State of New Jersey
DIVISION OF RATE COUNSEL
140 EAST FRONT STREET, 4TH FL
P.O. BOX 003
TRENTON, NEW JERSEY 08625

PHIL MURPHY
Governor

SHEILA OLIVER
Lt. Governor

STEFANIE A. BRAND
Director

July 6, 2021

Via Electronic Mail
Honorable Aida Camacho-Welch, Secretary
NJ Board of Public Utilities
44 South Clinton Avenue, 9th Flr.
P.O. Box 350
Trenton, NJ 08625-0350

**Re: In the Matter of the Petition of South Jersey Gas Company for Authorization to Construct and Operate Transmission Pipeline Pursuant to N.J.A.C. 14:7-1.4 Vineland LNG Pipeline
BPU Docket No. GE19121539**

Dear Secretary Camacho-Welch:

Please accept for filing the attached comments being submitted on behalf of the New Jersey Division of Rate Counsel ("Rate Counsel") in connection with the above-referenced matter. These comments are being submitted electronically in accordance with the Board's Notice for this matter. Copies of Rate Counsel's comments are being provided to all parties on the service list by electronic mail only.

Please acknowledge receipt of these comments.

BACKGROUND

South Jersey Gas Company ("SJG", "Company") has petitioned the Board of Public Utilities ("Board") for authority pursuant to N.J.A.C. 14:7-1.4 to initiate construction of a new pipeline project necessary to ensure adequate gas delivery pressure in the event one or both of the two interstate pipelines supplying the area were to be compromised. Per the Company's analysis, an incident like this combined with a peak load day(s) could cause severe system wide outages to South Jersey's gas distribution.

Rate Counsel hired a consultant to perform gas engineering, operations & technical review in this matter to review the proposed pipeline reliability project for reasonableness and adherence to pertinent natural gas industry federal, state, local regulations and engineering and operations standards and best practices. Our consultant reviewed publicly available documentation, the Company-sponsored Jacobs Gas System Redundancy Study and submitted information requests to the Company.

The proposed Project will consist of a new, approximately 8.7-mile natural gas transmission pipeline that will include 7.1 miles of 16-inch diameter pipeline and 1.6 miles of 8-inch diameter pipeline. The 16-inch 7.1 mile portion of the project will commence in the area of the Union Road regulator station where it will tie into the SJG system and end at the new SJG liquefied natural gas ("LNG") facility on South Mill Road. The 8-inch 1.6 mile portion of this project will connect the Company's existing WAG transmission line to the new SJG LNG facility. This project is expected to cost $48.1 million. The proposed Project will connect a yet to be built LNG facility to be located in Vineland, New Jersey ("Vineland LNG Facility") to the Company's existing system. The Company states that this redundancy will give the company an option to deal with major outages in the event of an out-of-system incident.

South Jersey gas has greatly improved the reliability of their system. Over the past 10 years, the Company has managed to reduce the annual leaks experienced and repaired by approximately 88%. This, coupled with the replacement of all cast iron pipe, and nearly all bare steel pipe, has left the Company with a modern system with few issues and the vast majority of pipe being relatively new. This is particularly true of the system relative to its geographic peers – as many northeastern U.S. utilities operate some of the oldest distribution systems containing the most leak-prone pipe. In contrast, SJG only has 0.6% of its system comprised of leak prone pipe, and that will be reduced to 0% this year according to recent filings.

The Company states that since it is the sole provider of gas to over 390,000 customers and due to past incidents, such as an outage experienced by Spectra Energy Texas Eastern Pipeline system ("Spectra") that resulted in a force majeure event lasting 20 days, the Company is working to make its system even more resilient to off-system failures. To achieve this goal, SJG contracted Jacobs Consulting ("Jacobs") to investigate different ways to combat out-of-system events that are out of the Company's control. Jacobs determined that an in-system LNG facility would be the best option due to the economics and impact it would have.

Currently the South Jersey Gas System is supported by two interstate pipelines (TRANSCO and Columbia) connecting to the system via 4 gate stations. Three of these connections are TRANSCO and one is Columbia. Having an LNG facility would provide a new source of gas supply and storage that is located in the center of the SJG system and is dispatchable by SJG. Our consultant concurs with the Company and Jacobs that this proposed pipeline and associated LNG facility would reduce reliance on interstate pipelines. Also, having multiple LNG storage tanks allows the company to buy gas when it is at a low price, store it in its LNG facilities and then vaporize and inject the LNG gas into its natural gas distribution system to serve its customers during high-demand periods thus improving the reliability of the system.

The Company anticipates that the LNG Facility and its associated pipeline will be able to provide a redundant gas supply of 100,000 Dth/d for 20 days. The facility is located at the hydraulic center of the Company's distribution system and, as such, is designed to benefit approximately all of SJG's customers, except for a small number located in isolated parts of SJG's system. As of May 22, 2020, SJG's customer count is 400,942 – all but 252 customers should be supported by this addition according to the Company's estimates.

