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STEFANIE A. BRAND  
Director

January 19, 2021

**Via Electronic Mail**

Danielle Lopez, Esq.  
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Public Service Electric & Gas Company  
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Re: **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 Notice of Change of Mitigation Method for Certain Substations**

Dear Ms. Lopez:

This letter is in response to Public Service Electric and Gas Company's ("PSE&G" or the "Company") letter dated January 6, 2021 (attached herewith) informing the Staff of the New Jersey Board of Public Utilities ("Staff") and the New Jersey Division of Rate Counsel ("Rate Counsel")<sup>1</sup> of the Company's decision to seek recovery of the increased cost for the State Street project (estimated to be \$16.5M) in its next rate case as opposed to the Energy Strong II accelerated recovery mechanism. Rate Counsel does not object to this decision by the Company. Paragraph 26 of the Stipulation states the Company may seek recovery of any amounts in excess of the Program's allotted amount in its next base rate case.

The Company also stated in its January 6 Letter that, with regard to the Lakeside, Orange Valley and Constable Hook substations, it was moving forward with the changes identified in its Change in Mitigation Method Notice dated September 25, 2020. In response to the Company's Notice of Change in Mitigation Method, Rate Counsel timely objected on October 5, 2020. For that reason, Rate Counsel cautions PSE&G that the Company proceeds at its own risk. As the Company is aware, Paragraph 39 of the Stipulation states that "the review of the prudence of all

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<sup>1</sup> PSE&G, Staff and Rate Counsel are collectively referred to as "the Parties."

projects undertaken in the Program will not take place prior to or in connection with the rate adjustments established herein.” Further, the Company’s rate adjustments under the Energy Strong II Program are provisional, with any imprudently incurred capital expenditures (as determined by the Board of Public Utilities) subject to refund.

Rate Counsel has particular concerns regarding the changes in mitigation method to the Constable Hook substation. In lieu of its originally approved plan, the Company proposes to construct a new station in the area of Constable Hook, which would eliminate the Company’s need for the current Constable Hook station and also supply new load at the former Military Ocean Terminal.<sup>2</sup> The Company claims that eliminating the current Constable Hook station and combining it with a new Bergen Point substation would serve both the existing Constable Hook customers and Bergen Point customers with a storm-hardened facility.<sup>3</sup> The Company asserts that the change in mitigation strategy is warranted, because it combines the benefits of both transmission and distribution related components for the substation and future work for the Bergen Point substation.

The Company’s initial estimate for the flood mitigation under Energy Strong II was \$5.3 million (\$3.9 million base and \$1.4 million in risk and contingency).<sup>4</sup> The Company’s proposed cost estimate for its combined Constable Hook/Bergen Point alternative is \$11.1 million for the distribution component and \$110.77 million for the transmission component.<sup>5</sup> In total, the Constable Hook alternative would cost \$121.87 million, which, when including the transmission component, is \$116.6 million **more** than the original estimate.

The Company has indicated that its decision to pursue this alternative would eliminate the need to upgrade the Bergen Point substation, which the Company estimates will cost \$203 million.<sup>6</sup> Although the Company has identified Bergen Point as a life cycle station due to its age, it is not part of the Energy Strong II program since the Class A stations with indoor 4kV equipment have been classified as lower risk than the Class C outdoor stations.<sup>7</sup> However, PSE&G states it identified an opportunity to consolidate efforts in the same area while the Company was evaluating its system needs for existing and future projects.<sup>8</sup>

Based on the information provided, the Company’s justification for the change in mitigation method at Constable Hook to accommodate new load at the former Military Ocean

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<sup>2</sup> PSE&G Notice of Change of Mitigation Method For Certain Substations, dated Sept. 24, 2020, Page 2. (“PSE&G Sept. 24 Notice”).

<sup>3</sup> Ibid.

<sup>4</sup> S-INF-003

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> PSE&G Sept. 24 Notice at Page 2.

Danielle Lopez, Esq.  
January 19, 2021  
Page 3 of 3

Terminal<sup>9</sup> appears inconsistent with the Board's requirements for an Infrastructure Investment Program ("IIP") under N.J.A.C. 14:3-2A.1. The Board's regulations limit the use of the IIP to "non-revenue producing utility plant and facilities that enhance safety, reliability, and/or resiliency."<sup>10</sup> Although combining the substation projects to accommodate anticipated load growth and addressing life cycle issues will result in lower costs for the Company overall, it should be undertaken through traditional base rates recovery and not the Energy Strong II rate recovery mechanism. Therefore, Rate Counsel believes the changes to the Constable Hook project should be excluded from the Energy Strong II program.

Please be guided accordingly.

