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May 13, 2021

VIA ELECTRONIC MAIL

Aida Camacho-Welch
Secretary of the Board
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Trenton, NJ 08625

**Re: In the Matter of Natural Gas Commodity and Delivery Capacities In the State of
New Jersey – Investigation of the Current and Mid-Term Future Supply and
Demand
BPU Docket No. GO19070846**

Dear Secretary Camacho-Welch:

In accordance with the New Jersey Board of Public Utilities April 20, 2021 notice issued in this proceeding, enclosed for filing are the Comments of South Jersey Gas Company and Elizabethtown Gas Company (the “Companies”).

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

Thank you for your attention to this matter.

Respectfully submitted,

Deborah M. Franco

Deborah M. Franco

DMF/caj
Enclosures

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

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:
In the Matter of Natural Gas :
Commodity and Delivery Capacities : **BPU Docket No. GO19070846**
In the State of New Jersey - :
Investigation of the Current and :
Mid-Term Future Supply and Demand :
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**COMMENTS OF SOUTH JERSEY GAS COMPANY
AND ELIZABETHTOWN GAS COMPANY**

Introduction

South Jersey Gas Company (“SJG”) and Elizabethtown Gas Company (“ETG”) (collectively, the “Companies”) submit these comments in compliance with the New Jersey Board of Public Utilities (“Board”) April 20, 2021 notice (“April 20 Notice”) issued in this proceeding. SJG and ETG appreciate the opportunity to submit these comments to supplement the verbal testimony provided on behalf of the Companies at the April 29, 2021 stakeholder meeting (“April 29 Public Hearing”) and respond in greater detail to the design day and related questions set forth in the Notice.

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

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Background

By Order dated February 27, 2019, the Board directed its Staff to initiate this stakeholder process to explore the important issues of whether there is sufficient upstream pipeline capacity secured to meet New Jersey customer needs and whether and to what extent third party suppliers are saving customers money for their natural gas supply. During its December 20, 2019 agenda meeting, the Board directed Staff to take the necessary steps to hire a consultant to independently examine the current and future natural gas capacity outlook for New Jersey. During its May 20, 2020 agenda meeting, the Board approved an RFQ for the independent consultant. With the April 20 Notice, the Board sought stakeholder feedback to guide the next phase of the investigation, asking the parties to address certain issues related to design day and non-pipeline alternatives by providing answers to certain questions set forth below.

The Companies welcome the opportunity to provide input on the issues raised by the BPU in the April 20 Notice. SJG and ETG serve as lifeline utility providers who are responsible for acquiring gas supply for more than 700,000 residential and business customers. Our customers rely on us to provide them with safe, reliable, affordable, and clean natural gas service to heat their homes and businesses and to support their critical operations, particularly on peak winter days. In our role as a statutory provider of last resort, we take seriously our responsibility to ensure the adequacy of gas supplies and associated pipeline capacity to serve our customers. The Companies acknowledge the importance of New Jersey's Energy Master Plan development efforts, the

mandates contained in the Clean Energy Act of 2018¹ and the State's related environmental goals, including reducing carbon emissions, promoting energy efficiency and enhancing the deployment of clean energy technologies.

SJG and ETG are committed to the State's objectives. Most recently, South Jersey Industries ("SJI"), the parent of SJG and ETG, announced a comprehensive clean energy plan, including the establishment of benchmarks to achieve a 70% carbon reduction of operational emissions and consumption by the year 2030 and 100% reduction by 2040. Moving forward, SJI is committing at least 25% of annual capital expenditures on sustainability projects. As an organization, we are committed to investing in new technologies that will safely, reliably and affordably deliver low carbon energy to the more than 700,000 families and businesses that we serve across our State. As New Jersey focuses on the most cost-effective means to achieve its clean energy goals, the continued availability of natural gas represents the safe, reliable, affordable, and clean solution for our customers and the State's energy strategy.

Critical here is the need to ensure the adequacy of New Jersey's natural gas supplies. Continued access to abundant and economic natural gas is vitally important to achieving the State's economic and environmental goals. As the Companies have indicated previously in this proceeding, while there currently is sufficient available capacity to meet SJG's and ETG's design peak day needs and that while both companies anticipate meeting forecasted demand in the next five years, this assumes that market conditions for both capacity and demand will remain consistent with today's environment. That said, the availability of pipeline capacity to meet peaking requirements has started to decline and the cost of available capacity has not only increased, but shifted to a more costly price index. Therefore, with shrinking availability of pipeline capacity,

¹ N.J.S.A. 48:3-51-87.

rising pricing of peaking supplies and the increased time it takes to get new capacity approved and built, it is critical that new, incremental pipeline capacity projects targeting New Jersey growth are supported and encouraged to ensure that we continue to meet forecasted demand in a manner that allows us to provide safe and reliable service to our customers without interruption.

Discussion

The April 20 Notice requested that stakeholder comments respond to the following questions set forth in turn below regarding Design Day and Non-Pipeline Alternatives.

1. Design Day Questions

a. Should New Jersey be moving towards common design day reliability criteria?

