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STEFANIE A. BRAND
Director

April 15, 2019

By Hand Delivery and Electronic Mail
Hon. Aida Camacho-Welch, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 3rd Floor
Suite 314, P.O. Box 350
Trenton, New Jersey 08625-0350

Re: In the Matter of the Petition of Public Service Electric and Gas Company for Approval of its Clean Energy Future-Energy Efficiency ("CEF-EE") Program on a Regulated Basis
BPU Docket Nos. GO18101112 & EO18101113

Dear Secretary Camacho-Welch:

Enclosed please find an original and ten (10) copies of the rebuttal testimony of **David E. Dismukes, Ph.D.,** filed on behalf of the Division of Rate Counsel in connection with the above referenced matter.

One hard copy of the testimony is being provided to counsel of record for each party and participant by hand delivery or UPS Overnight Mail. Additional hard copies will be provided upon request.

We are enclosing one additional copy of the testimony. Please stamp and date the extra copy as "filed" and return it to our courier.

Thank you for your consideration and assistance.

Respectfully submitted,

Case Mgmt
1st & Copies

Stefanie A. Brand
Director, Division of Rate Counsel

By: _____
Kurt S. Lewandowski, Esq.
Assistant Deputy Rate Counsel

KSL
Enclosures
c: Dianne Solomon, Commissioner (via hand-delivery)
Service List (via electronic and/or overnight mail)

In the Matter of the Petition of Public Service Electric and Gas Company for Approval of its Clean Energy Future-Energy Efficiency ("CEF-EE") Program on a Regulated Basis
BPU Docket Nos.
GO18101112/EO18101113

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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 its Clean Energy Future-Energy Efficiency ("CEF-EE") Program on a Regulated Basis	)))))	BPU Docket Nos. GO18101112 and EO18101113

REBUTTAL TESTIMONY OF DAVID E. DISMUKES, PH.D. ON BEHALF OF THE DIVISION OF RATE COUNSEL

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Dated: April 15, 2019

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REBUTTAL TESTIMONY OF

DAVID E. DISMUKES, PH.D.

ON BEHALF OF THE

NEW JERSEY DIVISION OF RATE COUNSEL

BPU DOCKET NOs. GO18101112 and EO18101113

I. Introduction

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is David E. Dismukes. My business address is 5800 One Perkins Place Drive, Suite 5-F, Baton Rouge, Louisiana, 70808.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to respond to the direct testimony of Amanda Levin, an expert witness appearing on the behalf of Environment New Jersey ("ENJ"), Environmental Defense Fund ("EDF"), Sierra Club ("SC"), New Jersey League of Conservation Voters ("NJLCV"), and the Natural Resources Defense Council ("NRDC"), collectively, and hereafter referred to as the Eastern Environmental Law Center ("EELC"). My rebuttal will address Ms. Levin's direct testimony regarding decoupling mechanisms and the Company's proposed Green Enabling Mechanism ("GEM") proposal.

Q. HAVE YOU PREPARED ANY SCHEDULES IN SUPPORT OF YOUR RECOMMENDATIONS?

A. Yes. I have prepared one schedule in support of my rebuttal testimony that were prepared by me or under my direct supervision.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. My testimony is organized into the following sections:

- Section II: Summary of Recommendations
- Section III: Rebuttal of EELC's Position on the Company's Proposed GEM
- Section IV: Conclusions and Recommendations

II. Summary of Recommendations

Q. HAVE THE RECOMMENDATIONS YOU PROFFERED IN YOUR DIRECT TESTIMONY CHANGED SINCE REVIEWING MS. LEVIN'S DIRECT TESTIMONY?

A. No. I continue to recommend that the Board reject the Company's GEM. EELC has not shown that the Company currently has, or will have, a disincentive to promote the energy efficiency ("EE") goals of the Clean Energy Act ("CEA").[1] Pursuant to the terms of the CEA, the Company now has a statutory obligation to promote energy efficiency. The statutory requirements include various incentives and penalties that, at some point in the future, will be defined more clearly by the Board. The CEA also allows utilities to seek recovery of lost base revenues under a process that is also yet to be defined by the Board in a rulemaking. Lastly, the Board should reject EELC's entirely unsupported assertions that the proposed GEM will be beneficial to New Jersey ratepayers.

