

i. ES II Rate Mechanism Rate Base – The ES II Rate Mechanism Rate Base will be calculated as Plant in Service, including CWIP transferred into service and associated AFUDC, less accumulated depreciation and less associated accumulated deferred income taxes. AFUDC will be calculated using the same methodology used for current distribution assets consistent with the Company's AFUDC policy, and as permitted by FERC Order 561, which includes compounding AFUDC on a semi-annual basis.

ii. Depreciation Expense – Depreciation expense will be calculated as the ES II Rate Mechanism Investment Costs by asset class multiplied by the associated depreciation rate applied to the same asset in current base rates and then calculated net of tax.

iii. Tax Adjustments - Includes 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.

iv. Revenue Factor – The Revenue Factor adjusts the Revenue Requirement Net of Tax for federal and state income taxes and the costs associated with the Board and Rate Counsel Annual Assessments and Gas Revenue Uncollectibles. The then-current statutory state and federal income tax rates and the then-current Board/Rate Counsel Assessment rates will be utilized. The percentage used to calculate the uncollectible expense will be based upon the percentage determined in the Company's most recently approved base rate case.

Attached as Attachment A is a sample revenue requirement calculation based on the estimated revenue requirement for the first rate adjustment.

VII. Rate Design

42. The rate design for the rate adjustments agreed upon herein will be structured consistent with the rate design methodology used to set rates in the Company's most recently concluded base rate case. Specifically, the Company will utilize the corresponding billing determinants, including the weather normalized billing determinants approved in the most recent base rate case. To the extent the Company seeks to utilize more current weather normalized billing determinants for any future rate adjustment filings subsequent to the most recently approved base rate case, or to change the methodology used to weather normalize billing determinants, PSE&G shall provide those updated billing determinants and supporting data to Board Staff and Rate Counsel a minimum of 60 days prior to any ES II rate adjustment filing for review and approval.

VIII. Base Rate Case Filing Requirement

43. Consistent with the IIP and with the settlement agreement in the GSMP II case (Docket No. GR17070776), approved by the Board in an Order dated May 22, 2018, the Company will file a base rate case no later than December 31, 2023.

IX. Reporting Requirements and Performance Metrics

44. Minimum Filing Requirements ("MFRs") - Each rate change filing will be accompanied by the MFRs that are set forth in Attachment B hereto.

45. PSE&G will provide quarterly reports on the ES II program to Board Staff and Rate Counsel ("Quarterly Report") setting forth the following for each of the electric and gas ES II programs:

- The estimated quantity of work and the quantity completed to date or, if the project cannot be quantified with numbers, the major tasks completed, e.g., design phase, material procurement, permit gathering, phases of construction;

- The forecasted and actual ES II costs-to-date for the quarterly reporting period and for the program-to-date; where projects are identified by major category (with the actual variances from forecasted amounts expressed in dollar and percentage terms);
- The estimated ES II project completion date, and estimated completion dates for each ESII sub-program and the Program as a whole;
- Anticipated changes to ES II projects, if any;
- Actual capital expenditures made in the normal course of business on similar projects, identified by comparable ESII sub-program; and
- Any other performance metrics concerning the IIP required by the Board.

The project expenditures shall be broken out between material and other costs. This reporting will begin two (2) months after the end of the first full calendar quarter following the issuance of a written Board Order authorizing the ES II Program and continue through the completion of the construction phase.

46. For the ES II electric Program, PSE&G will report to Board Staff and Rate Counsel, on a quarterly basis, SAIDI results for Major Event performance (where "Major Event" is defined as per paragraph (1) of the definition of Major Event in N.J.A.C. 14:5-1) at the circuit level (redacted and confidential unredacted) for all circuits improved by ES II and affected by a Major Event and at the operating area level and system wide. The SAIDI results will be reported and measured against a baseline that reflects performance for each circuit under Major Event conditions for the prior five years from the program start date. The report will include the SAIDI results at the circuit level for the report quarter.

47. Circuit-level data will be provided for circuits in which ES II electric investments were made under the Contingency Reconfiguration Subprogram as detailed herein. Additionally, PSE&G will report quarterly to Board Staff and Rate Counsel for all circuits improved by ES II

on non-Major Event performance (where a non-Major Event excludes all "Major Events" as defined at N.J.A.C. 14:5-1.2.) including circuit designation (information to be provided redacted and confidential unredacted), that reflects non-Major Event conditions for the prior quarters, on an annual basis per the current reporting to the Board pursuant to the Board's Energy Strong Order. The Company will also report quarterly non-Major Event CAIDI, SAIFI, SAIDI and MAIFI for all circuits improved by ES II. This material, which will be provided together in a single submission to Board Staff and Rate Counsel, will begin two (2) months after the end of the first full calendar quarter following the issuance of a written Board Order authorizing the ES II Program, and continue through the review of the prudency of the ES II investments. The performance of the Contingency Reconfiguration Subprogram will be reported and measured against a baseline that reflects performance for each circuit under non-Major Event conditions for the prior five years from the program start date.

