STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF PUBLIC SERVICE ELECTRIC AND GAS COMPANY FOR APPROVAL OF ITS CLEAN ENERGY FUTURE-ENERGY CLOUD PROGRAM ON A REGULATED BASIS

BPU Docket No. EO18101115

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
REBUTTAL TESTIMONY
OF
STEPHEN SWETZ
SENIOR DIRECTOR – CORPORATE RATES AND REVENUE REQUIREMENTS

October 5, 2020

P-2

Contents

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INTRODUCTION

Q. Please state your name, affiliation and business address.

A. My name is Stephen Swetz, and I am the Senior Director – Corporate Rates and Revenue Requirements for PSEG Services Corporation. My principal place of business is 80 Park Plaza, Newark, New Jersey 07102. My professional experience and responsibilities are described in Schedule SS-CEF-EC-1, which was submitted along with my direct testimony.

Q. Have you testified previously in this proceeding?

A. Yes. On October 11, 2018, I submitted direct testimony on behalf of Public Service Electric & Gas Company ("PSE&G" or the "Company") in support of PSE&G's Petition requesting the New Jersey Board of Public Utilities ("BPU" or "Board") approve PSE&G's proposed Clean Energy Future – Energy Cloud ("CEF-EC" or the "Program"). On April 1, 2020, I submitted revised direct testimony.

Q. What was the purpose of your direct testimony in this proceeding?

A. In my direct testimony, I provided the details for the calculations of the Program's revenue requirements, the associated cost recovery methodology, and rate design for the CEF-EC Petition filed with the Board. My direct testimony also provided detailed schedules setting forth the projected revenue requirements, rates, and bill impacts over the Program's life.

Q. What is the purpose of your rebuttal testimony?

A. In my rebuttal testimony, I respond to certain assertions in the direct testimonies of Rate Counsel Witnesses Paul J. Alvarez, David E. Peterson, and Matthew I Kahal, who submitted direct testimony on August 31, 2020.

Q. Please summarize your rebuttal testimony.

A. The recommendations in Mr. Alvarez's, Mr. Peterson's and Mr. Kahal's testimonies that the Board should not approve the filing or modify the proposed cost recovery if approved should be rejected.

Contrary to the assertions of Rate Counsel's witnesses, PSE&G has demonstrated that CEF-EC, as proposed, is a reasonable and prudent program. Moreover, CEF-EC is consistent with the Board's Infrastructure Investment Program ("IIP") regulations (N.J.A.C. 14:3-2A), and will enable the Company to convert its existing meters to Advanced Metering Infrastructure ("AMI") on an accelerated basis consistent with the goals of the State's Energy Master Plan ("EMP").[1]

In reference to Mr. Alvarez's testimony, I, along with Company witnesses Fred Daum and Greg Edeson of PA Consulting, will demonstrate the Program is in fact cost beneficial. I will also demonstrate that now is the time for utility infrastructure investment to spur the struggling economy. I also address Mr. Alvarez's claims that IIP recovery shifts risks from shareholders to customers and that IIP recovery will reduce the need for rate cases.

[1] 2019 New Jersey Energy Mast Plan, Pathway to 2050.

While Mr. Alvarez simply recommends rejection of the Program, Mr. Peterson and Mr. Kahal propose adjustments to the Company's cost recovery mechanism if the Board approves the Program. I will address why each proposed adjustment is inappropriate, is contrary to the intent of the IIP regulations to encourage accelerated investments in infrastructure such as those proposed in this program, or is contrary to cost causation rate-making principles. Finally, I will demonstrate very simply how approval of the CEF-EC Program with Rate Counsel's proposed adjustments will result in significant financial harm to the Company.

CEF-EC SHOULD BE APPROVED UNDER THE IIP REGULATIONS

Q. What arguments does Mr. Alvarez make to support his recommendation that the Board reject the CEF-EC Program?

A. Mr. Alvarez recommends the Board reject the Company's CEF-EC Program for the following reasons:

- The Program will not deliver benefits in excess of costs of customers;
- AMI is not the prerequisite for distribution automation the Company makes it out to be (addressed in the Rebuttal Testimony of Mr. Daum and Mr. Edeson);
- Current challenging economic conditions warrant "belt-tightening" rather than making large investments;
- Pre-approval of the CEF-EC investments transfers risk from shareholders to ratepayers;
- IIP recovery reduces the need for base rate cases; and
- AMI does not meet the criteria specified in the IIP.

I address these arguments and why they should be rejected below. I will also address the modifications to the cost recovery mechanism proposed by Mr. Peterson and Mr. Kahal, and describe the detrimental financial implications to the Company if it were to implement the CEF-EC Program with those adjustments.

