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February 8, 2022

Via Electronic Mail
Aida Camacho-Welch, Secretary
NJ Board of Public Utilities
44 South Clinton Avenue, 1st Floor
P.O. Box 350
Trenton, NJ 08625-0350

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. GO20010033

Rate Counsel Comments in Response to January 6, 2022 Stakeholder Meeting Notice

Dear Secretary Camacho-Welch:

Please accept for filing these comments being submitted on behalf of the New Jersey Division of Rate Counsel ("Rate Counsel") in response to the Board of Public Utilities' ("Board') January 6, 2022 Notice of Stakeholder Meeting ("January 2022 Notice") in connection with the above-referenced matter. These written comments supplement the initial comments that Rate Counsel provided at the January 25, 2022 stakeholder meeting. In accordance with the Notice, these comments are being filed electronically with the Secretary of the Board at board.secretary@bpu.nj.gov. No paper copies will follow. Please acknowledge receipt of these comments. Thank you for your consideration and attention to this matter.

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INTRODUCTION

By way of background, this proceeding arose out of two earlier proceedings before the Board. In the Board's Docket No. GO17211241, the New Jersey Retail Energy Supply Association ("RESA") sought to re-examine the existing structure of the Basic Gas Supply Service ("BGSS") provided by the State's four gas distribution companies ("GDCs"), and to establish a mechanism for the GDCs to release capacity to the State's third party suppliers ("TPSs").[1] Although the Board determined that RESA had not demonstrated grounds for the requested relief, the Board found that the proceedings had raised concerns about whether there is sufficient gas capacity to meet the needs of New Jersey customers. The Board accordingly directed its Staff to initiate a stakeholder proceeding to explore gas supply issues including "whether sufficient capacity has been secured to serve all of New Jersey's firm natural gas customers …."[2]

On September 10, 2019, the Board initiated a stakeholder process in Docket No. GO19070846 by issuing a Notice convening a meeting of the State's GDCs, TPSs, Rate Counsel, and other interested parties, and seeking comments on issues related to the sufficiency of the capacity available to serve the customers served by both the GDCs and the TPSs.[3] During this proceeding, Rate Counsel and many other stakeholders participated in a meeting on October 1, 2019 and submitted detailed comments on the issues raised in the Notice.

[1] I/M/O the Verified Petition of the Retail Energy Supply Association to Reopen the Provision of Basic Gas Supply Service Pursuant to the Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et seq., and Establish Gas Capacity Procurement Programs, BPU Docket Number GO17211241 (Feb. 27, 2019) at 1.
[2] Id. at 5.
[3] I/M/O the Exploration of Gas Capacity and Related Issues, BPU Docket No. GO19070846, Notice (September 10, 2019). The Notice is available at: https://www.nj.gov/bpu/pdf/publicnotice/Notice%20-%20Gas%20Capacity%20Stakeholder%20Proceeding.pdf

On May 20, 2020, the Board issued an Order in Docket No. GO19070846 that authorized its Staff to issue a Request for Quotation ("RFQ") to solicit a consultant to assist Staff in its analysis of the capacity available to New Jersey customers. [4] The Board noted that stakeholder comments previously submitted in the docket included two reports, one prepared by Levitan and Associates ("LAI") on behalf of New Jersey Natural Gas Company ("NJNG") and other prepared by Greg Lander, President of Skipping Stone, LLC on behalf of the Environmental Defense Fund ("EDF") and the New Jersey Conservation Foundation ("NJCF"), which reached differing conclusions on the availability of capacity to meet the needs of New Jersey customers in the medium and long term. The consultant's work was to include an analysis of the physical natural gas infrastructure and market conditions through 2030, consider the use of energy conservation and demand response programs to manage peak period requirements, and review the LAI and Lander reports.[5] The May 2020 Order further stated that factors to consider in the analysis include, but are not limited, the following:

- Projections of natural gas usage by New Jersey customers, taking into account curtailable load and the potential for voluntary conservation measures;
- The physical capacity of existing and planned interstate pipelines and New Jersey GDCs;
- Competition with Northeastern states for both commodity and capacity of the interstate pipelines serving New Jersey;
- The ability of TPSs to obtain natural gas during high demand days;
- Long-term contracts obtained by the GDCs with pipelines and storage facilities for the capacity to meet the needs of their Basic Gas Supply Service ("BGSS") customers; and
- The potential for a contingency to develop that would disrupt the supply of firm gas to New Jersey customers.[6]

[4] I/M/O the Exploration of Gas Capacity and Related Issues, BPU Docket. No. GO19070846 (May 20, 2020) ("May 20 2020 Order") at 2.
[5] Id. at 3-4.
[6] Id. at 2-3.

Thereafter, the Board issued a notice in this docket inviting stakeholders to a virtual meeting on April 29, 2021. Stakeholders were asked to provide feedback on two main issues. The first concerned the weather standard that New Jersey GDCs use for design day planning.[7] The second issue concerned "non-pipe alternatives" for meeting the GDCs' peak day demands. The Notice requested information on the design and costs of these programs, and whether peak demand programs can avoid the need for direct government intervention in the event of an emergency. Additionally at the April 29, 2021 stakeholder meeting, Staff advised that it had retained a consultant, London Economics International ("LEI"), and that the analysis contemplated by the Board was in progress.

LEI completed its analysis and a redacted version of the report was made public by the Board on December 15, 2021.[8] The Board then issued the January 2022 Notice, which invited stakeholders to a virtual meeting on January 25, 2022. The January 2022 Notice requested comments on (a) the findings and recommendations of the LEI Report, (b) the proposed non-pipeline alternatives ("NPAs"), and (c) the best practices and playbook to be utilized in the event of a gas capacity shortfall.[9]

RATE COUNSEL COMMENTS

A. LEI Report Conclusions

LEI was asked to examine the capability of current and future natural gas transmission capacity to serve gas demand from New Jersey GDCs, and determine if capacity on pipelines and from non-pipeline sources would be sufficient to ensure uninterrupted supply to all firm

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[7] I/M/O 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. GO20010033 Notice (April 20, 2021).

[8] London Economics International, LLC, Final Report: Analysis Of Natural Gas Capacity To Serve New Jersey Firm Customers Public Version (November 5, 2021) ("LEI Report").

[9] January 2022 Notice at 2.

customers through 2030.[10] LEI concluded that "under the most likely set of future outcomes, sufficient natural gas capacity exists on the regional interstate pipeline system to meet the future peak day demand forecasts of New Jerseys GDCs."[11] Even under an extreme planning standard, using design day demands with a 1-in-90 years probability of occurrence, LEI estimates the design day shortfall for the year 2030 to be 153 thousand dekatherms ("MDth")/day, which is just 2.6 percent of the projected firm demand of 5,896 MDth/day.[12]

In order to conduct its Shortfall Risk Assessment, LEI relied on the design day requirements forecasts that the New Jersey GDCs provided with their June 2020 BGSS rate filings. This presented LEI with two main challenges. First, the Board indicated in its May 2020 Order that the analysis should utilize a "mid-term outlook, i.e. through 2030."[13] However, the GDC forecasts available to LEI only extended through the 2024/25 planning year.

Second, LEI was unable to determine how future reductions in firm customer demand resulting from existing and future energy efficiency programs were factored into the GDC forecasts. Based on its own assessment, LEI concluded that the projected growth rates for design day firm demand in the GDC forecasts underestimated the impact of these programs on future natural gas use, so that the GDCs' demand growth rates were too high. LEI developed its own baseline forecast, and created a range of forecast scenarios that were consistent with the New Jersey Clean Energy Act of 2018 and the state's 2019 Energy Master Plan.[14]

At the January 25, 2022 stakeholder meeting, GDC commenters identified some issues with LEI's analysis. For example, the GDC s were concerned that the LEI Report assumed the continued availability of off-system peaking supplies and TPS gas deliveries at or near current

[10] LEI Report at 8.
[11] LEI Report at 15.
[12] LEI Report at 98-100.
[13] May 2020 Order at 3.
[14] LEI Report at 48-55.

levels, without directly addressing concerns about the future reliability of these supplies. Rate Counsel also raised some concerns, noting that LEI's analysis did not include all gas supply resources that are currently available to New Jersey GDCs or those that have a high probability of being brought online in the near future.[15] This may be a timing issue, since this information might not have been available from the June 2020 filings that LEI used for its analysis. However, it would have been helpful if LEI had included an up-to-date accounting of recent and planned gas capacity resource changes in its final report.

Despite these issues, Rate Counsel believes that LEI's conclusions concerning the current and future availability of interstate pipeline capacity and other supply and demand-side resources to meet the requirements of firm gas customers in New Jersey are reasonable. With firm gas requirements expected to grow more slowly, or even decline, the need for additional gas capacity to meet the projected requirements for firm gas customers in New Jersey will be greatly reduced.

LEI's analysis also highlights serious shortcomings in the GDCs' gas capacity planning processes, and the design day requirements and supply reports that the GDCs include with the annual BGSS rate filings. It is important for the GDCs to explicitly consider the impact of conservation and energy efficiency measures to meet the State's clean energy goals when they consider the need for new capacity. The GDCs' planning processes should be enhanced to include consideration of multiple forecast scenarios, not just a "business-as-usual" case.

