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 EFFICIENCY ("CEF-EE") PROGRAM ON A REGULATED BASIS

BPU Docket Nos. GO18101112 and EO18101113

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

APRIL 15, 2019

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I. INTRODUCTION

Q. Please state your name and title.

A. My name is Stephen Swetz. I am the Senior Director – Corporate Rates and Revenue Requirements, PSEG Services Corporation.

Q. Have you submitted testimony previously in this PSE&G Energy Efficiency proceeding?

A. Yes. I submitted direct testimony in support of the proposed cost recovery methodology, including projected rate and bill impacts, related to the Clean Energy Future-Energy Efficiency Program ("CEF-EE" or "Program") of Public Service Electric and Gas Company ("PSE&G" or "the Company"). My credentials are set forth in Schedule SS-CEF-1 of my direct testimony.

Q. What is the purpose of your rebuttal testimony?

A. I will address two of the four recommendations proposed by New Jersey Division of Rate Counsel ("Rate Counsel") witness Dante Mugrace. First, I do not agree with Mr. Mugrace's adjustment to shorten the amortization period for Residential and Commercial and Industrial program investments. Second, I accept his recommendation to update the rate of return on investment for the CEF-EE Program upon Board approval of any change in the Company's return on equity ("ROE") in future rate case proceedings.

I will also address some of Rate Counsel witness Dr. David Dimsukes' arguments against the Green Enabling Mechanism ("GEM"). Specifically, I will explain why the Basic Gas Supply Service ("BGSS") savings test as utilized in the New Jersey Natural Gas ("NJNG") and South

Jersey Gas ("SJG") Conservation Incentive Program ("CIP") cannot be applied to PSE&G. I will also address Dr. Dismukes contention that the Company has not showed the need for the GEM.

Q. Can you summarize Mr. Mugrace's recommendations if any portion of the CEF-EE program is approved?

A. Mr. Mugrace has four recommendations with regard to cost recovery for the CEF-EE Program:

1. The Company's proposed budget for capitalized IT costs is not properly supported and should not be approved.
2. The amortization period for certain investments should be shortened to a period of 7 years rather than the proposed 15 years.
3. The administrative costs should be capped at 10% of the total investment cost and should be reviewed in future annual filings.[1]
4. The rate of return on investment should be updated upon Board approval of rates in future base rate proceedings.

Company witness Karen Reif will address Mr. Mugrace's recommendations with regard to the capitalized IT costs and the administrative cost cap.

II. AMORTIZATION PERIOD

Q. Why does Mr. Mugrace recommend a 7-year amortization period?

A. On page 11 of his direct testimony, Mr. Mugrace argues that the proposed 15-year amortization period will result in more debt, equity returns, and taxes than his proposal for a 7-year amortization. He goes on to state that the cost to ratepayers of a "longer" amortization period will intensify if the Company continues its energy efficiency efforts in the future.

[1] In response to PS-RC-DM-6, Mr. Mugrace clarified that the 10% cap referenced on page 8 of his direct testimony was included in error. Mr. Mugrace recommends that administrative costs should be capped and reviewed in future annual filings, but he does not specify the cap amount.

Q. Do you agree with Mr. Mugrace's recommendation?

A. No, I do not. The Company's proposed 15-year amortization period is consistent with accounting and cost causation principles supporting cost recovery over the economic useful life of the underlying asset. Even Mr. Mugrace acknowledges in his response to PS-RC-DM-2(c) that, "as a general principle . . . basic rate-making theory provides that costs and benefits should be matched."