Accelerated Recovery Is Appropriate

Q. Before addressing the Rate Counsel's witnesses arguments against the Program, can you provide some background to assist the Board in reviewing this filing?

A. Yes. The Board has made its support for deployment of AMI in New Jersey clear, both through its comments and goals set forth in the EMP and in its February 19, 2020 Order that directed all of New Jersey's electric distribution utilities to file petitions or update previously filed petitions by August of 2020 for AMI implementation.[2] In evaluating the Company's CEF-EC Program, the Board should consider the foundational question of whether AMI should be deployed on an accelerated basis so that the primary benefits of AMI are accessible to all customers in the next five to six years, as described in the Rebuttal Testimony of PSE&G witnesses Daum and Edeson, or whether AMI should instead be deployed in the normal course of business, at the normal pace of meter replacements with full deployment occurring over a period of fifteen to twenty years, as recommended by Rate Counsel.

Q. If the Board supports accelerated deployment of AMI, should the recovery mechanism be linked to the timing of the implementation?

A. Yes. Whether the AMI investment is recovered through the IIP or traditional base rate cases is contingent on the timing of the implementation. If the Board only wants installation

[2] *I/M/O The Petition of Rockland Electric Co. for Approval of an Advanced Metering Program; And For Other Relief*, BPU Docket No. ER16060524, (Decision and Order, Feb. 19, 2020) (finding that AMI is a means to achieve the goals set forth in the EMP, lifting a moratorium on pre-approval of AMI programs, and directing electric distribution utilities to file petitions for AMI implementation, or to update previously-filed petitions within 180 days) ("RECO Order").

of AMI piecemeal as existing meters fail, the investment could be managed under existing base rates and AMI installed gradually to all customers over the next decade or two.[3] If an accelerated implementation is approved to allow customers to realize the primary benefits of AMI in the next five years as detailed in the Company's filing and as contemplated by the EMP, then recovery under the Board's IIP is appropriate. The purpose of the IIP as stated in 14:3-2A.1(b) "is to provide a rate recovery mechanism that encourages and supports necessary accelerated construction, installation, and rehabilitation of certain utility plants and equipment." The IIP is specifically designed to encourage the type of investment the Company is proposing here – a full and complete replacement of the Company's entire metering system to deploy advanced, modern, resilient technologies. This is the precise type of investment that would *not* typically be made on a business-as-usual basis. Therefore, if the Board determines that accelerating the implementation of AMI is appropriate, then the Board should approve IIP cost recovery.

Q. Should the Board approve an accelerated implementation of AMI and the associated recovery mechanism under the IIP?

A. Yes. As detailed in the Company's filing and the Rebuttal Testimony of Mr. Daum and Mr. Edeson, the CEF-EC Program will provide benefits that significantly outweigh the costs. Accelerating the implementation will enable recognition of those benefits.

Q. Are there significant disadvantages of installing AMI in the normal course of business rather than on an accelerated basis?

A. Yes. The Rebuttal Testimony of Mr. Daum and Mr. Edeson detail the concerns with

[3] As set forth in the Rebuttal Testimony of Mr. Daum and Mr. Edeson, customers would not benefit from the functionality of AMI meters until near the end of deployment.

implementing AMI as existing meters fail. Further, as stated in the response to RCR-E-0013-UPDATE (a), slow moving, sporadic AMI deployment is likely to result in increased costs in the long run, customer confusion, and delays in providing AMI functionality (even to customers with installed advanced meters).[4]

CEF-EC is cost-beneficial

Q. Did the Company perform a Benefits to Cost Analysis ("BCA") for the Program?

A. Yes. As detailed in the Direct Testimony of Mr. Daum, the Company performed a BCA that showed $2.054 billion in nominal benefits ($887 million on a present value basis) for the Program compared to $785 million of costs ($641 million on a present value basis), for a net benefit from implementation of the Program of $1.269 billion ($246 million on a present value basis). Since the benefits far outweigh the costs, the Program is cost-beneficial.

Q. Does Mr. Alvarez recommend adjustments to the Company's BCA to show costs as higher than benefits?

A. Yes. Mr. Alvarez recommends several adjustments to the program's benefits and costs. The Rebuttal Testimony of Mr. Daum and Greg Edeson of PA Consulting addresses Mr. Alvarez's proposed adjustments and why they are inappropriate.