III. Rebuttal of EELC's Position on the Company's Proposed GEM

Q. WILL YOU PLEASE DESCRIBE EELC'S POSITION REGARDING THE PROPOSED GEM?

A. Yes. EELC states that the Company's proposed Clean Energy Future Energy Efficiency ("CEF-EE") program will result in significant revenue losses, causing a reduction in "shareholder welfare," implying that absent the GEM, the Company and its shareholders will face significantly

[1] P.L. 2018, c. 17; See N.J.S.A. 48:3-87.9.:

negative financial impacts.[2] EELC advocates adoption of the GEM to remove the Company's "disincentive" to promote energy efficiency programs by breaking the link between sales and revenues.[3] EELC also advocates for approval of the GEM since it believes that the mechanism will remove PSE&G's disincentive to promote distributed generation ("DG").[4] EELC further claims that it believes that the GEM and the Company's CEF-EE filing will be a "net benefit" to customers.[5]

Q. HAS EELC CONDUCTED ANY ANALYSIS SHOWING THAT ABSENT THE APPROVAL OF THE GEM THE COMPANY WILL BE UNABLE TO EARN ITS BOARD AUTHORIZED RETURN?

A. No, EELC has not performed any analysis that the Company will be unable to earn its authorized ROE if the GEM is not approved.[6] Thus, EELC's assertions that the Company will undergo financial harm because of pursuing energy efficiency is entirely unsupported by any EELC-developed record evidence.

Q. DO YOU AGREE WITH EELC ASSERTIONS ABOUT HOW THE GEM WILL REDUCE ANY NEGATIVE EFFICIENCY-INDUCED FINANCIAL IMPACTS TO PSE&G?

A. No. My direct testimony notes that the Company has not explicitly quantified any specific future earnings challenges that will arise from its energy efficiency efforts.[7] EELC has also not provided any financial analysis or other quantified financial impact estimates.[8] EELC has

[2] Direct Testimony of Amanda Levin, p. 8.
[3] Direct Testimony of Amanda Levin, p. 11.
[4] Direct Testimony of Amanda Levin, pp. 10-11.
[5] Direct Testimony of Amanda Levin, p. 18.
[6] EELC response to RCR-EELC-9.
[7] Direct Testimony of Dr. David Dismukes, 41:3-7.
[8] EELC response to RCR-EELC-9.

conducted no financial analysis regarding the Company's GEM proposal, nor its EE program, and EELC's representations regarding the Company's program costs, overall returns, and lost revenues is not entirely complete. For instance, EELC notes that the Company has estimated five-year revenue losses of as much as $901 million.[9] EELC has not acknowledged that the Company will recover a total EE program revenue requirement, over the next 25 years, of as much as $3.5 billion, if its proposed CEF-EE program is approved.[10] EELC fails to consider that even under the Company's own proposal, as part of that revenue requirement, as much as $1.55 billion represents a return on the Company's energy efficiency investments, regardless of the Company's EE performance.[11] This opportunity for a considerable return on investment, as well as a number of other financial considerations, has not been factored into EELC's analysis. The fact that the Company will be receiving a sizeable rate of return on its EE investments, to compensate it for what EELC may view as forgone opportunities for investing in wires and pipes,[12] represents another important shortfall in an overall proposal that shifts considerable performance-related risk away from the Company and onto ratepayers.

Q DOES THE CLEAN ENERGY ACT ADDRESS ANY EE INCENTIVE ISSUES RAISED BY EELC?

