Agenda Date: 5/22/18
Agenda Item: 2K

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	)	DECISION AND ORDER APPROVING STIPULATION OF SETTLEMENT DOCKET NO. GO17111130

Parties of Record:

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

BY THE BOARD:

BACKGROUND

Storm Hardening and Reliability Program Petition

The New Jersey Board of Public Utilities ("Board") is empowered to ensure that regulated public utilities provide safe, adequate and proper service to the citizens of New Jersey. N.J.S.A. 48:2-23. Pursuant to N.J.S.A. 48:2-13, the Board has been vested by the Legislature with the general supervision and regulation of and jurisdiction and control over all public utilities, "so far as may be necessary for the purpose of carrying out the provisions of [Title 48]." The courts of this State have held that the grant of power by the Legislature to the Board is to be read broadly, and that the provisions of the statute governing public utilities are to be construed liberally. See, e.g. In re Public Service Electric and Gas Company, 35 N.J. 358, 371 (1961); Township of Deptford v. Woodbury Terrace Sewerage Corp., 54 N.J. 418, 424 (1969); Bergen County v. Dep't of Public Utilities, 117 N.J. Super. 304 (App. Div. 1971). The Board is also vested with the authority, pursuant to N.J.S.A. 48:2-19, to investigate any public utility, and, pursuant to N.J.S.A. 48:2-16 and 48:2-40, to issue orders to public utilities.

On March 20, 2013, the Board issued an Order[1] ("March 2013 Order"), recognizing "that there remains a very real threat from future Major Storm Events."[2] The Board found that "it is critical to investigate prudent, cost efficient and effective opportunities to protect New Jersey's utility

[1] In the Matter of the Board's Establishment of a Generic Proceeding to Review Costs, Benefits, and Reliability Impacts of Major Storm Event Mitigation Efforts, BPU Docket No. AX13030197. (March 20, 2013).
[2] "Major Storm Event" is defined as a sustained impact on or interruption of utility service resulting from conditions beyond the control of the utility that affects at least ten (10) percent of the customers in an area. March 20 Order at 2.

infrastructure against damage from future Major Storm Events." The Board invited all regulated utilities to submit detailed proposals for infrastructure upgrades designed to protect the State's utility infrastructure from future Major Storm Events.

By Order[3] dated August 20, 2014, the Board authorized 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 values ("EFVs") in the municipalities of Atlantic City, Ventnor City, Margate, Longport, Ocean City, Wildwood, North Wildwood, Wildwood Crest, and West Cape May. The SHARP Order also authorized a cost recovery mechanism applicable to SHARP projects 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.

Storm Hardening and Reliability Program II Petition

On November 2, 2017, SJG filed a petition ("SHARP II Petition") for approval of a second phase to its SHARP ("SHARP II" or "Program") 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 (4) 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. According to SJG, SHARP II is designed to improve the safety, redundancy, resiliency and integrity of SJG's natural gas distribution system infrastructure in coastal areas, making it less susceptible to storm damage.

SJG proposed to recover the annual revenue requirements associated with SHARP II in the same manner approved in the SHARP Order. 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 ("WACC") of 6.8% which includes a return on equity of 9.6% and an equity-to-capitalization ratio of 52.50%, amongst other items.

By Order dated December 19, 2017, the Board determined that the SHARP II Petition should be retained by the Board for hearing and, pursuant to N.J.S.A. 48:2-32, designated Commissioner Dianne Solomon 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. Further, the December 19, 2017 Order directed that any entities seeking to intervene or participate in this matter file the appropriate application with the Board by January 12, 2018. There were no motions to intervene or participate filed in this matter.

On February 21, 2018, Commissioner Solomon issued a Prehearing Order setting forth the procedural schedule in this matter. Following proper public notice, two (2) public hearings were held in Voorhees on March 15, 2018. One member of the public appeared, however no comments were entered into the record. The Board did not receive any written comments with regard to the SHARP II Petition.

[3] 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").

STIPULATION:

Following the review of the SHARP II Petition and discovery, the Company, Board Staff and the New Jersey Division of Rate Counsel ("Rate Counsel") (collectively, "Parties") held several conferences and on May 2, 2018 executed a Stipulation of Settlement ("Stipulation"). The Stipulation[4] provides for the following:

13. The scope of the SHARP II Projects shall include the Company's proposed pipeline looping projects, including the Absecon Island Loop Project, Ocean City Loop Project, and Brigantine Bridge Project, and installation of approximately 20,000 EFVs in coastal areas.

14. The SHARP II expenditures eligible for cost recovery will be capped at an investment level of up to $100.25 million, excluding AFUDC, as described in the stipulated cost recovery mechanism. The Parties propose that the SHARP II commence on June 1, 2018 and SHARP II Investments be made over a 3 (three) year period ending June 30, 2021. Cost recovery on expenditures made in excess of the SHARP II cap may be sought by the Company in the normal course of a base rate proceeding.

15. The Parties agree that the SHARP II Project investments are incremental to the Company's regular construction budget for the period ending June 30, 2021.

