

Deborah M. Franco, Esq.
Vice President – Rates, Regulatory & Sustainability

April 23, 2021

Electronic Filing

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: I/M/O The Petition Of Elizabethtown Gas Company For Approval Of An Asset Management Agreement With South Jersey Resources Group
BPU Docket No. GR_____**

Dear Secretary Camacho-Welch:

Enclosed please find a Petition and supporting documents of Elizabethtown Gas Company which have been filed electronically today through the Board's e-filing program.

The Direct Testimony of Leonard J. Willey, attached as Exhibit P-2 to the Petition, as well as the schedules to Mr. Willey's testimony, contains information that is proprietary and confidential. Accordingly, this filing only contains the preliminary public version of Mr. Willey's testimony and schedules. On this same day, a filing is being made pursuant to the Open Public Records Act (N.J.S.A. 47:1A-1 et seq. and N.J.A.C. 14:1-12.1 et seq.) that contains the full confidential version of this filing.¹

Due to the pandemic, and in accordance with the New Jersey Board of Public Utilities ("BPU") March 19, 2020 and May 20, 2020 Orders issued in BPU Docket No. EO20030254, hard copies are not being provided at this time, but can be provided at a later time, as needed.

¹ Accordingly, this enclosed filing is marked "Preliminary Public Copy."

Deborah M. Franco, Esq.
Vice President – Rates, Regulatory & Sustainability

If you have any questions, please feel free to contact me directly.

Respectfully submitted,



Deborah M. Franco

Enclosures

cc (via Electronic Mail):

Robert Brabston, Deputy Executive Director (BPU Staff)
Stacy Peterson, Director (BPU Staff)
Jacqueline Galka (BPU Staff)
Stefanie A. Brand, Director (Division of Rate Counsel)
Felicia Thomas-Friel (Division of Rate Counsel)
Matko Ilic (Department of Law)

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

IN THE MATTER OF THE PETITION OF	
ELIZABETHTOWN GAS COMPANY	: BPU DOCKET NO.
FOR APPROVAL OF AN ASSET	:
MANAGEMENT AGREEMENT WITH	: SUMMARY SHEET
SOUTH JERSEY RESOURCES GROUP	:
	:
	:

Petitioner Elizabethtown Gas Company (“Elizabethtown”) seeks approval from the Board of Public Utilities (“Board”) of an Asset Management and Agency Agreement (“AMA”) between Elizabethtown and its affiliate South Jersey Resources Group, LLC (“SJRG”) for a five-year period beginning April 1, 2022 through March 31, 2027. Under the AMA, SJRG would provide Elizabethtown with gas supply and asset management services using Elizabethtown’s portfolio of firm transportation and storage contracts with interstate pipelines and storage service providers. SJRG has provided such services to Elizabethtown since 2018. There are many benefits of the proposed AMA to Elizabethtown and its customers, including:

- a substantial guaranteed annual credit to offset the cost of gas supply;
- the opportunity to share in additional margins derived from the capacity management services provided by SJRG; and
- the avoidance of significant costs and administrative challenges associated with administration of an in-house gas supply/asset management function.

Elizabethtown submits that the proposed AMA is clearly in the public interest and requests the Board to approve the AMA as expeditiously as possible.

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

IN THE MATTER OF THE PETITION OF	
ELIZABETHTOWN GAS COMPANY	: BPU DOCKET NO.
FOR APPROVAL OF AN ASSET	:
MANAGEMENT AGREEMENT WITH	: PETITION
SOUTH JERSEY RESOURCES GROUP	:
	:
	:

TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

Petitioner Elizabethtown Gas Company (“Petitioner,” “Elizabethtown” or “Company”), a public utility corporation duly organized under the laws of the State of New Jersey subject to the jurisdiction of the Board of Public Utilities (“Board”) respectfully states:

1. Petitioner’s principal business office is located at 520 Green Lane, Union, New Jersey 07083.
2. Communications and correspondence concerning this Petition should be sent as follows:

Deborah M. Franco
SJI Utilities, Inc.
Vice President – Rates, Regulatory &
Sustainability
520 Green Lane
Union, NJ 07083
dfranco@sjindustries.com

Kenneth T. Maloney
Cullen and Dykman LLP
1101 14th Street, Suite 750
Washington, DC 20005
kmaloney@cullenllp.com

Cindy Capozzoli
SJI Utilities, Inc.
Director, Rates
One South Jersey Place
Atlantic City, NJ 08401
ccapozzoli@sjindustries.com

Carolyn A. Jacobs
SJI Utilities, Inc.
Regulatory Compliance Specialist
One South Jersey Place
Atlantic City, NJ 08401
cjacobs@sjindustries.com

3. Petitioner is engaged in the business of transmission and distribution of natural and mixed gas to approximately 300,000 customers in its service territory located in Hunterdon,

Mercer, Middlesex, Morris, Sussex, Union and Warren Counties.

PURPOSE OF THE FILING

4. The purpose of the filing is to seek Board approval pursuant to N.J.S.A. 48:3-7.1 and N.J.A.C. 14:4-4.5 of an Asset Management and Agency Agreement (“AMA”) between Elizabethtown and its affiliate South Jersey Resources Group, LLC (“SJRG”) for a term of five years commencing April 1, 2022 and ending March 31, 2027. Under the proposed AMA,¹ which contains certain confidential terms, SJRG would continue to provide Elizabethtown with firm gas supply at published market prices up to the amount of pipeline capacity managed by SJRG under the AMA, as well as asset management services. The AMA is also structured to provide SJRG with an incentive to maximize the value of Elizabethtown’s pipeline transportation and storage contracts through asset management transactions. Under the proposed AMA the majority of these margins would be provided to Elizabethtown’s customers through credits applied to Elizabethtown’s Basic Gas Supply Service (“BGSS”) rate. A preliminary public copy of the proposed AMA² is attached hereto as Schedule LJW-3 to the preliminary public copy of the Testimony of Leonard J. Willey, Elizabethtown’s Manager of Gas Supply. Elizabethtown requests the Board to retain this matter and approve the attached AMA as far in advance of its proposed April 1, 2022 effective date as possible.

BACKGROUND

5. To ensure that its customers have access to reliable sources of market-priced natural gas supplies, Elizabethtown has contracted for a diverse portfolio of firm transportation and

¹ The proposed AMA comprises two agreements: the Asset Management and Agency Agreement and a Gas Purchase and Sale Agreement.

² Contemporaneously, in accordance with N.J.A.C. 14:1-12.1 *et. seq.*, Elizabethtown is submitting confidential copies of the proposed AMA and the testimony of Leonard J. Willey to the Board’s Custodian designated to oversee the public’s access to government records along with the materials required under the Board’s regulations to substantiate the confidentiality of certain terms of the AMA.

storage services. Elizabethtown purchases firm transportation service from seven interstate pipelines³ and firm contract storage services from seven storage service providers.⁴ These services provide Elizabethtown with access to gas supplies from as far away as Texas and the Onshore and Offshore Gulf of Mexico producing regions as well as from the more geographically proximate Appalachian producing basins.

A schematic of Elizabethtown's firm transportation and storage capacity portfolio is attached to the Testimony of Mr. Willey, as Schedule LJW-1 and a list of Elizabethtown's current firm transportation and storage capacity contracts to be included in the AMA is attached as Schedule LJW-2.

6. In contracting for supplies and firm transportation and storage capacity, Elizabethtown plans to meet the peak day, winter season and annual requirements of its firm customers as efficiently as possible. Elizabethtown incurs approximately \$60 million per year of fixed demand or reservation costs for firm transportation and storage capacity. In arranging for asset management services, Elizabethtown seeks to maximize the value of its firm transportation and storage services portfolio on a year-round basis to reduce the costs of that portfolio to its BGSS customers.

7. When Elizabethtown's portfolio of firm transportation and storage services is not needed to meet the demands of Elizabethtown's customers, the capacity under contract can be used to provide services to third parties. As Elizabethtown's current asset manager, SJRG engages in transactions with third parties to obtain value from the use of Elizabethtown's contracts and

³ These pipelines are Transcontinental Gas Pipe Line Company, LLC ("Transco"), Texas Eastern Transmission, LP ("Tetco"), Tennessee Gas Pipe Line Company, LLC ("Tennessee"), Columbia Gas Transmission, LLC ("Columbia"), Eastern Gas Transmission and Storage, Inc. ("Eastern"), National Fuel Gas Supply Corporation ("National Fuel") and Gulf South Pipeline Company, LP ("Gulf South").