A Yes. The Clean Energy Act creates a statutory obligation for the Company to promote specific EE activities and levels. Failure of the Company to meet these requirements will result in penalties, whereas EE performance successes will result in financial incentives.[13] The CEA's creation of incentives and penalties is appropriate since they are directly tied to the Company's EE

[9] Direct Testimony of Amanda Levin, p. 8.
[10] Direct Testimony of Stephen Swetz, Schedule SS-CEF-EE-2E and SS-CEF-EE-2G.
[11] Direct Testimony of Stephen Swetz, Schedule SS-CEF-EE-2E and SS-CEF-EE-2G.
[12] EELC's response to RCR-EELC-8.
[13] Direct Testimony of Dr. David Dismukes, pp. 29-30.

outcomes and performance. The GEM, however, is not tied to performance since the Company will be allowed to recover alleged lost revenues (1) regardless of the cause of those lost revenues, and (2) regardless of its EE performance. EELC fails to grasp, much less remedy, this important GEM program design deficiency.

Q. DO THE COMPANY AND ITS SHAREHOLDERS TRADITIONALLY BEAR THE RISK OF CHANGES IN SALES REVENUE?

A. Yes. The utility and its shareholders typically bear the risk of revenue and sales differences from the test year for a number of different reasons. First, it is the utility's responsibility to propose a typical year for ratemaking purposes. It would not be in a utility's nor its shareholders' best interests to propose a test year that was unsupportive of what management believed was required to recover costs and earn its allowed return. Second, utility allowed rates of return, like that of any other business or industry, includes some premium for that business or industry's inherent risk.

Q. HOW ARE ECONOMIC RISKS SHIFTED TO RATEPAYERS?

A. My direct testimony makes clear that, under a revenue decoupling mechanism like the GEM, any revenue decreases related to contractions in the economy will be recovered from ratepayers.[14] In other words, the GEM will make the Company and its shareholders whole for revenue losses attributable to a recession or any other type of economic slow-down or contraction. The problem with this outcome is that decreases in sales associated with economic downturns have nothing to do with utility-sponsored EE programs. In other words, revenue decoupling allows a utility to be made whole for a change in usage it did not help motivate. Instead, these changes in usage associated with a recession are likely the natural reaction of households trying to reduce

[14] Direct Testimony of Dr. David Dismukes, 28:6-15 and 30:11-15.

their expenditures during difficult economic times or, alternatively, businesses and industries idling or shutting down their operations. Under revenue decoupling, ratepayers would be required to make a utility whole for revenue losses during these economic downturns. Under traditional regulation, utilities bear the risks of these economic contractions, just like many other types of businesses and industries.

Q. CAN REVENUE DECOUPLING LEAD TO ANY REGULATORY CHALLENGES?

A. Yes. Revenue decoupling can eliminate the positive incentives typically afforded through regulatory lag. Rational utility management will have little incentive to enhance efficiencies (operational and capital) if it has no effect on the utility's profits.[15] This is precisely the situation that can arise when a utility is guaranteed a certain level of revenues and is allowed to pass along any revenue deficiencies to ratepayers with minimal consequences on sales and profits. Such an approach is completely at odds with traditional regulatory principles and ratemaking practices.

Q. DO YOU AGREE THAT UTILITIES SHOULD BE GIVEN A REASONABLE OPPORTUNITY TO EARN A RETURN ON AND OF THEIR INVESTMENTS AS WELL AS THEIR PRUDENTLY INCURRED COSTS?

A. Yes, but it is a well-recognized fact in utility regulation that in any given year, allowed and achieved returns are not likely to be exactly the same. In fact, such an event usually only occurs by coincidence. While utilities are given a reasonable opportunity to earn a return on and of their investments, these opportunities are not synonymous with an entitlement or guarantee. Regulatory practice and the academic literature of utility regulation recognizes that achieved rates of return

[15] *See* Alfred Kahn, *The Economics of Regulation: Principles and Institutions*, p. 48 (1988) Cambridge, MA: MIT Press: Vol. 2 (Institutional Issues).

can be higher or lower than allowed returns. The positive incentives associated with the regulatory process quite often inure to the utility and its shareholders because efficiency improvements that occur between rate cases can increase earnings, thus benefiting shareholders.[16] Such a process can be an important policy tool in controlling utility costs and ultimately lowering rates.[17]

Q. DO YOU AGREE WITH EELC'S ASSERTIONS THAT THE GEM IS NECESSARY IN ORDER FOR THE COMPANY TO PROMOTE DISTRIBUTED GENERATION ("DG")?

