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**Opening Statement of Stefanie A. Brand,
Director, Division of Rate Counsel,
Regarding PSE&G's Energy Strong Proposal,
Presented at the N.J. Board of Public Utilities,
February 25, 2014**

GOOD MORNING COMMISSIONERS. MY NAME IS STEFANIE BRAND. I AM THE DIRECTOR OF THE DIVISION OF RATE COUNSEL AND I AM HERE TODAY ON BEHALF OF THE STATE'S RATEPAYERS.

EVERYONE IN THIS ROOM IS WELL AWARE OF THE HARDSHIP THE CITIZENS OF THIS STATE ENDURED IN SUPERSTORM SANDY AND THE STORMS THAT PRECEDED IT IN 2011.

I BELIEVE THAT EVERYONE IN THIS ROOM IS INTERESTED IN FINDING A WAY TO IMPROVE OUR RESPONSE IF WE EVER FACE THAT SITUATION AGAIN.

I THINK WE ALL BELIEVE IT IS REASONABLE TO ASSUME WE WILL FACE HARD WEATHER IN THE FUTURE. BUT WHAT WE DON'T KNOW IS WHEN, WHERE OR HOW BAD IT WILL BE.

WE ALSO ALL KNOW THAT THE RELIEF REQUESTED IN THIS CASE IS EXTRAORDINARY BOTH IN THE AMOUNT OF DOLLARS REQUESTED AND THE MEANS BY WHICH THE COMPANY PROPOSES TO BE PAID.

IT'S IMPORTANT TO KEEP IN MIND THAT THE COMPANY HAS BEEN FREE ALL ALONG TO DO WHATEVER WORK IT THINKS IS NECESSARY TO PREPARE FOR FUTURE STORMS. THE ONLY REASON IT FILED THIS PETITION WAS TO GET THE BOARD TO BLESS ITS PROPOSED ACTIONS IN ADVANCE AND APPROVE THE ALTERNATIVE COST RECOVERY MECHANISM IT SEEKS.

RATE COUNSEL'S TESTIMONY IN THIS CASE WILL SHOW THAT THE COMPANY HAS FAILED TO MEET ITS BURDEN OF PROOF AND THAT THE PROGRAM SHOULD NOT BE APPROVED AS PROPOSED. HOWEVER, THE RECORD WILL ALSO SHOW THAT IF THE BOARD CHOOSES, IT MAY APPROVE A SMALLER,

MORE ECONOMICALLY EFFICIENT PROGRAM THAT WILL PROVIDE EQUAL BENEFITS WHILE TAKING INTO ACCOUNT THE BURDEN ON RATEPAYERS.

CONTRARY TO WHAT YOU MAY HAVE HEARD AND AS THE EVIDENCE IN THIS CASE WILL BEAR OUT, IF THIS BOARD GRANTS PSE&G THE \$2.7 BILLION IT IS SEEKING VIA THE COST RECOVERY MECHANISM IT IS PROPOSING, RATEPAYERS WILL SEE A SIGNIFICANT INCREASE IN THEIR RATES.

RATE COUNSEL WITNESS ANDREA CRANE WILL BE TESTIFYING THAT THE COMPANY'S PROPOSAL BY YEAR 10 WILL REPLACE ALMOST HALF OF ITS ELECTRIC PLANT-IN-SERVICE AND A QUARTER OF ITS GAS PLANT. BY 2019, IT WILL INCREASE ELECTRIC RATES BY 20% OVER CURRENT RATES AND GAS RATES BY 16% OVER CURRENT RATES. OVER THE USEFUL LIFE OF THE PROPOSED ELECTRIC ASSETS, APPROXIMATELY \$1.87 BILLION OF RETURN NET-OF-TAX WILL BE GENERATED BY THIS PROGRAM. OF THAT, APPROXIMATELY 75%, OR \$1.4 BILLION, IS RETURN ON EQUITY FOR THE COMPANY'S SHAREHOLDERS. FOR THE GAS UTILITY, \$3.31 BILLION WILL BE GENERATED OVER THE USEFUL LIFE OF THE ASSETS. APPROXIMATELY ONE-THIRD, OR \$1.06 BILLION, IS RETURN ON EQUITY.

