



Agenda Date: 10/11/23  
Agenda Item: 2A

**STATE OF NEW JERSEY**  
**Board of Public Utilities**  
44 South Clinton Avenue, 1<sup>st</sup> Floor  
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Trenton, New Jersey 08625-0350  
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ENERGY

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”)	)	DECISION AND ORDER
	)	APPROVING STIPULATION OF SETTLEMENT
	)	DOCKET NO. GR17070776
	)	
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 III”)	)	DOCKET NO. GR23030102
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	)	

**Parties of Record:**

**Danielle Lopez, Esq.**, Public Service Electric and Gas Company  
**Brian O. Lipman, Esq., Director**, New Jersey Division of Rate Counsel  
**Steven S. Goldenberg, Esq.**, Giordano, Halleran and Ciesla, P.C. for New Jersey Large Energy Users Coalition  
**Anthony R. Francioso, Esq.**, Fornaro Francioso LLC for Environmental Defense Fund  
**Murray E. Bevan, Esq.**, Bevan, Mosca & Giuditta P.C. for NRG Energy, Inc.

BY THE BOARD:<sup>1</sup>

By this Decision and Order, the New Jersey Board of Public Utilities (“Board” or “BPU”) considers a stipulation of settlement (“Stipulation”) executed by Public Service Electric and Gas Company (“PSE&G” or “Company”), Board Staff (“Staff”), the New Jersey Division of Rate Counsel (“Rate Counsel”), the New Jersey Large Energy Users Coalition (“NJLEUC”), and NRG Energy, Inc. (“NRG”) (collectively, “Signatory Parties”) in the above-captioned matters. The Environmental Defense Fund (“EDF”), an intervener in this matter, did not execute the Stipulation but on October 3, 2023, submitted a letter of non-objection to the settlement.

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<sup>1</sup> Commissioner Marian Abdou recused herself due to a potential conflict of interest and as such took no part in the discussion or deliberation of this matter.

## **BACKGROUND**

On March 1, 2023, PSE&G filed a petition with the Board seeking approval of the next phase of its Gas System Modernization Program (“GSMP”) and an associated cost recovery mechanism pursuant to N.J.A.C. 14:3-2A (“Petition”).<sup>2</sup> The Company’s proposed program (“GSMP III”) includes a three (3)-year term with a total investment level of approximately \$2.54 billion, as an extension of the Company’s original GSMP and second GSMP (“GSMP II”) programs.<sup>3</sup>

Via GSMP III, the Company proposed to replace 1,140 miles of gas main, consisting of 810 miles of low-pressure cast iron main, 50 miles of high-pressure cast iron main, 200 miles of unprotected steel main, and 80 miles of cathodically protected steel and plastic main (“Replacement Subprogram”). PSE&G estimated that, through the proposed program, the Company would replace 380 miles of main annually over the three (3)-year period from 2024 to 2026, beginning January 1, 2024. The proposed Replacement Subprogram also included abandonment of approximately 210 district regulators, replacement of approximately 92,100 unprotected steel services, and relocation of approximately 49,200 inside meter sets to the outside. The Company estimated the Replacement Subprogram would cost approximately \$2.39 billion and reduce greenhouse gas emissions by approximately 59,000 metric tons of carbon dioxide equivalent (“CO<sub>2</sub>e”) by the end of 2026.

Additionally, PSE&G proposed a hydrogen blending project that included the installation of a one-megawatt power-to-gas facility to provide the Company’s distribution system with a 2% blended supply of hydrogen (“Hydrogen Project”). The Company estimated the Hydrogen Project would cost approximately \$30 million, and reduce greenhouse gas emissions by approximately 1,000 metric tons of CO<sub>2</sub>e.

The Company further proposed to conduct a Renewable Natural Gas (“RNG”) project (“RNG Project”), to upgrade landfill gas to “pipeline quality” specifications before injection into the gas distribution system. According to the Company, the RNG Project would cost approximately \$123 million and would result in quantified net reductions for nitrogen oxides, carbon monoxide, sulfur dioxide, particulate matter 2.5, and particulate matter 10 air pollutants.

PSE&G proposed to recover GSMP III costs via a new gas rate component of the Company’s IIP charges with semi-annual rate adjustment filings beginning June 30, 2024. The Company proposed to include depreciation/amortization expense providing for the recovery of the invested capital over its useful book life, return on the net investment, and the impact of any tax adjustments applicable to the program for recovery in its rates. PSE&G further proposed to base its return on net investment upon the weighted average cost of capital (“WACC”) approved by the Board in PSE&G’s most recent base rate case and that any change in the WACC authorized by

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<sup>2</sup> On December 19, 2017, the Board adopted new regulations for utility “Infrastructure Investment and Recovery” supporting the implementation of an Infrastructure Investment Program (“IIP”), which allows a utility to accelerate its investment in the construction, installation, and rehabilitation of certain non-revenue producing utility plant and facilities that enhance safety, reliability, and/or resiliency (“II&R Regulations”). The rules are codified at N.J.A.C. 14:3-2A.1 et seq. and became effective on January 16, 2018.

<sup>3</sup> See In re Public Service Electric and Gas Company for Approval of a Gas System Modernization Program and Associated Cost Recovery Mechanism, BPU Docket No. GR15030272, Order dated November 16, 2015, and In re 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, Order dated May 22, 2018 (“GSMP II Order”).

the Board in any subsequent base rate case be reflected in the subsequent revenue requirement calculations.<sup>4</sup>

PSE&G also proposed to include an operations and maintenance (“O&M”) expense adjustment to account for cost savings from leak reductions resulting from the Replacement Subprogram and ongoing annual expenses related to the O&M of the proposed Hydrogen and RNG Projects. Additionally, the Company proposed to credit revenue associated with the sale of gas from the Hydrogen and RNG Projects and environmental attributes, and net any selling expenses from the RNG Project, to its Basic Gas Supply Service-Residential Service Gas deferral balance.

### **PROCEDURAL HISTORY**

On February 15, 2023, Governor Philip J. Murphy issued Executive Order 317 (“EO317”) ordering the BPU to initiate a formal stakeholder process regarding the development of natural gas utility plans that reduce emissions from the natural gas sector to levels that are consistent with achieving the State’s 50 percent reduction in greenhouse gas emissions below 2006 levels by 2030, as directed in Executive Order No. 274 (2021). EO317 further ordered the BPU to issue a report no later than 18 months from the date of EO317 summarizing the findings of the proceeding. Furthermore, the report will provide recommendations to address issues raised in the proceeding, while advancing the goal of reducing greenhouse gas emissions and keeping costs to ratepayers in check.

By Order dated April 12, 2023, the Board determined that the Petition should be retained by the Board for hearing and, pursuant to N.J.S.A. 48:2-32, designated Commissioner Zenon Christodoulou as the presiding officer authorized to rule on all motions that arise during the pendency of the proceedings and modify any schedules.<sup>5</sup> Additionally, the April 2023 Order directed that entities seeking to intervene or participate in this matter file the appropriate application with the Board by May 12, 2023, and that any party wishing to file a motion for admission of counsel *pro hac vice* should do so concurrently with any motion to intervene or participate.

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<sup>4</sup> In re the Petition of Public Service Electric and Gas Company for Approval of an Increase in Electric and Gas Rates and for Changes in Tariffs for Electric and Gas Service, B.P.U.N.J. No. 16 Electric and B.P.U.N.J. No. 16 Gas, and for Changes in Depreciation Rates, Pursuant to N.J.S.A. 48:2-18, N.J.S.A. 48:2-21 and N.J.S.A. 48:2-21.1, and for Other Appropriate Relief, BPU Docket Nos. ER18010029 and GR18010030, OAL Docket No. PUC 01151-18, Decision and Order Adopting Initial Decision and Stipulation dated October 29, 2018.

<sup>5</sup> In re the Petition of Public Service Electric and Gas Company for Approval of the Next Phase of the Gas System Modernization Program and Associated Recovery Mechanism (“GSMP III”), Order Designating Commissioner and Setting Manner of Service and Bar Date, BPU Docket No. GR23030102, Order dated April 12, 2023 (“April 2023 Order”).