⁴ Elizabethtown's storage service providers are Transco, Tetco, Columbia, Tennessee, Eastern, Gulf South and Stagecoach Gas Services.

provides the majority of the margins derived from those transactions to Elizabethtown's BGSS customers.

THE BASIS OF ELIZABETHTOWN'S FILING

8. By order dated June 22, 2018 in BPU Docket No. GM17121309,⁵ the Board approved the acquisition of Elizabethtown by South Jersey Industries, Inc. ("SJI"). As part of that transaction, the Board authorized Elizabethtown to enter into a gas supply and asset management agreement with SJRG ("the SJRG AMA") for a term ending March 31, 2022. By this filing, Elizabethtown seeks to continue to contract with SJRG to serve as its gas supplier/asset manager for a five year term beginning April 1, 2022 through March 31, 2027 so that Elizabethtown's customers may continue to realize the significant benefits associated with the proposed AMA arrangement while avoiding the considerable administrative burdens and costs the Company would otherwise incur to bring the gas supply/asset manager function in house. The Board's approval of the proposals and costs of the SJRG AMA is in the public interest.⁶

9. Elizabethtown has utilized third party gas suppliers/asset managers for many years. Elizabethtown's third party gas suppliers/asset managers, including SJRG, have generated substantial margins through asset management activities that have offset the Company's cost of gas supply. Moreover, under both previous third party arrangements and the proposed AMA, Elizabethtown's customers are guaranteed to receive a minimum annual payment from the gas supplier/asset manager regardless of whether the asset manager is successful in generating margins from asset management transactions. This guaranteed benefit would not be available if

⁵ *I/M/O The Acquisition of Elizabethtown Gas, A Division of Pivotal Utility Holdings, Inc. By ETG Acquisition Corp., A Subsidiary of South Jersey Industries, Inc. And Related Transactions*, BPU Docket No. GM17121309 "Decision and Order Approving Stipulation" (June 22, 2018) ("June 22 Order").

⁶ At the expiration of the term of the SJRG AMA, the June 22 Order provided that Elizabethtown's gas supply function would be "brought in-house unless otherwise ordered by the Board." June 22 Order at 12.

Elizabethtown were to bring its gas supply/asset management function in-house.

10. At the same time, Elizabethtown has considered the administrative challenges it would face and the one-time and ongoing costs it would incur to bring its gas supply function in-house beginning April 1, 2022. As discussed by Mr. Willey, Elizabethtown estimates that it would incur significant costs to construct and outfit office space, staff, administer, and account for a fully functional gas supply area. To properly administer a gas supply function, Elizabethtown would utilize a three-office model consisting of a front office to develop and execute the gas supply and asset management and optimization strategy; a middle office to confirm and monitor the risk of all deals and contracts; and a back office to be responsible for invoicing, accounting for and reporting financial results. Each of these functions requires sophisticated information systems and experienced personnel. Elizabethtown currently possesses none of these resources, and in addition to incurring the cost, Elizabethtown would face a significant administrative challenge to attract and retain the personnel needed to staff a gas supply department.

11. As discussed more fully by Mr. Willey and Company witness David Robbins, Jr., Senior Vice President of SJI and President of SJI Utilities, Inc. (“SJIU”), Elizabethtown submits that in lieu of incurring the costs and administrative challenges associated with bringing its gas supply/asset management function in-house, the interests of its customers would be better served by entering into a new AMA with SJRG, which has provided Elizabethtown with gas supply and asset management services since July 1, 2018. SJRG has proven to be a highly capable and professional manager of Elizabethtown’s assets. During the period in which it has managed Elizabethtown’s gas supply and firm transportation and storage contracts, SJRG has provided Elizabethtown’s BGSS customers with both \$18.1 million of credits to offset their gas costs and reliable market-priced natural gas supplies. Elizabethtown believes that SJRG is best positioned

to provide Elizabethtown's BGSS customers with the lowest reasonable cost of gas on a prospective basis.

12. To the extent that Elizabethtown incurs the costs to bring its gas supply function in-house it will require an increase in rates to recover its increased costs. Given Elizabethtown's ongoing need to both continue to invest in its distribution system to improve safety and reliability and to incur costs to promote increased energy efficiency in furtherance of New Jersey's environmental goals, it does not make sense for Elizabethtown to incur and pass along to customers the increased costs of reinstating a gas supply/asset management function that the Company has done without for many years when the Company has a proven alternative means of providing the same function with greater efficiency and without the need for incremental resources and the attendant costs.

13. As discussed by Mr. Willey, under the proposed AMA, Elizabethtown would continue to outsource its gas supply/asset management function to SJRG at terms that are updated for current market conditions but otherwise provide the same basic benefits as the current SJRG AMA.⁷ While the specific terms of the proposed AMA are confidential, the benefits nonetheless include:

- (i) SJRG will pay Elizabethtown a substantial annual fixed payment in quarterly installments⁸ regardless of whether it generates any margins from the management of Elizabethtown's capacity contract portfolio;
- (ii) SJRG will share margins generated from asset management activities that exceed

⁷ The discussion of these matters in Mr. Willey's testimony includes confidential information that has been redacted from the preliminary public copy attached to this Petition.

⁸ Under the proposed AMA, the minimum annual fee will be credited to Elizabethtown in equal quarterly installments on the last day of each quarter – June 30, September 30, December 31 and March 31. Shared margins/credits, if any, will be credited to Elizabethtown's BGSS-P clause twice per year no later than September 30 and March 31. These terms are the same as the payment terms under the SJRG AMA.

the fixed annual payment in a manner that ensures that Elizabethtown's customers will receive the majority of those margins;

- (iii) SJRG will provide gas supply to Elizabethtown's customers at published index prices that recognize and give effect to the fact that Elizabethtown's upstream capacity portfolio enables the Company to maximize its access to plentiful, geographically proximate sources of supply that are available at market prices; and
- (iv) SJRG, not Elizabethtown and its customers, will bear the administrative costs of providing Elizabethtown's customers with gas supply.

14. Elizabethtown submits that the proposed AMA with SJRG is in the public interest for several reasons. First, since July 1, 2018, when SJRG assumed responsibility for the current AMA, SJRG has created considerable value for Elizabethtown's customers. Specifically, for the period July 1, 2018 through March 31, 2021, SJRG has generated \$22.0 million of net margins for Elizabethtown's customers, inclusive of annual fee and net margin credits. Under the proposed AMA, Elizabethtown's customer will continue to receive significant AMA credits, including a substantial guaranteed annual amount.

15. Second, a continuation of Elizabethtown's relationship with SJRG would maintain a contractual association with a proven entity. Not only has the SJRG AMA reduced the cost of gas supply for Elizabethtown's customers through its asset management services, it has also provided Elizabethtown and its customers with reliable gas supplies at an overall cost to BGSS customers that is reasonable and consistent with market conditions.

16. Finally, as the incumbent gas supplier/asset manager for Elizabethtown, SJRG is uniquely positioned to create value for Elizabethtown's customers in ways that would be difficult for either an in-house gas supply function or a replacement manager to replicate. A transition to a

new asset manager, including an in-house manager, could result in a loss of value as the new manager becomes familiar with Elizabethtown's portfolio.

17. In addition, Elizabethtown submits that approval of its proposed AMA will permit Elizabethtown to continue to provide the Board, its Staff and other interested parties with an unequaled level of transparency with respect to Elizabethtown's gas supply and asset management practices and results. Elizabethtown has provided in the past an analysis prepared by an independent third party of the expected asset optimization margin that could have been extracted from Elizabethtown's natural gas capacity and supply portfolio for each contract year under the AMA in effect. When this report is prepared, the third party does not know the actual results that the asset manager has generated for Elizabethtown. Elizabethtown proposes to supply this report in this proceeding for the years ending March 31, 2020 and 2021 when it becomes available -- but no later than September 30, 2021. Elizabethtown also proposes to continue to provide this report following each contract year ending March 31 under the proposed AMA.

