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VIA ELECTRONIC DELIVERY

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

In The Matter of the New Jersey Board of Public Utilities' Response to the Covid-19 Pandemic
BPU Docket No. AO20060471

Dear Secretary Camacho-Welch:

In accordance with *N.J.A.C.* 1:1-12.1, Public Service Electric and Gas Company ("PSE&G"), South Jersey Gas Company ("SJG") and Elizabethtown Gas Company ("ETG") (collectively the "Companies") hereby submit this letter motion requesting that the New Jersey Board of Public Utilities (the "Board" or "BPU") amend its July 2, 2020 Order Authorizing Establishment of a Regulatory Asset for Incremental COVID-19 Related Expenses ("COVID Regulatory Asset Order"). The deferral period established by the COVID Regulatory Asset Order is set to expire on September 30, 2021. However, the current deferral period does not allow for proper consideration and inclusion of all incremental COVID related expenses in the regulatory asset. The Companies are therefore requesting an extension of the deferral period and an extension of the filing date for recovery of those incremental costs. The Companies respectfully request that the Board grant this motion as expeditiously as possible, and extend the regulatory asset period through the end of 2023, and the filing date for the COVID-19 recovery petition to a date within 60 days of the close of the extended regulatory asset period.

I. <u>Introduction</u>

The Board, in its COVID Regulatory Asset Order, acknowledges that "the regulated utilities' response to the COVID-19 pandemic, including but not limited to, complying with the Governor's COVID-19-related Executive Orders, could cause the State's regulated utilities to incur significant and extraordinary COVID-19-related expenditures that could have a negative financial impact on the State's regulated utilities." In order to minimize the financial impact of these significant extraordinary expenses, the Board authorized the creation of a regulatory asset to defer the incremental costs associated with COVID-19. At the outset of the pandemic, no one knew the impact COVID-19 would have on customers or the utilities. The Board, its Staff, Rate Counsel, and the utilities did not know how long the moratorium would continue. They also did not consider that the effects of COVID-19 and the associated moratorium would last well into the future, potentially well beyond the end of the moratorium on shut-offs of residential customers and any grace period. Even so, Commissioner Gordon during the approval of the COVID Regulatory Asset Order identified bad debt as a significant component of the incremental COVID-related costs and central to the Board's concerns.[1]

II. Incremental Costs Continue to Mount as Utility Shut-Off and Collection Activity Continues to be Stayed

As time has passed, a definitive correlation between the extension of the moratorium and increased bad debt and carrying costs has become apparent.[2] Unpaid accounts have grown substantially and customer arrearages have reached unparalleled levels. For PSE&G, as of the end of June 2021, overdue AR (all AR greater than 30 days) is $264M higher ($473M vs $209M) than it was for June 2019, the same time of year pre COVID—a 126% increase. PSE&G's customers with bills greater than 6 months old have nearly doubled from pre-pandemic levels (186K vs. 95K). For SJG, as of May 2021, overdue AR is $14.0M higher ($55.5M vs. $41.5M) than it was for May 2019, a 33.8% increase. SJG's customers with bills greater than 6 months old are significantly higher than pre-pandemic levels (23.5K vs 14.8K). For ETG, overdue AR as of May is $15.5M higher ($33.8M vs $18.3M) than May 2019 levels, an 85% increase. ETG customers with bills greater than 6 months old are also significantly higher than pre-pandemic levels (17.5K vs. 12.1K).

The further customers fall behind on their utility bills, the less likely that they will successfully pay down their arrears, and customer engagement to address arrearages has decreased significantly during the moratorium. In particular, LIHEAP payments received by PSE&G from January 2019 to May 2019, as compared to January 2021 to May 2021, have decreased by 24% (75,864 payments received vs. 55,864 payments received), while the size of AR has skyrocketed. Similarly, for these same periods, LIHEAP payments received by SJG have decreased by 20.3% (3,994 payments received vs. 3,183 payments received). For ETG, LIHEAP payments have decreased by 25% (4,839 payments received vs 3,640 payments received).

Customers are owing larger balances to the Companies for longer periods of time—balances that with each passing day become more and more difficult to pay. The older a receivable is the probability of it being paid off diminishes due to customers' inability to pay down large

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[1] Board Agenda Teleconference Transcript, July 2, 2020. at p. 5, line 20 - p. 6, line 3.

