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August 25, 2020

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 Petition of South Jersey Gas Company for Approval of Base Rate Adjustments Pursuant to the Storm Hardening and Reliability Program ("SHARP II") BPU Docket No. GR20050325**

Dear Secretary Camacho-Welch:

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

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

Respectfully,

A handwritten signature in dark ink, appearing to read "Deborah M. Franco".

Deborah M. Franco

DMF:caj
Enclosures

cc: See attached Service List (with enclosures)

**IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY
FOR APPROVAL OF BASE RATE ADJUSTMENTS PURSUANT TO THE
STORM HARDENING AND RELIABILITY PROGRAM ("SHARP II")
DOCKET NO. GR20050325**

SERVICE LIST

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**STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

| | | |
|---|----------|----------------------------------|
| IN THE MATTER OF THE PETITION OF | : | |
| SOUTH JERSEY GAS COMPANY FOR | : | BPU DOCKET NO. GR20050325 |
| APPROVAL OF BASE RATE ADJUSTMENTS | : | |
| PURSUANT TO THE STORM HARDENING | : | STIPULATION OF SETTLEMENT |
| AND RELIABILITY PROGRAM (“SHARP II”) | : | |
| | : | |

APPEARANCES:

Deborah M. Franco, Esq., VP, Clean Energy and Sustainability, SJI for Petitioner, South Jersey Gas Company

Felicia Thomas-Friel, Esq., Deputy Rate Counsel, **Maura Caroselli, Esq.**, Assistant Deputy Rate Counsel, **Henry M. Ogden**, Assistant Deputy Rate Counsel for the New Jersey Division of Rate Counsel (**Stefanie A. Brand**, Director).

Terel Klein, Deputy Attorney General, for the Staff of the New Jersey Board of Public Utilities (**Gurbir S. Grewal**, Attorney General of New Jersey).

TO THE HONORABLE COMMISSIONERS OF THE BOARD OF PUBLIC UTILITIES:

This Stipulation of Settlement addresses the petition filed by South Jersey Gas Company (“SJG” or “Company”) with the New Jersey Board of Public Utilities (“Board” or “BPU”) on April 30, 2020, and subsequently updated on July 15, 2020, for base rate adjustments to cost recovery associated with the Company’s Storm Hardening and Reliability Program (“SHARP II” or “Program”), (“Petition”). SHARP II was approved by the Board on May 22, 2018 in Docket No. GO17111130.

I. BACKGROUND

1. On August 20, 2014, in Docket Nos. AX13030197 and GO13090814, the Board approved the Company’s original Storm Hardening and Reliability Program (“SHARP I”) as a three (3) year program commencing on July 1, 2014 and continuing until June 30, 2017

(“SHARP I Order”). Pursuant to the SHARP I Order, the Company was authorized to invest approximately \$34.5 million per year, plus or minus 15%, excluding Allowance for Funds Used During Construction (“AFUDC”), for a total of \$103.5 million to replace low pressure mains and associated services with high pressure mains and associated services, eliminate 52 regulator stations, and install Excess Flow Valves (“EFVs”) in the coastal regions.

2. On November 2, 2017, the Company petitioned the Board seeking approval of SHARP II, which was a second phase of SHARP I, and to utilize a mechanism to recover costs from ratepayers through an annual SHARP II rate adjustment filing.

3. After notice and public hearings, on March 15, 2018, the Company, Board Staff and the Division of Rate Counsel (collectively, “Parties”) entered into a Stipulation of Settlement (“SHARP II Stipulation”) regarding the Program. By Order dated May 22, 2018 in Docket No. GO17111130, the Board approved SHARP II, including the authorized investments and cost recovery mechanism to be utilized.

4. The SHARP II Stipulation provided that SHARP II would include the Company’s proposed pipeline looping projects, including Absecon Island Loop Project, Ocean City Loop Project, and Brigantine Bridge Project, and installation of approximately 20,000 EFVs in coastal areas (“SHARP II Investments”).

5. The SHARP II Stipulation further provided that the Program would encompass a three (3) year period beginning June 1, 2018 and ending June 30, 2021. The costs of the Program were limited to \$100.25 million or \$33.4 million per year, plus or minus 15%, (the “Program Cost Cap”), excluding AFUDC.

6. The SHARP II Stipulation further provided that non-construction expenditures, such as planning and engineering of SHARP II projects incurred as of June 1, 2018, shall be included in SHARP II Investments for the first year of SHARP II.

7. Pursuant to the SHARP II Stipulation, cost recovery for SHARP II projects is effectuated by an annual adjustment to base distribution rates (“SHARP II Rate Adjustment”) accomplished through the Company’s filing of an annual Revenue Adjustment Filing (“Annual Filing”).

II. PROCEDURAL HISTORY

8. On April 30, 2019, the Company made its first Annual Filing seeking recovery of the revenue requirements associated with SHARP II projects placed into service from June 1, 2018 through June 30, 2019 (“First Annual Filing”). In the First Annual Filing, the Company provided actual SHARP II investment data for the period July 1, 2018 through March 31, 2019, and forecasted data for the period April 1, 2019 through June 30, 2019. Through its subsequent update to the First Annual Filing, the Company sought recovery of SHARP II revenue requirements of approximately \$3.1 million, including Sales and Use Tax (“SUT”) associated with actual SHARP II investments of approximately \$27.5 million, including AFUDC. The Board authorized this base rate adjustment, effective October 1, 2019 in an order dated September 27, 2019 (“September 27 Order”) in BPU Docket No. GR19040529.¹

¹ The stipulation approved by the September 27 Order indicated that the Company now expects to install approximately 11,000 EFVs throughout the three year program at a total cost of approximately \$52 million, compared to the original estimated 20,000 EFV installations, reflected in the Stipulation approved in BPU Docket No. GO17111130, at a total cost of approximately \$63 million. The stipulation also indicated that the Company now expects to install 2,100 EFVs as part of Stipulated Base at a total cost of approximately \$10 million, and that the Company increased its forecasted average cost for an installed EFV from approximately \$3,650 to approximately \$4,700 based on actual costs incurred during year one of the SHARP II. Finally, the stipulation indicated that the Company now estimates the cost of the Absecon Island Loop Project to be approximately \$22 million compared to the original forecast of approximately \$14 million due to higher than anticipated construction costs, as well as increased restoration requirements.

9. On April 30, 2020, the Company filed the Petition seeking recovery of the revenue requirements associated with SHARP II projects placed into service from July 1, 2019 through June 30, 2020. The Company provided actual SHARP II investment data for the period July 1, 2019 through March 31, 2020 and forecasted data for the period April 1, 2020 through June 30, 2020.

10. As part of the Petition, the Company sought authority to recover SHARP II revenue requirements of approximately \$3.8 million, including SUT, associated with actual and projected SHARP II investments of approximately \$34.5 million, including AFUDC. The impact of the rates proposed, as applicable to a typical residential heating customer using 100 therms of natural gas during a winter month, amounts to an increase of \$1.05, or 0.7% per month. The SHARP II investments, revenue requirement, and base rate adjustment were supported by the Direct Testimony of Brent Schomber, Vice President of Operations, and Stefany Graham, Director of Rates and Regulatory Affairs.

11. On July 15, 2020, the Company filed an update providing a full year of actual SHARP II investment data through June 30, 2020 (“Update”). Updated schedules supporting a revenue requirement of approximately \$3.7 million (including SUT) associated with approximately \$33.5 million of SHARP II investments, including AFUDC, were provided as well as an updated proposed base rate adjustment. As a result of the Update, the impact of the rates proposed, applicable to a typical residential heating customer using 100 therms of natural gas during a winter month, amounts to \$1.02, or 0.7% per month.

12. Due to the COVID-19 pandemic, following proper notice, public hearings were held in this matter telephonically on August 19, 2020. No members of the public appeared or provided written comments.

III. STIPULATED TERMS

13. Upon review of the Petition, the Update, the accompanying Testimony and Schedules, and the Company's responses to written data requests, and after settlement discussions among the Parties, the Parties STIPULATE AND AGREE as follows:

14. The revenue requirement associated with the approximately \$33.5 million of SHARP II investments, including AFUDC, to be rolled into base rates shall be \$3,664,262, including SUT. The calculation of this revenue requirement is set forth on Schedule A attached hereto.

15. The Company may implement the base rates, as set forth on Schedule B, attached hereto, effective upon Board approval.

16. Pursuant to paragraph 22 of BPU Order Docket No. GO17111130, which approved SHARP II, this stipulation does not include a prudence review of the expenditures made in connection with SHARP II.² A prudence review of all expenditures associated with SHARP II expenditures through June 30, 2020 is being addressed in the Company's Base Rate Case, which is currently pending with the BPU in Docket No. GR20030243. Investments made beyond June 30, 2020 will be reviewed for prudence in the Company's next filed base rate case.

² In the Matter of the Petition of South Jersey Gas Company to Continue its Storm Hardening and Reliability Program ("SHARP II"), BPU Docket No. GO17111130 (May 22, 2018).

IV. MISCELLANEOUS

17. This Stipulation represents a mutual balancing of interests and, therefore, is intended to be accepted and approved in its entirety. If this Stipulation is not adopted in its entirety by the Board, 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.

18. It is specifically understood and agreed that this Stipulation represents a negotiated agreement and has been made exclusively for the purpose of this proceeding. Except as expressly provided herein, South Jersey, Staff and Rate Counsel 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. Also, all rates are subject to Board audit.