18. Elizabethtown also proposes to provide the Board with:

- (i) quarterly reports detailing margin sharing activities and related information in a form similar to that currently filed by Elizabethtown, with such reports to be filed no later than forty-five days after the end of the applicable quarter;
- (ii) annual reports detailing activities that occur in accordance with Section 2.5 of the Gas Purchase and Sale Agreement,⁹ such reports will include SJRG's initial price quote and price quotes obtained from others and whether SJRG exercised its right to match the lowest quote or Elizabethtown purchased quantities from third parties.

⁹ In certain instances under the Gas Purchase and Sale Agreement as noted in Section 2.5, Elizabethtown has the right to obtain bids for lower cost purchases which SJRG may, at its option, match. These transactions are detailed in reports filed with the Board.

Such reports will be filed no later than forty-five days after the end of the year in which the applicable activities occurred;

- (iii) information contained in the Elizabethtown “books” maintained by SJRG¹⁰ will be made available to Board Staff and Rate Counsel on reasonable notice at Elizabethtown’s headquarters; and
- (iv) copies of internal audits of the AMA to be performed annually by SJI, the parent company of Elizabethtown and SJRG. Such audits will be conducted at SJI’s cost and expense using either internal or external resources as determined by SJI, and the auditor will be responsible for determining (a) whether margins were properly credited to Elizabethtown’s BGSS-P clause, and (b) whether SJRG was treating Elizabethtown in a non-discriminatory manner in relation to other SJRG asset management agreements. SJI will complete this audit within nine months of the applicable year with a copy to be provided to Board Staff and Rate Counsel within ten days of completion. All supporting documents for the audit will be provided to Board Staff and Rate Counsel at Elizabethtown’s office under an appropriate confidentiality agreement.

19. In sum, the substantial financial benefits of the proposed AMA coupled with the willingness of Elizabethtown and SJRG to administer, account for and report upon their gas supply and asset management transactions in a transparent manner supports a finding that the proposed AMA is in the public interest. Accordingly, Elizabethtown respectfully requests the Board to establish a process that will enable the Board to approve the proposed AMA as far in advance of its proposed April 1, 2022 effective date as possible in accordance with the proposed Procedural

¹⁰ Under the AMA, SJRG maintains a separate book of transactions for Elizabethtown so that the Company can be assured that it receives all margins that are owed to it under the AMA.

Schedule set forth below.

SUPPORTING TESTIMONY AND EXHIBITS

20. As part of this Petition, Elizabethtown is submitting the testimony and supporting schedules of the following witnesses:

1. David Robbins Jr., Senior Vice President of SJI and President of SJIU, which Petitioner suggests should be marked as Exhibit P-1; and
2. Leonard J. Willey, Elizabethtown's Manager of Gas Supply, (Preliminary Public Copy) which Petitioner suggests should be marked as Exhibit P-2 and which contains the following schedules:¹¹
 - (i) Schedule LJW-1 is a schematic of Elizabethtown's firm transportation and storage capacity portfolio;
 - (ii) Schedule LJW-2 is a list of Elizabethtown's current firm transportation and storage capacity contracts to be included in the AMA;
 - (iii) Schedule LJW-3 is a preliminary public copy of the proposed AMA;
 - (iv) Schedule LJW-4 is a schedule setting forth the margins provided to BGSS-P customers since SJRG assumed responsibility for Elizabethtown's gas supply and asset management activities on July 1, 2018.
3. Exhibit P-3 is a form of non-disclosure agreement to be executed by all parties.

¹¹ Each of the schedules listed below contains confidential information that, if disclosed, would cause harm to both Elizabethtown and SJRG. As such, preliminary public filings of Schedules LJW-1 through LJW-4 are included with this filing. Contemporaneously, in accordance with N.J.A.C. 14:1-12.1 *et. seq.*, Elizabethtown is submitting confidential copies of Mr. Willey's Direct Testimony and the schedules thereto to the Board's Custodian designated to oversee the public's access to government records along with the materials required under the Board's regulations to substantiate the confidentiality of such confidential information.

PROPOSED PROCEDURAL SCHEDULE

21. Elizabethtown respectfully requests the Board to retain this matter and proposes the following Procedural Schedule:

April 23, 2021	-	Petition Filed
May 14, 2021	-	Initial discovery due
May 31, 2021	-	Responses to initial discovery due
Week of June 7, 2021	-	Discovery conference
June 18, 2021	-	Second Round of discovery due
June 22, 2021	-	Responses to second round of discovery due
Week of July 12, 2021	-	Initial Settlement meeting(s)
August 2, 2021	-	Rate Counsel testimony due
August 9, 2021	-	Discovery on Rate Counsel testimony due
August 23, 2021	-	Responses to August 9 discovery due
August 27, 2021	-	Company rebuttal due
September 3, 2021	-	Discovery on rebuttal due
September 7-10, 2021	-	Further settlement meetings
Week of September 13, 2021	-	Evidentiary hearings
TBD	-	Initial Briefs
TBD	-	Reply Briefs

MISCELLANEOUS

22. Petitioner is serving notice and a copy of this Petition and a preliminary public copy of all exhibits appended hereto upon Stefanie Brand, Esq., Division of Rate Counsel, 140 East Front Street, Trenton, New Jersey, upon the Department of Law and Public Safety, 124 Halsey Street, P.O. Box 45029, Newark, New Jersey 07101 and upon the service list attached hereto.

23. Petitioner submits that there is no requirement for public hearings in this matter and that this Petition proposes no increase in any rates or charges assessed by Petitioner and no changes to Petitioner's tariff. To the extent that evidentiary hearings are necessary in this matter, Elizabethtown requests the Board to retain this matter and to assign a Commissioner to conduct such hearings as may be necessary.

CONCLUSION

Wherefore, Petitioner respectfully requests that the Board approve Petitioner's proposed AMA as far in advance of its proposed effective date of April 1, 2022 as possible, and to grant such other relief as the Board may deem just and proper.

Respectfully submitted,

Elizabethtown Gas Company



By: Deborah M. Franco, Esq.
Vice President – Rates, Regulatory
& Sustainability
SJI Utilities, Inc.

Date: April 23, 2021

VERIFICATION

I, Deborah M. Franco, of full age, being duly sworn according to law upon my oath, depose and say:

1. I am Vice President, Rates, Regulatory & Sustainability of SJI Utilities, Inc. and am authorized to make this verification on behalf of the Company.
2. I have reviewed the foregoing Petition and the information contained therein is true according to the best of my knowledge, information and belief.

Deborah M. Franco

Sworn to and subscribed
before me this 23 day
of April 2021

Carolyn A. Jacobs

CAROLYN A. JACOBS

NOTARY PUBLIC OF NEW JERSEY

My Commission Expires October 28, 2023



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

**I/M/O THE PETITION OF ELIZABETHTOWN GAS COMPANY
FOR APPROVAL OF AN ASSET MANAGEMENT AGREEMENT
WITH SOUTH JERSEY RESOURCES GROUP**

DIRECT TESTIMONY

OF

DAVID ROBBINS, JR.

ON BEHALF OF

ELIZABETHTOWN GAS COMPANY

APRIL 2021

**ELIZABETHTOWN GAS COMPANY
DIRECT TESTIMONY OF
DAVID ROBBINS, JR.**

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is David Robbins, Jr., and my business address is 1 South Jersey Plaza, Folsom, New Jersey 08037.

Q. By whom are you employed and in what capacity?

A. I am Senior Vice President of South Jersey Industries, Inc. (“SJI”) and the President of SJI Utilities, Inc. (“SJIU”). As such, I am responsible for leadership and oversight of SJI’s gas utility functions including Elizabethtown Gas Company (“Elizabethtown” or “Company”).

Q. Please summarize your educational background and industry-related experience.

A. I am a 1984 graduate of Old Dominion University, where I earned my undergraduate degree in accounting. I joined SJI in 1997 as a Staff Accountant and have held various management and officer positions of increasing responsibility in SJI and its various subsidiaries, including, but not limited to, South Jersey Resources Group (“SJRG”), Marina Energy, South Jersey Energy (“SJE”), South Jersey Energy Services (“SJES”) and South Jersey Energy Service Plus (“SJESP”). These positions included Supervisor, Financial Reporting (SJI) from 1998-2001, Manager, Financial Reporting (SJI) from 2001-2005, and various Treasurer and Secretary positions from 2002-2013. I was elected Senior Vice President and Chief Operating Officer for SJE, SJES and SJESP in 2013. Thereafter, in 2014, I became President of SJES. I was appointed as Senior Vice President, Strategy and Corporate Development of SJI in 2016. In that role, I had strategic leadership responsibility over the sales and marketing functions at South Jersey Gas Company

1 (“SJG”). In January 2017, I was appointed President of SJG. In 2018, I was appointed to
2 my current position as President of SJIU.