A. No. The Company has actively supported and developed programs that promote DG investments, particularly solar DG investments of all types. The Company has made these investments and implemented several individual PSE&G-specific solar programs without a decoupling mechanism like the GEM. In fact, EELC's position about the GEM promoting DG is entirely inconsistent with its own observation that an estimated 40,000 customers in PSE&G's territory are net-metered, an increase of 220 percent over the past five years.[18] Clearly, decoupling was not needed to promote solar in PSE&G's service territory in the past, and is not needed in the future.

Q. DO YOU AGREE WITH EELC'S STATEMENT THAT THE COMPANY'S GEM WILL BE A BENEFIT TO CUSTOMERS?

A. No. Once again, EELC neglects to acknowledge the risk shifting nature of the proposed GEM. The GEM will shift cost recovery risk from the Company and its shareholders to ratepayers. EELC's claims about GEM benefits are offered without having conducted any analysis to support

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[16]W.K. Viscusi, J.M. Vernon, J.R. Harrington, Jr. (1997) *Economics of Regulation and Antitrust*, Second Edition. Cambridge: MA: MIT Press, 380.
[17]J.C. Bonbright. (1961). *Principles of Public Utility Rates*. New York: Columbia University Press, 96.
[18] Direct Testimony of Amanda Levin, p. 10.

or verify these assertions.[19] EELC's assertion that net benefits will accrue to ratepayers is based on other non-New Jersey-specific studies, as well as studies that are not specific to the issues at hand in this proceeding. These studies discuss, in limited detail, the qualitative benefits that EE programs can create such as improved customer satisfaction, reduced emissions, and energy savings for program participating customers.[20] Further, many of these studies focus on utility benefits, not ratepayer benefits, that arise from the implementation of revenue decoupling, lost revenue recovery mechanisms, and other similar mechanisms.[21]

Q. WILL THE GEM LIKELY LEAD TO RATEPAYER BUDGETING BENEFITS?

A. No. Ratepayers will not see contemporaneous charges and credits on monthly utility bills. These rate differences, instead, will be calculated on an annual basis and applied to the following year's customer bills. Therefore, the proposed mechanism would not alleviate higher than average bills faced by ratepayers in any given month due to situations like warmer than expected summer weather. GEM credits are issued for a full year period, and even then will be spread across an entire 12-month period, not in any individual month. In fact, the GEM may make it more difficult, not less difficult, for ratepayers to predict year-to-year budgeting requirements for its electric and gas utility service. Likewise, the proposed GEM can lead to active financial hardship for ratepayers as a year with milder than average seasonal usage may be followed by a harsher than average year, creating GEM charges on top of bills that are already higher than average.

Q. HAVE YOU CONDUCTED ANY ANALYSIS OF THE COMPANY'S USE PER CUSTOMER ("UPC") TRENDS?

[19] EELC response to RCR-EELC-16.
[20] EELC response to RCR-EELC-16.
[21] EELC response to RCR-EELC-16.

A. Yes. Schedule DED-1-R, shows the Company has historically been experiencing, for the most part, consistent year-to-year drop in UPC with only minor exceptions.

Q. WHAT DOES THIS DECLINING UPC MEAN FOR PSE&G RATEPAYERS?

A. The historic decline in UPC and the declines anticipated by the Company as part of its CEF-EE programs would tend to imply that ratepayers would be more likely to see charges from the proposed GEM in future years compared to credits under the mechanism, if approved. This is a certainty. What is not a certainty is (1) the Company's future EE performance relative to the GEM and (2) whether the Company would face financial difficulties, such as consistent under-earnings, if the GEM were not adopted.