48. PSE&G, following consultation with Board Staff and Rate Counsel, will retain an independent monitor to review and report to Board Staff and Rate Counsel on the impact of the ES II program on overall system performance during severe weather events; cost effectiveness and efficiency; appropriate cost assignment; and other information deemed appropriate by the Company, Board Staff and Rate Counsel. The independent monitor shall continue until one (1) quarter following the completion of the ES II investments unless the Company, Board Staff and Rate Counsel agree that the services of the independent monitor should continue. Independent monitor expenses shall be capitalized to the extent consistent with Generally Accepted Accounting Principles ("GAAP") and shall be included as part of the ES II Rate Mechanism

Costs and counted against the maximum investment levels for accelerated recovery set forth in paragraph 21 of this Stipulation and Agreement of Settlement.

49. The reporting requirements and metrics set forth herein will allow the Board to review the performance of the investments:

- Electric Stations and Gas M&R Stations. Any station with flood mitigation work completed should not go out of service due to water intrusion from flooding or storm surge within the applicable FEMA Advisory Base Flood Elevation that the station is designed to withstand.
- Contingency Reconfiguration Strategies. Storm Circuit SAIDI savings (customers outages and customer minutes saved due to increased sectionalization) will be measured for all Major Events.
- Grid Modernization ADMS. System SAIDI savings (customers outages and customer minutes saved) will be measured for all Major Events and non-Major Events once the system is implemented.

These metrics shall be reported quarterly and following any Major Event as defined in paragraphs 46 and 47 above. This reporting will begin two (2) months after the end of the first full calendar quarter following the issuance of a written Board Order authorizing the ES II Program and continue through review of the prudency of the ES II investments. The performance of these subprograms will be reported and measured against a baseline that reflects performance for each circuit under both Major Event and non- Major Event conditions for the prior five (5) years to the program start date.

FURTHER PROVISIONS

50. This Stipulation represents a mutual balancing of interests, contains interdependent provisions and, therefore, 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, any 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. More particularly, in the event this Stipulation is not adopted in its entirety by the Board in any applicable Order(s), then any Party hereto is free to pursue its then available legal remedies with respect to all issues addressed in this Stipulation as though this Stipulation had not been signed.

51. It is the intent of the Signatories that the provisions herein be approved by the Board as being in the public interest. The Signatories further agree that they consider the Stipulation to be binding on them for all purposes herein.

52. It is specifically understood and agreed that this Stipulation represents a negotiated agreement and has been made exclusively for the purpose of these proceedings. Except as expressly provided herein, Public Service, Board Staff, Rate Counsel and all other Signatories shall not be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein, in total or by specific item. The Signatories further agree that this Stipulation is in no way binding upon them in any other proceeding, except to enforce the terms of this Stipulation.

53. The Signatories further acknowledge that a Board Order approving this Stipulation will become effective upon the service of said Board Order, or upon such date after the service thereof as the Board may specify, in accordance with N.J.S.A. 48:2-40.

WHEREFORE, the Signatories hereto do respectfully submit this Stipulation and request that the Board issue a Decision and Order approving it in its entirety, in accordance with the terms hereof, as soon as reasonably possible.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

BY: ______________________
Joseph F. Accardo Jr., Esq.
VP Regulatory & Deputy General Counsel

DATED: August 8, 2019

NEW JERSEY DIVISION OF RATE COUNSEL,

BY: ______________________
Stefanie A. Brand, Esq.
Director

DATED: ______________________

GURBIR S. GREWAL, ESQ.
OF NEW JERSEY
for the Staff of the Board of Public Utilities

BY: ______________________
Emma Yao Xiao, Esq.
Deputy Attorney General

DATED: 8/22/19

New Jersey Large Energy Users Coalition

BY: ______________________
Steven S. Goldenberg, Esq.,
Giordano, Halleran & Ciesla, P.A., and
Paul F. Forshay, Esq., Eversheds-Sutherland, LLP

