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March 17, 2022

<u>Via Electronic Mail</u>

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

Re: In the Matter of the Petition of Public Service Electric and Gas Company for Approval of a Service Agreement with PSEG Services Corporation and Transfer of Utility Assets
BPU Docket No.: EM21101204

Dear Secretary Camacho-Welch:

Please accept these comments filed on behalf of the Division of Rate Counsel ("Rate Counsel") regarding the above-referenced Petition. Consistent with the March 19, 2020 Order of the New Jersey Board of Public Utilities ("Board") in *I/M/O 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, copies of this comment letter are being filed with the Secretary of the Board and provided electronically to each person on the service list by electronic mail only. No paper copies will follow. **Please acknowledge receipt of this comment letter.** Thank you for your consideration and attention to this matter.

PSE&G REQUEST TO AMEND SERVICE AGREEMENT WITH PSEG SERVICES CORPORATION AND TRANSFER OF UTILITY ASSETS

Background

Public Service Enterprise Group, Inc. ("PEG") is the corporate parent of Public Service Electric and Gas Company ("PSE&G" or the "Company"). PEG also owns a service company, PSEG Service Corporation (the "Service Company"), which provides certain centralized services to PSE&G and to PEG's other subsidiaries. Unlike PSE&G, the Service Company is a non-regulated entity. The transactions between PSE&G and the Service Company are governed by a Service Agreement, which was approved by the Board of Public Utilities ("Board") in 2004.[1] The Service Agreement sets forth, among other things, the services to be provided to PSE&G by the Service Company and the bases for the Service Company's monthly charges to PSE&G for services rendered.

On October 29, 2021, PSE&G filed a petition (the "Petition") with the Board of Public Utilities ("Board") requesting the Board's approval of the Company's request to transfer approximately 496 of its employees to the Service Company. Of this total, approximately 232 full-time equivalent positions perform functions that are already enumerated within the existing Service Agreement. The remaining 264 full-time equivalent positions perform Construction Support and Engineering/Design functions, which currently are not part of the functions provided for in the current Service Agreement. Thus, PSE&G requests the Board's authorization to 1) transfer approximately 496 PSE&G employees to the Service Company; and 2) approve

[1] I/M/O The Petition of Public Service Electric and Gas Company For Approval Of Changes in Electric Rates, For Changes In The Tariff BPUNJ No. 14 Electric Pursuant To N.J.S.A. 48:2-21 and N.J.S.A. 48:2-21.1, For Changes In Its Electric Depreciation Rates Pursuant To N.J.S.A. 48:2-6, And For Other Relief et al., BPU Docket No. ER02050303 "Decision and Order" (April 22, 2004) ("April 2004 Order").

certain revisions to the Service Agreement to incorporate additional functions to be performed by the Service Company that are not presently provided by the Service Company.

PSE&G's proposal to transfer 232 full-time equivalent positions to project development, environmental/licensing permitting, project management, and project controls support functions corresponds with the existing "Corporate Development," "Strategic Planning," and "Environmental Health and Safety" service categories. PSE&G's stated reason for wanting to transfer these employees is its belief that the centralization of these functions at the Service Company will better support transmission growth opportunities and projects, including transmission solicitation activities in PJM and the Ocean Wind Project.[2]

The remaining approximately 264 full-time equivalent positions that PSE&G plans to transfer to the Service Company include 165 Engineering and Design positions and 99 Construction Support positions which are not provided for in the current version of the Service Agreement. Therefore, if these 264 positions are to be transferred to the Service Company, the existing Service Agreement will have to be amended to include the Engineering/Design and Construction Support service categories, along with a specification of the methods to be used for allocating costs from those two service categories to Service Company participants.

Rate Counsel's Review and Findings

Based on the information provided in the Petition and during discovery, it does not appear that the proposed transfer will create additional costs for PSE&G, nor is it likely to result in significant cost savings to PSE&G and ratepayers. PSE&G is not proposing to transfer all the

[2] Petition at ¶ 5.