3 In addition, I hold several positions outside of the SJIU organization. I currently
4 serve on the Board of Directors of the American Gas Association (“AGA”) and the New
5 Jersey Utilities Association. I formerly served as a member of the Executive Leadership
6 Cabinet of the American Heart Association’s Southern New Jersey Heart Walk, the Inspira
7 Health Network Board of Directors, and as a member of the Northeast Gas Association
8 Board of Directors.

9
10 **II. PURPOSE OF TESTIMONY**

11 **Q. What is the purpose of your testimony in this proceeding?**

12 **A.** The purpose of my testimony is to support Elizabethtown’s petition to the New Jersey
13 Board of Public Utilities (“BPU” or “Board”) for approval to enter into a Asset
14 Management and Agency Agreement (“AMA”) with its affiliate, South Jersey Resources
15 Group (“SJRG”). Specifically, I will explain why it is in the best interests of Elizabethtown
16 and its customers for Elizabethtown to outsource aspects of its gas supply purchasing and
17 asset management activities to SJRG. In support of its petition, Elizabethtown is also
18 presenting the testimony of Leonard J. Willey, Elizabethtown’s Manager of Gas Supply.

19
20 **III. ELIZABETHTOWN’S PROPOSED GAS SUPPLY AND ASSET MANAGEMENT**
21 **ARRANGEMENTS**

22 **Q. Please describe Elizabethtown’s relationship to SJI and SJIU.**

23 **A.** Elizabethtown is a wholly owned subsidiary of SJIU, which in turn is a wholly owned
24 subsidiary of SJI. SJI acquired the assets of Elizabethtown from the Southern Company in

1 2018. SJI's acquisition of Elizabethtown was approved by the Board by order dated June
2 22, 2018 in BPU Docket No. GM17121309 ("June 22 Order").

3 **Q. Did the Board's June 22 Order address how Elizabethtown's gas supply and asset**
4 **management would be conducted following SJI's acquisition of Elizabethtown?**

5 **A.** Yes. At the time of the acquisition, Elizabethtown had not had an in-house gas supply and
6 asset management department for many years. During that period Elizabethtown's gas
7 supply and asset management functions had been performed by a number of asset
8 managers. In its June 22 Order, the BPU authorized Elizabethtown to enter into an AMA
9 with SJRG for the term ending March 31, 2022. The Company is submitting a petition at
10 this time to permit the Board to determine how Elizabethtown should conduct its gas
11 supply/asset management activities prospectively for the period beginning April 1, 2022,
12 consistent with the June 22 Order.

13 **Q. Has Elizabethtown examined whether its gas supply and asset management functions**
14 **should be brought in-house at the expiration of Elizabethtown's current agreement**
15 **with SJRG?**

16 **A.** Yes. As discussed by Mr. Willey, Elizabethtown has investigated the costs, administrative
17 challenges and likely benefits of a number of approaches to providing gas supply and asset
18 management functions and has concluded that entering into a new agreement with SJRG
19 for a 5-year term beginning April 1, 2022 and ending March 31, 2027 would be in the best
20 interests of the Company and its customers. Mr. Willey describes in detail the costs and
21 challenges associated with bringing Elizabethtown's gas supply and asset management
22 functions in-house and explains why bringing these functions in-house would not be in the
23 best interest of the Company and its customers.

1 **Q. Do you agree with Mr. Willey's testimony that it is not in Elizabethtown's customers**
2 **best interests for the Company to incur and seek recovery in rates of the costs of an**
3 **in-house gas supply/asset management function?**

4 **A.** Yes, I do. Given Elizabethtown's ongoing need to continue both to invest in its distribution
5 system to improve safety and reliability and to incur costs to promote increased energy
6 efficiency in furtherance of New Jersey's environmental goals, it is not in the best interest
7 of customers for Elizabethtown to incur and pass along to customers the increased costs of
8 reinstating a gas supply/asset management function that the Company has done without for
9 many years when the Company has a proven alternative means of providing the same
10 function with greater efficiency and without the need for incremental resources and the
11 attendant costs.

12 **Q. Are you aware of whether Elizabethtown considered other approaches to performing**
13 **its gas supply and asset management functions such as consolidating those functions**
14 **in SJIU?**

15 **A.** Yes. SJIU and Elizabethtown considered the possibility of consolidating the gas supply
16 and asset management functions of Elizabethtown with those of SJG and performing those
17 services as a shared service provided by SJIU. This approach was ultimately rejected
18 because we did not believe that the consolidation of gas supply and asset management
19 functions for Elizabethtown and SJG would produce significant incremental savings or
20 other significant benefits that would exceed the costs and administrative burdens created
21 by this approach.

1 **Q. Why is that the case?**

2 **A.** SJG has a fairly straightforward gas supply portfolio that consists of transportation and
3 storage contracts with three interstate pipeline systems: Transcontinental Gas Pipe Line
4 Company, LLC (“Transco”), Columbia Gas Transmission, LLC (“Columbia”) and Eastern
5 Gas Transmission and Storage (“Eastern”). While Elizabethtown has contracts with these
6 systems, it has a far more complex portfolio that consists of four other pipeline systems
7 and four other contract storage providers. To manage Elizabethtown’s portfolio, SJIU
8 would have had to bring in essentially the same number of incremental resources as
9 Elizabethtown would need to administer its own supply. Moreover, having a single entity
10 manage both SJG’s portfolio and Elizabethtown’s portfolio would have created a need to
11 separately manage each entities’ overlapping assets on Columbia and Transco in order to
12 avoid any possibility that one utility was being favored over the other.

13 **Q. Did SJIU consider having Elizabethtown competitively bid its gas supply and asset**
14 **management functions among other third party suppliers?**

15 **A.** Yes. There are several issues associated with competitive bidding a gas supply and asset
16 management agreement. First, it is very difficult to bid gas supply and asset management
17 arrangements on anything other than a fixed fee basis. As discussed by Mr. Willey,
18 Elizabethtown has achieved beneficial asset management related cost reductions for its
19 customers by entering into AMAs that provide for both a significant annual margin
20 guarantee and a sharing of margins in excess of the guaranteed level. However, it is
21 difficult, if not impossible, to evaluate percentage sharing mechanism proposals because
22 different asset managers have different levels of expertise in various segments of the gas
23 market and will employ different trading strategies. Moreover, if an asset manager wants

1 to bid to share margins derived from asset management activities on a percentage basis,
2 then the asset manager must be willing to provide a level of audit transparency to assure
3 the utility that it is being treated fairly with respect to the allocation of margin sharing
4 opportunities among various customers (and the asset manager itself) for which a particular
5 manager may be performing asset management services. In our experience, non-affiliated
6 third party marketers are unlikely to agree to provide the level of transparency that an
7 affiliated marketer will provide. The end result of this is that it is very difficult to bid gas
8 supply and asset management arrangements on anything other than a fixed fee basis. SJIU
9 and Elizabethtown do not believe that bidding an AMA on a fixed fee basis will provide
10 the best result for customers. Over the years, Elizabethtown's customers have received
11 substantial benefits from the sharing of margins generated from asset management
12 activities in excess of the guaranteed annual payment.

13 **Q. Has SJRG proven to be both a reliable supplier of gas to Elizabethtown and effective**
14 **asset manager?**

15 **A.** Yes. As discussed by Mr. Willey, SJRG has proven to be both a reliable supplier of natural
16 gas and an effective asset manager, generating \$22.0 million of BGSS credits for the
17 benefit of Elizabethtown's customers for the period from July 1, 2018 through March 31,
18 2021, inclusive of the annual fee and net margin credits. Moreover, SJRG's business
19 practices are transparent and allow for a superior level of regulatory oversight to the extent
20 such oversight is necessary. SJRG has invested in energy trading and risk management
21 systems, and has controls and procedures in place, that SJIU believes to be consistent with
22 industry best practices. In addition, because Elizabethtown and SJRG are affiliated, SJI
23 and SJIU are well-situated to ensure that SJRG remains a reliable, financially stable

1 supplier of gas and asset management services to Elizabethtown in the future. For all of
2 these reasons, as well as those discussed by Mr. Willey, we believe that the proposed
3 agreement between Elizabethtown and SJRG for gas supply and asset management services
4 is in customers' best interests and should be approved by the Board.

