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October 22, 2019

Via Electronic Mail

Aida Camacho-Welch
Office of the Secretary
NJ Board of Public Utilities
44 South Clinton Avenue, 3rd Floor
P. O. Box 350
Trenton, NJ 08625-0350

Re: In the Matter of the Exploration of Gas Capacity and Related Issues
BPU Docket: GO19070846

Dear Secretary Camacho-Welch:

In accordance with the New Jersey Board of Public Utilities September 10, 2019 notice issued in this proceeding, enclosed for filing please find the Comments of South Jersey Gas Company and Elizabethtown Gas Company (the "Companies").

The Companies appreciate the opportunity to submit the enclosed Comments and look forward to working with all stakeholders in this proceeding.

Thank you for your attention to this matter.

Respectfully submitted,

Deborah M. Franco

DMF:caj
Enclosures

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the Exploration of Gas Capacity and Related Issues	:	**BPU Docket No. GO19070846**

COMMENTS OF SOUTH JERSEY GAS COMPANY
AND ELIZABETHTOWN GAS COMPANY

Introduction

South Jersey Gas Company ("SJG") and Elizabethtown Gas Company ("ETG") (collectively, the "Companies") submit these comments in compliance with the New Jersey Board of Public Utilities ("Board") September 10, 2019 notice ("Notice") issued in this proceeding. SJG and ETG appreciate the opportunity to submit these comments to supplement the verbal testimony provided on behalf of the Companies at the October 1, 2019 stakeholder meeting ("October 1 Public Hearing") and respond in greater detail to the upstream pipeline capacity and related questions set forth in the Notice.

Communications and correspondence concerning these proceedings should be sent as follows:

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Background

By Order dated February 27, 2019, the Board directed its Staff to initiate this stakeholder process to explore the important issues of whether there is sufficient upstream pipeline capacity secured to meet New Jersey customer needs and whether and to what extent TPSs are saving customers money for their natural gas supply. In the Notice, the Board invited various stakeholders and members of the public to the October 1 Public Hearing to address these issues. In addition to SJG and ETG, testimony was provided at the October 1 Public Hearing by representatives of Direct Energy, Public Service Electric and Gas Company ("PSE&G") and PSEG Energy Resources & Trade (PSE&G's supplier of natural gas pipeline and storage services), the Environmental Defense Fund, New Jersey Natural Gas Company, Levitan & Associates and the New Jersey Division of Rate Counsel.

Combined, ETG and SJG provide gas service to nearly 700,000 customers in New Jersey.[1] The Companies appreciate the vital role they play in providing natural gas to customers who rely on it to heat their homes and businesses and for other critical applications such as cooking and hot water heating. The Companies also acknowledge the importance of the New Jersey's Energy Master Plan development efforts, the mandates contained in the Clean Energy Act of 2018[2] and the State's related environmental goals, including reducing carbon emissions, promoting energy

[1] SJG provides natural gas service to approximately 393,000 customers in seven counties in southern, New Jersey. ETG provides natural gas service to approximately 295,000 customers in seven counties in central and northern New Jersey.
[2] N.J.S.A. 48:3-51-87.

efficiency and enhancing the deployment of clean energy technologies. SJG and ETG are committed to these objectives. Equally critical is the need to ensure the adequacy of New Jerseys' natural gas supplies. Continued access to abundant and economic natural gas is vitally important to achieving the State's economic and environmental goals.

As discussed more fully below, while the Companies are presently able to secure sufficient upstream gas pipeline capacity and supplies to serve the peak day needs of their firm Basic Gas Supply Service ("BGSS") customers, the market for incremental capacity has tightened considerably. Within the next few years both SJG and ETG are likely to require incremental pipeline capacity to support growing demand on their systems. Given the long lead times involved in constructing upstream incremental capacity projects and the importance to the economy of the State of ensuring that the Companies are able to serve growing peak day and winter season demands, the Companies urges the Board to actively support the construction and operation of incremental upstream pipeline capacity that has been or will be contracted for by the State's Gas Distribution Companies ("GDCs").