On June 27, 2023, Commissioner Christodoulou issued an Order ruling on the motions to intervene and/or participate.<sup>6</sup> In the June 2023 Order, Commissioner Christodoulou granted intervenor status to NJLEUC, EDF, and NRG.<sup>7</sup> Additionally, Commissioner Christodoulou granted participant status to New Jersey Natural Gas Company, Waters & Bugbee, Inc., the Engineers Labor-Employer Cooperative, Ferreira Construction Company, Inc., Middlesex County Utilities Authority, South Jersey Gas Company and Elizabethtown Gas Company, the New Jersey Laborers-Employers Cooperation and Education Trust, AARP, Local 94 International Brotherhood of Electrical Workers, EmpowerNJ, UA Local 855, and Creamer-Sanzari Joint Venture.

Following proper notice, two (2) virtual public hearings were held on July 31, 2023.<sup>8</sup> The public hearings were well attended by the public, the parties, and municipal officials. The majority of the attendees were supportive of the program. The Board also received numerous written comments from constituents in support of the program.

## **STIPULATION**

Following initial discovery and several settlement meetings, the Signatory Parties executed the Stipulation, which provides for the following:<sup>9</sup>

### **I. GSMP II**

11. Recognizing that the BPU and Staff are currently engaged in a stakeholder process to implement EO317 (BPU Docket No. GO23020099)<sup>10</sup>, the Signatory Parties agree that, subject to Board approval of the Stipulation, PSE&G may extend the GSMP II under the terms and conditions described in the Stipulation (“GSMP II Extension” or “Program”). Subject to the modifications set forth in the Stipulation, the GSMP II Extension will include continued investment in the PSE&G gas distribution system, continued use of the accelerated rate recovery mechanism established in the GSMP II Stipulation<sup>11</sup> (“GSMP II Rate Mechanism”) including rate adjustments for investments included in the GSMP II Rate Mechanism, continued required gas distribution base investments that are not recoverable through the GSMP II Rate Mechanism (“Stipulated Base”), a continued annual baseline capital expenditure, and other provisions as described in the Stipulation. The Hydrogen and RNG Projects

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<sup>6</sup> In re the Petition of Public Service Electric and Gas Company for Approval of the Next Phase of the Gas System Modernization Program and Associated Recovery Mechanism (“GSMP III”), Order on Motions to Intervene or Participate, BPU Docket No. GR23030102, Order dated June 27, 2023 (“June 2023 Order”).

<sup>7</sup> The motion filed by NRG Energy Inc. was also filed on behalf of its affiliates Reliant Energy Northeast, LLC, d/b/a NRG Home/NRG Business; Energy Plus Natural Gas LP; Xoom Energy New Jersey, LLC; Stream Energy New Jersey, LLC; Direct Energy Services, LLC; Direct Energy Business, LLC; Direct Energy Business Marketing, LLC; and Gateway Energy Services Corporation.

<sup>8</sup> Due to the COVID-19 pandemic, public hearings were held virtually.

<sup>9</sup> Although summarized in this Order, should there be any conflict between this summary and the Stipulation, the detailed terms of the Stipulation are controlling, subject to the findings and conclusions of this Order. Paragraphs are numbered to coincide with the Stipulation.

<sup>10</sup> In re the Implementation of Executive Order 317 Requiring the Development of Natural Gas Utility Plans, BPU Docket No. GO23020099, Order dated March 6, 2023.

<sup>11</sup> The “GSMP II Stipulation” refers to the stipulation approved and adopted by the Board on May 22, 2018 via the GSMP II Order.

proposed in PSE&G's GSMP III Petition will not proceed as part of this GSMP II Extension.

**A. Program Term**

12. Pursuant to Paragraph 14 of the GSMP II Stipulation, the GSMP II Extension will commence on January 1, 2024 and end on December 31, 2025, except for close out work as defined in the Stipulation. The Company may undertake GSMP II Extension non-construction expenditures, such as planning and engineering, upon Board approval of the GSMP II Extension.

**B. GSMP II Rate Mechanism**

13. Costs eligible for recovery under the GSMP II Rate Mechanism during the GSMP II Extension are subject to the terms described in Paragraphs 15 and 16 of the GSMP II Stipulation.
14. Costs eligible for recovery under the GSMP II Rate Mechanism during the GSMP II Extension shall include the costs to replace a minimum of 400 miles of PSE&G's Utilization Pressure Cast Iron ("UPCI") mains (and associated services) and/or Unprotected Steel mains (and associated services).
15. Costs eligible for recovery under the GSMP II Rate Mechanism during the GSMP II Extension shall not exceed \$752 million.
16. If the Company incurs costs in excess of \$752 million to replace the 400-mile minimum noted in Paragraph 14 of the Stipulation, such costs may be credited toward the \$225 million baseline capital expenditure requirement noted in Paragraph 20 of the Stipulation, or may be used to satisfy the Stipulated Base requirement set forth in Paragraph 19 of the Stipulation. If the Company completes the 400-mile minimum for an amount below \$752 million, it may complete additional miles of main replacement up to the \$752 million level in the GSMP II Rate Mechanism.
17. Paragraph 17 of the GSMP II Stipulation, which articulates and applies a "cost per mile" threshold to cost recovery, will not apply to the GSMP II Extension.

**C. Capital Structure/Return on Equity**

18. PSE&G's capital structure and return on equity for the GSMP II Extension will be set based on the capital structure and return on equity level established in the Company's most recently approved base rate case.

**D. Stipulated Base**

19. The Company shall spend a total of \$150.4 million on certain capital projects during the GSMP II Extension that will not be recovered through the GSMP II Rate Mechanism, with no less than \$20 million expended in each calendar year from 2024 through 2025. The amounts expended under Paragraph 19 of the Stipulation will be considered Stipulated Base expenditures and proposed to be recovered in the Company's future base rate cases, subject to a prudence review. Stipulated Base expenditures during the GSMP II Extension may include the same categories of work

described in Paragraphs 15 and 21 of the GSMP II Stipulation.

#### **E. Baseline Capital Expenditures**

20. During the term of the GSMP II Extension, in addition to the Stipulated Base expenditures set forth in the Stipulation, the Company agrees to maintain a minimum annual baseline capital expenditure level of at least \$225 million in gas investments.<sup>12</sup> The capital investments made by the Company as part of its baseline capital expenditure requirements are within the discretion of the Company and may include, inter alia, costs incurred by the Company in excess of \$752 million on its replacements under the GSMP II Rate Mechanism. If the Company fails to maintain an annual baseline capital expenditure level prescribed in the Stipulation or in the GSMP II Stipulation, as applicable, the amount of investment eligible for recovery through the GSMP II Rate Mechanism for the subsequent year will be reduced by an amount equal to the difference between the applicable baseline and the actual annual capital expenditure made by the Company. However, if the Company fails to maintain, for more than one (1) year during the Program, an annual baseline capital expenditure of at least the applicable agreed level, no recovery of GSMP II Rate Mechanism eligible costs will be permitted during the second and any subsequent year for which the annual baseline expenditure is not met. If the annual baseline capital expenditure is not met for a second and any subsequent year, then traditional ratemaking practices will apply for that year and there will be no deferral of any GSMP II Rate Mechanism related costs for that year. Instead, all GSMP II Rate Mechanism-related costs for the second and any subsequent year(s) in which the annual baseline capital expenditure level were not met will be reviewed in the Company's next base rate case and recovered through base rates, if reasonable and prudent. PSE&G may request and the Board may grant an exception from the requirements of Paragraph 20 of the Stipulation based on extraordinary circumstances, such as "Major Event" (as defined at N.J.A.C. 14:5-1.2), acts of war or terrorism, or other force majeure extraordinary circumstances.
21. Investments made by the Company to extend service to new customers, extend additional service to existing customers, or investments made pursuant to Stipulated Base spending requirements in other Board-approved programs, will not be included as part of the annual baseline capital expenditures required pursuant to Paragraph 21 of the Stipulation.