In addition, Rate Counsel agrees with the Board that a mid-term forecast horizon of at least 10 years is an appropriate planning horizon for the GDCs to use. New acquisitions of interstate pipeline capacity typically involve commitments of 15 or 20 years. A five-year

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[15] For example, South Jersey Gas Company contracted with Adelphia Gateway Pipeline and Columbia Gas Transmission for 75 MDth/day of additional gas delivery capacity to its citygate, starting November 1, 2022. See I/M/O the Petition of South Jersey Gas Company to Revise the Level of its Basic Gas Supply Service Charge and Conservation Incentive Program Charge for the Year Ending September 30, 2022, BPU Docket No. GR21060881 at Exhibit E, p. 22.

planning horizon is too short for evaluating investments that will commit the GDCs and their ratepayers to fixed payments over a much longer period. Rate Counsel notes that New York has opened a proceeding to develop a modernized and improved long-term gas system planning process for the gas utilities in that state. The New York Department of Public Service Staff proposal submitted in that case would require gas utilities to file a 20-year forecast of annual, peak day, and peak hour demand every three years. These forecasts would cover multiple scenarios reflecting the expected adoption and impact of non-traditional alternatives including demand management programs.[16]

B. Potential NPAs

The LEI Report describes a number of supply-side and demand-side NPAs, and indicates that there is the potential for a portfolio of NPAs to meet its worst-case design day shortfall estimate of 153 MDth/day in 2030. New pipeline capacity upstream of the GDC citygates is not needed. LEI also developed criteria that could be used for scoring NPAs. While Rate Counsel agrees that it is important for the GDCs to directly incorporate NPAs into their gas resource and facilities planning, it is important to emphasize the need for careful evaluation of the costs and benefits of specific NPAs. The LEI Report acknowledges that some potential NPAs may not be technically feasible, or may have limited potential to reduce consumption or increase supply. Further, LEI did not attempt to quantify the costs and benefits of various NPA options.[17] The energy efficiency and conservation initiatives currently being implemented by the GDCs and the Board are based on analyses of the costs and benefits of the measures being offered. Implementation of other NPAs also should be based on a thorough evaluation of their costs and

[16] Proceeding on Motion of the Commission in Regard to Gas Planning Procedures, NYPSC Case 20-G-0131 (February 12, 2021), Staff Gas System Planning Process Proposal at 14.
[17] LEI Report at 103-106.

benefits. Specific NPAs should be implemented based on evidence that they are viable, and that they are cost-effective compared to the alternatives.

C. Best Practices and Playbook

The LEI Report discusses actions that can be taken to prepare for, and respond to, emergency events that cause a shortfall in natural gas supply. Based on the discussion at the January 25, 2022 stakeholder meeting, Rate Counsel understands that the GDCs already engage in planning for emergencies in cooperation with the Board. Representatives of the GDCs specifically noted the value of recent tabletop exercises.

However, while Rate Counsel agrees that many of the additional measures and practices described by LEI should be considered, Rate Counsel disagrees with the recommendation at section 5.2.2.2 of the LEI report that the Board should consider amending its Infrastructure Investment and Recovery regulations to include a "premium for resiliency attributes associated with infrastructure improvements."[18] Rate Counsel has previously expressed concerns about the continued need for these regulations, most recently in Rate Counsel's October 21, 2021 comments in the Board's Docket No. AX21070998, in connection with the proposed readoption of Chapter 3 of the Board's rules. Use of an Infrastructure Investment Program may encourage the build-out of unnecessary infrastructure and may preclude the use of more cost-effective NPAs. New Jersey GDCs have already made large investments to reduce the risks and mitigate the impact of potential natural gas supply disruptions and should not be further incentivized to undertake such investments. Moreover, the instant proceeding was initiated to investigate the adequacy of the interstate pipeline capacity that is used to deliver gas into New Jersey. This is not the appropriate forum to consider the expansion of rules that concern investments in the utilities' distribution systems within New Jersey.

[18] This "premium" would be beyond the already generous recovery outside of a base rate case.

CONCLUSION

Rate Counsel appreciates the opportunity to provide comments in this matter. For the reasons discussed above, the Board should continue to evaluate the GDCs' gas capacity planning process. While there are some issues with the LEI Report, Rate Counsel agrees that New Jersey's climate change goals should be considered by the GDCs in their gas capacity plans, and that the GDCs should extend their planning horizons beyond the current five years. Further, Rate Counsel supports the GDCs' efforts to reduce their design day needs through their Board-approved energy efficiency and conservation programs, but urges caution on pursuing the types of other NPAs without evaluation of the costs associated with the same. Finally, Rate Counsel supports the GDCs' continued efforts to plan for emergencies in cooperation with the Board, but is opposed adding a resiliency "premium" to the Board's infrastructure rules.

Respectfully submitted,

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