16. The Parties agree that the SHARP II Project costs shall not exceed $33.4 million per year, plus or minus fifteen percent (15%), with a total cap of $100.25 million over a 3-year period. SJG reserves the right to request additional relief in a subsequent proceeding.

17. During the SHARP II, the Company has agreed to invest an additional $10 million base spend (i.e., "Stipulated Base") to be recovered in the Company's next base rate case proceeding. The Stipulated Base will include service replacements identified during the installation of EFVs in coastal areas.

18. The Company has agreed to complete all localized main replacements that are necessary to permit minimum pressure levels at all portions of each proposed SHARP II looping project at all times including peak demand days and when one of the supply feeds is not available, prior to placing the projects in service, as part of its normal base capital expenditures.

19. The Company has agreed to include non-construction expenditures, such as planning and engineering of SHARP II Projects incurred as of June 1, 2018, in revenue requirements associated with SHARP II projects from June 1, 2018 to June 30, 2019 (i.e., SHARP II investments for the first year of SHARP II).

[4] 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. Each paragraph is numbered to coincide with the paragraphs in the Stipulation.

A. COST RECOVERY

20. The Parties agree that cost recovery for SHARP II Projects will be effectuated by an annual adjustment to base distribution rates ("SHARP II Base Rate Adjustments"). In order to effectuate the cost recovery process, the Company shall make annual Revenue Adjustment Filings ("Annual Filings"), which shall be made on the following schedule:

    a. Revenue Requirements associated with SHARP II Investments that are placed in service through and including June 30, 2019 shall be included in base rates effective October 1, 2019. SJG shall make its initial filing for such rates in April 2019 and update such filing for actual data through June 30, 2019 by July 15, 2019.

    b. Revenue Requirements associated with SHARP II Investments that are placed in service through and including June 30, 2020 shall be included in base rates effective October 1, 2020. SJG shall make its initial filing for such rates in April 2020 and update such filing for actual data through June 30, 2020 by July 15, 2020.

    c. Revenue Requirements associated with SHARP II Investments that are placed in service through and including June 30, 2021 shall be included in base rates effective October 1, 2021. SJG shall make its initial filing for such rates in April 2021 and update such filing for actual data through June 30, 2021 by July 15, 2021.

    d. It is understood and agreed that the adjustments reflected in subparagraphs a-c, above, are base rate adjustments and are not subject to true-up or reconciliation once placed into base rates.

21. Rate Counsel and Staff will have the opportunity to propound discovery on the information provided by SJG in each of the Annual Filings. Each Annual Filing will be noticed for public hearings with the opportunity to file testimony and, if necessary, evidentiary hearings.

22. The Parties agree that SHARP II Projects will be subject to a review for prudent and reasonable expenditures in the Company's next base rate proceeding. Annual Filings for base rate adjustments are therefore provisional and subject to refund by the Board.

23. The Parties acknowledge that by virtue of the Board Order dated October 31, 2016 in Docket No. GR16020175,[5] the Company shall file its next base rate case no later than November 1, 2020.

24. The Company further agrees to file a base rate case within three (3) years following the conclusion of its SHARP II.

[5] 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, Decision and Order Approving Stipulation of Settlement, Docket No. GR16020175 (Oct. 31, 2016).

25. The SHARP II Revenue Requirements to be included in each of the Annual Filings discussed in the Stipulation will be calculated as follows:

Definitions:

SHARP II Investment Costs - All qualifying SHARP II investment capital expenditures, including actual costs of engineering, design and construction, and property acquisition, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects ("SHARP II Investment Costs"), will be recovered through base rate roll-ins for each of the time periods described above. The SHARP II Costs will be recorded, during construction, in an associated Construction Work in Progress ("CWIP") account and transferred to a Utility Plant in Service account ("UPIS") upon the respective project being deemed used and useful. When SHARP II Projects are transferred from CWIP to UPIS, the booking of AFUDC shall cease.

Weighted Average Cost of Capital ("WACC") – The return on the SHARP II Program Rate Base shall be calculated at a weighted average cost of capital including a 9.60% return on equity and an equity-to-capitalization ratio of 52.50%. This results in a WACC of 6.88% (6.22% after tax) (the "After Tax WACC"). The Parties agree that any WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent revenue requirement calculations rather than the WACC stated in the Stipulation, for the immediately following SHARP II annual filing.

The annual SHARP II Revenue Adjustment will be calculated using the following formula:

Revenue Requirement = ((SHARP II Program Rate Base * After Tax WACC) + Depreciation Expense (net of tax)) * Revenue Factor

SHARP II Program Rate Base – The SHARP II Program Rate Base will be calculated as SHARP II Investment Costs, including CWIP transferred into service and associated AFUDC, less associated accumulated depreciation and less associated accumulated deferred income taxes.

AFUDC – AFUDC shall be calculated utilizing the "Modified FERC Formula" described in the Stipulation.

Depreciation Expense – Depreciation expense will be calculated based upon the asset class multiplied by the associated depreciation rate for that asset, as established in the Company's most recently completed base rate case in which such depreciation rates are established. The Company will begin to depreciate SHARP II Project assets once they are placed in service.