SO WHAT WOULD RATEPAYERS BE GETTING FOR THAT RATE INCREASE? BASED ON THE COMPANY'S OWN DATA, WE WILL BE GETTING A MODEST IMPROVEMENT IN OUR ABILITY TO WEATHER THESE STORMS. WE WILL SEE A 39% REDUCTION IN OUTAGE HOURS. THAT MAY MEAN THAT SOME PEOPLE WHO WERE OUT IN PRIOR STORMS WON'T BE OUT IF A STORM COMES AGAIN. IT MAY BE THAT OTHERS WILL HAVE AN OUTAGE OF A SHORTER DURATION. BUT, AS THE EVIDENCE WILL SHOW, EVEN BY THE COMPANY'S OWN CALCULATIONS, 61% OF OUTAGE HOURS WILL STILL OCCUR.

AS REGULATORS AND AS THE DECISION-MAKERS IN THIS CASE, YOUR JOB IS TO BALANCE WHAT WE ARE SPENDING AND WHAT WE ARE GETTING FOR IT. WE COULD BUILD A DUPLICATE DISTRIBUTION SYSTEM FOR EVEN MORE MONEY OR DO NOTHING AT ALL AND TAKE OUR CHANCES. THE RIGHT ANSWER IS SOMEWHERE IN BETWEEN. AND THE DIFFICULT TASK BEFORE YOU IS TO FIGURE OUT THAT MIDDLE GROUND.

RATE COUNSEL'S POSITION IN THIS CASE IS NOT THAT WE SHOULDN'T DO ANYTHING TO BETTER PREPARE FOR STORMS. HOWEVER, WE BELIEVE THE RECORD WILL SHOW THAT THE COMPANY HAS NOT MET ITS BURDEN OF DEMONSTRATING THAT WHAT IT PROPOSES TO DO, AT THE PRICE IT PROPOSES TO CHARGE, IS JUST AND REASONABLE.

YOU WILL HEAR TESTIMONY FROM RATE COUNSEL'S CONSULTING ELECTRIC ENGINEER CHARLES SALAMONE REGARDING THE MEASURES THAT PSE&G IS PROPOSING AND THE LESS EXPENSIVE ALTERNATIVES THAT THEY EITHER

IGNORED OR REJECTED. YOU WILL ALSO HEAR TESTIMONY ANALYZING WHETHER THE WORK BEING PROPOSED IS TRULY RELATED TO STORMS OR SIMPLY WORK THAT PSE&G NEEDS TO DO IN THE NORMAL COURSE TO MAINTAIN ITS SYSTEM. SPEAKING OF THE “NORMAL COURSE,” YOU WILL ALSO HEAR TESTIMONY DEMONSTRATING THAT THE PROJECTS INCLUDED IN THIS PROGRAM HAVE NOT GONE THROUGH THE VETTING PROCESS THE COMPANY NORMALLY USES BEFORE DECIDING WHETHER TO INVEST IN CAPITAL PROGRAMS. AS A RESULT, RATEPAYERS ARE BEING ASKED TO PAY PROJECT COSTS THAT INCLUDE HIGHER CONTINGENCY COSTS THAN THEIR NORMAL INVESTMENTS.

RATE COUNSEL’S GAS ENGINEER ED MCGEE AND GAS POLICY EXPERT DAVID DISMUKES WILL DISCUSS THE \$906 MILLION DOLLARS THE COMPANY PROPOSES TO SPEND IN THIS PROGRAM TO REPLACE GAS LINES. ONLY 1,400 GAS CUSTOMERS EXPERIENCED OUTAGES IN IRENE AND 1,100 IN SANDY. MOST OF THOSE LINES THE COMPANY SEEKS TO REPLACE DID NOT FLOOD AND ARE NOT EVEN IN A FLOOD ZONE. WHILE SOME OF THAT WORK MAY BE WORTH DOING IN A GENERAL SENSE, IT IS NOT NEEDED FOR STORM RESPONSE AND SHOULD NOT BE PART OF THIS PROGRAM.

