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September 28, 2022

Ms. Carmen Diaz  
Acting Board Secretary  
Board of Public Utilities  
44 South Clinton Avenue, 1<sup>st</sup> Floor  
P.O. Box 350  
Trenton, New Jersey 08625-0350

Re: Joint Petition for Approval of the Acquisition of South Jersey Industries, Inc. and its Public Utilities Subsidiaries, Elizabethtown Gas and South Jersey Gas Company by Boardwalk Merger Sub, Inc.

BPU Docket No. GM22040270

Delivered via the Board's Public Document Search tool.

Dear Ms. Diaz:

Thank you for the opportunity to present my personal views on the proposed acquisition of South Jersey Industries, Inc. and its public utility subsidiaries by Boardwalk Merger Sub, Inc. I am a security analyst by profession who follows the publicly traded stocks and bonds of several New Jersey-based utility holding companies, including American Water Works Company, New Jersey Resources, Inc., Public Service Enterprise Group and South Jersey Industries, Inc. (SJI). I am writing today, however, as a customer of Elizabethtown Gas.<sup>1</sup>

While I do not believe that I know enough about IIF US Holding 2 LP (IIF2) to support the acquisition, I do not oppose it either. I understand that IIF2 is a large private investment fund, founded in 2006, that has ownership interests in a wide variety of infrastructure assets, including electric, water and gas distribution utilities. It certainly has significant experience in the industry and therefore seems well qualified to own SJI and its two regulated utilities.

Although IIF2 has demonstrated a long-term commitment to its existing utility investments and proposed a comprehensive set of ringfencing policies intended to protect Elizabethtown Gas (ETG), South Jersey Gas Company (SJG) and their customers, it is important to recognize that investment policies, management personnel and market conditions are subject to change. Consequently, I believe that the Board of Public Utilities (BPU or the Board) should institute an effective disclosure and monitoring regime, parts of which should be open to ETG and SJG customers. The Board should also take steps to monitor SJI and its subsidiaries so that it can intercede if necessary to head off any potential problems in the quality and cost of utility service.

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<sup>1</sup> For full disclosure, I owned a small number of shares in South Jersey Industries, Inc. that I had purchased prior to the merger announcement in February and sold in June.

My comments will focus on steps that BPU should take to protect the interests of the customers of ETG and SJG going forward, assuming that it approves the acquisition.

My recommendations include the following:

1. If it has not done so already, the BPU should review the sources and uses of funds from IIF2 to complete the acquisition. Perhaps I missed it, but I have not seen a direct accounting from IIF2 for the proposed acquisition in any of the documents filed with the Board or the SEC. The sources and uses of the financing for the transaction should be evaluated by the Board within the context of IIF2's financial position and performance.
2. The BPU should require IIF2 to file its audited financial statements with the Board on an annual basis for a review of its financial performance and financial condition. I understand that IIF2 is a private entity and protective of its financial information; but the BPU can review this information confidentially without any public disclosure. This should not be a costly requirement for IIF2, since it presumably already produces this information for its investors.
3. The BPU should require IIF2 to obtain the Board's approval for any sale of its equity stake in SJI or SJI Utilities (SJIU), the holding company for ETG and SJG, that reduces its ownership interest below 51%. It should also require IIF2 to notify it, if any entity acquires an equity stake in SJIU (or ETG or SJG) that exceeds 10%. Once that 10% threshold is crossed, IIF2 should be required to file annual updates on such large minority ownership stakes.
4. The Board should require that IIF2 prepare annual reports, including audited financial statements (with a complete set of note disclosures), on SJIU, ETG and SJG and submit them to the Board within 60 days of the end of each fiscal year. These statements should include certain key sections that are typically provided in an SEC 10-K filing, including a management's discussion and analysis section (MD&A) with analyses of the results of operations and liquidity and capital resources. They should also include general descriptions of the business, properties and executive officers. Besides filing them with the BPU, these reports should be posted on the ETG and SJG websites for the benefit of their respective customers. (Ideally, SJIU's financial statements should be posted on both websites.) All costs associated with preparing these financial reports and their related audited financial statements should be borne by the customers of ETG and SJG. They should therefore be included as an allowable cost through the regulatory rate setting process.
5. The BPU should also require IIF2 to file the full audited financial statements of SJI on an annual basis. This may help it to monitor the performance and financial condition of South Jersey Energy Services, whose operations are and may be further integrated with the utilities. I recognize that having a one-day snap shot of the Energy Services summary balance sheet may not tell the Board much, but it is better than nothing. Perhaps such disclosures will open the door to productive discussions.

6. IIF2 has agreed to suspend the receipt of dividend payments from the utilities, if the utilities do not maintain at least one credit rating of BBB- or better. That is an important protection for customers; but the Board should require that the rating agency (or agencies) review their ratings at least on an annual basis (with reports submitted to the BPU for its review). It is frequently the case that rating agencies do not review an entity's credit ratings for two years or longer during which time the financial condition of the subject company can deteriorate well ahead of a ratings downgrade. Here again, the customers of ETG and SJG should bear the cost of these reviews.
7. I also question IIF2's intention to rebate \$15 million to ETG and SJG customers. By my calculations, if commercial and industrial customers are included in the rebate pool, this will result in a one-time payment of \$21 to customers. Most people will not benefit much from that payment and many, like me, would choose to reject it, if they could. IIF2 is making this offer, even though the BGSS rate in ETG is set to increase by 50%. By my calculations, I can look forward to a 23% increase in my total gas utility costs for the upcoming utility year. I expect that many ETG and SJG customers will be surprised by the increase and more than a few will find it challenging to pay it. Rather than offer something that most customers will not value, IIF2 would be better served in my mind by giving the money to New Jersey-based programs that will help ETG's and SJG's lower-income households pay for the coming increase in gas costs. This will provide a direct benefit to customers that need it most and avoid rolling some bad debt into rate base for later on.

On that score, while I recognize that New Jersey gas utilities may be waiting for final approval of the coming year's BGSS rates, I can report that one major U.S.-based gas utility with multi-state operations has told me that it is reaching out proactively to its customers to inform them about the coming cost increases so that they may be better prepared for them. Hopefully, New Jersey gas utilities will soon do the same.

I hope that these suggestions are helpful. Should the Board have any questions about them, I am available to discuss them at its convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen P. Percoco". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Stephen P. Percoco