#### **F. Prioritization of Projects**

22. The replacement of mains in the GSMP II Extension shall be prioritized as described in Paragraph 23 of the GSMP II Stipulation.
23. During the GSMP II Extension, the Company shall continue the advanced leak detection program as described in Paragraph 24 of the GSMP II Stipulation. Considering the two (2)-year term of this GSMP II Extension, the methane leak survey

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<sup>12</sup> This level is consistent with the gas baseline capital expenditure level included in the Company's June 2022 stipulation in In re the Petition of Public Service Electric and Gas Company for Approval of an Infrastructure Advancement Program (IAP), BPU Docket Nos. EO21111211 and GO21111212, as approved by the Board on June 29, 2022.

will be conducted over all B grids [10-15 Hazard Index per mile (“HI/mile”)]. Any grid exceeding the threshold established based upon the survey data, and in consultation with EDF, is anticipated to be replaced in the first year of the GSMP II Extension, up to a maximum of 95 miles of UPCI replacement. Additional factors such as construction efficiencies and logistics will also be taken into account in the scheduling of the grids as outlined in Paragraph 24 of the GSMP II Stipulation.

- 24. All costs incurred by the Company in connection with the foregoing shall be recoverable as detailed further in the Stipulation. The costs recoverable for methane leak surveying during the Program shall not exceed the annual O&M expense savings related to leak reductions from the Program as defined in Paragraph 33(a) of the GSMP II Stipulation, and in no event shall exceed \$1,508,400.
- 25. The Company agrees to report on the above-referenced methane leak survey activity as noted in Attachment D to the GSMP II Stipulation, with reports to be submitted on March 1, 2025 and March 1, 2026.

**G. Leak Metrics**

- 26. The Company agrees to continue to reduce its year-end open leak inventory by one percent for each year of the GSMP II Extension except under extraordinary circumstances such as extreme weather, acts of war or terrorism, or other force majeure extraordinary circumstances that prevent the achievement of the annual reduction. The cap for the first year of the GSMP II Extension will be set at the average number of year-end open leaks the Company has experienced during the prior five (5) calendar years (2019-2023). The cap would be reduced by one (1) percent for the second year of the GSMP II Extension as follows:

<b>Year</b>	<b>Year end Open Leaks</b>
2019	1123
2020	965
2021	808
2022	637
2023	nnnn
<b>5 Year Average</b>	xxxx

<b>Program Year</b>	<b>Year end Open Leaks Cap</b>
2024	xxxx
2025	xxxx-1%

27. Consistent with the Board's II&R Regulations, N.J.A.C. 14:3-2A.1 et. seq., if the Company exceeds the cap for any three (3) consecutive years during the combined GSMP II and GSMP II Extension the Company will reduce its return on equity ("ROE") under the Program by fifty (50) basis points until it achieves the leak reduction target. PSE&G may request, and the Board may grant, an exception from the requirements of Paragraph 27 of the Stipulation based on extraordinary circumstances, such as "Major event" (as defined at N.J.A. C. 14:5-1.2), acts of war or terrorism, or other force majeure extraordinary circumstances.

#### H. Cost Recovery

28. The Company may seek recovery through the GSMP II Rate Mechanism for the costs covered under Paragraph 13 of the Stipulation via a rate adjustment request with schedules, procedures, and filings as detailed in subsequent paragraphs in the Stipulation. Consistent with N.J.A.C. 14:3-2A.6(d), the Company proposes to continue to recover its costs associated with the GSMP II Rate Mechanism through the existing component of the Company's Infrastructure Investment Recovery Charges in its Gas tariff. Following completion of the GSMP II Extension, the estimated average monthly bill impact from the accelerated Program investments on a typical residential gas customer using a monthly average of 87 therms is expected to be an increase of approximately \$3.51, or 3.8%.
29. The Company will make three (3) total rate adjustments: two (2) rate adjustments to be made during the two (2)-year term of the GSMP II Extension in accordance with the parameters set forth in the Stipulation, and a third rate adjustment to capture GSMP II Extension close out work as referenced in Paragraph 35 of the Stipulation. Consistent with the Board's IIP rules codified at N.J.A.C. 14:3-2A, each of the first two (2) rate adjustments made by the Company must include a minimum investment level of 10% of the total amount authorized to be recovered via the GSMP II Rate Mechanism (i.e. \$75.2 million).<sup>13</sup> The Company must also meet the earnings test as specified at N.J.A.C. 14:3-2A(6)(h).
30. The Signatory Parties agree that GSMP II Rate Mechanism investments will result in O&M savings from leak reductions by replacing 400 miles of main. To flow these savings to customers, an O&M expense reduction of \$3,771/mile will be incorporated to each rate adjustment based upon the miles of main in service related to each rate roll-in, consistent with Paragraph 33(a) of the GSMP II Stipulation.

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<sup>13</sup> The Signatory Parties acknowledge that the third rate adjustment is not subject to the 10% minimum investment provision as the charges being sought are for GSMP II Extension close out charges.



31. The Signatory Parties agree that the review of the prudence of all project work undertaken in the Program will not take place prior to or in connection with the rate adjustments established in the Stipulation. The Company therefore agrees that the rate adjustments established in the rate filing proceedings (assuming the 10% minimum threshold noted in the Stipulation has been met) shall be provisional and subject to refund based upon a Board finding that the Company imprudently incurred capital expenditures under the GSMP II Extension. Such prudence review shall take place in a future base rate case. Nothing in the Stipulation will preclude any party from raising in the base rate case prudence review any objection that could have been raised in a prior IIP rate filing.
32. The Company shall file two (2) rate adjustment requests over the course of the two (2)-year Program term. To effectuate the cost recovery process for the GSMP II Rate Mechanism investments, the Company shall provide Staff and Rate Counsel with not less than 60 days' notice prior to the filing of a rate recovery petition. The Company shall be the sole determinant of the date of the filing of each rate adjustment request, but such rate adjustments shall not include less than six (6) months of investments.
33. Once filed, the Company shall proceed on the schedule in the Stipulation and implement new rates following public notice and public hearing, recognizing that the prudence of the GSMP II Extension investments will be determined in the base rate case following the placement of the GSMP II Extension investments into service.
34. The agreed timing for rate recovery petitions and other activities related to the recovery of GSMP II Extension investments, with examples for illustrative purposes only, is set forth below:

<b>Event</b>	<b>Timing</b>	<b>Example</b>
Notification of Filing Date	Not less than 60 days prior to Filing Date	As early as 7/1/24
Filing Date	First day of calendar month	As early as 9/1/24
Net Investment in Service as of	Net investment in service as of the last day of the third month from "Filing Date"	11/31/24
Update Filing for Actual Data	No later than 21 days following "Net Investment in Service as of" date	No later than 12/21/24
Rates Effective	No earlier than the 1st day of the fourth month following the "Net Investment in Service as of" date. After the completion of discovery and upon Board approval.	As early as 3/1/25

35. The Signatory Parties acknowledge that although the main replacement work for the GSMP II Extension is scheduled to be complete by December 31, 2025, close out work must wait 3 to 6 months following main installation. As a result, close out charges from contractors may lag into 2026. Such closeout work will be limited to final tie-ins, transfers, service replacements, and restoration associated with the mains placed in service prior to December 31, 2025. Accordingly, the Signatory Parties agree to a third and final roll-in to be filed consistent with the schedule in the Paragraph directly above, with a “net investment in service” as of no later than June 30, 2026, for rates effective as early as six (6) months following the filing date.
36. In the rate adjustment proceedings provided for in the Stipulation, the revenue requirement associated with the investments recovered through the GSMP II Rate Mechanism shall be calculated using the methodology provided in Paragraphs 31, 32 and 38 of the GSMP II Stipulation. Attached as Attachment A to the Stipulation is a sample revenue requirement calculation based on the estimated revenue requirement for the first rate adjustment.
37. O&M expenses associated with the GSMP II Extension, except those explicitly defined in part (a) below, will not be included in the annual revenue requirement filings nor will such costs be deferred.
  - a. The Signatory Parties agree that the GSMP II Extension will result in O&M savings from leak reductions at the same rate per mile of main replaced as provided in Paragraph 33(a) of the GSMP II Stipulation. To flow these savings to customers, an O&M expense reduction of \$3,771/mile will be incorporated to each rate adjustment based upon the miles of main in service related to each rate roll-in.
  - b. The Company agrees to conduct leak detection surveying as discussed in Paragraph 23 of the Stipulation. Because these leak detection surveying expenses are anticipated to be incurred in 2023-2024 upon Program approval, the Company will defer these expenses. The total deferred expense will be amortized over a two (2)-year period and the annual amortization amount will be included in the next rate roll-in revenue requirement following the completion of the amortization of the costs of the leak surveying completed in accordance with Paragraph 24 of the GSMP II Stipulation.