5 **Q. Does this conclude your testimony?**

6 **A.** Yes. It does.

VERIFICATION

I, David Robbins, Jr., of full age, being duly sworn according to law upon my oath, depose and say:

1. I am Senior Vice President of South Jersey Industries, Inc. and President of SJI Utilities, Inc. and am authorized to make this verification on behalf of the Company.

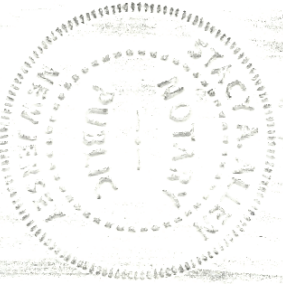
2. I have reviewed the foregoing Testimony and the information contained therein is true according to the best of my knowledge, information and belief.

David Robbins Jr.

Sworn to and subscribed
before me this 32nd day
of April 2021

Stacy A. Allen

STACY A. ALLEN
NOTARY PUBLIC OF NEW JERSEY
Comm. # 50075156
My Commission Expires 1/17/2023



PRELIMINARY PUBLIC COPY

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

**I/M/O THE PETITION OF ELIZABETHTOWN GAS COMPANY
FOR APPROVAL OF AN ASSET MANAGEMENT AGREEMENT
WITH SOUTH JERSEY RESOURCES GROUP**

DIRECT TESTIMONY

OF

LEONARD J. WILLEY

ON BEHALF OF

ELIZABETHTOWN GAS COMPANY

APRIL 2021

**ELIZABETHTOWN GAS COMPANY
DIRECT TESTIMONY OF
LEONARD J. WILLEY**

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 **A. My name is Leonard J. Willey. My business address is 520 Green Lane, Union, New Jersey**
4 07083.

5 **Q. What is your position with Elizabethtown Gas Company?**

6 **A. I am employed as Manager, Gas Supply by Elizabethtown Gas Company (“Elizabethtown”**
7 or “Company” or “ETG”).

8 **Q. What are your professional qualifications?**

9 **A. I received a Bachelor of Arts degree in Computer Science from Rutgers, The State**
10 University of New Jersey with a minor in Economics in 1991. I have been employed by
11 Elizabethtown since September 1983 and have held a number of positions in the planning
12 and gas supply procurement area. During my tenure with Elizabethtown, I have attended
13 the American Gas Association’s (AGA) “Demand Modeling and Forecasting” seminar, the
14 Institute of Gas Technology’s “Energy Modeling” seminar, and the Institute for
15 Professional Education (IPE) courses “Applied Time Series: Analysis and Forecasting”
16 and “Forecasting: Methods and Applications.” In addition, I have attended various
17 conferences and seminars on topics and issues related to my job function. I am formerly a
18 member of the AGA’s Statistics and Load Forecasting Methods Committee.

1 **II. PURPOSE OF TESTIMONY**

2 **Q. What is the purpose of your testimony?**

3 **A.** The purpose of my testimony is to support the Company's proposal to continue to obtain
4 gas supply and asset management services through an Asset Management and Agency
5 Agreement ("AMA") with South Jersey Resources Group, LLC ("SJRG"). I will describe
6 the benefits of the proposed AMA to Elizabethtown's customers, as well as discuss changes
7 to the Company's firm transportation and storage services portfolio that will impact its
8 value. I will also describe the expected costs and administrative challenges associated with
9 the administration of an in-house gas supply/asset management function and explain why
10 the Company believes that bringing the gas supply/asset management function in-house is
11 not in the best interest of customers.

12 **Q. Do you sponsor any schedules as part of your testimony?**

13 **A.** Yes. My testimony includes the following schedules which were prepared under my
14 supervision and direction:¹

- 15 (i) Schedule LJW-1 is a schematic or graphical representation of the ETG firm
16 transportation and storage capacity portfolio;
- 17 (ii) Schedule LJW-2 is a list of ETG's current firm transportation and storage
18 capacity contracts to be included in the AMA;
- 19 (iii) Schedule LJW-3 is a copy of the proposed AMA; and

¹ Each of the schedules listed below contains confidential information that, if disclosed, would cause harm to both Elizabethtown and SJRG. As such, preliminary public filings of Schedules LJW-1 through LJW-4 are included with this filing. Contemporaneously, in accordance with N.J.A.C. 14:1-12.1 et. seq., Elizabethtown is submitting confidential copies of this testimony and the schedules thereto to the Board's Custodian designated to oversee the public's access to government records along with the materials required under the Board's regulations to substantiate the confidentiality of such confidential information.

(iv) Schedule LJW-4 is a schedule showing the margins provided to BGSS-P customers since SJRG assumed responsibility for Elizabethtown's gas supply and asset management activities on July 1, 2018.

III. GAS SUPPLY AND ASSET MANAGEMENT PROPOSAL

Q. Please explain how Elizabethtown procures gas supply.

A. To ensure that ETG's customers have access to reliable sources of market-priced natural gas supplies, Elizabethtown has contracted for a diverse portfolio of firm pipeline transportation and storage services. Elizabethtown purchases firm transportation services from seven interstate pipelines – Transcontinental Gas Pipe Line Company, LLC ("Transco"), Texas Eastern Transmission, LP ("Tetco"), Tennessee Gas Pipe Line Company, LLC ("Tennessee"), Columbia Gas Transmission, LLC ("Columbia"), Eastern Gas Transmission and Storage, Inc. ("Eastern"), National Fuel Gas Supply Corporation ("National Fuel") and Gulf South Pipeline Company, LP ("Gulf South"). Elizabethtown also purchases firm contract storage service from seven storage service providers – Transco, Tetco, Tennessee, Columbia, Eastern, Gulf South and Stagecoach Gas Services. These services provide Elizabethtown with access to gas supplies at liquid trading points/market centers where gas is bought and sold from as far away as Texas and the Onshore and Offshore Gulf of Mexico producing regions, as well as from the more geographically proximate Appalachian producing basins. A schematic of Elizabethtown's firm transportation and storage capacity portfolio is attached as Schedule LJW-1 and a list of Elizabethtown's current firm transportation and storage contracts to be included in the AMA is attached as Schedule LJW-2.

1 **Q. What is the annual level of costs incurred by Elizabethtown to purchase interstate**
2 **pipeline transportation and storage services?**

3 A. Elizabethtown incurs approximately \$60 million of fixed or reservation costs annually
4 under its contracts for firm transportation and storage services. The asset management
5 payments received under an asset management agreement help to offset these fixed costs
6 for Elizabethtown's Basic Gas Supply Service ("BGSS") customers.

7 **Q. What are the benefits of asset management agreements?**

8 A. Asset management agreements allow a party with firm transportation and storage capacity
9 such as Elizabethtown to secure experienced professional management of these upstream
10 assets when they are not needed to serve ETG's customers. Depending upon weather and
11 other conditions, these assets may be surplus to Elizabethtown's needs at any given time.
12 An asset manager can secure alternate or supplemental uses for this capacity, and at the
13 same time ensure that Elizabethtown's needs are met. Asset management agreements are
14 vehicles that allow an asset manager to optimize the use of the Elizabethtown's capacity in
15 order to benefit both Elizabethtown's customers and the asset manager. In the case of the
16 Elizabethtown's proposed AMA, the annual management fee assures Elizabethtown's
17 customers a guaranteed BGSS-P credit that shifts market risk away from the utility and
18 onto the asset manager, while allowing Elizabethtown's customers to benefit during
19 favorable markets through the margin sharing mechanism.

