



Agenda Date: 4/27/16
Agenda Item: 2E

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)	ORDER DESIGNATING
JERSEY GAS COMPANY TO CONTINUE ITS)	COMMISSIONER AND
ACCELERATED INFRASTRUCTURE REPLACEMENT)	SETTING MANNER OF
PROGRAM ("AIRP") PURSUANT TO <u>N.J.S.A. 48:2-21</u>)	SERVICE AND BAR DATE
AND <u>N.J.S.A. 48:2-21.1</u> AND FOR APPROVAL OF A)	
BASE RATE ADJUSTMENT TO REFLECT AIRP)	
INVESTMENTS IN BASE RATES)	DOCKET NO. GR16020175

Parties of Record:

Ira G. Megdal, Esq., Cozen O'Connor, P.C., on behalf of South Jersey Gas Company
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

BACKGROUND

In the fourth quarter of 2008, the New Jersey Board of Public Utilities ("Board") called upon the State's public utilities to formulate plans for enhanced investments in infrastructure that would both increase service reliability and promote economic development. In an effort to maintain the reliability and safety of its delivery system, while providing stimulus to New Jersey's economy, on January 20, 2009, South Jersey Gas Company ("SJG" or "Company") petitioned the Board, in Docket Nos. EO09010049 and GO09010051, for approval to accelerate the timing of certain infrastructure projects through the Capital Investment Recovery Tracker ("CIRT").

On April 16, 2009, the Board issued an Order ("April 16, 2009 Order") which approved a stipulation permitting SJG to proceed with the design and construction of eleven (11) CIRT projects ("Qualifying Projects"). Pursuant to the April 16, 2009 Order, on November 6, 2009, the Company submitted a filing in Docket No. GR09110907 and on December 17, 2009, the Board approved the stipulation for provisional CIRT rates which had been entered into by SJG, the Division of Rate Counsel ("Rate Counsel") and Board Staff (collectively, "Parties").

In accordance with the Stipulation in Docket No. GR09110907, and as approved by Board Order dated September 17, 2010, in the Company's base rate case (Docket No. GR10010035) ("Base Rate Case"), certain Qualifying Projects were rolled into the Company's rate base.

Additionally, in the Base Rate Case, the Parties agreed that SJG would be permitted to continue the recovery of approximately \$24.1 million of Qualifying Projects. These Qualifying Projects remained in the CIRT, subject to a prudency review of costs associated with these projects in the forthcoming Phase II portion of the Base Rate Case.

On October 22, 2010, in light of the cited success of the Company's initial CIRT program (significant improvement of the Company's distribution infrastructure and hiring of 147 full time employees), the Company filed a petition ("CIRT II") seeking to accelerate the construction of additional Qualifying Projects, implement a new CIRT rate commencing January 1, 2011 and to extend the CIRT program for 2011, 2012 and 2013. On March 31, 2011, the Board approved a stipulation entered into in Docket No. GR10100765, whereby the Parties agreed that the Company would make two (2) filings in order to recover the revenue requirements associated with CIRT II investments in base rates through the CIRT rate adjustment. The first CIRT rate adjustment would be filed with the Board on or before June 30, 2011 to be effective October 1, 2011. The June 2011 filing would include the remaining CIRT I investment costs and CIRT II investment costs incurred prior to the resolution of that case.

Based on the ongoing effort to maintain and to improve the reliability and safety of its delivery system, as well as the continued need to stimulate the economy and further foster job retention or creation in SJG's service territory, the Company sought Board approval to continue the CIRT II program for the acceleration of incremental capital spending for additional capital projects. Accordingly, on October 4, 2011, the Company filed with the Board a petition requesting to: 1) extend the deadline for CIRT projects from October 2012 to December 2012; 2) add \$40 million in incremental capital expenditures associated with the accelerated replacement of unprotected steel and cast iron mains for 2012; 3) add an additional year (2013) to continue the accelerated replacement of unprotected steel and cast iron mains; 4) allocate \$50 million in incremental capital expenditures for the additional year; and 5) continue to use the CIRT II regulatory process for the accelerated replacement of unprotected steel and cast iron mains' expenditures through December 31, 2013. On May 1, 2012, the Board issued an Order approving this modification and extension of CIRT II ("CIRT III").

On July 23, 2012, SJG filed a petition seeking the Board's approval to implement a five (5) year Accelerated Infrastructure Replacement Program ("AIRP") through which the Company would invest \$250 million prior to the capitalization of Allowance For Funds Used During Construction ("AFUDC") to replace cast iron and unprotected steel¹ distribution lines, services and meters. SJG proposed spending an incremental \$50.0 million per year and sought a return on program investments as it had under the prior CIRT programs. The Company represented that many of its older mains and services were constructed of cast iron and/or unprotected steel, the most popular and readily available materials used in the industry prior to 1970. The Company maintained that its cast iron and unprotected steel infrastructure was generally more susceptible to corrosion damage, leaks, and material failure than the Company's other mains and services. While SJG stated that it had been consistently addressing the replacement of such assets through its annual capital construction planning for many years, the Company's testimony maintained that an accelerated approach was necessary to shorten the overall time it would take to replace this aged infrastructure. Additionally, the Company stated that there were

¹ Included in the category of "unprotected steel" is pipe that is uncoated or that is coated but not cathodically protected. For convenience, these two categories of steel pipe are referred to as unprotected steel.

national efforts underway to increase the safety, reliability and integrity of the country's pipeline infrastructure.

SJG requested expedited treatment of the filing and also requested that the Board retain jurisdiction over the matter, in light of the scheduled expiration of its CIRT program on December 31, 2013. On February 20, 2013, the Board issued an Order approving a stipulation entered into in Docket No. GO12070670, whereby the Parties agreed to \$35.3 million per year of incremental capital spending for four (4) years, totaling \$141.2 million under the AIRP.

SJG AIRP II PETITION

On February 29, 2016, the Company filed the instant petition with the Board seeking approval to continue its AIRP for a period of seven (7) years with a total program investment of \$500 million ("AIRP II"). The Company represents that it will continue its Distribution Integrity Management Program based approach to addressing the most significant threats on its distribution system and will replace and retire a significant portion of the vintage and most leak prone mains and services in its distribution system, including: (i) all remaining cast iron and unprotected bare steel mains and associated services, (ii) the most leak prone coated steel mains that are two inches (2") in diameter or less and associated services, and (iii) other pipe materials and sizes found within replacement grids that would be logical and necessary to complete the modernization of the grid. The Company claims that the approval of the AIRP II will enable the Company to continue enhancing the reliability and safety of its gas distribution system in a cost effective manner, achieve increased operational efficiencies and continue the employment benefits that have been created by its previous and existing main replacements programs.

SJG proposes to recover the capital investment costs and expenses of the AIRP II through annual base rate adjustments. The Company's first AIRP II rate adjustment filing would be made on April 1, 2017 and there would be no rate adjustment or customer bill impact until October 1, 2017. The Company also seeks a return on the approved investments using an after-tax weighted average cost of capital of 7.10%, based on a Return on Equity of 9.75% and equity to capitalization ratio of 51.9%.

SJG requests that the Board retain this matter for review on an expedited basis, given the impending expiration of the AIRP at the end of 2016, the expectation that all authorized AIRP expenditures will be exhausted by September 30, 2016 and the importance of maintaining continuity of the program to achieve efficiencies and maintain jobs. The Company further requests that, in the event the proposed AIRP II is not approved by the Board by September 30, 2016, the Board enter an Order no later than September 30, 2016 authorizing an interim extension of the AIRP to bridge the gap between the expected exhaustion of expenditures and the approval of an AIRP II.

DISCUSSION

The Board determined that the AIRP II petition described above should be retained by the Board for hearing and, pursuant to N.J.S.A. 48:2-32, **HEREBY DESIGNATES** Commissioner Dianne Solomon as the presiding officer who is 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. Further, the Board **HEREBY DIRECTS** that any entities seeking to intervene or participate in this matter file the appropriate application with the Board by May 30, 2016.

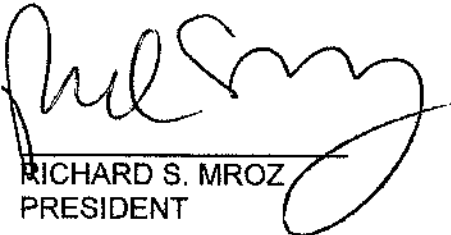
Also in the interests of economy, all parties are **HEREBY DIRECTED** to serve all documents electronically, while still providing hard copies to the Board for those documents which must be filed with the Board, and also providing two (2) hard copies to each party, unless otherwise requested by the parties. Finally, the Board **HEREBY DIRECTS** Staff to post this Order on the Board's website.

This Order shall be effective on May 7, 2016.

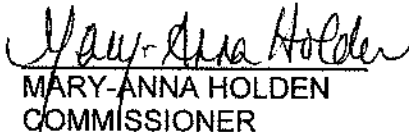
DATED:

4/27/16


BOARD OF PUBLIC UTILITIES
BY:


RICHARD S. MROZ
PRESIDENT


JOSEPH L. FIORDALISO
COMMISSIONER


MARY-ANNA HOLDEN
COMMISSIONER

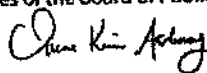

DIANNE SOLOMON
COMMISSIONER


UPENDRA J. CHIVUKULA
COMMISSIONER

ATTEST:


IRENE KIM ASBURY
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 SOUTH JERSEY GAS COMPANY TO CONTINUE
ITS ACCELERATED INFRASTRUCTURE REPLACEMENT PROGRAM ("AIRP") PURSUANT
TO N.J.S.A. 48:2-21 AND N.J.S.A. 48:2-21.1 AND FOR APPROVAL OF A BASE RATE
ADJUSTMENT TO REFLECT AIRP INVESTMENTS IN BASE RATES –
DOCKET NO. GR16020175

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