Q. PLEASE DISCUSS EELC'S AUDIT RECOMMENDATION.

A. EELC recommends that the Board require PSE&G, in consultation with Board Staff and other interested stakeholders, to undertake and fund a third party audit after GEM has been in place for three or four years.[22] EELC states that the proposed audit would review the impacts of the GEM on customers, "with a special focus on sub-classes of specific interest," and the utility's financial and efficiency program performance, among other things.[23] EELC states that the recommended audit can be funded through either general rates with a cap on allowable study costs or funded by utility shareholders.[24]

Q. DO YOU AGREE THAT AN AUDIT SHOULD BE UNDERTAKEN IF THE GEM IS APPROVED?

A. While I agree that revenues being recovered through any periodic revenue or cost recovery mechanism should be reviewed and audited, EELC's proposed audit may come three or four years

[22] Direct Testimony of Amanda Levin, p. 12.
[23] Direct Testimony of Amanda Levin, p. 12.
[24] Direct Testimony of Amanda Levin, p. 12-13.

too late for ratepayers. Ratepayers should not have to wait three or four years to determine if this new ratemaking mechanism is fair, appropriate, and working correctly. Additionally, EELC provides no details as to how the proposed audit will be funded except simply stating it could be done so through either "general rates with a cap on allowable study costs or funded by utility shareholders,"[25] but has not offered any details on how this cap will be determined, and in discovery seems to contradict itself, stating that no cap has been recommended.[26] The Board cannot evaluate or approve an undefined audit procedure that may lead to unexpected ratepayer risks and costs.

IV. Conclusions and Recommendations

Q. HAVE THE RECOMMENDATIONS YOU PROFFERED IN YOUR DIRECT TESTIMONY CHANGED SINCE REVIEWING MS. LEVIN'S DIRECT TESTIMONY?

A. No. I continue to recommend that the Board reject the Company's GEM. EELC has not shown that the Company currently has, or will have, a disincentive to promote the energy efficiency goals of the Clean Energy Act. The Company has a statutory obligation to promote energy efficiency. The CEA's statutory requirements include various incentives and penalties that, at some point in the future, will be defined more clearly by the Board. This statute also allows utilities to seek recovery of lost base revenues under a process that is also yet to be defined by the Board in a rulemaking. Lastly, the Board should reject EELC's entirely unsupported assertions that the proposed GEM will be beneficial to New Jersey ratepayers.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY FILED ON APRIL 15, 2019?

[25] Direct Testimony of Amanda Levin, p. 12-13.
[26] EELC response to RCR-EELC-14.

A. Yes it does. However, I reserve the right to supplement my testimony if any updated or additional information becomes available during the course of this proceeding.

SCHEDULES DED-1-R

Table of Schedules

Title	Schedule
Use per Customer, Revenue, and Customer Growth Trends	Schedule DED-1-R

Use per Customer, Revenue, and Customer Growth Trends (Electric)

	MWh Sold	Number of Customers	MWh Per Customer	Change in Use		Percent Change	
				Use from Existing Customers	Use from New Customers	Number of Customers	MWh Per Customer
2008	43,733,623	2,110,003	20.73				
2009	41,970,657	2,132,180	19.68	(2,199,507)	436,541	1.05%	-5.03%
2010	43,655,415	2,154,826	20.26	1,225,964	458,794	1.06%	2.92%
2011	42,516,023	2,157,075	19.71	(1,183,720)	44,328	0.10%	-2.71%
2012	41,641,444	2,164,583	19.24	(1,019,015)	144,436	0.35%	-2.40%
2013	41,286,491	2,194,066	18.82	(909,745)	554,792	1.36%	-2.18%
2014	40,746,702	2,201,077	18.51	(669,578)	129,789	0.32%	-1.62%
2015	41,724,463	2,216,274	18.83	691,656	286,105	0.69%	1.70%
2016	41,589,210	2,227,065	18.67	(336,769)	201,516	0.49%	-0.81%
2017	40,748,709	2,243,761	18.16	(1,143,715)	303,214	0.75%	-2.75%

Source: FERC Form 1.