20 **Q. What does an asset manager offer that exceeds the capability of an in-house gas**
21 **supply function?**

22 A. Typically, asset managers both manage and own significant portfolios of gas supply assets.
23 These gas supply assets include, among other things, interstate pipeline capacity, storage,

1 and natural gas supplies. The asset manager will utilize all the assets under its control to
2 extract value through optimization of those assets. While margin derived from the use of
3 a particular entity's assets are accounted for separately, the larger portfolio managed by the
4 asset manager allows for more efficient and increased optimization of individual assets. In
5 addition, the reporting and audit requirements built into the proposed AMA, as set forth in
6 Schedule LJW-3, will provide the safeguards to ensure transparency regarding the
7 relationship between the asset manager and Elizabethtown and permit the Board, Board
8 Staff and Rate Counsel to review the asset manager's performance. By contrast, the gas
9 supply department of a regulated public utility does not have access to a similar portfolio
10 of additional assets and would therefore find it difficult, if not impossible to, fully optimize
11 its portfolio's value to the same extent of the asset manager.

12 **Q. Are you aware of whether other utilities utilize affiliated entities to provide gas supply**
13 **and asset management functions?**

14 **A.** I am aware of a number of such arrangements. For example in New Jersey both
15 Elizabethtown and Public Service Electric and Gas Company ("PSE&G") have utilized
16 affiliated gas suppliers/asset managers for many years. I am also aware of utilities in
17 Georgia, Tennessee and Virginia that utilize an affiliate gas supplier/asset manager.

18 **Q. Does the use of a third party asset manager provide other benefits to the gas supply**
19 **function?**

20 **A.** Yes. Both the Company's current and proposed AMAs consist of two agreements – an
21 Asset Management and Agency Agreement and a Gas Purchase and Sale Agreement. The
22 Gas Purchase and Sale Agreement is structured so that the Company pays prices based on
23 published market indices for gas purchased and sold at liquid trading points for the majority

1 of its gas supplies. This gas supply arrangement both enhances the reliability of the
2 Company's gas supply and simplifies its administration by allowing the Company to utilize
3 a "one-stop shopping" approach to obtaining gas supplies. The gas supply agreement
4 permits Elizabethtown to shift administrative and market risks to its gas supplier/asset
5 manager.

6 **Q. You stated that Elizabethtown purchases the majority of its gas supply at published**
7 **market prices. Are there any exceptions to these purchases under the proposed**
8 **AMA?**

9 **A.** Yes. Under the Gas Purchase and Sale Agreement, Elizabethtown has the right to purchase
10 certain daily volumes at prices obtained from third parties. [REDACTED]

11 [REDACTED] These contract provisions
12 permit Elizabethtown to attempt to obtain the lowest reasonable cost for daily supplies.
13 The Company provides specific information on these purchases to the Board and proposes
14 to continue to provide such information under the proposed AMA. The Company also has
15 the right to contract for bundled (city-gate delivered) peaking supply from third parties
16 which it does through an annual Request For Proposal ("RFP") process. The asset manager
17 may participate in the RFP process but does not have the right to match the lowest bidder(s)
18 or is allowed access to data resulting from the RFP process.

19 **Q. What is the Company proposing with respect to the AMA?**

20 **A.** The Company is seeking Board authorization to enter into the AMA with SJRG for a five-
21 year term commencing April 1, 2022 and ending March 31, 2027. A preliminary public
22 copy of the proposed AMA, which contains confidential information, is attached as
23 Schedule LJW-3. The Company believes that the proposed AMA will provide customers

1 with a more cost effective gas supply function that provides low cost, market based rates
2 for gas supply, a substantial guaranteed fixed payment for asset management services, and
3 the opportunity to benefit from the asset manager's ability to generate additional margins
4 when market conditions are favorable. The AMA is structured to ensure that
5 Elizabethtown's customers benefit from asset management even when market conditions
6 are unfavorable while also preserving the opportunity for customers to receive the majority
7 of the margins derived from asset management when market conditions are more favorable.

8 **Q. Please describe the structure of the proposed AMA.**

9 **A.** As I mentioned previously, the AMA consists of two agreements, the Asset Management
10 and Agency Agreement and the Gas Purchase and Sale Agreement. I have previously
11 described the structure of the Gas Purchase and Sale Agreement and the pricing available
12 to Elizabethtown under that agreement. Under the Asset Management and Agency
13 Agreement, SJRG will pay Elizabethtown a guaranteed annual payment for the right to act
14 as the Company's asset manager. The annual fee will be paid in four quarterly installments
15 on the last day of each calendar quarter regardless of whether SJRG generates any margin
16 from the management of Elizabethtown's firm transportation and storage service portfolio.
17 In addition, to the extent to which SJRG generates margins from the management of
18 Elizabethtown's assets in excess of the guaranteed annual fee, those margins will be shared
19 between Elizabethtown's BGSS customers and SJRG. The AMA is structured such that
20 BGSS customers will receive the majority of the margins generated.

21 **Q. Is the proposed AMA the same as the agreement currently in effect?**

22 **A.** Operationally, the proposed AMA is the same as the current AMA in effect. However, due
23 to market conditions driven by overall reduced volatility and changes to the firm

1 transportation and storage portfolio that will be required to support the Company's
2 Conservation Incentive Program ("CIP"), adjustments have been made to the guaranteed
3 fixed fee and margin sharing tier levels. However, the AMA remains very favorable to
4 BGSS customers.

5 **Q. How does the guaranteed fixed annual fee under the current AMA compare to the**
6 **annual fee under the proposed AMA?**

7 **A.** [REDACTED]
8 [REDACTED]

9 **Q. Please describe the Company's CIP and its impact on the value of the Company's**
10 **portfolio of interstate pipeline services.**

11 **A.** The CIP is a ratemaking mechanism that, broadly speaking, is intended to render the
12 Company financially indifferent to losses of gas sales volumes due to increased energy
13 efficiency. In order to recover lost revenues through the CIP, the Company must
14 demonstrate that a decrease in revenues recoverable through the CIP is offset by savings
15 in costs incurred by ETG to purchase gas, including the fixed charges paid for firm
16 transportation and storage services. To obtain these savings, the Company's portfolio of
17 transportation and storage services will be modified to reflect reduced customer demand.
18 This reduction leads to a loss of value of the Company's portfolio for asset management
19 purposes. [REDACTED]

20 [REDACTED] The loss of value is reflected in the proposed fixed fee under the AMA.

21 **Q. What changes were made to the margin sharing terms under the proposed AMA as**
22 **compared to the current AMA?**

■ A.

[REDACTED]

Q. Does Elizabethtown believe that SJRG has proven to be a reliable gas supplier and capable asset manager?

A. Yes. SJRG has proven to be a reliable supplier of gas service since assuming responsibility for Elizabethtown's portfolio on July 1, 2018. SJRG has also been a very capable asset manager, generating margins credits of \$22.0 million for the benefit of Elizabethtown's BGSS-P customers as shown on Schedule LJW-4.

Q. Does Elizabethtown actively monitor SJRG's performance as an asset manager?

A. Yes, in several ways. Elizabethtown utilizes the services of an independent third party expert, Concentric Energy Advisors, Inc. ("Concentric"), to prepare an annual analysis of the expected asset optimization margin that could have been extracted from Elizabethtown's portfolio for each contract year under the AMA. When Concentric prepares that analysis, it does not know SJRG's actual results. Elizabethtown proposes to continue to prepare and provide this report to the Board, its Staff and Rate Counsel during the term of the AMA and will supply the report for the years ending March 31, 2020 and 2021 when it becomes available.

In addition, South Jersey Industries, Inc. ("SJI"), ETG's parent company, annually performs an audit of SJRG, at SJI's cost, that determines (i) whether margins obtained by SJRG are properly credited to Elizabethtown's BGSS-P customers, and (ii) whether SJRG treats Elizabethtown in an appropriately non-discriminatory manner in comparison to other

1 SJRG asset management agreements. These audits have consistently confirmed that
2 SJRG's management of Elizabethtown's assets has been reasonably appropriate.
3 Elizabethtown proposes to continue to supply these annual audits during the term of the
4 proposed AMA.