No. The Companies respectfully urge the Board not to adopt common criteria for defining a design day. Currently, New Jersey gas distribution companies (“GDCs”) plan for design day firm demand by contracting for firm transmission capacity on interstate pipelines, as well as using other off-system and on-system peaking resources. A design day is defined as a 24-hour period of demand which is used as a basis for planning gas capacity requirements. It is based on historic peak days, with extremely cold weather, when usage of natural gas for building heating is high.

While all the New Jersey gas distribution companies calculate design day somewhat differently, the focus for all GDCs is to make sure that they meet customer demand with the understanding that *reliability* is the key underpinning to the analysis. It is this need for reliability that necessitates allowing the GDCs to utilize different design day reliability criteria. There are differences between each GDC – including between ETG and SJG -- in terms of their respective portfolio of assets and capacities owned and under contract to serve design day requirements, geographic locations and mix of customers. A one-size fits all approach that disregards these differences would translate into disproportionate and compromised reliability across the GDCs.

b. Are there reasons for allowing different GDCs to utilize different design day reliability criteria?

Please see the response to part a. above.

c. How does the selection of higher or lower design day reliability criteria affect the issue of whether, in your view, there are sufficient gas resources into New Jersey to maintain system reliability?

GDCs in New Jersey use somewhat different design day criteria because each utility has unique requirements to ensure sufficient gas resources for maintaining system reliability. Thus, the selection of higher or lower design day reliability criteria will depend on the resources needed to meet an individual utility's demand. As the April 20 Notice correctly notes, unlike electric power utilities, gas utilities cannot conduct rolling blackouts or brownouts if supplies are short or demand surges. If the gas system cannot meet demand, there is a risk of a flame-out, which can be dangerous and would require re-lighting every affected customer's pilot light individually by utility personnel, which could take three or more days. SJG and ETG have carefully developed their design day criteria based on years of planning and consideration of what it takes to guard against this risk. It is critical that the Companies and all New Jersey GDCs continue to have the discretion to select design day reliability criteria tailored to their individual system needs to ensure ongoing system integrity and reliability.

d. Please discuss the costs and the benefits associated with using a 1-in-90 year design basis day versus a 1-in-30 year design basis day, with a focus on impacts to system reliability, customer affordability, and any other tradeoffs.

SJG uses a design day with a 1-in-30 year chance of such weather occurring (*i.e.*, a 3% chance in a given year), or 63 heating degree days (daily average temperature of 2°F) to calculate their design day firm demand. While the April 20 Notice identified ETG's design day criteria as a 1-in-30 year basis, ETG uses a daily average temperature of 0°F as its design temperature criteria and includes a secondary temperature criterion for the prior day's daily average temperature of

13°F which, if compared to historical observations, equates to a 1-in-40 chance of occurring (*i.e.*, a 2.5% chance in a given year).

Having said all this, once again, the design day criteria applied should address the needs of the individual utility's system. Thus, the question should not be whether a 1-in-90 year basis, 1-in-30 year basis or any other methodology is more appropriate. Rather the focus should be on the level of risk that is acceptable for the individual utility, which is why uniform design days are not appropriate. The utilities need ongoing flexibility to apply design day criteria that ensure that an individual GDC's portfolio has sufficient deliverability and/or supply redundancy to ensure safe, reliable supply should a major disruption occur on one or more interstate pipelines. Ensuring safe and reliable supply cannot be obtained through a simple, across-the-board cost benefit analysis.

2. Non-Pipe Alternatives

a. How have voluntary peak management demand programs been structured in other jurisdictions or related industries?

At this time, while the Companies have not performed an in depth study of the programs offered in other jurisdictions, SJG and ETG are committed to working with the BPU, Rate Counsel and other stakeholder to explore the implementation of appropriately designed non-pipeline alternatives to accommodate a growing demand for gas service and contribute to the achievement of New Jersey's environmental goals. While non-pipeline solutions can have valuable potential when well designed and supported by smart technology, they cannot and should not serve as a full substitute for pipeline capacity, as discussed further in part g. below.

Potential non-pipeline solutions would include, but may not necessarily be limited to energy efficiency, demand response programs, including the addition of smart thermostats and Advance Metering Infrastructure ("AMI") or "smart meters", and an expansion of current on-system peaking services through liquified natural gas (or LNG) projects. Because these solutions

have the potential to provide reliable alternatives to traditional gas capital projects, they must necessarily be treated like any other capital project, allowing for full and timely cost recovery, including the recovery of all related O&M and capital investments at the utility's authorized rate of return.

b. Consider a program in which smart thermostats controlled directly by the GDC during potential supply disruption were provided to all firm heating customers at no cost to the customer, and the capital cost to the GDC could be included in rate base. Please describe the benefits and consequences of such a program.

Smart thermostats are key devices for utilities to facilitate demand response participation by their customers. AMI or "smart meters" are equally crucial for ensuring customer participation, as they further enhance the connections between individual gas appliances and utilities that make gas demand response possible.

Smart thermostats and AMI technology hold the potential to be an integral part of New Jersey's clean energy transition and to benefit customers seeking to better understand and control their own energy usage. Opportunities to deploy smart thermostats and AMI in New Jersey can offer many benefits and these benefits will complement SJG's and ETG's strong commitment to the continued delivery of safe, reliable, affordable and clean natural gas to their customers.