**I. Rate Design**

38. The rate design for the rate adjustments agreed upon in the Stipulation will be structured as described in Paragraph 39 of the GSMP II Stipulation.

## J. Base Rate Case Filing Requirement

39. Consistent with the II&R Regulations and GSMP II Stipulation, the Company will file a base rate case no later than January 1, 2024.<sup>14</sup> The prudence of any GSMP II Extension investment not reviewed and determined by the Board in the January 2024 rate case shall be reviewed and determined in a subsequent base rate case, which shall be filed no later than five (5) years after the approval of the Company's January 2024 rate case.
40. Notwithstanding the foregoing provision requiring PSE&G to file a base rate case no later than five (5) years from the start date of the Program, agreement to this five (5)-year period does not result in a waiver of Rate Counsel's right to challenge the legality of the IIP provision that authorizes IIPs up to five (5) years without the filing of a base rate case, or to argue in any other case that a period shorter than five (5) years is necessary to preserve the required nexus to a rate case.

## K. Reporting Requirements

41. The requirements in Paragraphs 42-44 of the GSMP II Stipulation shall apply to each rate adjustment filing described in the Stipulation. PSE&G will provide monthly reports on the Program to Staff and Rate Counsel setting forth the information in Attachment C of the GSMP II Stipulation beginning with the January 2024 report to be filed by April 1, 2024, and continue month-to-month until GSMP II Rate Mechanism and Stipulated Base expenditures are complete.

## II. GSMP III

42. The programs advanced by the Company in the Petition will be held in abeyance subject to the conditions described below.
43. No later than January 31, 2025, the Signatory Parties will convene for a status conference that will initiate a restart of the GSMP III proceedings.
44. The Signatory Parties agree that the restart described in Paragraph 43 of the Stipulation shall be done with the intent that any work under GSMP III, if approved, would commence on January 1, 2026.

## **DISCUSSION AND FINDINGS**

In evaluating a proposed settlement, the Board must review the record, balance the interests of the ratepayers and the shareholders, and determine whether the settlement represents a reasonable disposition of the issues that will enable the Company to provide its customers in this State with safe, adequate, and proper service at just and reasonable rates.<sup>15</sup> As discussed below, the Board finds that the Stipulation represents a fair and reasonable resolution of this matter and is in the public interest.

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<sup>14</sup> GSMP II Order at Stipulation ¶ 40.

<sup>15</sup> In re Petition of Pub. Serv. Elec. & Gas, 304 N.J. Super. 247 (App. Div.), cert. denied, 152 N.J. 12 (1997).

The II&R Regulations were created to provide a rate recovery mechanism that encourages and supports all necessary accelerated construction, installation, and rehabilitation of certain utility plant and equipment. The Board believes that IIPs are important for continued system safety, reliability, resiliency, and sustained economic growth. After carefully considering the record in this proceeding and the terms of the Stipulation, the Board is persuaded that the current settlement satisfies these goals.

The Board agrees that replacement of aging infrastructure, if properly executed, should mitigate potential damage to the system, as well as enhance public safety and result in increased long-term reliability. As noted above, the Stipulation will authorize PSE&G to conduct a two (2)-year extension of its GSMP II program, while the proposed GSMP III projects will be held in abeyance as the Board continues to advance its Future of Natural Gas proceeding (Docket No. GO23020099) initiated in response to EO317.

With respect to the proposed cost recovery mechanism, the Board notes that the mechanism proposed in the Stipulation allows the Company to recover all expenditures related to the utility plant placed in service, but on a provisional basis, subject to refund. These costs will be subject to review in PSE&G's next base rate case(s), which the Company has committed to filing no later than January 1, 2024.<sup>16</sup> The Board believes that the cost recovery mechanism adopted in the Stipulation strikes an effective balance between giving the Company a reasonable opportunity to earn its allowed rate of return over the life of the investment while still protecting ratepayers from paying more than reasonably necessary. No rates will be charged to customers until the facilities for which the rates are being charged are in service. The Stipulation also mandates the Company to maintain certain reporting requirements, which provides additional protection to ratepayers.

Based upon the Board's careful review and consideration of the record in this proceeding, the Board **HEREBY FINDS** the Stipulation to be reasonable and in accordance with the law, striking an appropriate balance between the needs of customers and of the Company.

Accordingly, the Board **HEREBY ADOPTS** the Stipulation in its entirety, and **HEREBY INCORPORATES** its terms and conditions as though fully set forth herein, subject to any terms and conditions set forth in this Order. As such, consistent with the terms of this Order and the Stipulation, the Board **HEREBY MODIFIES** the GSMP II Order.

The Board **HEREBY RATIFIES** the decisions made by Commissioner Christodoulou to date during the pendency of this proceeding for the reasons stated in his decisions and Orders.

The Company's costs, including those related to the Program, will remain subject to audit by the Board. This Decision and Order shall not preclude, nor prohibit, the Board from taking any actions determined to be appropriate as a result of any such audit.


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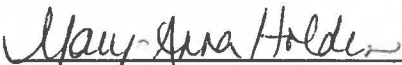
<sup>16</sup> See GSMP II Order (Page 11, Paragraph 40).

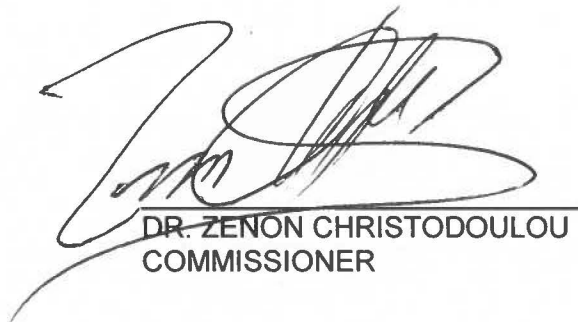
This Order shall be effective October 18, 2023.

DATED: October 11, 2023

BOARD OF PUBLIC UTILITIES  
BY:

  
CHRISTINE GUHL-SADOVY  
PRESIDENT

  
MARY-ANNA HOLDEN  
COMMISSIONER

  
DR. ZENON CHRISTODOULOU  
COMMISSIONER

ATTEST:

  
SHERRI L. GOLDEN  
SECRETARY

I HEREBY CERTIFY that the within  
document is a true copy of the original  
in the files of the Board of Public Utilities.

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")

DOCKET NO. GR17070776

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 III")

DOCKET NO. GR23030102

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October 3, 2023

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

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 Recovery Mechanism  
("GSMP III")  
BPU Docket No. GR23030102

***VIA ELECTRONIC MAIL***

Sherri Golden, Secretary  
Board of Public Utilities  
44 South Clinton Avenue, 1st Floor  
P.O. Box 350  
Trenton, New Jersey 08625-0350


Dear Secretary Golden:

Attached is a fully executed Stipulation regarding the above-referenced matters. The following entities, who are parties to both above-referenced matters, have signed the Stipulation: Public Service Electric and Gas Company, the Staff of the New Jersey Board of Public Utilities, the New Jersey Division of Rate Counsel, New Jersey Large Energy Users Coalition, and NRG Energy, Inc.

Consistent with the Order issued by the New Jersey Board of Public Utilities ("BPU or Board") in connection with In the Matter of 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, Order dated March 19, 2020, this filing is being electronically filed with the Secretary of the Board and the New Jersey Division of Rate Counsel. No paper copies will follow.