Q. What is the basis for the Company's proposed 15-year amortization period?

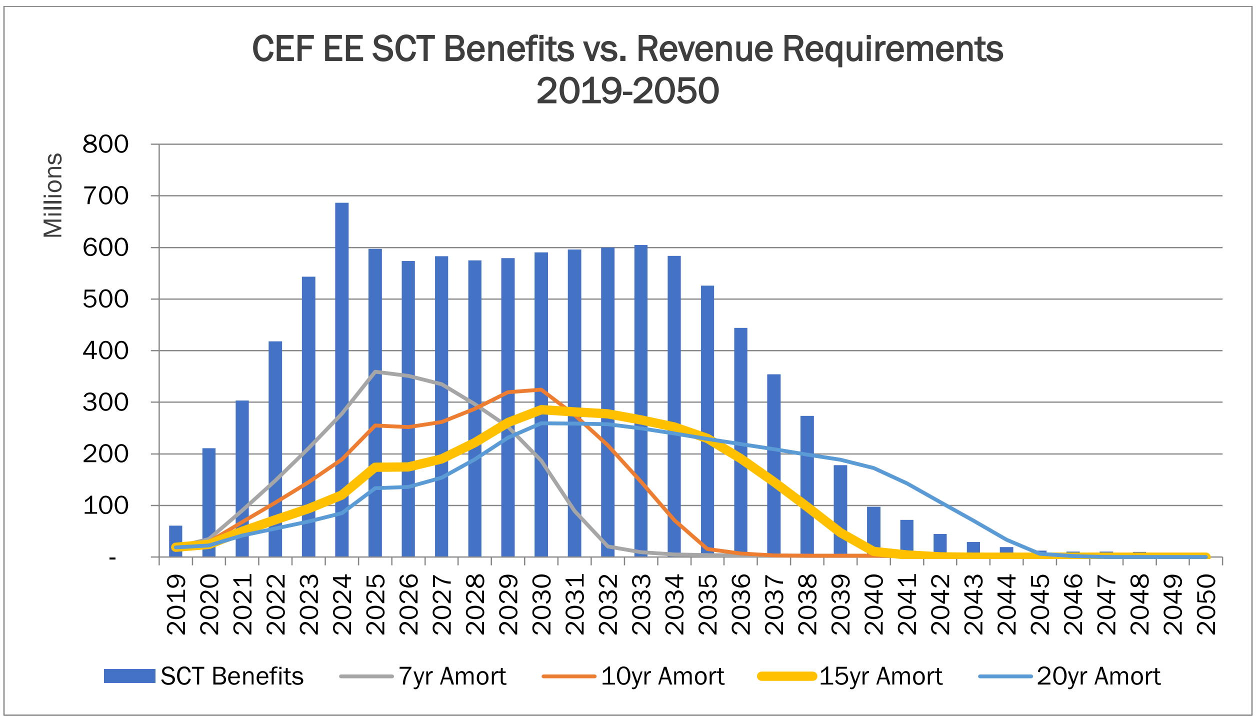
A. As described in the response to S-PSEG-EE-ENE-0003, the amortization period was calculated based on the weighted average useful life of all measures proposed to be installed under the CEF-EE program. The purpose of using this methodology is to align the costs of the Program with its benefits to avoid intergenerational inequity. While the Residential and Commercial and Industrial program investments are regulatory assets and not depreciable, the same logic applies. In the detailed depreciation study that was recently conducted in the Company's 2018 base rate case, the Company's assets were reviewed to set depreciation rates based on the assets' remaining useful lives. The Company utilized a similar approach in the CEF-EE filing, by evaluating the useful life of each measure to be installed and calculating a weighted average depreciation rate to be applied to each measure.