There is enormous potential for smart thermostats and AMI to facilitate carbon reductions, lower costs for customers, and enhance utility response to outages. Deploying smart technologies across our State can provide many benefits to GDCs and their customers in both the residential and commercial sector, including improved capacity planning and distribution management, reduced labor costs, more accurate billing, reduced lost and unaccounted for gas, increased energy efficiency and peak demand reduction, reduction in CO₂ emissions, real time monitoring of

potential abnormal operating conditions, improved leak detection, and enhanced customer experience.²

Guided by these considerable benefits, the Companies respectfully submit that all New Jersey utilities, including gas utilities, should be encouraged to invest in smart thermostats and AMI technology and should be provided with regulatory certainty with respect to cost recovery of such investments, which is consistent with the approach applied in other States. Many other jurisdictions have recognized the potential to deliver widespread benefits to GDCs and their customers by approving the deployment and cost recovery of smart thermostats and AMI technology on natural gas distribution systems. Recent examples of state commissions that have approved AMI deployment and cost recovery in the natural gas sector include New York, California and Maryland, where, like New Jersey, furthering the state's energy conservation goals are a top priority. Notably, in New York, the Public Service Commission ("PSC") has solidified certainty around cost recovery for AMI by approving these investments through the utility base rate case process where the PSC applies a forward-looking test year policy and is therefore, akin to approval of an Infrastructure Investment Program (IIP)-like mechanism for AMI investments. Following and building on the initiatives taken in other jurisdictions with respect to AMI for natural gas systems will continue to position New Jersey as an innovative leader in this field and will ensure that AMI meets its full promise in New Jersey.

² Incorporated by reference are the comments submitted by the Companies on December 7, 2021 in BPU Docket No. EO20110716 regarding AMI.

c. What would be the potential uptake and impact of a “time of use” (TOU) program? For example, if a TOU or other peak demand-management program was offered to customers based on smart thermostats, would an opt-out program have a bigger impact than an opt-in program? If so, what would be the magnitude? Would it be more effective to offer an option to customers to opt in or opt out based on a level of emergency (e.g., yellow, orange, or red) where there would be different price incentives based on the level of the emergency?

The Companies do not have sufficient information concerning TOU programs to respond to this inquiry but can explore the topic through dialogue with the stakeholders.

d. How would the impact of TOU pricing affect a firm heating customer’s monthly bill in the winter? What are the ways that this could be mitigated without dampening the incentive to conserve? For example, should peak prices be tied not to the wholesale price of natural gas, which can be extremely volatile, but rather be set as an adder to existing BGSS prices, with the adder tied to projected day-ahead sendout? Should such prices be capped?

Please see the response to part c.

e. What are the limits to the efficacy of peak demand reduction programs?

The ultimate success of a peak demand reduction program will largely be driven by regulatory support for smart technology coupled with customer education. We can expect optimal results when demand response is combined with “smart” devices like smart thermostats and AMI, which will not only help achieve better participation and peak usage savings, but offer a myriad of other benefits described above in part b. In addition, simple consumer awareness through effective messaging that provides insight into how demand response can be beneficial to them will help further drive positive results. The more consumers understand the issue, the more prone they are to participate in the solution.

f. What are the pros and cons of relying on government emergency orders to cope with a potential emergency (for example, orders shutting down businesses), rather than having peak demand programs in place?

A well designed gas demand response program that optimizes smart technologies can also be a useful tool to avoid emergency situations where customer usage is expected to exceed

available supply. Both customers and utilities alike will benefit from a properly structured, coordinated demand response program over the unpredictability and potential costly impacts of a government emergency shut-down.

g. Are there other measures the Board should consider to ensure the reliability of the natural gas system

While peak demand programs will certainly help strengthen reliability of the natural gas system, they will not be an entire substitute for capacity. It is still critical that new, incremental pipeline capacity projects targeting New Jersey growth are supported and encouraged to ensure that we continue to meet forecasted demand in a manner that allows us to provide safe and reliable service to our customers without interruption. As recent weather events and cyber issues in other states have informed, it is also critical to have adequate levels of redundancy, which beyond capacity, include a diverse mix of supply and local production including LNG and renewable natural gas (or RNG).

As we have stated, while ETG and SJG anticipate that – assuming no changes in current market conditions – they will be able to meet forecasted demand in the next five years, given the diminishing availability of pipeline capacity, the increasing price of bundled peaking supplies, and the time it takes to complete pipeline projects, it is critical for New Jersey to support and encourage the construction and operation of incremental pipeline capacity projects and the preservation of existing upstream capacity for the benefit of New Jersey customers. Again, the construction and operation of incremental pipeline capacity over the next five years will ensure that the Companies continue to meet forecasted demand in a safe and reliable manner without interruption.

The Companies appreciate the opportunity to provide these comments and look forward to working with all stakeholders in this proceeding to ensure the continued provision of safe, reliable, affordable, and clean natural gas service to our customers.

Respectfully submitted,

South Jersey Gas Company
Elizabethtown Gas Company

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