Q. Would you like to address any of Mr. Alvarez's arguments on the BCA?

A. Yes. One of Mr. Alvarez's adjustments is to eliminate $350 million of operational benefits from 2024 – 2028 and an additional approximately $75 million thereafter due to rate case timing. This is inappropriate and understates the benefits that the CEF-EC Program will produce. First, the purpose of the BCA is to evaluate whether the benefits of the investment

[4] Exhibit SS-CEF-EC-1.

are greater than the costs and if the benefits occur, they should be included in the BCA. This is an economic evaluation that should not be prejudiced by ratemaking assumptions.[5] Mr. Alvarez assumes a base rate case every five years. It is inappropriate to eliminate real benefits that occur between that assumed 5-year period. It is uncertain when the Company's base rate cases, including AMI rate adjustments, will *actually* occur in the future. Therefore, the ratemaking process in New Jersey, which can change in the future, should not alter an analysis of whether the benefits of AMI justify the incremental costs above the costs to install plain meters.

I also note that if base rate cases *do* happen to occur every 5 years, customers will still benefit from the operational savings the Program is intended to deliver. The operational benefits of the Program can mitigate other cost increases, allowing the Company to avoid requesting an increase through an earlier base rate case. Further, the CEF-EC Program requires an earnings test before recovery is allowed. If the operational benefits result in cost savings to the extent that the Company does not pass the earnings tests, customers will benefit by not paying for the CEF-EC program investments in that period.

<u>Current Economic Challenges Make Now The Ideal Time For The Program</u>

Q. Please summarize why Mr. Alvarez argues the current economic conditions should compel the Board to refrain from authorizing significant utility investments?

A. Mr. Alvarez notes the recent increase in New Jersey's unemployment rate and states that the uncertain economic conditions largely brought about by the COVID-19 pandemic

[5] As Mr. Daum and Mr. Edeson's Rebuttal Testimony points out, evaluation of BCAs in New Jersey and in other jurisdictions typically do not include ratemaking assumptions.

make this the worst time to increase rates.

Q. Do you agree with Mr. Alvarez's position?

A. I do agree with Mr. Alvarez that we are currently in a challenging economic environment, and that New Jersey families are experiencing real difficulties at this time. However, I do not agree that this is the time to stagnate important utility infrastructure investment; rather, this is a time to increase utility investment to spur economic growth and further environmental and system resiliency goals. Notably, investment programs such as the Proposed CEF-EC Program can be used to stimulate the economy through the implementation period.

Q. Does this approach have precedent in recent New Jersey history?

A. Yes it does. After the Great Recession of 2008, the Board approved the Company's Capital Infrastructure Investment Stimulus Program[6] and Energy Efficiency Economic Stimulus Program[7] to help spur the economy through investment in infrastructure improvements and energy efficiency. The CEF-EC Program would similarly provide accelerated infrastructure investment in these challenging times. Unlike those prior programs, which resulted in immediate rate increases to recover the projected program costs beginning on Day 1, PSE&G's CEF-EC proposal would result in no forecasted rate increase until December 2022, and no meaningful reduction in current meter-reading Staff until

[6] *I/M/O the Petition of Public Service Electric & Gas Company for Approval of a Capital Economic Stimulus Infrastructure Investment Program and an Associated Cost Recovery Mechanism Pursuant to N.J.S.A. 48:2-21 and 48:21.1.*, Docket Nos. EO09010049 and GO09010050, Decision and Order Approving Stipulation of Settlement at 1 (April 28, 2009).

[7] *I/M/O the Petition of Public Service Electric & Gas Company Offering an Energy Efficiency Economic Stimulus Program in its Service Territory on a Regulated Basis and Associated Cost Recovery Mechanism Pursuant to N.J.S.A.48:3-98.1*, Docket Nos. EO09010056 and EO09010058, Decision and Order Approving Stipulation of Settlement at 1 (July 16, 2009).

implementation is complete, which is not forecasted until 2025. While rate recovery does not occur until later in the program, the work to construct the AMI network would begin during 2021.

Q. Mr. Alvarez asks the Board to consider whether AMI should be prioritized over other uses of capital. Please explain why you believe the Board should prioritize the Company's proposed CEF-EC filing?

A. I believe the Board should prioritize accelerated investment in AMI given the potential benefits of AMI detailed in the EMP and recognized by the Board in its RECO Order, and due to New Jersey's lagging status regarding AMI deployment as compared to other jurisdictions.[8]

Given the Board's public position through the EMP and lifting of the AMI moratorium on pre-approval for AMI programs in the RECO Order, as well as Mr. Alvarez's own admission that AMI is the industry-standard, it appears clear that the State of New Jersey is looking to move toward AMI. If investment programs are approved to spur the economy, accelerating the installation of AMI meters, which will bring the benefits detailed in the Company's filing with no expected rate impacts until the end of 2022, should be prioritized.

