



Fox Rothschild LLP
ATTORNEYS AT LAW

Princeton Pike Corporate Center
997 Lenox Drive, Building 3
Lawrenceville, NJ 08648-2311
Tel 609.896.3600 Fax 609.896.1469
www.foxrothschild.com

Steven S. Goldenberg
Direct Dial: 609.896-4586
Email Address:
sgoldenberg@foxrothschild.com

April 23, 2018

Aida Camacho-Welch, Secretary
Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
Trenton, NJ 08625-0350

Re: I/M/O Petition of PSE&G for Approval of the Next Phase of the Gas System
Modernization Program and Associated Cost Recovery Mechanism (GSMP II)
Docket No. GR17070776

Dear Secretary Camacho-Welch:

This letter is written on behalf of the New Jersey Large Energy Users Coalition (“NJLEUC”) to explain why NJLEUC cannot support the settlement that has been presented to the Board for its approval in this proceeding.

The proceeding addresses the second iteration of PSE&G’s program to upgrade the Company’s natural gas delivery infrastructure. GSMP I responded to the federal government’s “Call to Action” which encouraged gas utilities to improve their distribution systems and reduce dangerous gas leaks, thereby improving service reliability. NJLEUC has supported these worthy goals and joined in the settlement that implemented a three-year upgrade program that targeted “priority” pipes and mains and utilized an accelerated clause mechanism to recover the approximately \$700 million in program costs.

In GSMP II, PSE&G proposed an expanded \$2.7 billion, five-year program with aggressive mileage targets in each year, that again utilized a clause mechanism for accelerated cost recovery. NJLEUC was willing to support a more limited three-year program on terms similar to those agreed to in the GSMP I program. Unfortunately, the settlement that is now being presented to the Board features an expanded five-year program, valued at \$1.575 billion, together with a five-year base rate case stay-out provision.

Notwithstanding our continued willingness to support a more limited program that mirrors the first phase of the GSMP program, for the reasons that follow, NJLEUC cannot support the expanded program now pending before the Board for approval.

First and foremost, this is a very expensive program. As large volume energy users, NJLEUC members will pay a disproportionate share of its costs. It should be underscored that this is not the only expensive program that PSE&G has advanced as of late and PSE&G has provided notice that more multi-billion program proposals are imminent. It is critical that the Board not view these programs in isolation; their combined effect is a primary reason why NJLEUC cannot support this settlement. At present, the following PSE&G programs, both pending and impending, have affected, and will dramatically affect ratepayers' energy costs:

-- If approved by the Governor, ratepayers would be compelled to pay a total of \$3 billion in nuclear subsidies over the next ten years or longer;

-- PSE&G's transmission rates have increased almost 450% since 2009 due to the billions of dollars of investment in transmission infrastructure during that period;

-- PSE&G's combined electric and natural gas rate case is now pending, in which the Company seeks significant increases to its distribution rates;

-- PSE&G has announced its intention to bring a "significant" energy efficiency petition that will likely propose billions of dollars in spending;

-- PSE&G has announced its intention to file an Energy Strong II petition, which is anticipated to be another multi-billion dollar offering designed to expand the existing billion dollar Energy Strong infrastructure "hardening" program, to which NJLEUC was a signatory.

Perhaps we are becoming too accustomed to these billion dollar utility offerings, which are now being presented with increasing regularity, so that we fail to fully consider their combined impact on rates and ratepayers. However, when the costs associated with these programs are viewed holistically, what emerges is a combined energy bill that ratepayers, and in particular large volume customers, will find intolerable. The nuclear subsidy bill alone will cost NJLEUC members up to \$1.5 million each, per year. When the multiple billions of dollars associated with these other programs are taken into account, the burden on large businesses can only be described as crushing.

These circumstances should be of concern to the Board and the State. High energy costs have already been a major contributor to the "death spiral" being experienced by the State's business community, particularly by national companies that have comparable manufacturing facilities located in other states with lower costs. As costs rise, the managements of these companies tend to invest less capital in their New Jersey facilities and shift production to other, less costly facilities. In the near term, such decisions cause job losses and the deterioration of local facilities. In the longer term, these decisions can culminate in plant closures. NJLEUC can speak from experience on this subject, having been founded by companies like Hoffmann-LaRoche that have long since abandoned the State.

We urge the Board to remain acutely sensitive to the crushing financial burden these billion dollar programs will place on all ratepayers, from large businesses to AARP members. There is a financial breaking point and we are coming perilously close to arriving at that point.

Second, the proliferation of accelerated cost recovery mechanisms reflects unsound regulatory policy and should be discouraged. We are rapidly reaching the point where more utility assets will be held outside of rate base than within, thereby reducing the Board's authority over these assets and the utilities that control them. The clause mechanisms also represent a form of single issue ratemaking that will increase the likelihood that utilities will over-recover their allowed rate of return, possibly for extended periods of time. The Board should not encourage these largely risk-free investments and should instead encourage investments through rate base, subject to normal prudence review.

Finally, NJLEUC objects to the inclusion of the five-year stay-out provision for the Company's next base rate case. In light of the proliferation of clause mechanisms and their potential to increase the risk that utilities will over-earn their allowed rate of return, the Board should require PSE&G and the other utilities that utilize these clauses to file rate cases more frequently, rather than less.

For these reasons, NJLEUC respectfully declines to support the Stipulation of Settlement.