19. This Stipulation may be executed in as many counterparts as there are signatories of this Stipulation, each of which counterparts shall be an original, but all of which shall constitute one and the same instrument.

WHEREFORE, the Parties hereto 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.

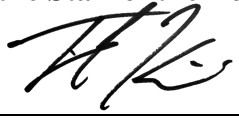
SOUTH JERSEY GAS COMPANY



By:


Deborah M. Franco, Esq.
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Attorney for the Staff of the Board of Public Utilities

By: 

Terel Klein
Deputy Attorney General

STEFANIE A. BRAND
DIRECTOR, DIVISION OF RATE COUNSEL

By: 

Maura Caroselli, Esq.
Assistant Deputy Rate Counsel

Dated: _____ August 25, 2020

SOUTH JERSEY GAS COMPANY
STORM HARDENING AND RELIABILITY PROGRAM ("SHARP II")
REVENUE REQUIREMENT CALCULATION
Year 2 - Roll-In 10/1/2020

| | | |
|------|---|---------------------------|
| Line | | |
| No. | | |
| 1 | | |
| 2 | Actual Plant in Service as of June 30, 2020 | \$33,345,465 |
| 3 | AFUDC | 181,103 |
| 4 | Gross Plant in Service as of June 30, 2020 | <u>33,526,568</u> |
| 5 | | |
| 6 | Accumulated Depreciation | <u>(461,539)</u> |
| 7 | | |
| 8 | Rate Base | 33,065,029 |
| 9 | | |
| 10 | Accumulated Deferred Tax | <u>(356,525)</u> |
| 11 | | |
| 12 | Net Rate Base | 32,708,504 |
| 13 | | |
| 14 | Rate of Return - Net | <u>6.22%</u> |
| 15 | | |
| 16 | Return Requirement (Net of Tax) | 2,033,815 |
| 17 | | |
| 18 | Depreciation Expense, Net of Tax | <u>382,166</u> |
| 19 | | |
| 20 | Revenue Recovery | 2,415,981 |
| 21 | | |
| 22 | Revenue Factor | <u>1.51668</u> |
| 23 | | |
| 24 | Total Revenue Requirement, including SUT | <u>\$3,664,262</u> |
| 25 | | |
| 26 | Total Revenue Requirement, excluding SUT | <u>\$3,436,588</u> |

Schedule B

**SOUTH JERSEY GAS COMPANY
STORM HARDENING & RELIABILITY PROGRAM ("SHARP II")
BASE AND TOTAL REVENUES AT PRESENT AND PROPOSED RATES**

| Component | Amount | Units | Present Rates (April 1, 2020) | | Proposed Rates (Effective October 1, 2020) | | |
|---|-------------|--------|-------------------------------|----------------|--|---------------|----------|
| | | | Rate | Revenue | Rate | Revenue | Increase |
| | | | RSG | | RSG | | |
| <u>Residential Service</u> | | | | | | | |
| Customer Charge | 4,280,934 | Bills | \$ 9.50 | \$ 40,668,873 | \$ 9.50 | \$ 40,668,873 | |
| Distribution Charge | 253,181,413 | Therms | 0.678051 | 171,669,910 | 0.687614 | 174,091,084 | |
| Total Base Revenues | | | | \$ 212,338,783 | \$ 214,759,957 | | 1.1% |
| | | | | | | | |
| | | | GSG | | GSG | | |
| <u>General Service (0-100,000 Annual Therms)</u> | | | | | | | |
| Customer Charge | 299,071 | Bills | \$ 29.97 | \$ 8,963,158 | \$ 29.97 | \$ 8,963,158 | |
| Distribution Charge | 89,582,097 | Therms | 0.566312 | 50,731,416 | 0.573910 | 51,412,061 | |
| Total Base Revenues | | | | \$ 59,694,574 | \$ 60,375,219 | | 1.1% |
| | | | | | | | |
| | | | GSG-LV | | GSG-LV | | |
| <u>General Service Large Volume (100,000 + Annual Therms)</u> | | | | | | | |
| Customer Charge | 2,170 | Bills | \$ 150.00 | \$ 325,500 | \$ 150.00 | \$ 325,500 | |
| Demand Charge | 212,776 | Mcf | 9.6086 | 2,044,479 | 9.6086 | 2,044,479 | |
| Distribution Charge | 32,241,055 | Therms | 0.283532 | 9,141,371 | 0.287603 | 9,272,624 | |
| Total Base Revenues | | | | \$ 11,511,350 | \$ 11,642,604 | | 1.1% |
| | | | | | | | |
| | | | CTS | | CTS | | |
| <u>Comprehensive Firm Transportation Service</u> | | | | | | | |
| Customer Charge | 555 | Bills | \$ 600.00 | \$ 333,000 | \$ 600.00 | \$ 333,000 | |
| Demand Charge | 133,720 | Mcf | 28.6555 | 3,831,813 | 28.6555 | 3,831,813 | |
| Distribution Charge | 27,898,657 | Therms | 0.068773 | 1,918,674 | 0.071259 | 1,988,030 | |
| Total Base Revenues | | | | \$ 6,083,488 | \$ 6,152,844 | | 1.1% |
| | | | | | | | |
| | | | LVS | | LVS | | |
| <u>Large Volume Service</u> | | | | | | | |
| Customer Charge | 313 | Bills | \$ 900.00 | \$ 281,700 | \$ 900.00 | \$ 281,700 | |
| Demand Charge | 349,950 | Mcf | 15.9588 | 5,584,782 | 15.9588 | 5,584,782 | |
| Distribution Charge | 79,591,210 | Therms | 0.051052 | 4,063,290 | 0.052475 | 4,176,549 | |
| Total Base Revenues | | | | \$ 9,929,773 | \$ 10,043,031 | | 1.1% |
| | | | | | | | |
| | | | EGS | | EGS | | |
| <u>Electric Generation Service</u> | | | | | | | |
| Customer Charge | 108 | Bills | \$ 63.38 | \$ 6,845 | \$ 63.38 | \$ 6,845 | |
| Demand Charge | 8,392 | Mcf | 7.843 | 65,820 | 7.843 | 65,820 | |
| Distribution Charge (Nov - Mar.) | 559,943 | Therms | 0.135163 | 75,684 | 0.137118 | 76,778 | |
| Distribution Charge (Apr - Oct.) | 789,736 | Therms | 0.105163 | 83,051 | 0.107118 | 84,595 | |
| Total Base Revenues | | | | \$ 231,400 | \$ 234,038 | | 1.1% |