Revenue Factor – The Revenue Factor adjusts the Revenue Requirement Net of Tax for Federal and State income taxes, the costs associated with the Board and Rate Counsel Annual Assessments, and Bad Debt. The revenue factor utilized by the Company is 1.51666, which was utilized to set rates in the Company's most recent base rate case, adjusted for subsequent tax changes. The Revenue Factor will be adjusted to reflect any subsequent changes in the corporate Federal income tax rate, or the New Jersey Corporation Business Tax or Sales and Use Tax rates. Furthermore, the Parties agree that any Revenue Factor authorized by the Board in a subsequent base rate case will be reflected in the subsequent revenue requirement calculations rather than the Revenue Factor stated above, for the immediately following SHARP II Annual Filing.

26. Operation and Maintenance ("O&M") Expenses associated with the SHARP II Projects will not be included in the calculation of the SHARP II Revenue Requirement, nor will such costs be deferred.

27. SJG agrees that the SHARP II Revenue Adjustments will be provisional and subject to refund solely based on a future finding by the Board that SJG unreasonably and imprudently incurred capital expenditures through SHARP II.

28. The "Modified FERC Formula" utilized to calculate the AFUDC rate for SHARP II purposes, shall be as follows:

    a. When the Company's total CWIP balance, including CWIP associated with SHARP II projects, is less than or equal to the Company's outstanding short-term debt ("S/T debt") balance, the applicable AFUDC rate will be equal to the Company's monthly cost of S/T debt, and

    b. When the Company's total CWIP balance, including CWIP associated with SHARP II projects, is greater than the Company's outstanding S/T debt, the applicable AFUDC rate will result in a blended monthly AFUDC calculation. The blended AFUDC rate calculation will include a S/T debt rate for that portion of the CWIP balance equal to the month-end S/T debt balance and the Company's SHARP II WACC, as defined in paragraph 18 herein, for the portion of SHARP II CWIP in excess of the Company's month-end S/T debt balance, and

    c. If the Company has no S/T debt at month end, the AFUDC rate will be the Company's WACC for SHARP II. For purposes of settling this matter, the Parties agree that the Company's Modified FERC formula shall include the compounding of AFUDC on a semi-annual basis for SHARP II. It is further agreed to by the Parties that when SHARP II projects are transferred from CWIP to Utility Plant in Service, the booking of AFUDC shall cease and the booking of depreciation shall commence.

B. <u>RATES</u>

29. There is no rate impact on customers at this time from SHARP II. The Parties agree that SJG will recover the costs associated with SHARP II Projects by adjusting the then-current volumetric rate for all customer classes, allocated in the manner prescribed in the Company's most recent base rate case. The base rates that are revised as a result of the SHARP II Base Rate Adjustments shall be calculated utilizing the billing determinants utilized to set rates in the Company's most recent base rate case. The Margin Revenue Factor set forth in the Company's Conservation Incentive Program ("CIP") tariff shall also be revised to reflect the SHARP II Base Rate Adjustments.

C. **MINIMUM FILING REQUIREMENTS ("MFRs")**

30. The Company will provide to the Parties, as part of its Annual Filings described in the Stipulation, MFRs. The MFRs are attached to the Stipulation as Attachment A and incorporated therein by reference.

D. **REPORTING REQUIREMENTS**

31. The Company will provide quarterly reports on the Program to the Board Staff and Rate Counsel ("Quarterly Report") setting forth the information attached in Attachment B to the Stipulation and incorporated therein by reference. This reporting will begin with the quarter ending September 30, 2018 and be filed by December 1, 2018 and continue quarterly with reports due on the first of the month two months after the end of the quarter that is reflected in the report, until Program expenditures are complete.

DISCUSSION AND FINDINGS:

In evaluating a proposed Stipulation, 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. In re Petition of Pub. Serv. Elec. & Gas, 304 N.J. Super. 247 (App. Div.), cert. denied, 152 N.J. 12 (1997). The March 2013 Order found that it was appropriate to invite all regulated utilities to submit detailed proposals for infrastructure upgrades designed to protect the State's utility infrastructure from future Major Storm Events. The March 2013 Order required Staff to review the efficacy of the measures proposed by the utilities and examine the costs to be potentially incurred by the utilities in association with efforts to protect utility infrastructure from future Major Storm Events, as well as any potential benefits. 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 Parties agree that the goal of the SJG SHARP II is to improve the storm resiliency of, and restoration times for, the Company's distribution infrastructure to benefit its customers and that the scope of the Program is incremental in nature to SJG's existing capital expenditures. The Board is persuaded that the SJG's SHARP II, if successfully executed, can help protect SJG's infrastructure from future Major Storm Events. The program provides for reporting by the Company and oversight by Staff and Rate Counsel. Based on the Board's review of the SHARP II Petition and Stipulation, the Board is persuaded that the current proposal satisfies those goals, as well as the directives contained in the March 2013 Order.