DATED: ______________________

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PUBLIC SERVICE ELECTRIC AND GAS COMPANY	NEW JERSEY DIVISION OF RATE COUNSEL,
BY: Joseph F. Accardo Jr.	BY: Stefanie A. Brand
Joseph F. Accardo Jr., Esq. VP Regulatory & Deputy General Counsel	Stefanie A. Brand, Esq. Director
DATED: August 8, 2019	DATED: 8/23/19
GURBIR S. GREWAL, ESQ. OF NEW JERSEY for the Staff of the Board of Public Utilities	New Jersey Large Energy Users Coalition
BY:	BY:
Emma Yao Xiao, Esq. Deputy Attorney General	Steven S. Goldenberg, Esq., Giordano, Halleran & Ciesla, P.A., and Paul F. Forshay, Esq., Eversheds-Sutherland, LLP
DATED: 8/22/19	DATED:

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PUBLIC SERVICE ELECTRIC AND GAS COMPANY

BY: ______________________
Joseph F. Accardo Jr., Esq.
VP Regulatory & Deputy General Counsel

DATED: August 8, 2019

NEW JERSEY DIVISION OF RATE COUNSEL,

BY: ______________________
Stefanie A. Brand, Esq.
Director

DATED: ______________________

GURBIR S. GREWAL, ESQ.
OF NEW JERSEY
for the Staff of the Board of Public Utilities

BY: ______________________
Emma Yao Xiao, Esq.
Deputy Attorney General

DATED: ______________________

New Jersey Large Energy Users Coalition

BY: ______________________
Steven S. Goldenberg, Esq.,
Giordano, Halleran & Ciesla, P.A., and
Paul F. Forshay, Esq., Eversheds-Sutherland, LLP

DATED: 8/16/19

AARP, Inc.

BY: ______________________________
Janine G. Bauer, Esq.
Szaferman, Lakind, Blumstein, & Blader, P.C.

DATED: Aug. 14, 2019

PSE&G Energy Strong II
Sample Electric Roll-in
Roll-in Filing

in ($000)

Rate Effective Date	5/1/2021
Plant In Service as of Date	1/31/2021
Rate Base Balance as of Date	4/30/2021

RATE BASE CALCULATION

		Total	Notes
1	Gross Plant	$158,219	= ln 16
2	Accumulated Depreciation	$8,844	= ln 19
3	Net Plant	$167,063	= ln 1 + ln 2
4	Accumulated Deferred Taxes	-$4,906	= See "Dep-" Wkps Row 616
5	Rate Base	$162,157	= ln 3 + ln 4
6	Rate of Return - After Tax (Schedule WACC)	6.48%	See Schedule SS-ESII-3
7	Return Requirement (After Tax)	$10,511	= ln 5 * ln 6
8	Depreciation Exp, net	$3,957	= ln 25
9	Tax Adjustment	-$73	
10	Revenue Factor	1.3944	See Schedule SS-ESII-4
11	**Roll-in Revenue Requirement**	**$20,072**	= (ln 7 + ln 8 + ln 9) * ln 10

SUPPORT

Gross Plant

12	Plant in-service	$57,310	= See "Dep-" Wkps Row 594
13	CWIP Transferred into Service	$97,420	= See "Dep-" Wkps Row 595
14	AFUDC on CWIP Transferred Into Service - Debt	$984	= See "Dep-" Wkps Row 596
15	AFUDC on CWIP Transferred Into Service - Equity	$2,505	= See "Dep-" Wkps Row 597
16	**Total Gross Plant**	$158,219	= ln 12 + ln 13 + ln 14 + ln 15

Accumulated Depreciation

17	Accumulated Depreciation	-$3,193	= See "Dep-" Wkps Row 603
18	Cost of Removal	$12,037	= See "Dep-" Wkps Row 598
19	**Net Accumulated Depreciation**	$8,844	= ln 17 + ln 18

Depreciation Expense (Net of Tax)

20	Depreciable Plant (xAFUDC-E)	$155,714	= ln 12 + ln 13 + ln 14
21	AFUDC-E	$2,505	= ln 15
22	Depreciation Rate	3.47%	= See "Dep-" Wkps Row 598
23	Depreciation Expense	$5,484	= (ln 20 + ln 21) * ln 22
24	Tax @ 28.11%	$1,527	= ln 20 * ln 22 * Tax Rate
25	**Depreciation Expense (Net of Tax)**	**$3,957**	= ln 23 - ln 24

PSE&G Energy Strong II
Sample Gas Roll-in
Roll-in Filing
in ($000)

Rate Effective Date	11/1/2022
Plant In Service as of Date	7/31/2022
Rate Base Balance as of Date	10/31/2022

RATE BASE CALCULATION

		Total	Notes
1	Gross Plant	$14,831	= ln 16
2	Accumulated Depreciation	$756	= ln 19
3	Net Plant	$15,588	= ln 1 + ln 2
4	Accumulated Deferred Taxes	-$317	= See "Dep-" Wkps Row 616
5	Rate Base	$15,271	= ln 3 + ln 4
6	Rate of Return - After Tax (Schedule WACC)	6.48%	See Schedule SS-ESII-3
7	Return Requirement (After Tax)	$990	= ln 5 * ln 6
8	Depreciation Exp, net	$96	= ln 25
9	Tax Adjustment	$0	N/A
10	Revenue Factor	1.4172	See Schedule SS-ESII-4
11	**Roll-in Revenue Requirement**	**$1,539**	= (ln 7 + ln 8 + ln 9) * ln 10

SUPPORT

Gross Plant

12	Plant in-service	$0	= See "Dep-" Wkps Row 594
13	CWIP Transferred into Service	$14,492	= See "Dep-" Wkps Row 595
14	AFUDC on CWIP Transferred Into Service - Debt	$340	= See "Dep-" Wkps Row 596
15	AFUDC on CWIP Transferred Into Service - Equity	$0	= See "Dep-" Wkps Row 597
16	**Total Gross Plant**	$14,831	= ln 12 + ln 13 + ln 14 + ln 15

Accumulated Depreciation

17	Accumulated Depreciation	-$44	= See "Dep-" Wkps Row 603
18	Cost of Removal	$800	= See "Dep-" Wkps Row 598
19	**Net Accumulated Depreciation**	$756	= ln 17 + ln 18

Depreciation Expense (Net of Tax)

20	Depreciable Plant (xAFUDC-E)	$14,831	= ln 12 + ln 13 + ln 14
21	AFUDC-E	$0	= ln 15
22	Depreciation Rate	1.01%	= See "Dep-" Wkps Row 598
23	Depreciation Expense	$150	= (ln 20 + ln 21) * ln 22
24	Tax @ 28.11%	$53	= ln 20 * ln 22 * Tax Rate
25	**Depreciation Expense (Net of Tax)**	**$96.4**	= ln 23 - ln 24

ATTACHMENT B

MINIMUM FILING REQUIREMENTS

1) PSE&G's income statement for the most recent 12 month period prepared using the same Federal Energy Regulatory Commission ("FERC") reporting and accounting conventions that are reflected in the Company's Annual Report to the Board.

2) PSE&G's balance sheet for the most recent 12 month period, as filed with the Board prepared using the same FERC reporting and accounting conventions that are reflected in the Company's Annual Report to the Board.

3) PSE&G's capital spending for each of the past five (5) years, broken down by major categories (e.g., system reinforcement, replace facilities, environmental/regulatory, and support facilities).

4) PSE&G's overall approved ES II capital budget broken down by major categories, both budgeted and actual amounts.

5) For each ES II Program subprogram:
   a. The original project summary for each ES II sub-program,
   b. Expenditures incurred to date for each sub-program,
      i. The cost of removal and
      ii. The amount of allocated overhead.
   c. Appropriate metric (e.g., reclosers installed), and
   d. Work completed, including identified tasks completed (e.g., design phase, material procurement, permit gathering, phases of construction)

6) Anticipated sub-program timeline with updates and expected changes.

7) A calculation of the proposed rate adjustment based on details related to ES II Program projects included in Plant in Service, including a calculation of the associated depreciation expense, based on those projects closed 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 ES II Program projects, such as relocation, reimbursement, or stimulus money. An explanation of the financial treatment associated with the receipt of the government funds or credits.

9) A revenue requirement calculation showing the actual capital expenditures for the period for which the filing is made, as well as supporting calculations.

10) An earnings test calculation demonstrating that the calculated ROE does not exceed the Company's allowed ROE from the latest base rate case by 50-basis points or more. The Company should divide the actual net income of the utility for the most recent 12-month period filed with the Board or FERC by the average of the beginning and ending common equity balances for the corresponding period, subject to adjustments. Common equity will be as reflected on the Company's FERC financial statements, adjusted to reflect only the electric and gas distribution allocation. The Company should provide nine (9) months actual data and three (3) months forecasted data at the time of each Initial Filing. The three (3) months of forecasted data should be updated with actuals at the same time the Company provides the Actuals Update for Investments.