If you have any questions, please do not hesitate to contact me. Thank you for your consideration in this matter.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Joseph F. Accardo Jr.", written in a cursive style.

Joseph F. Accardo Jr., Esq.

cc: Attached service 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 RECOVERY MECHANISM ("GSMP III")

DOCKET NO. GR23030102

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STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES

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

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 III”)

BPU DOCKET NO. GR23030102

**STIPULATION TO EXTEND PUBLIC SERVICE ELECTRIC AND GAS COMPANY’S  
GAS SYSTEM MODERNIZATION PROGRAM II (“GSMP II”)**

**AND**

**TO HOLD IN ABEYANCE PUBLIC SERVICE ELECTRIC AND GAS COMPANY’S GAS  
SYSTEM MODERNIZATION PROGRAM III PROPOSAL (“GSMP III”)**

APPEARANCES:

**Joseph F. Accardo Jr., Esq.**, VP Regulatory & Deputy General Counsel, **Danielle Lopez, Esq.**, Associate Counsel - Regulatory, **Aaron I. Karp, Esq.**, Associate Counsel - Regulatory, for the Petitioner, Public Service Electric and Gas Company

**Brian O. Lipman, Esq.**, Director, **Maura Caroselli, Esq.**, Managing Attorney - Gas, **Sarah H. Steindel**, Assistant Deputy Rate Counsel, **Megan Lupo**, Assistant Deputy Rate Counsel and **Mamie W. Purnell**, Assistant Deputy Rate Counsel, for the New Jersey Division of Rate Counsel

**Matko Ilic**, Deputy Attorney General, for the Staff of the New Jersey Board of Public Utilities (**Matthew J. Platkin, Attorney General of New Jersey**)

**Steven S. Goldenberg, Esq.**, Giordano, Halleran and Ciesla, P.C., for the New Jersey Large Energy Users Coalition

**Murray E. Bevan, Esq.**, Bevan, Mosca & Giuditta P.C., for NRG Energy, Inc.



It is hereby AGREED, by and between Public Service Electric and Gas Company (“PSE&G” or the “Company”); the Staff of the New Jersey Board of Public Utilities (“Board Staff”); the New Jersey Division of Rate Counsel (“Rate Counsel”); and the undersigned intervenors (collectively, “Parties” or “Signatories”), to execute this stipulation of settlement (“Stipulation”) to: (a) extend for two (2) years the Company’s second phase of its Gas System Modernization Program (“GSMP II”) program offerings with the modifications set forth herein; and (b) hold in abeyance until no later than January 31, 2025 the Company’s Gas System Modernization Program III (“GSMP III”) proposal while the Board continues to engage in a stakeholder process pursuant to Executive Order 317 (“EO317”), and to join in recommending that the Board issue a Final Decision and Order approving this Stipulation.<sup>1</sup>

## **BACKGROUND**

### **I. GSMP II**

1. On July 27, 2017, PSE&G filed a petition with the New Jersey Board of Public Utilities (“Board” or “BPU”) seeking approval to implement and administer the next phase of its GSMP II and an associated cost recovery mechanism.<sup>2</sup> The Program was an extension of PSE&G’s then-existing Gas System Modernization Program (“GSMP I”), which was approved by the Board in accordance with an Order dated November 16, 2015.<sup>3</sup>

2. On April 18, 2018, the parties in the GSMP II matter executed a stipulation resolving all of the issues in the GSMP II proceeding (“GSMP II Stipulation”), and on May 22, 2018, the Board

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<sup>1</sup> The Signatories below include all parties to both GSMP II and GSMP III, with the exception of the Environmental Defense Fund.

<sup>2</sup> In re 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 (Petition filed July 27, 2017).

<sup>3</sup> In re the Public Service Electric and Gas Company for Approval of a Gas System Modernization Program and Associated Cost Recovery Mechanism, BPU Docket No. GR15030272 (Order dated November 16, 2015).

issued a decision and order approving the GSMP II Stipulation and adopting the GSMP II Stipulation in its entirety.<sup>4</sup>

3. Paragraph 13 of the GSMP II Stipulation provides, in relevant part, “The [GSMP II] Program will be implemented over a five (5) year term, commencing on January 1, 2019, and ending December 31, 2023, except as provided herein.”<sup>5</sup>

4. Paragraph 14 of the GSMP II Stipulation provides, in relevant part, “The Company will have the option of seeking Board approval to extend the Program beyond the term provided above. Any such extension proposal shall be supported by the results of activities from the first three and one-half years under this Program.”<sup>6</sup>

## **II. EO317**

5. On February 15, 2023, Governor Philip J. Murphy issued EO317 ordering the BPU to initiate a formal stakeholder process regarding the development of natural gas utility plans that reduce emissions from the natural gas sector to levels that are consistent with the State’s 50 percent reduction in greenhouse gas emissions below 2006 levels by 2030. EO317 further ordered the BPU to issue a report no later than eighteen months from the date of EO317 summarizing the findings of the proceeding. Furthermore, the report will provide recommendations to address issues raised in the proceeding, while advancing the goal of reducing greenhouse gas emissions while keeping costs to ratepayers in check. EO317 states that the New Jersey 2019 Energy Master

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<sup>4</sup> In re 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 (Order dated May 22, 2018) (“GSMP II Order”).

<sup>5</sup> Id. at GSMP II Stipulation ¶ 13.

<sup>6</sup> Id. at GSMP II Stipulation ¶ 14.

Plan “identified electrification as a significantly more cost-effective means of meeting emissions targets than switching to carbon-neutral fuels.”<sup>7</sup>

### **III. GSMP III**

6. On March 1, 2023, PSE&G filed a petition with the Board seeking approval to implement and administer the next phase of its Gas System Modernization Program and associated cost recovery for a three (3)-year period as an extension of GSMP II (“GSMP III Petition”).<sup>8</sup> In the GSMP III Petition, PSE&G proposed to invest a total of \$2.54 billion, which included the replacement of 1,140 miles of leak-prone gas main, a hydrogen blending project, and a Renewable Natural Gas (“RNG”) project.

7. By Order dated April 12, 2023, the Board determined that the GSMP III Petition should be retained by the Board for hearing and, pursuant to N.J.S.A. 48:2-32, designated Commissioner Zenon Christodoulou as the presiding officer authorized to rule on all motions that arise during the pendency of the proceedings and modify any schedules.<sup>9</sup> Additionally, the April 2023 Order directed that entities seeking to intervene or participate in this matter file the appropriate application with the Board by May 12, 2023, and that any party wishing to file a motion for admission of counsel pro hac vice should do so concurrently with any motion to intervene or participate.

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<sup>7</sup> Governor Murphy, Executive Order 317 at p2 (Feb. 15, 2023), available at <https://nj.gov/infobank/eo/056murphy/pdf/EO-317.pdf>.

<sup>8</sup> In re the Petition of Public Service Electric and Gas Company for Approval of the Next Phase of the Gas System Modernization Program and Associated Mechanism (“GSMP III”), BPU Docket No. GR23030102 (March 1, 2023).

<sup>9</sup> In re the Petition of Public Service Electric and Gas Company for Approval of the Next Phase of the Gas System Modernization Program and Associated Recovery Mechanism (“GSMP III”), Order Designating Commissioner and Setting Manner of Service and Bar Date, BPU Docket No. GR23030102, Order dated April 12, 2023 (“April 2023 Order”).

8. On June 27, 2023, Commissioner Christodoulou issued an Order ruling on the motions to intervene and/or participate.<sup>10</sup> In the June 2023 Order, Commissioner Christodoulou granted intervenor status to the New Jersey Large Energy Users Coalition, the Environmental Defense Fund, and NRG Energy, Inc. Additionally, Commissioner Christodoulou granted participant status to New Jersey Natural Gas Company, Waters & Bugbee, Inc., the Engineers Labor-Employer Cooperative, Ferreira Construction Company, Inc., Middlesex County Utilities Authority, South Jersey Gas Company and Elizabethtown Gas Company, the New Jersey Laborers-Employers Cooperation and Education Trust, AARP, Local 94 International Brotherhood of Electrical Workers, EmpowerNJ, UA Local 855, and Creamer-Sanzari Joint Venture.