Discussion

The Notice requested that stakeholder comments respond to the six questions as set forth below:

Question No. 1. GDC Capacity Procurement:

a. **Does each GDC, (either independently or through a contract with an affiliated company) have sufficient firm capacity secured to meet their current design day forecasts for the next five years?**

As it relates to SJG and ETG, the answer to the question of whether there is sufficient firm capacity available to meet their design day forecasts for the next five years, is "it depends." There currently is sufficient available capacity to meet ETG's and SJG's design peak day needs and both Companies presently anticipate being able to contract for incremental supplies needed to meet forecast demand over the next five years. However, it is important to emphasize that this conclusion assumes that the current amount of upstream pipeline capacity will remain available and that demand will continue to grow in a manner consistent with current forecasts. Both SJG and ETG must contract each winter for incremental supplies of peaking gas to ensure their ability to serve peak day and peak hour demands. To date, there has been sufficient available capacity to meet SJG's and ETG's peak day needs. However, the availability of peaking supplies has tightened considerably in the last five years and the costs of incremental peaking supplies have increased significantly. For example, since the 2011/2012 winter heating season, the unitized demand cost of incremental, bundled peaking service incurred by Elizabethtown has increased by 1550%. The increased costs of peaking supplies provide a clear and powerful market signal that incremental pipeline capacity will soon be needed to serve growing demand.

While the Companies' current forecasts continue to indicate that sufficient peaking capacity will remain available for the next few years, there are a few recent events that give rise to concerns that could affect the accuracy of the forecasts. First, one of the largest pipelines serving the Northeast, Texas Eastern Transmission L.P., recently advised its customers that it would be required to operate at reduced pressures during peak periods in the upcoming winter. While the Companies believe that they have made arrangements to purchase incremental peaking supplies sufficient to ensure that this situation will not create supply shortages in the upcoming winter, this situation could be more problematic if it continues into the following years.

Second, as a result of the fact that environmental regulators in New Jersey and New York have rejected applications for permits needed to construct new interstate pipeline capacity, two of the largest gas distribution companies in downstate New York – The Brooklyn Union Gas Company d/b/a National Grid NY and KeySpan Gas East Corporation d/b/a National Grid (collectively "National Grid") – have declared moratoria on processing new customer applications in parts of their service territories. Notwithstanding these utilities' determination that they lacked sufficient supplies to service new load, the New York State Public Service Commission recently directed National Grid to show cause why it could not connect over 1100 new customers.[3] As a result, National Grid agreed to begin connecting these customers. The need to secure supplies to serve these additional customers potentially will create further demand for the available peaking supplies in the Northeast. This additional demand could make it more difficult for the Companies to purchase additional peaking supplies in future winters.

In view of the tightening supply situation, the Companies believe that it is in the best interests of all affected stakeholders for the Board to support the construction and operation of incremental upstream pipeline capacity to New Jersey within the next few years. The Companies urge the Board to use its resources to support the development of incremental capacity that will be needed to serve further growth in demand.

b. What is the weighted average cost of the transportation and storage capacity that each of the GDCs has secured?

The weighted average cost of the transportation and storage capacity that ETG and SJG have secured based on currently effective tariff rates is $0.4182 per dth and $0.4007 per dth, respectively for delivery to the city gate.

c. What assumptions does each GDC make and reflect in its forecasts about the switching of customers to and from TPSs?

ETG and SJG use somewhat different assumptions to forecast the switching of customers to and from TPSs. SJG tracks customer switches to and from TPSs on a monthly basis and incorporates the most current information in its forecast by holding the most recent TPS-served volumes constant for future periods. ETG also uses the most current TPS switched information in its forecast. However, ETG incorporates a general utility growth trend identified in the number of customers switching to TPSs into its forecast.

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[3] *See Case 19-G-0678, Proceeding on Motion of the Commission to Investigate Denials of Service Requests by National Grid USA, The Brooklyn Union Gas Company d/b/a National Grid NY and KeySpan Gas East Corporation d/b/a National Grid*, "Order Instituting Proceeding And To Show Cause" (October 11, 2019).

d. **How does the switching of customers to and from TPSs affect each GDC's capacity portfolio?**

As discussed previously, both SJG and ETG acquire an amount of incremental peaking supplies annually to serve the forecast peak demand of their BGSS customers. To the extent that customers switch to or from BGSS, such switching affects the amount of peaking supplies that the Companies must purchase. To date, the Companies believe that the impact of customer switching on the Companies' overall capacity portfolios has been modest.