CEF-EC Does Not Shift Risk From Shareholders To Customers

Q. Do you agree with Mr. Alvarez's assertion that "[p]re-approval via IIP transfers the risk of excess, ineffective, or imprudent investments from shareholders to ratepayers"?

A. I do not. Approval of the CEF-EC program through the IIP does not reduce the risk to the Company of implementing the Program successfully. All investments made pursuant to

[8] EEI reports 98 million electric smart meters installed as of 2019 (or 70% of US households) while New Jersey remains less than 100,000 (see page 13 of https://www.eei.org/issuesandpolicy/finance/wsb/Documents/2020_Wall_Street_Final_Slides_Web.pdf). Further, Mr. Alvarez acknowledges that AMI has become broadly available, even going so far as to claim it has been an "industry standard" as far back as 2012.

IIP will ultimately be reviewed for prudency in a base rate case. The Company has submitted a capital budget of approximately $714 million to complete the implementation. If there are excess costs above the $714 million, under IIP, the Company would still be at risk of justifying the prudency of the excess expenditures. Additionally, if the Company were to implement the Program ineffectively and there are significant performance issues, the Company would be at risk of claims that the CEF-EC program was not implemented in a prudent manner. Any recovery on capital investment deemed imprudent in a future base rate case would be refunded to customers with interest (i.e., customers would be made whole).

Furthermore, under IIP PSE&G continues to bear the same construction, financial, operational, and prudency risks, if not more prudency risk, for the work conducted under the CEF-EC Program than it does for work recovered following a base rate case proceeding. Operationally, this is a mass installation of new technology compared to what the Company is installing today that will take several years to complete. In addition, the more focused review through annual or semi-annual filings and reporting requirements pursuant to IIP increases prudency risk. The benefit of recovery for CEF-EC via IIP compared to traditional base rates is that IIP helps reduce regulatory lag on the investments that would otherwise be a deterrent to undertaking an accelerated deployment.

<u>IIP Recovery Does Not Reduce The Need For Base Rate Cases</u>

Q. Do you agree with Mr. Alvarez's assertion that "IIP cost recovery reduces the need for rate cases, prompting the significant timing issue somewhat unique to AMI which will preclude more than $350 million dollars in operational benefits from reaching customers"?

A. I do not. First, the recovery of investment under the IIP requires that the utility file a base rate case within 5 years of approval. Second, as noted above, cost savings between base rate cases still benefit customers by potentially offsetting cost increases that would require the Company to seek base rate increases earlier, and to the extent the cost savings result in the Company not passing its earnings test, recovery of the Program investment would not be allowed for the applicable period. Thus it is inappropriate to say there is no benefit to customers of cost savings between base rate cases. It is also unclear why Mr. Alvarez attributes the so called "significant timing issue" to IIP cost recovery. If the Company were to initiate the program through base expenditures and not seek IIP recovery, the same timing issue would exist where savings could occur between base rate cases.

<u>AMI Is Consistent With The IIP</u>

Q. Does the Company's AMI Program qualify for IIP?

A. Yes. I unequivocally disagree with Mr.'s Alvarez's narrow characterizations of the Program in his attempt to conclude that the Program does not meet the requirements of IIP.[9] The EMP and the Board, itself in its RECO Order, has recognized that AMI deployment is necessary in the state of New Jersey for grid modernization, reliability, resiliency and sustained economic growth, and that reaching these goals requires accelerated action. Indeed, the Board *ordered* electric distribution utilities that had not already voluntarily filed AMI programs to do so on an expedited basis, within six months of the RECO order. There is nothing about meter installation or included in any of the Company's proposed use cases that would render AMI deployment a revenue-producing endeavor. Mr. Peterson's opinion to the contrary is based on a flawed interpretation of normal lag in recognition of operational benefits in rates that would occur under either base rate recovery or IIP (as discussed in more detail below). Indeed, the

[9] Alvarez at 45, line 21 – 49, line 13.

Board's RECO Order specifically recognizes that "[t]he utilities may choose to file [AMI] petitions, or update previously filed petitions, pursuant to any applicable regulations, **including N.J.A.C. 14:3-2A.1, et. seq. [IIP].**"[10]

RATE COUNSEL'S PROPOSED ADJUSTMENTS TO THE RECOVERY MECHANISM SHOULD BE REJECTED

Q. Do Mr. Peterson and Mr. Kahal recommend any adjustments to the Company's proposed cost recovery methodology if an accelerated recovery mechanism is approved?