**SOUTH JERSEY GAS COMPANY
STORM HARDENING & RELIABILITY PROGRAM ("SHARP II")
BASE AND TOTAL REVENUES AT PRESENT AND PROPOSED RATES**

| Component | Amount | Units | Present Rates (April 1, 2020) | | Proposed Rates (Effective October 1, 2020) | | |
|---|-----------|---------|-------------------------------|-------------|--|-------------|----------|
| | | | Rate | Revenue | Rate | Revenue | Increase |
| | | | EGS-LV | | EGS-LV | | |
| <u>Electric Generation Service - Large Volume</u> | | | | | | | |
| Customer Charge | 84 | Bills | \$ 428.32 | 35,979 | \$ 428.32 | 35,979 | |
| Demand Charge | 45,200 | Mcf | 23.233717 | 1,050,164 | 23.507707 | 1,062,548 | |
| Total Base Revenues | | | \$ | 1,086,143 | \$ | 1,098,527 | 1.1% |
| | | | | | | | |
| | | | NGV | | NGV | | |
| <u>Natural Gas Vehicle Service</u> | | | | | | | |
| Cust. Charge 0-999 CFH | 12 | Bills | \$ 37.50 | \$ 450 | \$ 37.50 | \$ 450 | |
| Cust. Charge 1,000-4,999 CFH | - | Bills | 75.00 | - | 75.00 | - | |
| Cust. Charge 5,000-24,999 CFH | 12 | Bills | 200.00 | 2,400 | 200.00 | 2,400 | |
| Cust. Charge 25,000+ CFH | 96 | Bills | 703.47 | 67,533 | 703.47 | 67,533 | |
| Distribution Charge | 2,255,851 | Therms | 0.196474 | 443,216 | 0.199070 | 449,072 | |
| Subtotal Distribution | | | \$ | 513,599 | \$ | 519,455 | 1.1% |
| Compression Charge | 983,046 | Therms | 0.548712 | 539,409 | 0.5487120 | 539,409 | |
| Total Base Revenues | | | \$ | 1,053,008 | \$ | 1,058,865 | |
| | | | | | | | |
| | | | GLS | | GLS | | |
| <u>Gas Lights Service</u> | | | | | | | |
| Yard Lights | 48 | Mantles | \$ 8.818524 | \$ 5,079 | \$ 8.919074 | \$ 5,137 | |
| Street Lights | 36 | Mantles | \$ 9.506499 | 4,107 | \$ 9.614894 | 4,154 | |
| Total Base Revenues | | | \$ | 9,186 | \$ | 9,291 | 1.1% |
| | | | | | | | |
| TOTAL SYSTEM BASE DISTRIBUTION REVENUES | | | \$ | 301,937,705 | \$ | 305,374,376 | 1.1% |
| | | | | | | | |
| TOTAL SYSTEM INCLUDING OTHER REVENUES | | | \$ | 301,937,705 | \$ | 305,374,376 | 1.1% |

| | |
|-----------------|-----------|
| INCREASE | 3,436,670 |
| TARGET INCREASE | 3,436,588 |
| Difference | \$82 |