RATE COUNSEL’S CONSULTING ECONOMIST DAVID DISMUKES WILL EXPLAIN THAT THE COMPANY’S PROPOSAL IS LIKE FORCING RATEPAYERS TO BUY INSURANCE WITHOUT BEING SURE OF GETTING COVERAGE IN EXCHANGE FOR THE PREMIUM. WHEN TAKING INTO ACCOUNT THE ECONOMIC COST OF THE RATE INCREASES ASSOCIATED WITH THIS PROGRAM, DR. DISMUKES WILL TESTIFY THAT HE BELIEVES ENERGY STRONG IS WEAK AND WILL NOT PROVIDE A NET POSITIVE ECONOMIC BENEFIT.

THE COMPANY HAS ALSO NOT MET ITS BURDEN OF SHOWING THAT THE BENEFITS OF ITS PROPOSAL OUTWEIGH THE COSTS. IT HAS NOT PROVIDED A COST-BENEFIT ANALYSIS TO ALLOW THE BOARD TO MAKE SUCH A DETERMINATION, DESPITE A DIRECTIVE FROM THE BOARD REQUIRING A COST BENEFIT ANALYSIS. A COST BENEFIT ANALYSIS WOULD PROVIDE THE BOARD WITH THE DATA NEEDED TO ANALYZE THE TRADE-OFFS TO DETERMINE IF A PARTICULAR PROPOSAL IS WORTH DOING DESPITE ITS COSTS. INSTEAD, THE COMPANY PRODUCED WHAT THEY CALL A “BREAK EVEN ANALYSIS” THAT DOES NOT ASSESS THE PROBABILITY OF THE DANGER WE ARE TRYING TO PREVENT AND CAN ALWAYS BE USED TO JUSTIFY A “YES” ANSWER.

THE COMPANY HAS ALSO NOT MET ITS BURDEN OF DEMONSTRATING THAT THE RETURN IT SEEKS AND ITS PROPOSED COST RECOVERY MECHANISM ARE REASONABLE. THE COMPANY IS SEEKING TO RECOVER ITS INVESTMENT THROUGH CONTEMPORANEOUS RECOVERY THAT TRANSFERS NEARLY ALL OF THE RISK TO RATEPAYERS. YET THE COMPANY IS SEEKING TO RECOVER ITS FULL RETURN ON EQUITY THAT IS MEANT TO COMPENSATE FOR THAT RISK. IT

IS IMPORTANT TO KEEP IN MIND THAT CARING ABOUT THE RATEPAYERS MEANS NOT ONLY PREVENTING OUTAGES BUT MAKING SURE THEIR RATES ARE REASONABLE AND THAT IF THEY ARE ASKED TO PAY FOR A PROGRAM, THEY SHOULD GET A GOOD DEAL FOR THEIR MONEY.

AS YOU ARE AWARE THE PARTIES HAVE BEEN WORKING FOR A WHILE TO DEVELOP THE INFORMATION NEEDED FOR YOU TO HAVE A COMPLETE RECORD ON WHICH TO DECIDE THIS CASE. IN THIS PROCEEDING IT IS ONLY THAT RECORD THAT MATTERS. WE HAVE HAD THE PUBLIC HEARINGS AND THE AD CAMPAIGNS. WHAT MATTERS HERE IS THE EVIDENCE.

AND WHEN IT COMES TO APPROVING THE PROGRAM AS PROPOSED, THAT EVIDENCE IS LACKING. THE COMPANY HAS NOT MET ITS BURDEN AND THE RECORD IS NOT SUFFICIENT. WHILE SOME MEASURES TO BETTER PREPARE US FOR FUTURE STORMS MAY BE JUSTIFIED, AND SOME AMOUNT OF SPENDING TO ACHIEVE THAT GOAL MAY BE WORTHWHILE, THE PROPOSAL PUT FORTH BY THE COMPANY IN ITS PETITION COSTS TOO MUCH, PROVIDES TOO GREAT A RETURN FOR THE COMPANY, AND IS NOT THE MOST ECONOMICAL WAY TO PROCEED.

RATE COUNSEL LOOKS FORWARD TO PRESENTING THE EVIDENCE TO THE BOARD AND TO WORKING TO DEVELOP A PROGRAM THAT WILL TRULY BENEFIT RATEPAYERS AT A REASONABLE COST.
THANK YOU.