With respect to the stipulated cost recovery mechanism, the Board is persuaded that the mechanism proposed in the Stipulation allows the Company rate recovery for all expenditures related to facilities that have been placed in service, but on a provisional basis, subject to refund. These costs will be subject to review in the next base rate case which the Company has committed to filing within three (3) years of the conclusion of the Program. The Board believes 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.

Based on 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.

The Board **HEREBY RATIFIES** the decisions of Commissioner Solomon rendered during the proceedings for the reasons stated in her Orders.

The Company's costs 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.

This Order shall be effective on June 1, 2018.

DATED: 5\22\18

BOARD OF PUBLIC UTILITIES
BY:

JOSEPH L. FIORDALISO
PRESIDENT

MARY-ANNA HOLDEN
COMMISSIONER

DIANNE SOLOMON
COMMISSIONER

UPENDRA J. CHIVUKULA
COMMISSIONER

ROBERT M. GORDON
COMMISSIONER

ATTEST: AIDA CAMACHO-WELCH
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 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, Route 54
Folsom, NJ 08037

Ira G. Megdal, Esq.
Cozen O'Connor
457 Haddonfield Road
Liberty View, Suite 300
Cherry Hill, NJ 08002
iMegdal@cozen.com

Steven R. Cocchi, Esq., Director
scocchi@sjindustries.com

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

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

Kenneth J. Barcia, Manager
kbarcia@sjindustries.com

Stefany M. Graham,
Senior Analyst
sgraham@sjindustries.com

Tapan H. Jain, Senior Analyst
tjain@sjindustries.com

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

Board of Public Utilities:
44 South Clinton Avenue
3rd floor, Suite 314
Post Office Box 350
Trenton, NJ 08625-0350

Aida Camacho-Welch
Secretary of the Board
aida.camacho@bpu.nj.gov

Division of Energy
Stacy Peterson, Director
stacy.peterson@bpu.nj.gov

David Brown
david.brown@bpu.nj.gov

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

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

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

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

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

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

Shelly Massey
smassey@rpa.nj.gov

SOUTH JERSEY GAS

Stacy A. Mitchell, Esq.
Vice President
Rates & Regulatory Affairs

May 3, 2018

Aida Camacho, Board Secretary
NJ Board of Public Utilities
44 South Clinton Avenue, 3rd Floor
P. O. Box 350
Trenton, NJ 08625-0350

Re: In the Matter of the Petition of South Jersey Gas Company to Continue its Storm Hardening and Reliability Program ("SHARP II") and Associated Recovery Mechanism
BPU Docket No. GO17111130

Dear Secretary Camacho:

Attached please find a fully executed Stipulation of Settlement in the referenced matter.

Thank you for your cooperation.

Respectfully,

Stacy A. Mitchell

Stacy A. Mitchell

SAM:lvk
Attachment

cc: Service List (via email)

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

SERVICE LIST

NJ BOARD OF PUBLIC UTILITIES

Aida Camacho, Secretary
NJ Board of Public Utilities
44 South Clinton Avenue, 3rd Floor
P. O. Box 350
Trenton, NJ 08625-0350
aida.camacho@bpu.nj.gov

Stacy Peterson, Director
Division of Energy
NJ Board of Public Utilities
44 South Clinton Avenue, 3rd Floor
P. O. Box 350
Trenton, NJ 08625-0350
stacy.peterson@bpu.nj.gov

James Giuliano, Director
Division of Reliability & Security
NJ Board of Public Utilities
44 South Clinton Avenue, 3rd Floor
P. O. Box 350
Trenton, NJ 08625-0350
james.giuliano@bpu.nj.gov

Megan Lupo, Legal Specialist
NJ Board of Public Utilities
44 South Clinton Avenue, 3rd Floor
P. O. Box 350
Trenton, NJ 08625-0350
megan.lupo@bpu.nj.gov

DIVISION OF RATE COUNSEL

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

Felicia Thomas-Friel, Managing Attorney
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625
fthomas@rpa.nj.gov

Henry M. Ogden, Esq.
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625
hogden@rpa.nj.gov

Brian O. Lipman, Litigation Manager
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625
blipman@rpa.nj.gov

Maura Caroselli, Esq.
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625
mcaroselli@rpa.nj.gov

Shelly Massey
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625
smassey@rpa.nj.gov

RATE COUNSEL CONSULTANTS

Robert J. Henkes
Henkes Consulting
7 Sunset Road
Old Greenwich, CT 06870
rhenkes@optonline.net

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

Edward McGee
Acadian Consulting Group, LLC
5800 One Perkins Place Drive, Suite 5-F
Baton Rouge, LA 70808
edmcgee@acadianconsulting.com

DIVISION OF LAW

Alex Moreau, Esq., DAG
Deputy Attorney General
Dept. of Public Law & Public Safety
Division of Law
P. O. Box 45029
Newark, NJ 07101
alex.moreau@law.njoag.gov

Veronica Beke, Esq., DAG
Deputy Attorney General
Dept. of Public Law & Public Safety
Division of Law
P. O. Box 45029
Newark, NJ 07101
veronica.beke@law.njoag.gov

SOUTH JERSEY GAS COMPANY

Paul J. Zuccarino, Senior Vice President &
Chief Operations Officer
South Jersey Gas Company
One South Jersey Plaza
Folsom, NJ 08037
pzuccarino@sjindustries.com

Stacy A. Mitchell, Esq., Vice President
Rates & Regulatory Affairs
South Jersey Gas Company
One South Jersey Plaza
Folsom, NJ 08037
smitchell@sjindustries.com

Kenneth J. Barcia, Manager
Rates & Revenue Requirements
South Jersey Gas Company
One South Jersey Plaza
Folsom, NJ 08037
kbarcia@sjindustries.com

Stefany M. Graham, Manager
Rates & Regulatory Initiatives
South Jersey Gas Company
One South Jersey Plaza
Folsom, NJ 08037
sgraham@sjindustries.com

Carolyn A. Jacobs
Regulatory Compliance Specialist
Rates & Regulatory Affairs
South Jersey Gas Company
One South Jersey Plaza
Folsom, NJ 08037
cjacobs@sjindustries.com

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

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

APPEARANCES:

Stacy A. Mitchell, Esq., Vice President, Rates & Regulatory Affairs, for South Jersey Gas Company ("Petitioner")

Felicia Thomas-Friel, Esq., Deputy Rate Counsel, and **Maura Caroselli**, Esq., Assistant Deputy Rate Counsel, for the New Jersey Division of Rate Counsel (**Stefanie A. Brand**, Director).

Alex Moreau and Veronica Beke, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (**Gurbir Grewal**, Attorney General of New Jersey).

TO THE HONORABLE COMMISSIONERS OF THE BOARD OF PUBLIC UTILITIES:

This Stipulation of Settlement addresses the petition filed by South Jersey Gas Company ("SJG" or the "Company") with the New Jersey Board of Public Utilities ("Board") November 2, 2017 in Docket No. GO17111130 seeking to continue its Storm Hardening and Reliability Program ("SHARP II") and associated rate recovery mechanism.

BACKGROUND

1. On August 20, 2014 in BPU Docket Nos. AX13030197 and GO13090814, the Board entered an order approving a stipulation approving the Company's Storm Hardening and Reliability Program ("SHARP I") setting forth the authorized investments and cost recovery

mechanism to be utilized in a 3-year program ending June 30, 2017.[1] Pursuant to the order approving the stipulation, the Company was authorized to invest $34.5 million per year (excluding Allowance for Funds Used During Construction ("AFUDC")) for a 3-year period, with a total cap of $103.5 million, to replace low pressure mains and associated services with high pressure along the barrier islands, which were most prone to water intrusion from Major Storm Events. The SHARP I Stipulation provided for a cost recovery mechanism applicable to SHARP I projects placed in service after July 1, 2014. At the time of Board approval of the SHARP I cost recovery mechanism, SHARP I projects had already commenced and SHARP I projects placed in service as of June 30, 2014 were recognized in the Company's then pending base rate case. Cost recovery is effectuated by an annual adjustment to base distribution rates effective on October 1 and accomplished through the Company's annual revenue adjustment filings.

2. On November 2, 2017, the Company petitioned the Board in this matter for approval of a second phase to its previously approved SHARP and for approval of an associated cost recovery mechanism for its proposed program, SHARP II, pursuant to N.J.S.A. 48: 2-21, 48:2-21.1, 48:2-23 and the Board's Orders in Docket Nos. AX13030197 and GO13090814 (hereinafter referred to as "SHARP II"). By direct testimony to the petition, SJG proposes to recover the annual revenue requirements associated with SHARP II in the same manner as its initial SHARP cost recovery mechanism approved by the Board in order to make significant incremental capital investments, access credit and capital markets, and reflect SHARP II investments in rates on an annual basis to impact customer bills in smaller increments.

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[1] In the Matter of the Petition of South Jersey Gas Company for Approval of Increased Base Tariff Rates and Charges for Gas Service and Other Tariff Revisions, BPU Docket No. GO13090814, Decision and Order Approving Stipulation dated August 20, 2014.

3. SHARP II, as filed, proposes to continue storm hardening efforts along the barrier islands through four (4) targeted system enhancement projects, including: (1) Excess Flow Valve ("EFV") installation; (2) the Absecon Island Loop Project; (3) the Ocean City Loop Project; and (4) the Brigantine Bridge Project (collectively, "SHARP II" or the "Program").

4. By the petition, SHARP II is designed to improve the safety, redundancy, resiliency and integrity of SJG's natural gas distribution system infrastructure in coastal areas, making it less susceptible to storm damage.

5. SJG proposes to commence SHARP II on June 1, 2018 for a total capital investment of approximately $110.25 million over a 3-year period. SJG further proposes to recover costs through annual base rate adjustments to be effective on October 1st of each year. The first SHARP II rate adjustment filing would be made on April 1, 2019 with no rate adjustment or customer bill impact from implementation of SHARP II until October 1, 2019.