5 **Q. Has SJRG been transparent in its administration of ETG's assets?**

6 **A.** Yes. SJRG consistently has been an open and transparent asset manager and has agreed
7 both in the past and in the proposed AMA to significant reporting requirements and to
8 make its "books" of Elizabethtown's transactions available to Elizabethtown and to
9 representatives of BPU Staff and Rate Counsel. It is highly unlikely that a non-affiliated
10 asset manager would provide the same level of access to its books and records as SJRG.
11 The transparency of SJRG's asset management activities and results, coupled with its
12 demonstrated ability to both reliably supply gas to ETG and obtain significant cost
13 reduction benefits for Elizabethtown's BGSS customers through SJRG's asset
14 management activities provides a compelling basis for the Board to approve the proposed
15 AMA between Elizabethtown and SJRG.

16 **Q. What does ETG have to do to re-establish an in-house gas supply department?**

17 **A.** Elizabethtown has not had an in-house gas supply and asset management function for more
18 than 25 years and has successfully relied on third parties to perform the gas supply function
19 since that time. To re-establish an in-house gas supply function, Elizabethtown would need
20 to seek out and hire experienced gas supply/asset management traders and other support
21 personnel. Consistent with industry best practices, the Company would implement a three-
22 office model consisting of a front office staffed with at least two traders that would develop
23 and execute the gas supply and asset management and optimization strategies, a middle

1 office staffed with at least two schedulers and one contract administrator to confirm and
2 monitor the risk of all deals and contracts, and a back office staffed with at least one gas
3 accountant and one billing analyst that would be responsible for invoicing, accounting for
4 and reporting financial results.

5 The newly formed gas supply function would require a minimum increase of at
6 least the seven positions, each of these functions requiring office space, experienced
7 personnel and sophisticated information and trading systems. Elizabethtown currently
8 possesses none of these resources, and in addition to incurring incremental fixed costs,
9 Elizabethtown would face a significant administrative challenge to attract and retain the
10 personnel needed to staff a gas supply department. In addition, there will be significant
11 costs associated with licensing fees for necessary trading and information systems,
12 computer equipment and software, printers and office space and associated fit-up as the
13 Company's Green Lane headquarters is currently at maximum capacity.

14 **Q. Would Elizabethtown need to increase its rates to recover the costs of administering**
15 **a gas supply/asset management function?**

16 **A.** All other things being equal, yes. There is currently no allowance for the costs of these
17 functions in Elizabethtown's base or BGSS rates. As discussed by Company witness David
18 Robbins, Jr., given the Company's investment priorities, Elizabethtown does not believe
19 that it is in its customers' best interests to increase rates to recover the costs of a gas
20 supply/asset management function when more favorable alternatives exist.

21 **Q. You noted that the Company would face a significant administrative challenge to**
22 **attract and retain the staff needed to administer a gas supply and asset management**
23 **function. Why do you believe that this is the case?**

1 **A.** Elizabethtown is a medium-sized gas distribution utility that serves approximately 300,000
2 customers. However, for a utility of its size, Elizabethtown has a complex and
3 geographically far-reaching portfolio of pipeline transportation and storage contracts.
4 Thus the professionals that would be hired to administer Elizabethtown's portfolio would
5 gain experience managing assets of the type that are held by larger suppliers. As our
6 personnel gain experience with our portfolio they are likely to be in demand from other
7 utilities, marketers and suppliers with similarly complex portfolios but with larger
8 contracts. Given the opportunities in larger organizations it may be very difficult for
9 Elizabethtown to retain talented traders and analysts.

10 **Q.** **Does this conclude your testimony?**

11 **A.** Yes, it does.

PRELIMINARY PUBLIC COPY

VERIFICATION

I, Leonard J. Willey, of full age, being duly sworn according to law upon my oath, depose and say:

1. I am Manager of Gas Supply of Elizabethtown Gas Company and am authorized to make this verification on behalf of the Company.

2. I have reviewed the foregoing Testimony and the information contained therein is true according to the best of my knowledge, information and belief.

Leonard J. Willey

Sworn to and subscribed
before me this 2ND day
of April 2021

Jane James

Jane James
Notary Public
My Commission Expires Dec. 20, 2021



[Redacted]

****The confidential version of this schedule will be provided after the execution of a Non-Disclosure Agreement**

[Redacted]

****The confidential version of this schedule will be provided after the execution of a Non-Disclosure Agreement**

[Redacted]

****The confidential version of this schedule will be provided after the execution of a Non-Disclosure Agreement**

[Redacted]

****The confidential version of this schedule will be provided after the execution of a Non-Disclosure Agreement**

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

IN THE MATTER OF THE PETITION : BPU DOCKET NO. _____
OF ELIZABETHTOWN GAS COMPANY :
FOR APPROVAL OF AN ASSET : AGREEMENT OF NON-
MANAGEMENT AGREEMENT WITH : DISCLOSURE OF INFORMATION
SOUTH JERSEY RESOURCES GROUP : CLAIMED TO BE CONFIDENTIAL
:
:

It is hereby AGREED, as of the ____ day of _____ 2021, by and among Elizabethtown Gas Company (“Elizabethtown” or “Petitioner”), the Staff of the New Jersey Board of Public Utilities (“Board Staff”) and Division of Rate Counsel (“Rate Counsel”) (collectively, the “Parties”), who have agreed to execute this Agreement of Non-Disclosure of Information Claimed to be Confidential (“Agreement”) and to be bound thereby, that:

WHEREAS, in connection with the above-captioned proceeding before the Board of Public Utilities (the “Board”), Petitioner and/or another party (“Producing Party”) may be requested or required to provide petitions, pre-filed testimony, other documents, analyses and/or other data or information regarding the subject matter of this proceeding that the Producing Party may claim constitutes or contains confidential, proprietary or trade secret information, or which otherwise may be claimed by the Producing Party to be of a market-sensitive, competitive, confidential or proprietary nature (hereinafter sometimes referred to as “Confidential Information” or “Information Claimed to be Confidential”); and

WHEREAS, the Parties wish to enter into this Agreement to facilitate the exchange of information while recognizing that, under Board regulations at N.J.A.C. 14:1-12.1 et seq., a request for confidential treatment shall be submitted to the Custodian who is to rule on requests made pursuant to the Open Public Records Act (“OPRA”), N.J.S.A. 47:1A-1 et seq., unless such information is to be kept confidential pursuant to court or administrative order (including, but not

limited to, an Order by an Administrative Law Judge sealing the record or a portion thereof pursuant to N.J.A.C. 1:1-14.1, and the parties acknowledge that an Order by an Administrative Law Judge to seal the record is subject to modification by the Board), and also recognizing that a request may be made to designate any such purportedly confidential information as public through the course of this administrative proceeding; and

WHEREAS, the Parties acknowledge that unfiled discovery materials are not subject to public access under OPRA; and

WHEREAS, the Parties acknowledge that, despite each Party's best efforts to conduct a thorough pre-production review of all documents and electronically stored information ("ESI"), some work product material and/or privileged material ("Protected Material") may be inadvertently disclosed to another Party during the course of this proceeding; and

WHEREAS, the undersigned Parties desire to establish a mechanism to avoid waiver of privilege or any other applicable protective evidentiary doctrine as a result of the inadvertent disclosure of Protected Material;

NOW, THEREFORE, the Parties hereto, intending to be legally bound thereby, DO HEREBY AGREE as follows:

1. The inadvertent disclosure of any document or ESI which is subject to a legitimate claim that the document or ESI should have been withheld from disclosure as Protected Material shall not waive any privilege or other applicable protective doctrine for that document or ESI or for the subject matter of the inadvertently disclosed document or ESI if the Producing Party, upon becoming aware of the disclosure, promptly requests its return and takes reasonable precautions to avoid such inadvertent disclosure.

2. Except in the event that the receiving party or parties disputes the claim, any documents or ESI which the Producing Party deems to contain inadvertently disclosed Protected Material shall be, upon written request, promptly returned to the Producing Party or destroyed at the Producing Party's option. This includes all copies, electronic or otherwise, of any such documents or ESI. In the event that the Producing Party requests destruction, the receiving party shall provide written confirmation of compliance within thirty (30) days of such written request. In the event that the receiving party disputes the Producing Party's claim as to the protected nature of the inadvertently disclosed material, a single set of copies may be sequestered and retained by and under the control of the receiving party until such time as the Producing Party has received final determination of the issue by the Board of Public Utilities or an Administrative Law Judge, provided that the Board has not modified or rejected an order by the Administrative Law Judge.

3. Any such Protected Material inadvertently disclosed by the Producing Party to the receiving party pursuant to this Agreement shall be and remain the property of the Producing Party.