A. Yes. Mr. Peterson and Mr. Kahal propose several adjustments to PSE&G's proposed recovery methodology including the following:

a. Denying deferred accounting and recovery of stranded costs as a result of the Program;

b. Denying deferred accounting and recovery of incremental O&M as a result of the Program;

c. Reducing the Return on Equity ("ROE") on program investments to 8.8% and utilizing the latest actual capital structure and debt rate; and

d. Adjusting rate design to recover costs through each distribution rate uniformly rather than through the service charge.

I address each of these proposals below.

[10] RECO Order at 3 (emphasis added).

Stranded Cost and O&M Deferral Are Permitted

Q. May the Board grant recovery of stranded costs and deferral of O&M?

A. Yes. As far as I know, the Board has broad authority to grant this type of recovery. For example, O&M deferral was approved for the Company's GSMP II program, as discussed in more detail below.[11] Ignoring this precedent, Mr. Peterson unreasonably concludes that because the IIP does not explicitly set forth recovery of stranded costs or deferral of O&M, that cost recovery should be rejected.[12] IIP is a framework with some specific elements of accelerated rate recovery that also gives the Board discretion as to the overall program structure.[13] I am not aware of any statute or regulation that would prohibit the Board from permitting stranded cost recovery or deferral of O&M costs, and, indeed, stranded cost recovery and O&M deferral are appropriate in this case for the reasons I set forth below.

CEF-EC Program Stranded Cost Recovery Should Be Approved

Q. Why is it appropriate for the Company to recover stranded meter costs associated with the implementation of the Program?

A. The stranded costs associated with retiring existing meters are necessary to recognize the benefits of AMI as illustrated in the Direct Testimony of Mr. Daum. The shift to AMI is not accurately characterized as business as usual meter replacement because realization of AMI benefits requires installation of an entirely new interconnected backbone network. AMI

[11] *I/M/O 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, Decision and Order Approving Stipulation (May 22, 2018) ("GSMP II").

[12] Peterson at 10, 11. Indeed, Mr. Peterson presents no more specific rationale for his recommendation to reject O&M deferral other than his observation that the IIP does not expressly require O&M deferral.

[13] "Through an [IIP] approved by the Board, a utility may obtain accelerated recovery of qualifying investments, subject to the terms of this subchapter, **and any other conditions set by the Board** in approving an individual utility's [IIP]." N.J.A.C. 14:3-2A.1 (emphasis added). Indeed, the Board seems to recognize in its RECO Order that stranded cost recovery may be considered as part of IIP proposals wherein IIP as a potential basis for filing is specifically referenced and the Order notes that stranded costs may result from AMI deployment.

represents a fundamental change in how metering is performed, a change that has been recognized in many jurisdictions as necessary for grid modernization, reliability, and efficiency. Stranded costs are a natural result of this type of major transformation. As described in the Rebuttal Testimony of Mr. Daum and Mr. Edeson, implementing AMI through normal course of business replacements would delay recognition of the benefits, be more costly than the Company's accelerated implementation proposal, cause customer confusion about when they will be able to recognize the AMI benefits, and is simply not the preferred way of deploying AMI around the country. Since incurring the stranded cost is a prerequisite to recognizing the benefits of accelerated AMI deployment, those costs, like all costs prudently incurred by the utility, should be recovered. Deferral of the stranded costs for recovery in a future base rate case, as proposed by PSE&G in this case, should be approved.

Q. Ms. Powell's Direct Testimony listed the Net Meter Plant as of December 31, 2019 at $216 million. Will the Company be looking to defer and recover the entire $216 million at the conclusion of the next base rate case?

A. No. The $216 million represented the net book value as of December 31, 2019. The Company must depreciate the existing meters on an accelerated basis to match their expected retirement date, which will greatly exceed their existing depreciable life. As demonstrated in the table included in response to RCR-A-0010, based on a simplifying assumption of ratable retirements per year over a 5 year replacement period, the stranded cost to be recovered after the base rate case would be approximately $150 million, which represents the excess depreciation needed over the current depreciation rate, and actual stranded costs will continue to decline until AMI replacements actually commence.[14] Further, as detailed in the Rebuttal Testimony of Mr. Daum and Mr. Edeson, the Company has used its best efforts to minimize incremental stranded cost by limiting meter replacements where possible and by managing the meter inventory prudently to sustain day-to-day operations while this petition is pending.

Q. If the Company were to replace existing meters with AMI at failure in the normal course of business rather than through an accelerated replacement program as proposed, would customers still pay this approximately $150 million?