9. Following proper notice, two (2) virtual public hearings were held on July 31, 2023. The public hearings were well attended by the public, the parties, and municipal officials. The Board also received numerous written comments from constituents regarding the Program.

### **STIPULATED MATTERS**

10. The Parties stipulate and agree to the following regarding GSMP II and GSMP III.

#### **I. GSMP II**

11. Recognizing that the BPU and Board Staff are currently engaged in a stakeholder process to implement EO317 (BPU Docket No. GO23020099)<sup>11</sup>, the Signatories agree that, subject to Board approval of this Stipulation, PSE&G may extend the GSMP II under the terms and conditions described herein (“GSMP II Extension” or “Program”). Subject to the modifications set

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<sup>10</sup> In re the Petition of Public Service Electric and Gas Company for Approval of the Next Phase of the Gas System Modernization Program and Associated Recovery Mechanism (“GSMP III”), Order on Motions to Intervene or Participate, BPU Docket No. GR23030102, Order dated June 27, 2023 (“June 2023 Order”).

<sup>11</sup> In re the Implementation of Executive Order 317 Requiring the Development of Natural Gas Utility Plans, BPU Docket No. GO23020099, Order dated March 6, 2023.

forth herein, the GSMP II Extension will include continued investment in the PSE&G gas distribution system, continued use of the accelerated rate recovery mechanism established in the GSMP II Stipulation (“GSMP II Rate Mechanism”) including rate adjustments for investments included in the GSMP II Rate Mechanism, continued required gas distribution base investments that are not recoverable through the GSMP II Rate Mechanism (“Stipulated Base”), a continued annual baseline capital expenditure, and other provisions as described herein. The hydrogen and RNG projects proposed in PSE&G’s GSMP III Petition will not proceed as part of this GSMP II Extension.

**A. Program Term**

12. Pursuant to Paragraph 14 of the GSMP II Stipulation, the GSMP II Extension will commence on January 1, 2024 and end on December 31, 2025, except for close out work as defined herein. The Company may undertake GSMP II Extension non-construction expenditures, such as planning and engineering, upon Board approval of the GSMP II Extension.

**B. GSMP II Rate Mechanism**

13. Costs eligible for recovery under the GSMP II Rate Mechanism during the GSMP II Extension are subject to the terms described in Paragraphs 15 and 16 of the GSMP II Stipulation.

14. Costs eligible for recovery under the GSMP II Rate Mechanism during the GSMP II Extension shall include the costs to replace a minimum of 400 miles of PSE&G’s Utilization Pressure Cast Iron (“UPCI”) mains (and associated services) and/or Unprotected Steel mains (and associated services).

15. Costs eligible for recovery under the GSMP II Rate Mechanism during the GSMP II Extension shall not exceed \$752 million.

16. If the Company incurs costs in excess of \$752 million to replace the 400-mile minimum noted in Paragraph 14 above, such costs may be credited toward the \$225 million baseline

capital expenditure requirement noted in Paragraph 20 of this Stipulation, or may be used to satisfy the Stipulated Base requirement set forth in Paragraph 19 of this Stipulation. If the Company completes the 400-mile minimum for an amount below \$752 million, it may complete additional miles of main replacement up to the \$752 million level in the GSMP II Rate Mechanism.

17. Paragraph 17 of the GSMP II Stipulation, which articulates and applies a “cost per mile” threshold to cost recovery, will not apply to the GSMP II Extension.

#### **C. Capital Structure/Return on Equity**

18. PSE&G’s capital structure and return on equity for the GSMP II Extension will be set based on the capital structure and return on equity level established in the Company’s most recently approved base rate case.

#### **D. Stipulated Base**

19. The Company shall spend a total of \$150.4 million on certain capital projects during the GSMP II Extension that will not be recovered through the GSMP II Rate Mechanism, with no less than \$20 million expended in each calendar year from 2024 through 2025. The amounts expended under this Paragraph will be considered Stipulated Base expenditures and proposed to be recovered in the Company’s future base rate cases, subject to a prudence review. Stipulated Base expenditures during the GSMP II Extension may include the same categories of work described in Paragraphs 15 and 21 of the GSMP II Stipulation.

#### **E. Baseline Capital Expenditures**

20. During the term of the GSMP II Extension, in addition to the Stipulated Base expenditures set forth above, the Company agrees to maintain a minimum annual baseline capital expenditure level of at least \$225 million in gas investments.<sup>12</sup> The capital investments made by the

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<sup>12</sup> This level is consistent with the gas baseline capital expenditure level included in the Company’s June 2022 stipulation in In re the Petition of Public Service Electric and Gas Company for Approval of an Infrastructure

Company as part of its baseline capital expenditure requirements are within the discretion of the Company and may include, inter alia, costs incurred by the Company in excess of \$752 million on its replacements under the GSMP II Rate Mechanism. If the Company fails to maintain an annual baseline capital expenditure level prescribed herein or in the GSMP II Stipulation, as applicable, the amount of investment eligible for recovery through the GSMP II Rate Mechanism for the subsequent year will be reduced by an amount equal to the difference between the applicable baseline and the actual annual capital expenditure made by the Company. However, if the Company fails to maintain, for more than one year during the Program, an annual baseline capital expenditure of at least the applicable agreed level, no recovery of GSMP II Rate Mechanism eligible costs will be permitted during the second and any subsequent year for which the annual baseline expenditure is not met. If the annual baseline capital expenditure is not met for a second and any subsequent year, then traditional ratemaking practices will apply for that year and there will be no deferral of any GSMP II Rate Mechanism related costs for that year. Instead, all GSMP II Rate Mechanism-related costs for the second and any subsequent year(s) in which the annual baseline capital expenditure level were not met will be reviewed in the Company's next base rate case and recovered through base rates, if reasonable and prudent. PSE&G may request and the Board may grant an exception from the requirements of this Paragraph based on extraordinary circumstances, such as "Major Event" (as defined at N.J.A.C. 14:5-1.2), acts of war or terrorism, or other force majeure extraordinary circumstances.

21. Investments made by the Company to extend service to new customers, extend additional service to existing customers, or investments made pursuant to Stipulated Base spending

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Advancement Program (IAP), BPU Docket Nos. EO21111211 and GO21111212, as approved by the Board on June 29, 2022.

requirements in other Board-approved programs, will not be included as part of the annual baseline capital expenditures required pursuant to this Paragraph.

#### **F. Prioritization of Projects**

22. The replacement of mains in the GSMP II Extension shall be prioritized as described in Paragraph 23 of the GSMP II Stipulation.

23. During the GSMP II Extension, the Company shall continue the advanced leak detection program as described in Paragraph 24 of the GSMP II Stipulation. Considering the two (2)-year term of this GSMP II Extension, the methane leak survey will be conducted over all B grids (10-15 Hazard Index per mile ("HI/mile")). Any grid exceeding the threshold established based upon the survey data, and in consultation with Environmental Defense Fund, is anticipated to be replaced in the first year of the GSMP II Extension, up to a maximum of 95 miles of UPCI replacement. Additional factors such as construction efficiencies and logistics will also be taken into account in the scheduling of the grids as outlined in Paragraph 24 of the GSMP II Stipulation.

24. All costs incurred by the Company in connection with the foregoing shall be recoverable as detailed further hereafter. The costs recoverable for methane leak surveying during the Program shall not exceed the annual Operations & Maintenance ("O&M") expense savings related to leak reductions from the Program as defined in Paragraph 33(a) of the GSMP II Stipulation, and in no event shall exceed \$1,508,400.

25. The Company agrees to report on the above-referenced methane leak survey activity as noted in Attachment D to the GSMP II Stipulation, with reports to be submitted on March 1, 2025 and March 1, 2026.