Q. Has anyone disputed the measure lives proposed for the program?

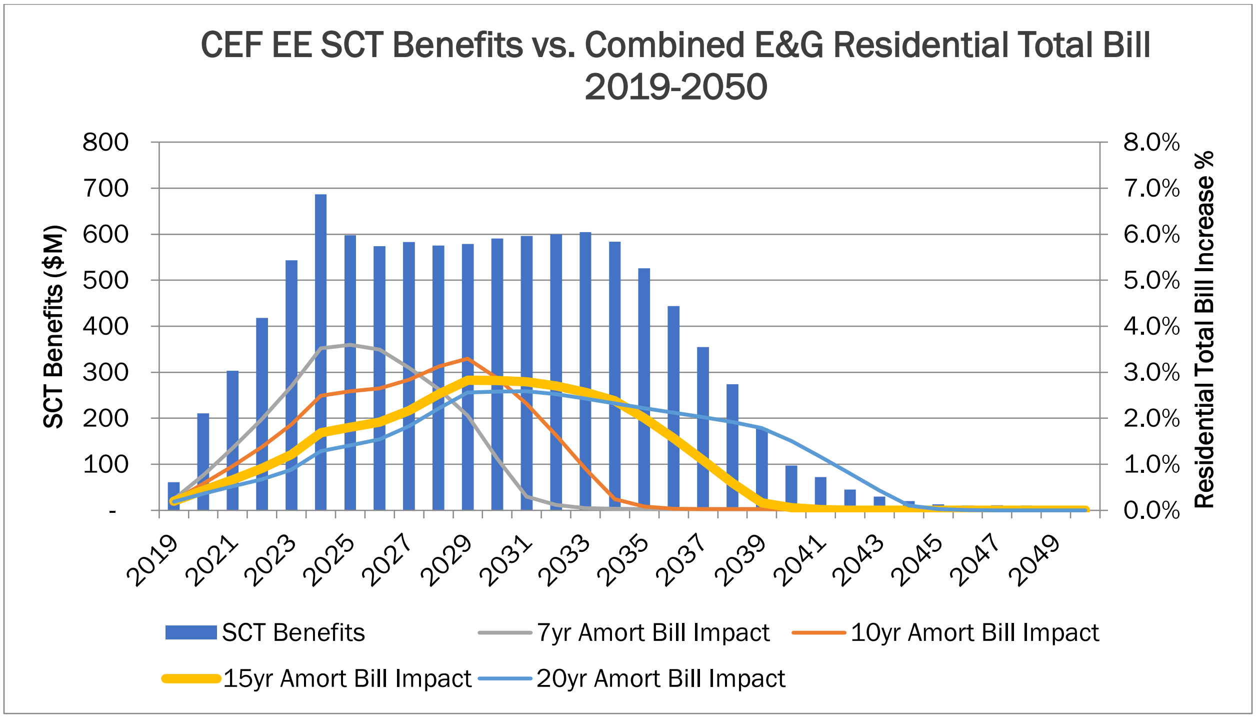
A. No. The Company provided detail on the measure lives in workpaper WP-KR-CEF-EE-1 and provided further detail on the measure screening in responses to RCR-EE-0024 and RCR-POL-0028. However, no witness raised objections or proposed any adjustments to the Company's proposed measure lives. In fact, Mr. Mugrace in his response to PS-RC-DM-2 accepted the Company's proposed 15-year measure life.

Q. Has the Company demonstrated that the 15-year proposed amortization period best matches the cost to customers with the benefits over the measure lives?

A. Yes. In response to S-PSEG-EE-ENE-0020, the Company graphed the revenue requirements under a 7, 10, 15 and 20 year amortization period compared to the benefits of the measures installed. As shown in the tables below, the 15-year amortization period best matches the revenue requirement to the benefits. There is a 90% correlation between the benefits and the revenue requirements under the 15-year amortization period versus only a 67% correlation under the 7-year amortization period proposed by Rate Counsel; under the shorter amortization period, customers are paying more upfront than they need to so future customers pay less.



The same correlation exists when looking at the residential total bill impact percentage.



Q. Do you agree with Mr. Mugrace that a 7-year amortization period results in a lower total revenue requirement over the entire program period?

A. The shorter 7-year amortization period does have a lower total revenue requirement over the entire program period on a nominal basis compared to the proposed 15-year amortization period. However, the "real cost" of these revenue requirements to ratepayers must take into account the time value of money by applying a discount rate to future revenue requirements. While the appropriate discount rate could be debated, the difference in the net present value of revenue requirements between the 7-year and 15-year amortization periods would be significantly lower than the nominal difference. In addition, as shown in the charts above, customers would be paying significantly more in the initial 7 years of the program with the 7-year amortization period than under the 15-year amortization period. In fact, customers would pay more with a 7-year amortization period from program start through around 2031. It is likely that many customers would prefer the lower near-term bill impacts associated with the 15-year amortization period.

Q. What support does Mr. Mugrace provide for his recommendation of a 7-year amortization period?

A. Mr. Mugrace does not provide any analysis or calculations that support using a 7-year period. Further, Mr. Mugrace did not identify any calculation errors in the Company's methodology. The support for his recommendation is limited to the fact that 7 years is less than 15 years, and therefore the former would reduce total Program cost. Also, Mr. Mugrace relies on the fact that the Company agreed to a 7-year amortization period in its last two energy efficiency program filings.