A. Yes. The Company is seeking to recover the stranded cost recovery over a five year period (or 8.55 years as recommended by Mr. Peterson if stranded cost recovery is approved) starting at the conclusion of the next base rate case. That cost would be recovered from customers, but would be offset compared to current rates by the reduction in the return of and on the existing meters in current rates that have been retired. If the Company were to implement AMI over the normal course of business and not retire these assets, customers would still be paying a return of and on the remaining meters in the next base rate case. Essentially, denial of stranded costs with accelerated implementation would cause significant financial harm to the Company and it would more than likely not undertake the Program.

Q. But if the Company receives recovery of these stranded costs, would you agree that those costs should be included in the BCA?

A. No, I would not agree; it would still be inappropriate to include stranded costs in the BCA. The costs of existing meters will be recovered from customers whether the Company accelerates the replacement of AMI (as a regulatory asset) or does not (as a component of utility rate base) and thus is not an incremental cost of the Program. Therefore, the incremental

[14] Exhibit SS-CEF-EC-1.

cost to be evaluated in the BCA is the capital and net O&M costs associated with the AMI implementation.

Deferred O&M Should Be Approved

Q. Why is it appropriate for the Company to defer O&M expenses associated with the implementation of the Program?

A. Like stranded costs, the incremental O&M expenses associated with the implementation of the Program must be incurred in order to recognize the benefits of AMI illustrated in the Direct Testimony of Mr. Daum. Since the Company would not incur these incremental expenses if the Program were not implemented, deferral of the expenses for recovery in a future base rate case should be approved.

Q. Has the Company ever recovered incremental expenses associated with an infrastructure program?

A. Yes. In the Company's GSMPII proceeding, the first infrastructure program approved after the IIP regulations were signed into law, the revenue requirement was adjusted to recover expenses associated with methane mapping as a result of the settlement of the filing, as well as to refund O&M savings associated with the GSMPII Program implementation. The Company is not seeking to recover incremental O&M expenses through the revenue requirement in this proceeding, but rather to defer the costs for future recovery after the next base rate case, after the prudency of those incremental expenditures has been reviewed.

Adjustments To The Company's Approved WACC Should Be Rejected

Q. Do you agree with Mr. Kahal's recommendation that the ROE be set at 8.8% for the Program?

A. No, I do not. As discussed in more detail in the Rebuttal Testimony of Ann Bulkley, Mr. Kahal's calculation of an 8.8% ROE is flawed.

Q. Has there been a significant shift in the markets that warrant reexamining the ROE set in the 2018 base rate case?

A. No. This is evident by Mr. Kahal's proposed ROE range of 8.5% - 9.0% being essentially the same, except a higher bottom range, as the 8.1% - 9.1% range he proposed in the 2018 base rate case. There has not been a market shift rendering PSE&G's ROE no longer appropriate. Rate Counsel is simply ignoring the settlement of the 2018 base rate case and reverting back to their 2018 base rate case litigated position.

Q. Is there precedent for utilizing the utility's approved ROE for an infrastructure program?

A. Yes. In GSMP I, the Company proposed a 9.75% ROE and the parties agreed, "…any WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent revenue requirement calculations rather than the WACC stated above."[15] In GSMP II, the parties agreed that "PSE&G's capital structure and return on equity for GSMP II will be set based on the capital structure and return on equity level established in the Company's most recently approved base rate case."[16] In Energy Strong II, the parties agreed that "PSE&G shall earn a return on its net investment in the [Energy Strong II] based upon the authorized WACC including income tax effects decided by the Board in the Company's most recently approved base rate case."[17] These settlements clearly demonstrate approval of use of the utility's latest approved ROE in a base rate case for infrastructure programs.

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[15] *In Re Petition Of Public Service Electric and Gas Company for Approval of a Gas System Modernization Program and Associated Cost Recovery Mechanism*, BPU Docket No. GR15030272 at para 21 (November 16, 2015) ("GSMP I").
[16] GSMP II at para 18.
[17] *I/M/O The Petition of Public Service Electric and Gas Company for Approval of the Second Energy Strong Program (Energy Strong II)*, BPU Docket Nos. EO18060629 and GO18060630, Final Decision and Order Approving Stipulation at para 41 (September 11, 2019).

Q. Has the Board approved similar use of a base rate case-approved ROE in settlements for other NJ utility infrastructure programs?

A. Yes. Other infrastructure programs have been approved to use the latest base rate case ROE including South Jersey Gas's Accelerated Infrastructure Replacement Program II[18] approved in 2016, New Jersey Natural Gas's SAFE program approved in 2016,[19] Atlantic City Electric's Power Ahead Program approved in 2017,[20] and South Jersey Gas's Storm Hardening and Reliability Program (SHARP II) approved in 2018.[21]

Q. Should the weighted average cost of capital approved in the Company's base rate case be utilized for the Program?

A. Yes. While the Company's capital structure and long-term debt rate can change up or down on a monthly basis, the Board approved a WACC for PSE&G at 6.99% as that is the return the Company should target for all of its approved programs. Utilizing the rate case WACC appropriately puts the risk of large fluctuations in the long-term debt rate or the capital structure on the Company.

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[18] *I/M/O the Petition of South Jersey Gas Company to Continue its Accelerated Infrastructure Replacement Program ("AIRP") Pursuant to N.J.S.A. 48:2-21 and N.J.S.A. 48:2-21.1 and for Approval of a Base Rate Adjustment to Reflect AIRP Investments in Base Rates*, Docket No. GR16020175, Decision and Order Approving Stipulation of Settlement at 6 (October 31, 2016).

[19] *I/M/O the Petition of New Jersey Natural Gas Company for Approval of an Increase in Gas Base Rates and for Changes in its Tariff for Gas Service, Approval of SAFE Program Extension, and Approval of SAFE Extension and NJ RISE Rate Recovery Mechanisms Pursuant to N.J.S.A. 48:2-21, 48:2.21.1 and for Changes to Depreciation Rates for Gas Property Pursuant to N.J.S.A. 48:2-18,* Docket No. GR1511304, Decision and Order Approving Stipulation at para 27 (September 21, 2016).

[20] *I/M/O the Petition of Atlantic City Electric Company for Approval of Amendments to its Tariff to Provide for an Increase in Rates and Charges for Electric Service Pursuant to N.J.S.A. 48:2-21.1 and for Approval of a Grid Resiliency Initiative and Cost Recovery Related Thereto; and for Other Appropriate Relief (201) – Phase II,* Docket No. ER16030252, Order Approving Stipulation at para 14 (May 31, 2017).

[21] *I/M/O the Petition of South Jersey Gas Company to Continue its Storm Hardening and Reliability Program (SHARP II) and Associated Recovery Program, Docket No. GO17111130,* Decision and Order Approving Stipulation of Settlement at 5 (May 22, 2018) ("SHARP II").

Recovery Of CEF-EC Costs Through The Service Charge Is Appropriate.

Q: Do you agree with Mr. Peterson's assertions that because the Company's AMI deployment will be realized throughout all PSE&G's cost functions it appropriate to recover AMI-related costs in rate class energy and demand charges as well at the customer service charge?

A. No, I do not. While improvements to the safety, reliability and resiliency of PSE&G's distribution system could be felt through multiple cost functions, the same can be said about any other distribution system improvement. The governing principle in best-in-class rate design is to align rates with cost causation. Since the AMI deployment solely impacts the PSE&G metering function and gives rise to a fixed cost per customer that does not vary with customer usage, it is appropriately classified to the customer access function. It is appropriate to recover a fixed cost that does not vary with customer usage through monthly service charges that are not linked to how much commodity a customer uses in a given month.

Adverse Financial Implications Of Rate Counsel's Recommendation

Q. Have you considered the financial impact if the Company were to initiate the CEF-EC Program under the IIP with Rate Counsel's proposed adjustments?

A. Yes. A simple, high-level financial analysis demonstrates that initiating the Program with Rate Counsel's adjustments would have a significant negative financial impact on the Company. The Company's cost of capital was established in its last base rate case and that is what all projects are evaluated against. Earning a return at 80 basis points below the Company's cost of capital will certainly not encourage accelerated investment as the IIP is intended to do. However, the Company would not even be allowed to earn at Rate Counsel's proposed ROE, much less its allowed cost of capital. With Mr. Peterson's recommended rejection of the deferral of stranded costs (~$150 million) and incremental O&M (~$71 million), the Company would not be incentivized to *voluntarily* invest over $700 million and to incur unrecovered expenses of over $200 million in the first five years. Not only will the Company not earn its allowed ROE or Rate Counsel's proposed ROE over the implementation period of the program, it will incur Net Income ***losses*** over the first five years of the investment. Put simply, there is no way the Company can, or would, implement the Program with these adjustments.

Q. Does this conclude your testimony at this time?

A. Yes, it does.

Public Service Electric and Gas Company
Case Name: CEF-EC
Docket No(s): EO18101115

Response to Discovery Request: RCR-A-0010
Date of Response: 5/7/2020
Witness: Powell, Donna
Depreciation Rates and Annual Depreciation Expense

Question:
Refer to Ms. Powell's Direct Testimony, page 4, lines 15-16. Therein the witness states: "Without specific regulatory treatment, this will result in a significant adverse financial impact to the Company." Please illustrate and quantify the "significant financial impact to the Company" that will result if PSE&G's proposal to defer incremental depreciation expenses and amortize the deferrals over five-years is denied.