#### **G. Leak Metrics**



26. The Company agrees to continue to reduce its year-end open leak inventory by one percent for each year of the GSMP II Extension except under extraordinary circumstances such as extreme weather, acts of war or terrorism, or other force majeure extraordinary circumstances that prevent the achievement of the annual reduction. The cap for the first year of the GSMP II Extension will be set at the average number of year-end open leaks the Company has experienced during the prior five (5) calendar years (2019-2023). The cap would be reduced by one (1) percent for the second year of the GSMP II Extension as follows:

<b>Year</b>	<b>Year end Open Leaks</b>
2019	1123
2020	965
2021	808
2022	637
2023	nnnn
<b>5 Year Average</b>	xxxx

<b>Program Year</b>	<b>Year end Open Leaks Cap</b>
2024	xxxx
2025	xxxx-1%

27. Consistent with the Board’s Infrastructure Investment and Recovery regulations (“IIP”), N.J.A.C. 14:3-2A.1 et seq., if the Company exceeds the cap for any three consecutive years during the combined GSMP II and GSMP II Extension the Company will reduce its return on equity (“ROE”) under the Program by fifty (50) basis points until it achieves the leak reduction target. PSE&G may request, and the Board may grant, an exception from the requirements of this Paragraph based on extraordinary circumstances, such as "Major event" (as defined at N.J.A.C. 14:5-1.2), acts of war or terrorism, or other force majeure extraordinary circumstances.

## H. Cost Recovery

28. The Company may seek recovery through the GSMP II Rate Mechanism for the costs covered under Paragraph 13 above via a rate adjustment request with schedules, procedures, and filings as detailed in subsequent Paragraphs herein. Consistent with N.J.A.C. 14:3-2A.6(d), the Company proposes to continue to recover its costs associated with the GSMP II Rate Mechanism through the existing component of the Company's Infrastructure Investment Recovery Charges in its Gas tariff. Following completion of the GSMP II Extension, the estimated average monthly bill impact from the accelerated Program investments on a typical residential gas customer using a monthly average of 87 therms is expected to be an increase of approximately \$3.51, or 3.8%.

29. The Company will make three (3) total rate adjustments: two (2) rate adjustments to be made during the two (2)-year term of the GSMP II Extension in accordance with the parameters set forth below, and a third rate adjustment to capture GSMP II Extension close out work as referenced in Paragraph 35. Consistent with the Board's Infrastructure Investment Program ("IIP") rules codified at N.J.A.C. 14:3-2A, each of the first two (2) rate adjustments made by the Company must include a minimum investment level of 10% of the total amount authorized to be recovered via the GSMP II Rate Mechanism (i.e. \$75.2 million).<sup>13</sup> The Company must also meet the earnings test as specified at N.J.A.C. 14:3-2A(6)(h).

30. The Parties agree that GSMP II Rate Mechanism investments will result in O&M savings from leak reductions by replacing 400 miles of main. To flow these savings to customers, an O&M expense reduction of \$3,771/mile will be incorporated to each rate adjustment based upon the miles of main in service related to each rate roll-in, consistent with Paragraph 33(a) of the GSMP II Stipulation.

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<sup>13</sup> The Parties acknowledge that the third rate adjustment is not subject to the 10% minimum investment provision as the charges being sought are for GSMP II Extension close out charges.

31. The Signatories agree that the review of the prudence of all project work undertaken in the Program will not take place prior to or in connection with the rate adjustments established herein. The Company therefore agrees that the rate adjustments established in the rate filing proceedings (assuming the 10% minimum threshold noted above has been met) shall be provisional and subject to refund based upon a Board finding that the Company imprudently incurred capital expenditures under the GSMP II Extension. Such prudence review shall take place in a future base rate case. Nothing herein will preclude any party from raising in the base rate case prudence review any objection that could have been raised in a prior IIP rate filing.

32. The Company shall file two (2) rate adjustment requests over the course of the two (2)-year program term. To effectuate the cost recovery process for the GSMP II Rate Mechanism investments, the Company shall provide Board Staff and Rate Counsel with not less than 60 days' notice prior to the filing of a rate recovery petition. The Company shall be the sole determinant of the date of the filing of each rate adjustment request, but such rate adjustments shall not include less than six (6) months of investments.

33. Once filed, the Company shall proceed on the below schedule and implement new rates following public notice and public hearing, recognizing that the prudence of the GSMP II Extension investments will be determined in the base rate case following the placement of the GSMP II Extension investments into service.

34. The agreed timing for rate recovery petitions and other activities related to the recovery of GSMP II Extension investments, with examples for illustrative purposes only, is set forth below:

<b>Event</b>	<b>Timing</b>	<b>Example</b>
Notification of Filing Date	Not less than 60 days prior to Filing Date	As early as 7/1/24
Filing Date	First day of calendar month	As early as 9/1/24
Net Investment in Service as of	Net investment in service as of the last day of the third month from “Filing Date”	11/31/24
Update Filing for Actual Data	No later than 21 days following “Net Investment in Service as of” date	No later than 12/21/24
Rates Effective	No earlier than the 1st day of the fourth month following the “Net Investment in Service as of” date. After the completion of discovery and upon Board approval.	As early as 3/1/25

35. The Signatories acknowledge that although the main replacement work for the GSMP II Extension is scheduled to be complete by December 31, 2025, close out work must wait 3 to 6 months following main installation. As a result, close out charges from contractors may lag into 2026. Such closeout work will be limited to final tie-ins, transfers, service replacements, and restoration associated with the mains placed in service prior to December 31, 2025. Accordingly, the Signatories agree to a third and final roll-in to be filed consistent with the schedule in the Paragraph directly above, with a “net investment in service” as of no later than June 30, 2026, for rates effective as early as six months following the filing date.

36. In the rate adjustment proceedings provided for above, the revenue requirement associated with the investments recovered through the GSMP II Rate Mechanism shall be calculated using the methodology provided in Paragraphs 31, 32 and 38 of the GSMP II Stipulation. Attached as Attachment A is a sample revenue requirement calculation based on the estimated revenue requirement for the first rate adjustment.

37. O&M expenses associated with the Program, except those explicitly defined in part (a) below, will not be included in the annual revenue requirement filings nor will such costs be deferred.

- a. The Parties agree that GSMP II Extension will result in O&M savings from leak reductions at the same rate per mile of main replaced as provided in Paragraph 33(a) of the GSMP II Stipulation. To flow these savings to customers, an O&M expense reduction of \$3,771/mile will be incorporated to each rate adjustment based upon the miles of main in service related to each rate roll-in.
- b. The Company agrees to conduct leak detection surveying as discussed in Paragraph 23. Because these leak detection surveying expenses are anticipated to be incurred in 2023-2024 upon Program approval, the Company will defer these expenses. The total deferred expense will be amortized over a two (2)-year period and the annual amortization amount will be included in the next rate roll-in revenue requirement following the completion of the amortization of the costs of the leak surveying completed in accordance with Paragraph 24 of the GSMP II Stipulation.

#### **I. Rate Design**

38. The rate design for the rate adjustments agreed upon herein will be structured as described in Paragraph 39 of the GSMP II Stipulation.

#### **J. Base Rate Case Filing Requirement**

39. Consistent with the IIP rules and GSMP II Stipulation, the Company will file a base rate case no later than January 1, 2024.<sup>14</sup> The prudence of any GSMP II Extension investment not reviewed and determined by the Board in the January 2024 rate case shall be reviewed and determined in a subsequent base rate case, which shall be filed no later than five (5) years after the approval of the Company's January 2024 rate case.

40. Notwithstanding the foregoing provision requiring PSE&G to file a base rate case no

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<sup>14</sup> GSMP II Order at Stipulation ¶ 40.

later than five years from the start date of the Program, agreement to this five-year period does not result in a waiver of Rate Counsel's right to challenge the legality of the IIP provision that authorizes IIPs up to five years without the filing of a base rate case, or to argue in any other case that a period shorter than five years is necessary to preserve the required nexus to a rate case.