Question No. 2. TPS Capacity Procurement:

a. **Do the TPSs have sufficient firm capacity secured to meet their design day forecasts for the customers that they serve in New Jersey for the next five years?**

b. **If the TPSs do not secure firm capacity for a five-year period, how many years in advance do they secure firm capacity?**

c. **What is the weighted average cost of the transportation and storage capacity that the TPSs have secured?**

d. **What assumptions have the TPSs made and reflected in their forecasts about those customers?**

e. **Have the TPSs been securing firm capacity for their firm transportation customers?**

f. **Through what other means have the TPSs met their customers' requirements (e.g., delivered gas, capacity release, peak day supplies)?**

The Companies do not have information necessary to answer this question. However, in the Companies' experience the TPSs operating on the Companies' systems have generally complied with the Companies' tariff provisions governing deliveries by TPSs, and have delivered supplies reliably to their customers.

Question No. 3.: Does sufficient pipeline capacity exist within the New Jersey market to satisfy the total customer's requirements currently served by both TPSs and GDCs? Can additional incremental pipeline capacity be obtained to meet the forecasted customer requirements over the next five years? Would this capacity be more expensive than the current capacity?

SJG and ETG do not have enough information to definitively answer this question. As discussed *supra*, while the Companies generally believe that *today* there is sufficient upstream capacity to satisfy total TPS and GDC customer requirements on a design peak day, SJG and ETG also believe that there is a possibility that this will not continue to be the case much longer. The only way to ensure that there will be sufficient capacity to meet the needs of both BGSS and TPS customers is to support new, incremental pipeline capacity projects designed to serve growth in demand in New Jersey.[4]

It has become more and more difficult to permit and construct incremental pipeline capacity in the Northeast. Moreover, to the extent that permits can be obtained, the lead time needed to place a new project in service has increased significantly as opponents of natural gas projects have developed tactics designed to delay, if not derail, new projects. Under these circumstances, to the extent that there is a need for new capacity within the next five years, the development of such projects should commence as soon as possible. Moreover, every effort should be made to expedite the development of projects that have been delayed such as PennEast Pipeline LLC.

Finally, as a consequence of both rising costs and increased risks, the cost of constructing and operating new interstate pipeline capacity are likely to be higher than the cost of existing pipeline capacity. The Federal Energy Regulatory Commission ("FERC") requires that new

[4] While the Companies acknowledge that some may advocate a focus on enhanced energy conservation or demand response as a way to offset peak demands, the Companies submit that such efforts are unlikely to create sufficient capacity over the next five to ten years to offset increasing demand. The Companies fully support increased energy conservation and are looking at ways to promote greater demand response. However, these efforts must be coupled with additional upstream firm capacity if the energy needs of the Companies' firm customers are going to be fully satisfied.

pipeline construction must proceed without subsidies from existing shippers.[5] As a consequence, most pipeline expansion projects that require significant new facilities are priced incrementally at rates that exceed the rates for legacy system services.

Question No. 4.: If the GDCs were made responsible for securing the incremental capacity for the transportation customers, what would be the costs involved and how should they be allocated? What would be the impact to those costs on BGSS customers?

As discussed above, the rates associated with incremental pipeline capacity are likely to be higher than the rates charged by pipelines for legacy system services. At the same time however, TPSs that have served commercial and residential markets[6] in the Companies' service territories for many years likely have secured firm interstate pipeline capacity that could be both economic and helpful to the State's GDCs if the Board were to determine that the GDCs should be made responsible for procuring and managing interstate pipeline capacity for both BGSS and TPS-served markets.

It is the Companies' position that there is no reason why the Board should now require the GDCs to procure and manage upstream pipeline capacity for customers that have been served reliably by TPSs' for a number of years. However, if the Board does determine that the State's GDCs should be made responsible for purchasing upstream pipeline capacity for both BGSS and TPS customers, then the Board must ensure that the costs associated with incremental capacity needed to support TPS customers will be borne by those customers to prevent any unfair cross subsidization of one group of customers by the other. Requiring the immediate creation of a single portfolio shared by both GDC and TPS customers without ensuring against cross subsidization would be unfair to the customers that would be required to bear the cross-subsidies. BGSS

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[5] *See Certificate of New Interstate Natural Gas Pipeline Facilities*, "Statement Of Policy," 88 FERC ¶ 61,227 (September 15, 1999).

[6] The Companies assume that the Board is not contemplating requiring GDCs to secure upstream pipeline capacity for industrial customers. In most instances, these customers left BGSS service more than thirty years ago. No useful purpose would be served by requiring industrial customers to make their upstream gas supply delivery arrangements through their GDCs.

customers should not be required to subsidize TPS customers and TPS customers should not be required to subsidize BGSS customers.