4. Any Information Claimed to be Confidential that the Producing Party produces to any of the other Parties in connection with the above-captioned proceeding and pursuant to the terms of this Agreement shall be specifically identified and marked by the Producing Party as Confidential Information when provided hereunder. If only portions of a document are claimed to be confidential, the producing party shall specifically identify which portions of that document are claimed to be confidential. Additionally, any such Information Claimed to be Confidential shall be provided in the form and manner prescribed by the Board's regulations at N.J.A.C. 14:1-12.1 et seq., unless such information is to be kept confidential

pursuant to court or administrative order. However, nothing in this Agreement shall require the Producing Party to file a request with the Board's Custodian of Records for a confidentiality determination under N.J.A.C. 14:1-12.1 et seq. with respect to any Information Claimed to be Confidential that is provided in discovery and not filed with the Board.

5. With respect to documents identified and marked as Confidential Information, if the Producing Party's intention is that not all of the information contained therein should be given protected status, the Producing Party shall indicate which portions of such documents contain the Confidential Information in accordance with the Board's regulations at N.J.A.C. 14:1-12.2 and 12.3. Additionally, the Producing Party shall provide to all signatories of this Agreement full and complete copies of both the proposed public version and the proposed confidential version of any information for which confidential status is sought.

6. With respect to all Information Claimed to be Confidential, it is further agreed that:

(a) Access to the documents designated as Confidential Information, and to the information contained therein, shall be limited to the Party signatories to this Agreement and their identified attorneys, employees, and consultants whose examination of the Information Claimed to be Confidential is required for the conduct of this particular proceeding.

(b) Recipients of Confidential Information shall not disclose the contents of the documents produced pursuant to this Agreement to any person(s) other than their identified employees and any identified experts and consultants whom they may retain in connection with this proceeding, irrespective of whether any such expert is retained specially and is not expected to testify, or is called to testify in this proceeding. All consultants or experts of any Party to this Agreement who are to receive copies of documents produced pursuant to this

Agreement shall have previously executed a copy of the Acknowledgement of Agreement attached hereto as "Attachment 1," which executed Acknowledgement of Agreement shall be forthwith provided to counsel for the Producing Party, with copies to counsel for Board Staff and the Rate Counsel.

(c) No other disclosure of Information Claimed to be Confidential shall be made to any person or entity except with the express written consent of the Producing Party or their counsel, or upon further determination by the Custodian, or order of the Board, the Government Records Council or of any court of competent jurisdiction that may review these matters.

7. The undersigned Parties have executed this Agreement for the exchange of Information Claimed to be Confidential only to the extent that it does not contradict or in any way restrict any applicable Agency Custodian, the Government Records Council, an Administrative Law Judge of the State of New Jersey, the Board, or any court of competent jurisdiction from conducting appropriate analysis and making a determination as to the confidential nature of said information, where a request is made pursuant to OPRA, N.J.S.A. 47:1A-1 et seq. Absent a determination by any applicable Custodian, Government Records Council, an Administrative Law Judge, the Board, or any court of competent jurisdiction that a document(s) is to be made public, the treatment of the documents exchanged during the course of this proceeding and any subsequent appeals is to be governed by the terms of this Agreement.

8. In the absence of a decision by the Custodian, Government Records Council, an Administrative Law Judge, or any court of competent jurisdiction, the acceptance by the undersigned Parties of information which the Producing Party has identified and marked as Confidential Information shall not serve to create a presumption that the material is in fact entitled to any special status in these or any other proceedings. Likewise, the affidavit(s) submitted

pursuant to N.J.A.C. 14:1-12.8 shall not alone be presumed to constitute adequate proof that the Producing Party is entitled to a protective order for any of the information provided hereunder.

9. In the event that any Party seeks to use the Information Claimed to be Confidential in the course of any hearings or as part of the record of this proceeding, the Parties shall seek a determination by the trier of fact as to whether the portion of the record containing the Information Claimed to be Confidential should be placed under seal. Furthermore, if any Party wishes to challenge the Producing Party's designation of the material as Confidential Information, such Party shall provide reasonable notice to all other Parties of such challenge and the Producing Party may make a motion seeking a protective order. In the event of such challenge to the designation of material as Confidential Information, the Producing Party, as the provider of the Information Claimed to be Confidential, shall have the burden of proving that the material is entitled to protected status. However, all Parties shall continue to treat the material as Confidential Information in accordance with the terms of this Agreement, pending resolution of the dispute as to its status by the trier of fact.

10. Confidential Information that is placed on the record of this proceeding under seal pursuant to a protective order issued by the Board, an Administrative Law Judge, provided that the Board has not modified or rejected an order by the Administrative Law Judge, or any court of competent jurisdiction shall remain with the Board under seal after the conclusion of this proceeding. If such Confidential Information is provided to appellate courts for the purposes of an appeal(s) from this proceeding, such information shall be provided, and shall continue to remain, under seal.

11. This Agreement shall not:

(a) Operate as an admission for any purpose that any documents or information produced pursuant to this Agreement are admissible or inadmissible in any proceeding;

(b) Prejudice in any way the right of the Parties, at any time, on notice given in accordance with the rules of the Board, to seek appropriate relief in the exercise of discretion by the Board for violations of any provision of this Agreement.

12. Within forty five (45) days of the final Board Order resolving the above-referenced proceeding, all documents, materials and other information designated as “Confidential Information,” regardless of format, shall be destroyed or returned to counsel for the Producing Party. In the event that such Board Order is appealed, the documents and materials designated as “Confidential Information” shall be returned to counsel for the Producing Party or destroyed within forty-five (45) days of the conclusion of the appeal.

Notwithstanding the above return requirement, Board Staff and Rate Counsel may maintain in their files copies of all pleadings, briefs, transcripts, discovery and other documents, materials and information designated as “Confidential Information,” regardless of format, exchanged or otherwise produced during these proceedings, provided that all such information and/or materials that contain Information Claimed to be Confidential shall remain subject to the terms of this Agreement. The Producing Party may request consultants who received Confidential Information who have not returned such material to counsel for the Producing Party as required above to certify in writing to counsel for the Producing Party that the terms of this Agreement have been met upon resolution of the proceeding.

13. The execution of this Agreement shall not prejudice the rights of any Party to seek relief from discovery under any applicable law providing relief from discovery.

14. The Parties agree that one original of this Agreement shall be created for each of the signatory parties for the convenience of all. The signature pages of each original shall be executed by the recipient and transmitted to counsel of record for the Petitioner, who shall send a copy of the fully executed document to all counsel of record. The multiple signature pages shall be regarded as, and given the same effect as, a single page executed by all Parties.

IN WITNESS THEREOF, the undersigned Parties do HEREBY AGREE to the form and execution of this Agreement.

ELIZABETHTOWN GAS COMPANY

By: _____
Deborah M. Franco
VP, Clean Energy and Sustainability

GURBIR S. GREWAL
ATTORNEY GENERAL OF THE
STATE OF NEW JERSEY
Attorney for the Staff of the
New Jersey Board of Public Utilities

By: _____
Deputy Attorney General

STEFANIE BRAND, ESQ.
DIRECTOR
NEW JERSEY
DIVISION OF RATE COUNSEL

By: _____
Assistant Deputy Rate Counsel

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

**IN THE MATTER OF THE PETITION :
OF ELIZABETHTOWN GAS COMPANY : BPU DOCKET NO. _____
FOR APPROVAL OF AN ASSET :
MANAGEMENT AGREEMENT WITH : AGREEMENT OF NON-
SOUTH JERSEY RESOURCES GROUP : DISCLOSURE OF INFORMATION
: CLAIMED TO BE CONFIDENTIAL
:**

ACKNOWLEDGMENT OF AGREEMENT

The undersigned is an attorney, employee, consultant and/or expert witness for the Division of Rate Counsel or an intervenor who has received, or is expected to receive, Confidential Information provided by South Jersey or by another party ("Producing Party") which has been identified and marked by the Producing Party as "Confidential Information." The undersigned acknowledges receipt of the Agreement of Non-Disclosure of Information Claimed to be Confidential and agrees to be bound by the terms of the Agreement.

Dated:

By: _____

(Name, Title and Affiliation)

Company Name: