



STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE PETITION OF SOUTH)
JERSEY GAS COMPANY FOR APPROVAL TO)
CONTINUE ITS STORM HARDENING AND)
RELIABILITY PROGRAM ("SHARP II") AND)
ASSOCIATED RECOVERY MECHANISM)

PREHEARING ORDER WITH
PROCEDURAL SCHEDULE

DOCKET NO. GO17111130

Parties of Record:

Stacy A. Mitchell, Esq., South Jersey Gas Company
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY COMMISSIONER DIANNE SOLOMON:

BACKGROUND

Storm Hardening and Reliability Program Petition

On August 20, 2014, the Board issued an Order¹ authorizing South Jersey Gas Company ("SJG" or "Company") to invest approximately \$103.5 million (excluding Allowance for Funds Used During Construction ("AFUDC")) in its Storm Hardening and Reliability Program ("SHARP") over a three (3) year period ending June 30, 2017. The SHARP Order authorized SJG to replace low pressure mains and associated services with high pressure mains and associated services, elimination of fifty-two (52) regulator stations, and the installation of excess flow valves ("EFVs") in the municipalities of Atlantic City, Ventnor City, Margate, Longport, Ocean City, Wildwood, North Wildwood, Wildwood Crest, and West Cape May. Pursuant to the SHARP Order, annual SHARP investments were not to exceed \$34.5 million, plus or minus fifteen percent (15%). The SHARP Order also authorized SJG to recover annual revenue requirements associated with the SHARP Program through an annual base rate adjustment, to be implemented on a provisional basis, pending a prudency review in future base rate cases. According to the Company, it has replaced approximately ninety-two (92) miles of main and 11,090 services under SHARP as of June 30, 2017.

¹ In re the Petition of South Jersey Gas Company for Approval of a Storm Hardening and Reliability Program (SHARP) and Associated Recovery Mechanism, BPU Docket No. GO13090814 (September 20, 2014) ("SHARP Order").

Storm Hardening and Reliability Program II Petition

On November 2, 2017, SJG filed a petition for approval of a phase two (2) of its SHARP ("SHARP II") and an associated cost recovery mechanism. The Company proposed a three (3) year program, with a total investment level of approximately \$110.25 million. The Company proposed to include in SHARP II four system enhancement projects within the coastal regions, including (1) EFVs; (2) the Absecon Island Loop Project; (3) the Ocean City Loop Project; and (4) the Brigantine Beach Project.

SJG requested approval to make annual base rate adjustment filings similar to those approved in SHARP during the three year program to include investments made through June 30th of each year. The Company represented that the annual base rate adjustment filings would be updated by July 15th to provide actual data through June 30th, and the rate adjustment would be effective on October 1st. The Company proposed to make its first SHARP II rate adjustment filing on April 1, 2019, and stated that there would be no rate adjustment or customer bill impact from SHARP II until October 1, 2019. It further states that its last SHARP II rate adjustment filing would be made in 2021.

The Company requested a revenue requirement that utilizes a net investment, with a return that will be calculated utilizing a Weighted Average Cost of Capital of 6.8% which includes a return on equity of 9.6% and an equity-to-capitalization ratio of 52.50%, amongst other items. The Company estimated that the base rate increase to the average residential hearing customer using 100-therms a month would be approximately \$1.10, or 0.8%, at the time of the first base rate adjustment on October 1, 2019.

By Order dated December 19, 2017 ("December 19, 2017 Order"), the Board determined that the SHARP II petition described above should be retained by the Board for hearing and, pursuant to N.J.S.A. 48:2-32, designated the undersigned as the presiding officer authorized to rule on all motions that arise during the pendency of these proceedings and modify any schedules that may be set as necessary to secure a just and expeditious determination of the issues. The December 19, 2017 Order further directed that any entities seeking to intervene or participate in this matter file the appropriate application with the Board by January 12, 2018.

To aid in the setting of an appropriate schedule, Board Staff requested that the New Jersey Division of Rate Counsel ("Rate Counsel") and the Company circulate proposed procedural schedules. The Company and Rate Counsel prepared a proposed procedural schedule, which was forwarded to Board Staff on January 19, 2018. The Board did not receive any motions to intervene or participate prior to the expiration of the January 12, 2018 deadline.

DISCUSSION AND FINDINGS:

I have reviewed the proposal for a preliminary schedule. After giving due consideration to the positions of Staff, Rate Counsel and the Company, I **HEREBY ISSUE** the following as the Prehearing Order, along with the procedural schedule identified as Exhibit A, and **HEREBY DIRECT** the parties to comply with its terms.

PREHEARING ORDER

1. NATURE OF PROCEEDINGS AND ISSUES TO BE RESOLVED:

Through this proceeding, SJG seeks approval to implement and administer its SHARP II and to implement up to \$110.25 million in SHARP II investment across its gas service territory over three (3) years. SJG proposes to complete four system enhancement projects within its coastal region as part of SHARP II: 1) EFVs; 2) the Absecon Island loop project; 3) the Ocean City Loop Project; and 4) the Brigantine Beach Project. The Company proposes to implement a similar cost-recovery methodology and rate design as used for the SHARP. The Company proposes a return on the approved investments using a weighted average cost of capital of 6.8% based on a return on equity of 9.6%.

A. Issues to be Resolved:

- 1) The reasonableness of all construction, construction timelines, and design aspects of the proposed program;
- 2) The reasonableness of related expenses, and cost estimates;
- 3) The reasonableness and lawfulness of the proposed cost recovery mechanism; and
- 4) The reasonableness of the proposed rates.

2. PARTIES AND THEIR DESIGNATED ATTORNEYS OR REPRESENTATIVES:

A. Counsel for SJG:

Stacy A. Mitchell, Esq., Senior Director, Regulatory Affairs
South Jersey Gas Company
1 South Jersey Plaza
Folsom, NJ 08037
smitchell@sjindustries.com

B. Counsel for the Staff of the New Jersey Board of Public Utilities:

Alex Moreau, DAG
Veronica Beke, DAG
Department of Law & Public Safety
124 Halsey Street
P.O. Box 45029
Newark, New Jersey
alex.moreau@law.njoag.gov
veronica.beke@law.njoag.gov

C. Counsel for Division of Rate Counsel:

Stefanie Brand, Esq., Director
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, N.J. 08625
sbrand@rpa.nj.gov

No change in designated trial counsel shall be made without leave if such change will interfere with the dates for hearings. If no specific counsel is set forth in this Order, any partner or associate may be expected to proceed with evidentiary hearings on the agreed dates.

3. SPECIAL LEGAL REQUIREMENTS AS TO NOTICE OF HEARING:

Pursuant to N.J.S.A. 48:2-32.6, public hearings will be held in the Company's service territory after publication of notice in newspapers of general circulation in SJG's service territory. Two (2) public hearings will be held March 15, 2018 with sessions at 4:30 p.m. and 5:30 p.m. in Voorhees, New Jersey.

4. SCHEDULE OF HEARING DATES, TIME AND PLACE:

Evidentiary hearings will be held on June 18 and 21, 2018 starting at 9:00 a.m. on each day at the Board of Public Utilities, 44 South Clinton Avenue, Trenton, New Jersey. Dates will be determined based on the availability of the parties and myself.

5. STIPULATIONS:

The Staff of the Board of Public Utilities, the Division of Rate Counsel and SJG have entered into an Agreement of Non-Disclosure of Information Agreed to Be Confidential.

6. SETTLEMENT:

The parties are encouraged to engage in settlement discussion. Notice should be provided to all parties of any settlement discussions for the preparation of an agreement to resolve the issues in the case.

7. AMENDMENTS TO PLEADINGS:

None at this time.

8. DISCOVERY AND DATE FOR COMPLETION:

The time limits for discovery shall be in accordance with N.J.A.C. 1:1-10.4 or as provided in Exhibit A.

9. ORDER OF PROOFS:

SJG has the burden of proof. The hearings will be conducted by topic (see point 12, below); within each topic, the hearings will be conducted in the following order:

First – SJG

Second – Rate Counsel

Third – Board Staff

10. **EXHIBITS MARKED FOR IDENTIFICATION:**

None at this time.

11. **EXHIBITS MARKED IN EVIDENCE:**

None at this time.

12. **ESTIMATED NUMBER OF FACTS AND EXPERT WITNESSES:**

SJG will present the following two (2) witnesses: Paul J. Zuccarino and Kenneth J. Barcia. Additional witnesses may be identified by SJG as necessary for purposes of rebuttal or sur-rebuttal.

Rate Counsel will present the following witnesses: David Dismukes and Julie McKenna. Additional witnesses may be identified by Rate Counsel as necessary for purposes of testimony.

Any party substituting witnesses shall identify such witnesses within five (5) days of determining to replace a witness, and in no event later than five (5) days before filing of testimony of a substitute witness. All direct testimony will be pre-filed, and all witnesses submitting pre-filed direct testimony will be subject to cross examination at evidentiary hearings, which will be conducted by topic (e.g., program elements, revenue requirements, and so forth).

13. **MOTIONS:**

None at this time.

14. **SPECIAL MATTERS:**

None at this time.

DATED: 2/21/2018

BOARD OF PUBLIC UTILITIES
BY:



DIANNE SOLOMON
COMMISSIONER

IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY FOR APPROVAL
TO CONTINUE ITS STORM HARDENING AND RELIABILITY PROGRAM ("SHARP II") AND
ASSOCIATED RECOVERY MECHANISM
DOCKET NO GO17111130

SERVICE LIST

SJG:

South Jersey Gas Company
1 South Jersey Plaza
Folsom, NJ 08037

Steven R. Cocchi, Esq., Chief, Strategy &
Development Officer
scocchi@sjindustries.com

Paul J. Zuccarino, Senior Vice President & Chief
Operations Officer
pzuccarino@sjindustries.com

Stacy A. Mitchell, Esq., Senior Director, Regulatory
Affairs Counsel
smitchell@sjindustries.com

Kenneth J. Barcia, Manager
kbarcia@sjindustries.com

Stefany M. Graham, Manager, Rates & Regulatory
Initiatives
sgraham@sjindustries.com

Carolyn A. Jacobs, Regulatory Compliance Specialist
cjacobs@sjindustries.com

Board of Public Utilities:

44 South Clinton Avenue, 3rd floor, Suite 314
Post Office Box 350
Trenton, NJ 08625-0350

Division of Energy
Thomas Walker, Director
thomas.walker@bpu.nj.gov

Stacy Peterson, Deputy Director
stacy.peterson@bpu.nj.gov

David Brown
david.brown@bpu.nj.gov

Rate Counsel:

Division of Rate Counsel
140 East Front Street, 4th Floor
Post Office Box 003
Trenton, NJ 08625

Stefanie A. Brand, Esq., Director
sbrand@rpa.nj.gov

Brian Lipman, Esq., Litigation Manager
blipman@rpa.nj.gov

Felicia Thomas-Friel, Esq.
ftomas@rpa.nj.gov

Henry Ogden, Esq.
hogden@rpa.nj.gov

Maura Caroselli, Esq.
mcaroselli@rpa.nj.gov

Shelly Massey
smassey@rpa.nj.gov

David E. Dismukes, Ph.D.
Acadian Consulting Group, LLC
5800 One Perkins Drive
Building 5, Suite F
Baton Rouge, LA 70808
daviddismukes@acadianconsulting.com

Julie McKenna
5800 One Perkins Drive
Building 5, Suite F
Baton Rouge, LA 70808
juliemckenna@acadianconsulting.com

Edward McGee
Acadian Consulting Group
P.O. Box 1659
Bethany Beach, DE 19930
edwardmcgee@acadianconsulting.com

Reliability & Security

Michael Stonack

michael.stonack@bpu.nj.gov

Executive Director

Paul Flanagan, Esq.

paul.flanagan@bpu.nj.gov

Counsel's Office

Megan Lupo, Esq.

megan.lupo@bpu.nj.gov

Economist Office

Christine Lin

christine.lin@bpu.nj.gov

Dr. Son Lin Lai

son.lai@bpu.nj.gov

Jackie O'Grady

jackie.ograd@bpu.nj.gov

Deputy Attorneys General:

Division of Law

124 Halsey Street

Post Office Box 45029

Newark, New Jersey 07101

Alex Moreau, DAG

alex.moreau@law.njoag.gov

Geoffrey Gersten, DAG

geoffrey.gersten@law.njoag.gov

Veronica Beke, DAG

veronica.beke@law.njoag.gov

Exhibit A

**IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY FOR APPROVAL
TO CONTINUE ITS STORM HARDENING AND RELIABILITY PROGRAM ("SHARP II") AND
ASSOCIATED RECOVERY MECHANISM
DOCKET NO. GO17111130**

Procedural Schedule

February 14, 2018:	Deadline for propounding second round of discovery
February 21, 2018:	Deadline for responses to second round of discovery
February 28, 2018:	Discovery/settlement conference at 2:00 p.m.
March 15, 2018:	Public hearings
Week of March 19, 2018:	Discovery/settlement conferences
April 20, 2018:	Deadline for filing Rate Counsel/Intervenor direct testimony
April 27, 2018:	Deadline for propounding discovery on Rate Counsel/Intervenor testimony
May 4, 2018:	Deadline for filing responses to discovery on Rate Counsel/Intervenor testimony
May 14, 2018:	Deadline for Company to file rebuttal testimony
May 21, 2018:	Deadline for propounding discovery on Company's rebuttal testimony
May 30, 2018:	Deadline for responses to discovery on Company's rebuttal testimony
June 18, and 21, 2018:	Evidentiary hearings – with live sur-rebuttal in Trenton, subject to the Commissioner's availability
To Be Determined:	Briefing schedule

Discovery will be conducted on a rolling basis, with responses due in accordance with N.J.A.C. 1:1-10.4, subject to the scheduled end dates.