At the same time however, given the lack of unsubscribed firm capacity in upstream markets, to the extent that TPSs have capacity under contract that would ensure the continued reliability of deliveries by TPSs to their customers, the Board should -- to the extent it seeks to modify the current marketplace -- take steps to ensure that existing capacity held by TPSs remains dedicated to end-use markets in the GDCs' service territories. Broadly speaking, the Board could achieve this result by either requiring TPSs that currently serve commercial and residential markets in New Jersey to continue to use the capacity they currently use to serve those markets in a manner that would be grandfathered under a capacity program managed by the GDCs. Alternatively, the Board could require the TPSs to afford each GDC the opportunity to take a permanent release of some or all of the TPSs' upstream capacity used to serve TPS customers in each GDC's service territory. Either option could be structured in a manner that would ensure that upstream capacity that is presently dedicated to New Jersey markets stays dedicated to New Jersey markets while also avoiding cross-subsidization.

However the Board decides to proceed, it should recognize that requiring the GDCs to develop a portfolio of upstream capacity to serve both BGSS and TPS markets is not a simple exercise. In the long run, consideration must be given to developing a capacity portfolio that best matches the total firm requirements of BGSS and TPS demand requirements. For example, acquiring only incremental firm transportation capacity to meet the requirements of TPSs' customers' demands could result in a portfolio of upstream services that are fully utilized only a few days per year. This is not in the best interests of GDCs, TPSs or either BGSS or TPS customers. The Companies believe that to the extent that the Board requires GDCs to act as the capacity procurers and managers for TPSs, then the Board should allow the GDCs the ability to assume such responsibilities in a manner that will permit the GDCs to optimize their procurement of additional capacity for the benefit of all their customers and avoid requiring cross-subsidization.

Question No. 5.: If some of the TPS' have secured long term capacity for their customers, how would an allocation of capacity costs from the GDC's affect them? Would the GDC's be in a position where they would be buying capacity from the TPS' if the GDC's were required to secure capacity for transportation customers?

As discussed above, to the extent that the Board determined that it should require the GDCs to purchase and manage upstream pipeline capacity for the benefit of TPSs and their customers, the Board should endeavor to ensure that (i) any upstream capacity that is currently used by TPSs to serve customers in New Jersey would continue to be used for that purpose by either creating a program that requires the TPSs to continue to use their upstream capacity to serve customers in New Jersey or permanently release the capacity to the relevant GDC in accordance with FERC's rules,[7] and (ii) GDCs are afforded the time and opportunity to construct revised upstream capacity portfolios that will permit the GDCs to serve all of their customers as efficiently as possible. The Board's focus should be on making sure that each GDC develops a portfolio of upstream capacity that will ensure that all customers are served reliably and as economically as possible.

Question No. 6.: What rates have the TPSs charged residential customers over the past three years? How does this compare to what these residential customers would have paid for their natural gas supply if they had been served by their GDC? Did these residential customers save money? Should the TPSs be required to report pricing information to the Board and publicly disclose their prices on a monthly basis?

The Companies do not have information sufficient to answer these questions. However, the Companies believe that the TPSs should be required to report pricing information to the Board, publicly disclose their prices on a monthly basis and be subject to a discovery process that provides an opportunity for further information concerning such publicly disclosed prices.

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[7] Generally speaking, FERC's regulations permit a party to permanently release capacity to another party at maximum rates from the remainder of the term of the underlying pipeline contract.

Conclusion

While ETG and SJG anticipate that – assuming no changes in current market conditions – they will be able to meet forecast demand in the next five years, given the lack of available pipeline capacity, the increasing price of bundled peaking supplies, and the time it takes to complete pipeline projects, it is critical for New Jersey to support and encourage the construction and operation of incremental pipeline capacity projects and the preservation of existing upstream capacity for the benefit of New Jersey customers. The construction and operation of incremental pipeline capacity over the next five years will ensure that the Companies continue to meet forecast demand in a safe and reliable manner without interruption. At the same time, it is also critical that New Jersey's GDCs should not be forced to create a capacity portfolio that requires cross-subsidization of BGSS on TPS customers.

The Companies appreciate the opportunity to provide these comments and look forward to working with all stakeholders in this proceeding.

Respectfully submitted,

South Jersey Gas Company
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