Attachments Provided Herewith: 0

Response:
The schedule below demonstrates the accounting for the retirement of the existing meters over their remaining life of 5 years upon commencement of the replacement program. The schedule assumes ratable retirements for each year in the period. As highlighted below, an additional $154 million must be expensed over the 5 year period in order to fully amortize the cost of the existing meters. Without specific recovery of that cost, the Company will incur additional unrecovered expense of $154M.

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Total
Plant in Service:						
Gross Book Value at Beginning of the Year	251	201	151	100	50	
Less: Meter Retirements during year (assumes an equal retirement in each of the 5 years)	(50)	(50)	(50)	(50)	(50)	
Gross Book Value at End of the Year	201	151	100	50	-	
Accumulated Depreciation:						
Accumulated Dep'n Balance at Beginning of the Year	(35)	(30)	(24)	(15)	(3)	
Add: Depreciation Expense at approved existing rate of 9.89% (1)	(22)	(17)	(12)	(7)	(2)	(62)
Add: Additional Dep'n required to fully retire meters by the end of the 5 year period	(23)	(27)	(29.42)	(30)	(45)	(154)
Less: Meter Retirements during year (assumes an equal retirement in each of the 5 years)	50	50	50	50	50	
Accumulated Dep'n Balance at End of the Year	(30)	(24)	(15)	(3)	-	
Net Book Value	171	127	85	47	-	
(1) - as approved in the Company's latest Base Rate Case effective 11/1/2018						

This would have a material adverse impact to our financial position, earnings and cash flows. These costs were prudently incurred and deserve appropriate recovery. The Company would not move forward with AMI implementation without recovery of these prudently incurred costs.

The Company has proposed five years amortization to recover these stranded costs which is a reasonable period of time to recover the original investment. This balances the recovery reasonable and prudent costs by the Company while mitigating the rate impact to customers.

Public Service Electric and Gas Company
Case Name: CEF-EC
Docket No(s): EO18101115

Response to Discovery Request: RCR-E-0013
Date of Response: 5/7/2020
Witness: Daum, Frederick
Stranded Costs of Meters

Question:
Refer to the Company's Petition, Introduction page 15, which estimates that the stranded costs of meters removed to make way for AMI will be $216 million.
a. Did the Company consider deploying AMI over a longer time frame, for example, as the existing meters reached zero book value, to better maximize the value customers would receive from existing meters for which they are paying, and for which they will continue to pay? If not, explain why not.
b. Provide any and all analyses the Company completed to compare the benefits and costs of a graduated AMI roll-out to the benefits and costs of the five-year roll-out the Company is proposing.
c. Indicate where in the Company's benefit-cost analysis (Daum testimony, page 27, Figure 5) the opportunity cost to customers of removing existing meters with remaining book value to make way for AMI meters is recognized. If the Company did not include such costs in its benefit-cost analysis, please explain why not.

Attachments Provided Herewith: 0

Response:

a. Yes, PSE&G did consider deploying AMI over a longer time frame. Slow moving, sporadic, AMI dispersed deployment models are likely to result in poorer performance and an increased network infrastructure equipment and corresponding costs due to meter density not being at levels needed for reliable communications. This can result in more truck rolls to both troubleshoot communication issues and/or install additional network equipment. Only changing meters that reach the end of their useful life has been evaluated. With this approach, it takes more time to create an adequate mesh and does require a more expensive network design. There will be higher labor costs involved if small numbers or areas are changed or if some meters in a multi meter building are changed, but not others. From a customer experience perspective, there would be a great disparity between customers as to when they would fully realize the CEF-EC program benefits. This approach has been seen to introduce confusion with consumers who learn from neighbors at social settings that the neighbor's meter was changed but theirs was not. Selecting a longer deployment period results in other cost drivers, including delayed benefits accrual, since routes with only some AMI meters still require meter reading, collection, and special reading service to remain in place. The positive benefit-cost analysis (BCA) presented in testimony shows that the value associated with full deployment of AMI at this time is materially greater than from the value from persisting with existing meters. This is true irrespective of the book value associated with existing meters. To extend the timeframe for deployment does not create additional value and only reduces and delays the benefits accruing to PSE&G customers.

b. Please see the response to part (a) above.

c. The BCA does not include the remaining book value of AMI meters as a cost. It is not appropriate to do so. The CEF-EC should be evaluated on the benefit that it delivers relative to costs associated with its deployment, operation and maintenance. Whether the assets associated with prior investments are partially or fully depreciated at the time of this evaluation should have no bearing on the relative merits of this particular investment decision.