PROCEDURAL HISTORY

6. On December 19, 2017, the Board issued an Order retaining jurisdiction over the matter and designating Commissioner Dianne Solomon as the presiding officer.

7. On February 21, 2018, Commissioner Solomon issued a Prehearing Order setting forth the procedural schedule in this matter.

8. Following proper public notice, two (2) public hearings were held in this matter on March 15, 2018 in Voorhees, New Jersey. One (1) member of the public appeared, however no comments were entered into the record. No written comments were received.

9. SJG responded to all discovery requests that were propounded in this proceeding by Staff with the Board of Public Utilities ("Staff") and the New Jersey Division of Rate Counsel ("Rate Counsel").

10. Conferences were held among SJG, Staff and Rate Counsel (the "Signatory Parties") on February 28, 2018, March 23, 2018, and April 11, 2018 in order to facilitate discovery and to discuss settlement.

11. By this Stipulation of Settlement, the Signatory Parties reached an agreement resolving all issues in the instant proceeding. Specifically, the Signatory Parties hereby STIPULATE AND AGREE to the following terms set forth below:

STIPULATED ISSUES

12. The Signatory Parties agree that, subject to Board approval of this Stipulation, SJG may implement the SHARP II under the terms and conditions described herein.

13. The scope of the SHARP II Projects shall include the Company's proposed pipeline looping projects, including Absecon Island Loop Project, Ocean City Loop Project, and Brigantine Bridge Project, and installation of approximately 20,000 EFVs in coastal areas.

14. The Signatory Parties agree that the SHARP II expenditures eligible for cost recovery will be capped at an investment level of up to $100.25 million, excluding AFUDC, as described in the stipulated cost recovery mechanism below. The Signatory Parties propose that the SHARP II commence on June 1, 2018 and SHARP II Investments be made over a 3- year period ending June 30, 2021. Cost recovery on expenditures made in excess of the SHARP II cap may be sought by the Company in the normal course of a base rate proceeding.

15. The Signatory Parties agree that the SHARP II Project investments are incremental to the Company's regular construction budget for the period ending June 30, 2021.

16. The Signatory Parties agree that the SHARP II Project costs shall not exceed $33.4 million per year, plus or minus fifteen percent (15%), with a total cap of $100.25 million over a 3-year period. SJG reserves the right to request additional relief in a subsequent proceeding.

17. During the SHARP II, the Company has agreed to invest an additional $10 million base spend (i.e., "Stipulated Base") to be recovered in the Company's next base rate case proceeding. The Stipulated Base will include service replacements identified during the installation of EFVs in coastal areas.

18. The Company has agreed to complete all localized main replacements that are necessary to permit minimum pressure levels at all portions of each proposed SHARP II looping project at all times including peak demand days and when one of the supply feeds is not available, prior to placing the projects in service, as part of its normal base capital expenditures.

19. The Company has agreed to include non-construction expenditures, such as planning and engineering of SHARP II Projects incurred as of June 1, 2018, in revenue requirements associated with SHARP II projects from June 1, 2018 to June 30, 2019 (i.e., SHARP II Investments for the first year of SHARP II).

A. **COST RECOVERY**

20. The Signatory Parties agree that cost recovery for SHARP II Projects will be effectuated by an annual adjustment to base distribution rates ("SHARP II Base Rate

Adjustments"). *In order to effectuate the cost recovery process, the Company shall make annual* Revenue Adjustment Filings ("Annual Filings"), which shall be made on the following schedule:

a. Revenue Requirements associated with SHARP II Investments that are placed in service through and including June 30, 2019 shall be included in base rates effective October 1, 2019. SJG shall make its initial filing for such rates in April 2019 and update such filing for actual data through June 30, 2019 by July 15, 2019.

b. Revenue Requirements associated with SHARP II Investments that are placed in service through and including June 30, 2020 shall be included in base rates effective October 1, 2020. SJG shall make its initial filing for such rates in April 2020 and update such filing for actual data through June 30, 2020 by July 15, 2020.

c. Revenue Requirements associated with SHARP II Investments that are placed in service through and including June 30, 2021 shall be included in base rates effective October 1, 2021. SJG shall make its initial filing for such rates in April 2021 and update such filing for actual data through June 30, 2021 by July 15, 2021.

d. It is understood and agreed that the adjustments reflected in subparagraphs a-c, above, are base rate adjustments and are not subject to true-up or reconciliation once placed into base rates.

21. Rate Counsel and Staff will have the opportunity to propound discovery on the information provided by SJG in each of the Annual Filings. Each Annual Filing will be noticed for public hearings with the opportunity to file testimony and, if necessary, evidentiary hearings.

22. *The Signatory Parties agree that SHARP II projects will be subject to a review for* prudent and reasonable expenditures in the Company's next base rate proceeding. Annual Filings for base rate adjustments are therefore provisional and subject to refund by the Board.

23. The Signatory Parties acknowledge that by virtue of the Board Order dated October 31, 2016 in Docket No. GR16020175[2], the Company shall file its next base rate case no later than November 1, 2020.