Engineering/Design and Construction Support positions to the Service Company.[3] Only those positions that potentially support the expanding transmission needs outside of traditional utility work are slated to be transferred.[4] According to PSE&G, positions that will remain PSE&G employees are those that are associated with PSE&G's distribution groups, gas group, and those groups that are expected to spend a relatively minimal amount of time supporting affiliate projects.[5] For example, PSE&G's transmission maintenance group will remain PSE&G employees.[6] Only those employees that are expected to support expanding transmission needs outside of traditional utility functions are proposed to be transferred.[7] Even for those positions that are to be transferred, PSE&G anticipates their work will primarily support utility requirements, at least in the near future.[8] Under the Service Agreement, work done exclusively for one Service Company participant, such as PSE&G, is directly charged to that participant.[9] Thus, there should be no change in costs for services provided by the Service Company directly and exclusively to PSE&G.

For time spent by transferred employees on shared services-type activities, there may be some savings that will accrue to PSE&G. This results because the Service Company allocator for those types of costs includes a headcount factor. Since PSE&G's headcount will be reduced following the transfer, a larger percentage of shared services-type costs will be allocated to affiliates other than PSE&G.[10] PSE&G projects that its percentage of shared service costs will

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[3] Response to RCR-5.
[4] Ibid.
[5] Ibid.
[6] Ibid.
[7] Ibid.
[8] Petition at ¶ 14.
[9] PSEG Services Corporation, Service Agreement, at Schedule I & Schedule II.
[10] Petition, fn 7.

decrease by approximately one percent (i.e., from 66% to 65%) following the transfer.[11] The Petition refers to an estimated $4 million reduction in the Service Company charges allocated to PSE&G following the transfer.[12] In discovery, PSE&G could only quantify $2.5 million in savings and speculated on a "possibility that there could be another $1M+ in other changes across PSEG Services Corp."[13] The Company did not explain or describe how these additional service functions might materialize.[14] In summary, it does not appear that the proposed transfer of employees will materially impact PSE&G's costs or its ratepayers. Additionally, the proposed changes in the Service Agreement to accommodate the additional service functions performed by the transferred employees may be reasonable given the nature of those services and appear consistent with the allocation procedures that are already included in the Service Agreement for similar shared services.

If the Board approves the employee transfer, the only assets that will be transferred from PSE&G to the Service Company are the work laptops of those transferred employees. All other assets presently owned by PSE&G, including the computer software residing on the work laptops, will remain with PSE&G. PSE&G proposed that the transfer of the laptops be at the depreciated book value.[15] Rate Counsel believes that this treatment is appropriate.

Based on the foregoing, Rate Counsel does not object to the transfer of the identified full-time positions to the Service Company as proposed by PSE&G in its petition, neither does Rate Counsel object to the proposed amendments to the Service Agreement, nor the transfer of the

[11] Response to S-PSEG-TA-8.
[12] Petition, fn 7.
[13] Response to RCR-6.
[14] See ibid.
[15] Response to S-PSEG-TA-9.

personal computer assets for those employees that also will transfer to the Service Company. However, Rate Counsel's non-opposition to the Petition is based on the Board approving the transfer of employees and assets with the following conditions:

1) PSE&G filing with the Board, and a copy to Rate Counsel, the executed amended Service Company Agreement reflecting the new services that the Service Company will now offer, within ninety (90) days of Board approval;
2) PSE&G filing with the Board, and a copy to Rate Counsel, a detailed list of positions that are transferred and the date of their transfer; and
3) PSE&G filing with the Board, and a copy to Rate Counsel, a restatement of the Service Company allocation factors that reflect the transfer of certain PSE&G employees to the Service Company and indicate when those restated allocation factors will become effective for cost assignment purposes.

Respectfully submitted,

BRIAN O. LIPMAN
DIRECTOR, DIVISION OF RATE COUNSEL

By: ______________________________
Robert Glover, Esq.
Assistant Deputy Rate Counsel

c: Service list (via electronic mail)

I/M/O the Petition of
Public Service Electric and Gas
Company for Approval of a Service
Agreement with PSEG Services
Corporation and
Transfer of Utility Assets
BPU Docket No.: EM21101204
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