Q. Do you agree with this logic?

A. While I do agree that a 7-year amortization period will have less total nominal costs than a 15-amortization program, the same argument can be made for a 14- or a 13-year amortization period. PSE&G requests that the Board consider, if the Company arbitrarily requested a 20 or 30-year amortization period, would Rate Counsel then support a 15 year amortization period since it would result in lower nominal costs than the Company's proposal? Ultimately, there should be some underlying logic to the period chosen, and not the selection of some arbitrary figure.

While a 7-year period was approved for the Company's prior two energy efficiency programs, that amortization period was part of a comprehensive settlement of those cases. There is no analysis or discussion in the settlement agreements explaining why seven years is appropriate, nor did either settlement state that seven years should apply to future programs. The Board should not adopt an arbitrary figure simply because it was selected in the past.

Q. Does Mr. Mugrace make any other arguments against the 15-year amortization period?

A. Yes. Mr. Mugrace states on page 12 of his direct testimony that while the 15-year amortization period may better match costs, he believes that rates and benefits in this filing should not be considered in isolation, and that future impacts of continuing the program must be considered. As Mr. Mugrace further states, "[a]s future additional EE program are introduced, rate recoveries for these programs will become 'pancaked,' and ratepayers will be paying for multiple energy efficiency programs simultaneously."

Q. Do you agree with Mr. Mugrace?

A. While I do not dispute that the Company may continue its energy efficiency efforts in the future (especially considering the mandate of the Clean Energy Act that utilities reduce customers' energy consumption) and customers may be paying for multiple energy efficiency programs simultaneously, I do not agree that those facts support a 7-year amortization period. First, the "pancaking" effect of multiple energy efficiency programs would apply to the benefits as well as the costs. If the future energy efficiency programs are cost-beneficial and the amortization period is based on the measure lives, the benefits will continue to outweigh the costs. Second, the proposed 7-year amortization period accelerates upfront costs to reduce costs in the future, resulting in intergenerational inequity. That intergenerational inequity would be exacerbated if continued into the future as costs continue to be collected over a shorter time period than the benefits will last.

In addition, the Company estimated the impact of continuing the program at 2024 levels with a 2% escalation through September 2030 to evaluate the impact to customers of a 15-year amortization period versus a 7-year amortization period. While the nominal cost over the entire program would be higher, bill impacts will remain lower under the 15-year amortization proposal through 2030. Further, the maximum average monthly impact under the 15-year amortization period would be only $0.62 higher than under the 7-year amortization period and occurs four years later (in 2034 vs 2031).

III UPDATING THE RATE OF RETURN

Q. Do you agree with Mr. Mugrace's recommendation that the CEF-EE rate of return be updated upon Board approval of rates in future base rate proceedings?

A. Yes, I do. I agree with Mr. Mugrace recommendation that the Company's rate of return should be updated upon Board approval in future base rate cases. In fact, I proposed as such in my initial testimony, page 3, lines 3-6.

IV. THE GEM

Q. What is the BGSS savings test utilized by NJNG and SJG in their CIP?

A. According to Dr. Dismukes, the CIP utilized by NJNG and SJG utilizes a BGSS savings test that "only allows for the recovery of revenue losses when a verifiable loss of capacity requirements has occurred, as reflected in the reduction of a utility's need for pipeline transportation and storage capacity." Dismukes Direct, p. 34, lines 16-18.

Q. Can the same BGSS savings test be applied to PSE&G?

A. No. First, Company witness Daniel Hansen addresses some of the flaws with the BGSS savings utilized in the CIP. Second, the CIP BGSS savings test has no equivalent for the electric business, and the proposed CEF-EE Program is approximately 80% electric. Even Dr. Dismukes admits there is not an equivalent test on the electric side of the business. See Dismukes testimony, at page 35. Third, for gas, PSE&G does not own any capacity; the capacity used to serve PSE&G's BGSS customers is owned by PSEG Power, which is the sole provider of gas for the Company's BGSS customers. Any short-term excess capacity from these contracts is used to make off-system sales of gas and capacity. The margin from these sales far outweighs the cost of maintaining these contracts on a regular basis. Also, margins from these off-system sales provide significant benefits to residential customers. Further, as the interest rate for the BGSS residential service gas is set at the Company's overall rate of return and only applies to over-collections, the Company has a financial incentive to pass back savings to customers as soon as possible. Given these facts, there is no equivalent supply savings test that can be applied to PSE&G similar to the BGSS savings test applicable under the CIP.