Very truly yours,

STEFANIE A. BRAND, DIRECTOR  
DIVISION OF RATE COUNSEL

By: T. David Wand  
T. David Wand, Esq.  
Assistant Deputy Rate Counsel

Attachment

c: Service List (*via electronic mail only*)

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<sup>9</sup> Ibid.

<sup>10</sup> N.J.A.C. 14:3-2A.1(a).

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January 6, 2021

***VIA ELECTRONIC MAIL***

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**Re: *In the Matter of the Petition of Public Service Electric and Gas Company  
for Approval of the Second Energy Strong Program,  
BPU Docket Nos. EO18060629 and GO18060630  
Notice of Change of Mitigation Method For Certain Substations***

Dear Stacy and David,

This letter is to follow-up on prior notice/discussions regarding the Company's change in mitigation method for its State Street, Academy Street, Lakeside, Orange Valley, and Constable Hook substations. The Company provided notice of the need to modify the above project plans based in large part on an assessment of current system needs, overall scheduled improvements, and to take advantage of project efficiency opportunities. Rate Counsel filed objection letters to both change notices requesting additional information on the proposed mitigation method modifications. Both Rate Counsel and Staff served discovery on the Company with respect to each of the substation changes, and to-date, PSE&G has responded to each of these requests for additional information. The Company has also held technical conferences where Staff, Rate Counsel, and their respective experts were walked through each of the proposed changes and the precipitating factors for each of the changes.

It is apparent that everyone recognizes the plans and estimates provided in the Company's initial filing were based on the best information available at that time, and as projects shift to the implementation phase, changes in project estimates and "as-filed" mitigation methods may be necessary. In fact, the Stipulation itself contemplates such changes. This is in part why the Stipulation speaks about costs in terms of an accelerated recovery total for the Flood Mitigation subprogram as a whole, not on a station-by-station basis. However, with respect to the State Street project, the Company recognizes that it did not notify Staff and Rate Counsel of the need for project

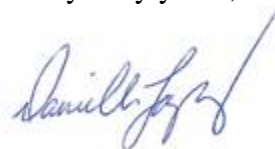
change at the earliest possible time—prior to settlement of the Energy Strong II proceeding—when it became apparent that PSE&G would not be able to proceed with the mitigation method proposed in its filing. The Company was working diligently to identify a solution for the State Street project that would satisfy the town who objected to this work, and for PSE&G’s customers as a whole. As discussed, at no time was the Company attempting to withhold or misrepresent information. Nonetheless, PSE&G understands and appreciates that although a solution had not yet been identified, the Company could have informed the parties during settlement negotiations that it was exploring a modification.

It is because of this unique instance, where a change was being explored prior to settlement of this case, that the Company agrees to recover the increase in cost for the State St. project (estimated to be \$16.5M) in its next rate case as opposed to the Energy Strong II accelerated recovery. While the Company believes that these increased costs are prudent and can and should be recovered by way of the accelerated recovery mechanism, it will in this one circumstance defer its request for recovery and credit the \$16.5M toward the Company’s stipulated base requirements for the Energy Strong II Program.

It is important to note that the Energy Strong II stipulation does not require that individual stations be completed within a certain budget, much less identify any “consequences” for the final cost of a particular station being above the estimate contained in the settlement. In fact, even factoring in State Street’s final cost, the Company has effectively managed the flood mitigation station work such that it currently anticipates having accelerated recovery dollars remaining for allocation to life cycle substations identified in the filing. Accordingly, the Company asserts that the exception it is agreeing to here with regard to State Street is just that, based on the unique circumstances noted above, and does not create any precedent for removing stations from accelerated recovery treatment simply because the actual cost related to a single station is greater than that estimated in the settlement.

To avoid this issue going forward, as discussed, the Company reviewed all Energy Strong II projects for any potential changes, and identified the Lakeside, Orange Valley and Constable Hook as stations where PSE&G proposed to deviate from the original mitigation method identified in the filing. All of these changes were identified with an eye toward reaping efficiencies which will result in savings and increased reliability for customers. PSE&G has provided all information requested on each of the above-referenced substation changes and has addressed all issues raised by both Staff and Rate Counsel regarding these projects and is moving forward with the changes as discussed.

Very truly yours,



Danielle Lopez

cc: Stefanie Brand  
Paul Flanagan  
Brian Lipman  
Felicia Thomas-Friel  
Ilene Lampitt  
Matko Ilic  
Debora Layugan

**In the Matter of the Petition of Public Service  
Electric and Gas Company for the Approval of  
the Second Energy Strong Program (Energy  
Strong II):  
Change of Mitigation Method  
BPU Dkt Nos. EO18060629 and GO18060630**

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