Respectfully submitted,

Steven S. Goldenberg

SSG:ssg

cc: Joseph L. Fiordaliso, President
Mary-Anna Holden, Commissioner
Dianne Solomon, Commissioner
Upendra J. Chivukula, Commissioner
Distribution List

In the Matter of the Petition of Public
Service Electric and Gas Company for
Approval of the Next Phase of the Gas
System Modernization Program and
Associated Cost Recovery
Mechanism ("GSMP II")
BPU Docket No. GR17070776

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*Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
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

*Felicia Thomas-Friel, Esq.
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625

*Sarah H. Steindel, Esq.
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

*Kurt S. Lewandowski, Esq.
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625

*Maura Caroselli, 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

William Agee
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

Andrea Reid
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

Joe Costa
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

Paul Flanagan, Executive Director
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

Son Lin Lai
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

Christine Lin
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

*Megan Lupo
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

Jacqueline O'Grady
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

Stacy Peterson
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

*Bethany Rocque-Romaine
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

Michael Stonack
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

Scott Sumliner
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

Thomas Walker, Executive Director
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

*Chief Counsel
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350

*Geoffrey Gersten, DAG
NJ Dept. of Law & Public Safety
Division of Law
124 Halsey Street, 5th Floor
P.O. Box 45029
Newark, NJ 07101

Jenique Jones, Paralegal
NJ Dept. of Law & Public Safety
Division of Law
124 Halsey Street, 5th Floor
P.O. Box 45029
Newark, NJ 07101

*Alex Moreau, DAG
NJ Dept. of Law & Public Safety
Division of Law
124 Halsey Street, 5th Floor
P.O. Box 45029
Newark, NJ 07101

*Patricia Krogman, DAG
NJ Dept. of Law & Public Safety
Division of Law
124 Halsey Street, 5th Floor
P.O. Box 45029
Newark, NJ 07101

*Joseph F. Accardo, Jr.
PSE&G Services Corporation
80 Park Plaza -- T5
P.O. Box 570
Newark, NJ 07102-4194

Michele Falcao
PSE&G Services Corporation
80 Park Plaza -- T5
P.O. Box 570
Newark, NJ 07102

*Caroline Vachier, DAG
NJ Dept. of Law & Public Safety
Division of Law
124 Halsey Street, 5th Floor
P.O. Box 45029
Newark, NJ 07101

*Matthew M. Weissman, Esq.
PSE&G Services Corporation
80 Park Plaza -- T5
P.O. Box 570
Newark, NJ 07102

Caitlyn White
PSE&G Services Corporation
80 Park Plaza -- T5
P.O. Box 570
Newark, NJ 07102

Bernard Smalls
PSE&G Services Corporation
80 Park Plaza -- T5
P.O. Box 570
Newark, NJ 07102

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

Edward A. McGee
Acadian Consulting Group
P.O. Box 1659
Bethany Beach, DE 19930

*Danielle Lopez
PSEG Services Corporation
80 Park Plaza, T5G
P. O. Box 570
Newark, NJ 07102

Kevin O'Donnell, CFA
Nova Energy Consultants, Inc.
1350 SE Maynard Road
Suite 101
Cary, NC 27511

*Andrea C. Crane
The Columbia Group, Inc.
2805 East Oakland Park Boulevard
#401
Ft. Lauderdale, FL 33306

*Hesser G. McBride, Jr., Esq.
PSEG Services Corporation
80 Park Plaza, T5G
P. O. Box 570
Newark, NJ 07102

*Holly Pearen, Esq.
2060 Broadway St.
Suite 300
Boulder, CO 80302

*Elizabeth K. Schlax, Esq.
Susanin, Widman & Brennan, PC
656 E. Swedesford Road
Suite 3330
Wayne, PA 19087

Stephanie Hunsinger
New Jersey State Director
AARP
101 Rockingham Row
Forrestal Village
Princeton, NJ 08540

*Steven S. Goldenberg, Esq.
Fox Rothschild, LLP
997 Lenox Drive, Bldg. 3
Lawrenceville, NJ 08648

*Paul F. Forshay, Esq.
Eversheds-Sutherland (US) LLP
700 Sixth Street, N.W.
Suite 700
Washington, DC 20001-3980

Roger M. Schwarz, Esq.
Roger M. Schwarz Governmental
Affairs
1 Benjamin Rush Lane
Princeton, NJ 08540

Evelyn Liebman
State Director for Advocacy
AARP
101 Rockingham Row
Forrestal Village
Princeton, NJ 08540

*Janine Bauer, Esq.
Szaferman, Lakind, Blumstein
& Blader, P.C.
101 Grovers Mill Road
Suite 200
Lawrenceville, NJ 08648

*Michael D. DeLoreto
Gibbons P.C.
One Gateway Center
Newark, NJ 07102

*Thomas C. Kelly, Esq.
Russo Tumulty Nester Thompson
& Kelly, LLP
175 Fairfield Avenue #1A
West Caldwell, NJ 07066

Kenneth Thoman
IBEW Local Union 94
219 Franklin Street
Hightstown, NJ 08520

*(2)Bradley M. Parson, Esq.
Kroll Heineman Carton, LLC
99 Wood Avenue South
Suite 307
Iselin, NJ 08830

*Kevin G. Walsh, Esq.
Gibbons P.C.
One Gateway Center
Newark, NJ 07102

*(2)Michael Rato, Esq.
McElroy, Deutsch Mulvaney
& Carpenter, LLP
1300 Mount Kemble Avenue
P.O. Box 2075
Morristown, NJ 07962

*Christopher D. Miller, Esq.
Maraziti Falcon, LLP
150 John F. Kennedy Parkway
Short Hills, NJ 07078

*Daniel J. Brennan, Esq.
Susanin, Widman & Brennan, PC
656 E. Swedesford Road
Suite 3330
Wayne, PA 19087

Andrea Hart
New Jersey Board of Public Utilities
44 South Clinton Avenue
3rd Floor, Suite 314
P.O. Box 350
Trenton, NJ 08625-0350