Q. Does Dr. Dismukes argue that the Company has not demonstrated a need for the GEM?

A. Yes. He states that the Company has not shown any negative financial impact on its ability to earn its ROE that will flow from implementation of CEF-EE.

Q. Do you agree with Dr. Dismukes?

A. No, I do not. Given that the majority of electric and gas revenues are collected volumetrically or through demand charges, any reduction in sales will have a negative financial impact for the Company. As the effort to expand energy efficiency grows, the negative financial impact will also grow.

Q. Have you quantified the impact of lost revenues from the proposed CEF-EE Program?

A. Yes. The Company provided the impact of lost revenues from the CEF-EE Program in response to Rate Counsel's request RCR-POL-0012. As shown in that response, the Company's lost revenue impact from CEF-EE just through 2024 is $166 million. It is important to note that while Dr. Dismukes and Dr. Hausman have proposed adjustments to the Company's cost-benefit analysis, which are being addressed by Company witness Isaac Gabel-Frank, no witness has disputed the measure lives or the estimated sales reductions used to calculate the lost revenues in RCR-POL-0012.

Q. Dr. Dismukes states in response to PS-RC-DED-12 and 13 that the Company would recover $3.6 billion over the next 26 years which would contribute to its ability to earn its ROE. Do you agree that the recovery of the CEF-EE revenue requirement is sufficient to address the impact of lost revenues?

A. No, I do not. First, the Company will not earn more than its allowed return for the Program, which is proposed at the 9.60% ROE approved in the 2018 base rate case. While $3.6 billion is certainly a large number, it is driven by the size of the investment and, as noted by Dr. Dismukes, is spread out over 26 years. Therefore, the Company's recovery of its revenue requirement for CEF-EE will never raise the ROE for the Company above its allowed return (assuming the ROE for the Program remains at the allowed ROE for PSE&G as proposed). Further, as shown in the response to RCR-POL-0012, if lost revenues are deducted from the Company's revenue requirement, its realized return on equity for its investment is approximately 4% through 2024, well below its allowed return of 9.60%.

Q. Has Dr. Dismukes reviewed the response to RCR-POL-0012 and if so, why does he not agree that CEF-EE lost revenues will impact the Company's ROE?

A. Dr. Dismukes acknowledges in his response to PS-RC-DED-13 that he reviewed the response to RCR-POL-0012, which provides estimated lost sales from CEF-EE, but argues that the Company has not demonstrated that it will be negatively impacted as a result of the proposed Program, presumably as RCR-POL-0012 only shows the ROE for CEF-EE, and he prefers to review the total forecasted ROE for the utility.

Q. Have you calculated the utility regulatory ROE from 2019 forward?

A. No, I have not. However, as a proxy, below is the impact the lost sales from the response to RCR-POL-0012 would have on the Company based on PSE&G's 2018 base rate case results. As shown in the table below, the lost revenues from CEF-EE will have a significant impact on the Company's ROE, dropping it 83 basis points by 2024.

ROE Impact Scenarios	
	2018 Rate Case
Rate Base	9,510,590
Common Equity %	54%
Common Equity	5,135,718
Allowed ROE	9.60%
Allowed Net Income	493,029
ROE with CEF Lost Sales	
2019	9.58%
2020	9.47%
2021	9.32%
2022	9.16%
2023	8.98%
2024	8.77%
ROE Deficiency with CEF-EE Lost Sales	
2019	-0.02%
2020	-0.13%
2021	-0.28%
2022	-0.44%
2023	-0.62%
2024	-0.83%

Q. Does this conclude your rebuttal testimony?

A. Yes it does.