COMMENTS

The Company appears to be taking a precautionary approach to system risks by applying the logic that where a risk is identified, even if remote, it should be eliminated as much as possible. This approach may be technically correct in that spending on redundancy will always diminish the risk of loss of service. However, there are diminishing returns as the system is hardened against weather events, leaks, outages, incidents, and other threats. At some point, the additional cost to the ratepayers is difficult to justify and/or continued spending will need to be reduced.

Rate Counsel's consultant's assessment focuses on the technical feasibility and reasonableness of the proposed pipeline. From that perspective, the proposed Vineland LNG facility and pipeline while not necessary for daily reliability of SJG's distribution system, may improve system *resilience* against supply pipeline outage events. The number of events that the system cannot withstand is much fewer than before SJG's system improvements and to reach the number of outages referenced in the petition, the system would have to experience loss from multiple critical supply sources simultaneously or have massive failure upstream on an interstate transmission line. The Jacobs Study provided by the Company is heavily dependent on such uncommon events occurring as the Spectra event referenced above if it occurred during a peak usage period or a situation where the TRANSCO supply line was entirely out of service. While the Jacobs analysis cited a number of significant events per year occurring on interstate pipelines, it did not indicate whether, or how often, events of this magnitude have occurred.

As this highly improbable type of catastrophic event(s) appears unlikely to occur, the use of this potentiality as justification for the project appears tenuous.

The Company plans for construction to begin in January 2024 and project completion by March 2025, making the pipeline in-service date by the third quarter 2025. The proposed LNG plant is expected to be in service by the 2nd quarter of 2026. If the plant is never built or if there are any delays with the construction of the SJG LNG plant, this would render this proposed pipeline unusable indefinitely or for an even longer period than the planned 6-9 months, either of which would be an imprudent use of ratepayer funds.

From the analysis of our consultants, it appears that the LNG plant and associated pipeline are difficult to justify given the exceptionally unlikely conditions that would require it to be in service. As the justification for this project is based on what appears to be extremely unlikely events, the Division of Rate Counsel cannot support the use of ratepayer funds for construction of the project at this time. The Board should require a greater showing of the probability of these events occurring before allowing construction to proceed. If construction proceeds without such a showing, Rate Counsel reserves its rights to raise arguments regarding the prudency of the project at a later date.

Respectfully submitted,

Stefanie A. Brand, Esq.
Director, Division of Rate Counsel

By: /s/ Henry M. Ogden
Henry M. Ogden, Esq.
Assistant Deputy Rate Counsel

HMO
cc: Service List

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Aida Camacho-Welch, Secretary
NJ Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, NJ 08625-0350

Stefanie A. Brand, Director
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625

Brian O. Lipman, Litigation Manager
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625

Henry M. Ogden, Esq.
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625

Shelly Massey, Paralegal
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625

James Guiliano, Director
NJ Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, NJ 08625-0350

Joseph Costa
NJ Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, NJ 08625-0350

Paul Flanagan, Director
NJ Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, NJ 08625-0350

Juan Urena
NJ Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, NJ 08625-0350

Stacey Peterson, Director
NJ Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, NJ 08625-0350

Thomas Walker
NJ Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, NJ 08625-0350

Pamela Owen, DAG
Division of Law
Public Utilities Section
R.J. Hughes Justice Complex
25 Market Street, P.O. Box 112
Trenton, NJ 08625

Heather Weisband
NJ Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, NJ 08625-0350

Meliha Arnautovic, DAG
Dept. of Law & Public Safety
Division of Law
Public Utilities Section
25 Market Street, P.O. Box 112
Trenton, NJ 08625

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

Deborah M. Franco, Esq.
VP, Rates, Regulatory and Sustainability
SJI Utilities, Inc.
520 Green Lane
Union, NJ 07083

Dominick DiRocco
VP, Rates & Regulatory Affairs
SJI Utilities, Inc.
One South Jersey Place
Atlantic City, NJ 08401

David E. Dismukes, Ph.D.
Acadian Consulting Group
5800 One Perkins Drive
Bldg. 5, Suite F
Baton Rouge, LA 70808

Brent Schomber
Vice President, Operations
SJI Utilities, Inc.
One South Jersey Place
Atlantic City, NJ 08401

Raymond Wenzel
Director, Engineering Service
SJI Utilities, Inc.
One South Jersey Place
Atlantic City, NJ 08401

David Molin
Acadian Consulting Group
5800 One Perkins Drive
Bldg. 5, Suite F
Baton Rouge, LA 70808

Rod Walker, Senior Consultant
Rod Walker Consultancy
rwalker@rwalkerconsultancy.com

Jeremy Walker, Project Analyst
Rod Walker Consultancy
jwalker@rwalkerconsultancy.com