[2] The factual statements in this letter motion are supported by the affidavits of Jane Bergen on behalf of PSE&G and Deborah Franco on behalf of SJG and ETG.

amounts, as well as due to move in and move out activity. Some of these customers have moved and are no longer customers. Even those customers who have the capacity to pay all or some of their monthly bills are not motivated to engage with the Companies to address the issue of arrearages. Therefore, barring a massive debt forgiveness program (assuming customers engage and enroll in the program and then comply with the 12-month payment terms to earn forgiveness), the Companies will not be able to significantly reduce these outstanding balances until after the grace period on field shutoff activities has ended. In the meanwhile, as incremental bad debt continues to mount, so do the carrying costs on the Companies' incremental AR described above.

The moratorium not only negatively affects customer engagement regarding assistance programs, but it also severely hampers the Companies' ability to perform collection activity. On June 4, 2021, Governor Murphy signed legislation ending the COVID-19 state of emergency but extending the restrictions on utility shut-off until January 2022. Thereafter, on June 14, 2021, the Governor issued EO 246, ending the moratorium as of June 30, 2021, but imposing a "grace period" precluding utility collection activity or shut-offs through December 31, 2021—effectively extending the moratorium until after the winter termination period or March 2022. This means that most residential customers will not be subject to shutoff activity from November of 2019 to March of 2022, almost two and a half years. These extended restrictions will continue to discourage customers from addressing their utility arrearages and as a result, the Companies will experience even longer delays in their AR recovery and increased carrying costs associated with those delays.

While the Board's expansion/extension of USF/Fresh Start[3] program in the current matter should help, not all customers will be eligible. It is also unknown how many eligible customers will meet the payment terms to earn the arrearage forgiveness. The Companies will therefore not know the full extent of their write off exposure until the conclusion of the Fresh Start program in late 2023.

As PSE&G noted in its initial COVID-19 quarterly report of costs in this proceeding, an extended moratorium on field collection activity has caused long-term delays in addressing AR balances. This has resulted in customers accumulating larger arrearages and the overall quality of the aged AR continue to decline in terms of collectability, driving higher future write-offs. Since at any point in time, the Company's Reserve should be equal to the amount of AR currently on the books anticipated to be written off , the Reserve and bad debt expense will increase first, and the write off will lag as it will follow field collection activity.

To prudently address the large increase in both the number of accounts and the AR associated with those accounts due to the extended delays in collection activity, the Companies will need to hire both additional field collection and call center employees to effectively handle the increased work once collection activity can recommence. This expense will not begin until 2022 and is another incremental expense that will extend well beyond the September 30, 2021

[3] *See* Board Order, July 24, 2021.

close of the current COVID deferral period as the Companies estimate—based on the amount of arrearages currently, and as projected forward—it will take several years to bring the incremental arrearages down to pre-COVID-19 levels.

III. Conclusion

The Companies continues to provide safe, reliable service and to continue to provide its customers with reasonable accommodations during these challenging times. And while the Companies acknowledges the need to be flexible and provide expanded assistance, the effects of a continued stay of shut-off and collection activity necessitates an extended cost deferral period that is consistent with the end of the Fresh Start program as established by the Board's July 2021 Order to maintain the Companies' financial stability. Bad debt and carrying costs are projected to extend well beyond the current close of the regulatory asset period and to bar deferral of these significant expenses would be contrary to the stated purpose of the Regulatory Asset Order. In order to ensure the Companies can continue to serve customers as necessary, extension of the regulatory asset period to allow recovery of all COVID-related incremental costs, including incremental bad debt and carrying costs going forward, should be approved. Likewise, an extension of the filing date for the COVID-19 cost recovery petition should be granted as proposed, to a date within 60 days of the close of the extended regulatory asset period.

Consistent with the Order issued by the Board in connection with *In the Matter of the New Jersey Board of Public Utilities' Response to the COVID-19 Pandemic for a Temporary Waiver of Requirements for Certain Non-Essential Obligations*, BPU Docket No. EO20030254, Order dated March 19, 2020, this document is being filed electronically with the Secretary of the Board and Rate Counsel. No paper copies will follow.

Very truly yours,

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

Matthew M. Weissman

SOUTH JERSEY GAS/ELIZABETH TOWN GAS COMPANY

Deborah Franco

cc: Service List