#### **K. Reporting Requirements**

41. The requirements in Paragraphs 42-44 of the GSMP II Stipulation shall apply to each rate adjustment filing described herein. PSE&G will provide monthly reports on the Program to Board Staff and Rate Counsel setting forth the information in Attachment C of the GSMP II Stipulation beginning with the January 2024 report to be filed by April 1, 2024, and continue month-to-month until GSMP II Rate Mechanism and Stipulated Base expenditures are complete.

#### **II. GSMP III**

42. The programs advanced by the Company in the GSMP III Petition will be held in abeyance subject to the conditions described below.

43. No later than January 31, 2025, the Parties will convene for a status conference that will initiate a restart of the GSMP III proceedings.


44. The Parties agree that the restart described in the Paragraph immediately above shall be done with the intent that any work under GSMP III, if approved, would commence on January 1, 2026.

#### **FURTHER PROVISIONS**

45. The provisions of Paragraphs 45-48 of the GSMP II Stipulation shall apply herein.

WHEREFORE, the Signatories hereto do respectfully submit this Stipulation and request that the Board issue a Decision and Order approving it in its entirety, in accordance with the terms hereof, as soon as reasonably possible.

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**

By:   
Joseph F. Accardo Jr., Esq.  
VP Regulatory & Deputy General Counsel

Dated: October 3, 2023

**NEW JERSEY DIVISION OF RATE COUNSEL**

By: \_\_\_\_\_  
Brian O. Lipman, Esq.  
Director

Dated: \_\_\_\_\_

**MATTHEW J. PLATKIN  
ATTORNEY GENERAL OF NEW JERSEY**

Attorney for the Staff of the New Jersey Board of Public Utilities

By: \_\_\_\_\_  
Matko Ilic  
Deputy Attorney General

Dated: \_\_\_\_\_

**NEW JERSEY LARGE ENERGY USERS COALITION**

By: \_\_\_\_\_  
Steven S. Goldenberg, Esq.  
Giordano, Halleran and Ciesla, P.C.

Dated: \_\_\_\_\_

**NRG ENERGY, INC.**

By: \_\_\_\_\_  
Murray E. Bevan, Esq.,  
Bevan, Mosca & Giuditta P.C.

Dated: \_\_\_\_\_

WHEREFORE, the Signatories hereto do respectfully submit this Stipulation and request that the Board issue a Decision and Order approving it in its entirety, in accordance with the terms hereof, as soon as reasonably possible.

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**

**NEW JERSEY DIVISION OF RATE COUNSEL**

By: \_\_\_\_\_  
Joseph F. Accardo Jr., Esq.  
VP Regulatory & Deputy General Counsel

By: \_\_\_\_\_  
Brian O. Lipman, Esq.  
Director

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

**MATTHEW J. PLATKIN  
ATTORNEY GENERAL OF NEW JERSEY**

Attorney for the Staff of the New Jersey Board of Public Utilities

**NEW JERSEY LARGE ENERGY USERS COALITION**

By: Matko Ilic  
Matko Ilic  
Deputy Attorney General

By: \_\_\_\_\_  
Steven S. Goldenberg, Esq.  
Giordano, Halleran and Ciesla, P.C.

Dated: 10/3/2023

Dated: \_\_\_\_\_

**NRG ENERGY, INC.**

By: Murray E. Bevan  
Murray E. Bevan, Esq.,  
Bevan, Mosca & Giuditta P.C.

Dated: October 3, 2023



**WHEREFORE**, the Signatories hereto do respectfully submit this Stipulation and request that the Board issue a Decision and Order approving it in its entirety, in accordance with the terms hereof, as soon as reasonably possible.

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY**

**NEW JERSEY DIVISION OF RATE COUNSEL**

By: \_\_\_\_\_  
Joseph F. Accardo Jr., Esq.  
VP Regulatory & Deputy General Counsel

By: \_\_\_\_\_  
Brian O. Lipman, Esq.  
Director


Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

**MATTHEW J. PLATKIN  
ATTORNEY GENERAL OF NEW JERSEY**

Attorney for the Staff of the New Jersey Board of Public Utilities

**NEW JERSEY LARGE ENERGY USERS COALITION**

I.  \_\_\_\_\_

Steven S. Goldenberg, Esq.  
Giordano, Halleran and Ciesla, P.C.

By: \_\_\_\_\_  
Matko Ilic  
Deputy Attorney General

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

**NRG ENERGY, INC.**

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Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

**NRG ENERGY, INC.**

By: \_\_\_\_\_  
Murray E. Bevan, Esq.,  
Bevan, Mosca & Giuditta P.C.

Dated: \_\_\_\_\_

**PSE&G Gas System Modernization Program II Extension**  
**Gas Roll-in Calculation**  
**Sample Calculation**  
in (\$000)

Attachment A

<b>Rate Effective Date</b>	<u><b>1/1/2025</b></u>
Plant In Service as of Date	9/30/2024
Rate Base Balance as of Date	12/31/2024

**RATE BASE CALCULATION**

	<u>Total</u>	Notes
1 Gross Plant	\$151,992	= In 17
2 Accumulated Depreciation	<u>\$7,078</u>	= In 20
3 Net Plant	\$159,069	= In 1 + In 2
4 Accumulated Deferred Taxes	<u>(\$3,592)</u>	= See "Roll-In Detail" Wkps
5 Rate Base	\$155,478	= In 3 + In 4
6 Rate of Return - After Tax (Schedule WACC)	6.48%	See Schedule SS-GSMP2.5-2
7 Return Requirement (After Tax)	\$10,078	= In 5 * In 6
8 Depreciation Exp, net	\$1,642	= In 26
9 Expense Adjustment (After Tax)	(\$177)	= In 35
10 Tax Adjustment	<u>\$0</u>	N/A
11 Revenue Factor	1.4174	See Schedule SS-GSMP2.5-4
<b>12 Roll-in Revenue Requirement</b>	<b><u>\$16,360</u></b>	= (In 7 + In 8 + In 9 + In 10) * In 11

**SUPPORT**

**Gross Plant**

13 Plant in-service	\$151,992	= See "Roll-In Detail" Wkps
14 CWIP Transferred into Service	\$0	= See "Roll-In Detail" Wkps
15 AFUDC on CWIP Transferred Into Service - Debt	\$0	= See "Roll-In Detail" Wkps
16 AFUDC on CWIP Transferred Into Service - Equity	<u>\$0</u>	= See "Roll-In Detail" Wkps
17 <b>Total Gross Plant</b>	<b>\$151,992</b>	= In 13 + In 14 + In 15 + In 16

**Accumulated Depreciation**

18 Accumulated Depreciation	(\$922)	= See "Roll-In Detail" Wkps
19 Cost of Removal	<u>\$8,000</u>	= See "Roll-In Detail" Wkps
20 <b>Net Accumulated Depreciation</b>	<b>\$7,078</b>	= In 18 + In 19

**Depreciation Expense (Net of Tax)**

21 Depreciable Plant (xAFUDC-E)	\$151,992	= In 13 + In 14 + In 15
22 AFUDC-E	<u>\$0</u>	= In 16
23 Depreciation Rate	1.50%	= See "Roll-In Detail" Wkps
24 Depreciation Expense	\$2,284	= (In 21 + In 22) * In 23
25 Tax @28.11%	<u>\$642</u>	= In 21 * In 23 * Tax Rate
26 <b>Depreciation Expense (Net of Tax)</b>	<b>\$1,642</b>	= In 24 - In 25

**Expense Adjustments**

27 Miles of Main Replaced	85	= See "Roll-In Detail" Wkps = \$3.3M / 1,140 miles (See GSMPIII)
28 Agreed O&M Savings/ Mile	<u>(\$2.89)</u>	Filing
29 O&M Savings	(\$246)	= In 27 * In 28
30 GSMPIII related methane mapping expenses	\$0	= See "Roll-In Detail" Wkps
31 Amortization period (years)	<u>3</u>	program period
32 Annual methane mapping amortization expense	\$0	= In 30 / In 31
33 Expense Adjustment	(\$246)	= In 29 + In 32
34 Tax @28.11%	<u>(\$69)</u>	= In 33 * Tax Rate
35 Expense Adjustment (Net of Tax)	<b>(\$177)</b>	= In 33 - In 34