24. The Company further agrees to file a base rate case within three (3) years following the conclusion of its SHARP II.

25. The SHARP II Revenue Requirements to be included in each of the Annual Filings discussed herein will be calculated as follows:

Definitions:

SHARP II Investment Costs - All qualifying SHARP II Investment capital expenditures, including actual costs of engineering, design and construction, and property acquisition, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects ("SHARP II Investment Costs"), will be recovered through base rate roll-ins for each of the time periods described above. The SHARP II Costs will be recorded, during construction, in an associated Construction Work in Progress ("CWIP") account and transferred to a Utility Plant in Service account ("UPIS") upon the respective project being deemed used and useful. When SHARP II Projects are transferred from CWIP to UPIS, the booking of AFUDC shall cease.

Weighted Average Cost of Capital ("WACC") – The return on the SHARP II Program Rate Base shall be calculated at a weighted average cost of capital including a 9.60% return on equity and an equity-to-capitalization ratio of 52.50%. This results in a WACC of 6.68% (6.22% after tax) (the "After Tax WACC"). The Signatory Parties agree that any WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent revenue requirement calculations rather than the WACC stated above, for the immediately following SHARP II annual filing.

The annual SHARP II Revenue Adjustment will be calculated using the following formula:

Revenue Requirement = ((SHARP II Program Rate Base * After Tax WACC) + Depreciation Expense (net of tax)) * Revenue Factor

[2] 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, Decision and Order Approving Stipulation of Settlement, Docket No. GR16020175 (Oct. 31, 2016).

SHARP II Program Rate Base – The SHARP II Program Rate Base will be calculated as SHARP II Investment Costs, including CWIP transferred into service and associated AFUDC, less associated accumulated depreciation and less associated accumulated deferred income taxes.

AFUDC – AFUDC shall be calculated utilizing the "Modified FERC Formula" described below.

Depreciation Expense – Depreciation expense will be calculated based upon the asset class multiplied by the associated depreciation rate for that asset, as established in the Company's most recently completed base rate case in which such depreciation rates are established. The Company will begin to depreciate SHARP II Project assets once they are placed in service.

Revenue Factor – The Revenue Factor adjusts the Revenue Requirement Net of Tax for Federal and State income taxes, the costs associated with the BPU and Rate Counsel Annual Assessments, and Bad Debt. The revenue factor utilized by the Company is 1.51668, which was utilized to set rates in the Company's most recent base rate case, adjusted for subsequent tax changes. The Revenue Factor will be adjusted to reflect any subsequent changes in the corporate Federal income tax rate, or the New Jersey Corporation Business Tax or Sales and Use Tax rates. Furthermore, the Signatory Parties agree that any Revenue Factor authorized by the Board in a subsequent base rate case will be reflected in the subsequent revenue requirement calculations rather than the Revenue Factor stated above, for the immediately following SHARP II annual filing.

26. Operation and Maintenance ("O&M") Expenses associated with the SHARP II Projects will not be included in the calculation of the SHARP II Revenue Requirement, nor will such costs be deferred.

27. SJG agrees that the SHARP II Revenue Adjustments will be provisional and subject to refund solely based on a future finding by the Board that SJG unreasonably and imprudently incurred capital expenditures through SHARP II.

28. The "Modified FERC Formula" utilized to calculate the AFUDC rate for SHARP II purposes, shall be as follows:

a. When the Company's total CWIP balance, including CWIP associated with SHARP II projects, is less than or equal to the Company's outstanding short-term debt ("S/T debt") balance, the applicable AFUDC rate will be equal to the Company's monthly cost of S/T debt, and

b. When the Company's total CWIP balance, including CWIP associated with SHARP II projects, is greater than the Company's outstanding S/T debt, the applicable AFUDC rate will result in a blended monthly AFUDC calculation. The blended AFUDC rate calculation will include a S/T debt rate for that portion of the CWIP balance equal to the month-end S/T debt balance and the Company's SHARP II WACC, as defined in paragraph 18 herein, for the portion of SHARP II CWIP in excess of the Company's month-end S/T debt balance, and

c. If the Company has no S/T debt at month end, the AFUDC rate will be the Company's WACC for SHARP II. For purposes of settling this matter, the Signatory Parties agree that the Company's Modified FERC formula shall include the compounding of AFUDC on a semi-annual basis for SHARP II. It is further agreed to by the Signatory Parties that when SHARP II projects are transferred from CWIP to Utility Plant in Service, the booking of AFUDC shall cease and the booking of depreciation shall commence.

B. RATES

29. There is no rate impact on customers at this time from SHARP II. The Signatory Parties agree that SJG will recover the costs associated with SHARP II Projects by adjusting the then-current volumetric rate for all customer classes, allocated in the manner prescribed in the Company's most recent base rate case. The base rates that are revised as a result of the SHARP II Base Rate Adjustments shall be calculated utilizing the billing determinants utilized to set rates in the Company's most recent base rate case. The Margin Revenue Factor set forth in the Company's Conservation Incentive Program ("CIP") tariff shall also be revised to reflect the SHARP II Base Rate Adjustments.

C. MINIMUM FILING REQUIREMENTS ("MFRs")

30. The Company will provide to the Signatory Parties, as part of its Annual Filings described above, MFRs. The MFRs are attached hereto as Attachment A and incorporated herein by reference.

D. REPORTING REQUIREMENTS

31. The Company will provide quarterly reports on the Program to the BPU Staff and Rate Counsel ("Quarterly Report") setting forth the information attached hereto in Attachment B and incorporated herein by reference. This reporting will begin with the quarter ending September 30, 2018 and be filed by December 1, 2018 and continue quarterly with reports due on the first of the month two months after the end of the quarter that is reflected in the report, until Program expenditures are complete.

FURTHER PROVISIONS

32. The Signatory Parties agree that this Stipulation fully disposes of all issues in controversy in this proceeding. This Stipulation represents a mutual balancing of interests, contains interdependent provisions and, therefore, is intended to be accepted and approved in its entirety. In the event any particular aspect of this Stipulation is not accepted and approved in its entirety by the Board, any Party aggrieved thereby shall not be bound to proceed with this Stipulation and shall have the right to litigate all issues addressed herein to a conclusion. More particularly, in the event this Stipulation is not adopted in its entirety by the Board, in any applicable Order(s), then any Party hereto is free to pursue its then available legal remedies with respect to all issues addressed in this Stipulation as though this Stipulation had not been signed.

33. The Signatory Parties further agree that they consider the Stipulation to be binding on them for all purposes herein.

34. It is specifically understood and agreed that this Stipulation represents a negotiated agreement and has been made exclusively for the purpose of these proceedings. Except as expressly provided herein, the Signatory Parties shall not be deemed to have approved,

agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein and, in total or by specific item. The Signatory Parties further agree that this Stipulation is in no way binding upon them in any other proceeding, except to enforce the terms of this Stipulation. All rates are subject to audit by the Board.

35. The Signatory Parties further acknowledge that any increase or resolution of any issue agreed to in this Stipulation shall become effective upon the effective date specified in the service of said Board Order approving the Stipulation, or upon such date after the service thereof as the Board may specify, in accordance with N.J.S.A. 48:2-40.

WHEREFORE, the Signatory Parties 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.

SOUTH JERSEY GAS COMPANY

By: Stacy A. Mitchell

Stacy A. Mitchell, Esq.
Vice President, Rates & Regulatory Affairs

GURBIR GREWAL
ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the Board of Public Utilities

By: ______________________

Veronica Beke
Deputy Attorney General

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SOUTH JERSEY GAS COMPANY

By: ______________________________
Stacy A. Mitchell, Esq.
Vice President, Rates & Regulatory Affairs

GURBIR GREWAL
ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the Board of Public Utilities

By: Veronica Beke
Veronica Beke
Deputy Attorney General

STEFANIE A. BRAND
DIRECTOR, DIVISION OF RATE COUNSEL

By:
Maura Caroselli, Esq.
Assistant Deputy Rate Counsel

Dated: May 2, 2018

G017 11130

ATTACHMENT A

ANNUAL FILING
MINIMUM FILING REQUIREMENTS

1) SJG' s income statement for the most recent 12-month period, as filed with the BPU.

2) SJG' s balance sheet for the most recent 12-month period, as filed with the BPU.

3) A calculation of the proposed rate adjustment based on details related to Program projects included in Plant in Service.

   a. A calculation of the associated depreciation expense, based on those projects closed to Plant in Service during the period.

4) A revenue requirement calculation showing the actual capital expenditures and the forecasted spending, as well as supporting calculations; a schedule of base rate revenues at present and proposed rates; and Tariff Sheets reflecting the proposed rates.

5) The AFUDC rates, calculated in accordance with the Modified FERC Formula, used for AFUDC capitalization for each month in the most recent completed quarter, including the AFUDC rate calculation showing capital components and capital cost rates making up each of the monthly AFUDC rates.

6) Draft form of Public Notice.

7) Projected Bill Impact.

8) Copies of the current and all previously filed Quarterly Reports for the Program year.

ATTACHMENT B

QUARTERLY REPORT
MINIMUM FILING REQUIREMENTS

1) SJG' s overall SHARP II Program capital budget broken down by major categories, both budgeted and actual amounts.

2) For each SHARP II Project:

   a. The original project summary for each SHARP II Project.

   b. Actual capital expenditures incurred through the most recent quarter.

3) Anticipated SHARP II Program timeline with updates and expected changes.

4) Planned and forecasted spending schedule detailing the SHARP II Projects for the program year as compared to originally approved capital spending plans.

5) Summary of actual expenditures for each SHARP II Projects, identifying each capital expenditure from project inception through the current quarter.

6) A list of full time equivalent ("FTE") jobs created and the duration associated with each SHARP II Project as of the current quarter.

7) A list of any and all funds or credits received from the United States government, the State of New Jersey, a county or a municipality, for work related to any of the Program projects, as well as an explanation of the financial treatment associated with the receipt of the government funds or credits.