Use per Customer, Revenue, and Customer Growth Trends (Electric)

	Net Revenue	Number of Customers	Revenue Per Customer	Change in Use		Percent Change	
				Use from Existing Customers	Use from New Customers	Number of Customers	Revenue Per Customer
2008	$ 1,310,780,375	2,110,003	$ 621				
2009	1,528,184,743	2,132,180	717	$ 201,509,578	$ 15,894,790	1.05%	15.37%
2010	1,544,002,614	2,154,826	717	(408,721)	16,226,592	1.06%	-0.03%
2011	1,670,897,722	2,157,075	775	125,153,004	1,742,104	0.10%	8.11%
2012	1,809,521,646	2,164,583	836	132,347,478	6,276,446	0.35%	7.92%
2013	2,020,756,356	2,194,066	921	184,080,577	27,154,133	1.36%	10.17%
2014	1,990,104,624	2,201,077	904	(36,990,730)	6,338,998	0.32%	-1.83%
2015	2,006,966,316	2,216,274	906	3,099,916	13,761,776	0.69%	0.16%
2016	1,976,086,798	2,227,065	887	(40,454,431)	9,574,913	0.49%	-2.02%
2017	$ 2,040,862,203	2,243,761	$ 910	$ 49,589,191	$ 15,186,214	0.75%	2.51%

Source: FERC Form 1.

Use per Customer, Revenue, and Customer Growth Trends (Gas)

	Dekatherms Sold	Number of Customers	Dekatherm Per Customer	Change in Use		Percent Change	
				Use from Existing Customers	Use from New Customers	Number of Customers	Dekatherm Per Customer
2008	344,084,373	1,742,039	197.52				
2009	349,961,716	1,774,062	197.27	(439,699)	6,317,042	1.84%	-0.13%
2010	346,461,238	1,778,362	194.82	(4,338,206)	837,728	0.24%	-1.24%
2011	352,691,531	1,778,854	198.27	6,132,744	97,548	0.03%	1.77%
2012	339,700,780	1,785,271	190.28	(14,211,775)	1,221,025	0.36%	-4.03%
2013	381,253,263	1,790,239	212.96	40,494,486	1,057,996	0.28%	11.92%
2014	509,477,960	1,797,627	283.42	126,130,813	2,093,884	0.41%	33.08%
2015	473,192,912	1,807,006	261.87	(38,741,087)	2,456,039	0.52%	-7.60%
2016	424,745,910	1,816,287	233.85	(50,617,401)	2,170,399	0.51%	-10.70%
2017	356,667,882	1,831,737	194.72	(71,086,384)	3,008,357	0.85%	-16.74%

Source: FERC Form 2.

Use per Customer, Revenue, and Customer Growth Trends (Gas)

	Net Revenue	Number of Customers	Revenue Per Customer	Change in Use		Percent Change	
				Use from Existing Customers	Use from New Customers	Number of Customers	Revenue Per Customer
2008	$ 780,210,791	1,742,039	$ 448				
2009	888,914,319	1,774,062	501	$ 92,658,033	$ 16,045,495	1.84%	11.88%
2010	824,809,352	1,778,362	464	(66,099,319)	1,994,352	0.24%	-7.44%
2011	869,550,395	1,778,854	489	44,500,541	240,502	0.03%	5.40%
2012	853,220,294	1,785,271	478	(19,396,926)	3,066,825	0.36%	-2.23%
2013	908,109,807	1,790,239	507	52,369,464	2,520,049	0.28%	6.14%
2014	934,463,889	1,797,627	520	22,513,564	3,840,518	0.41%	2.48%
2015	831,676,235	1,807,006	460	(107,104,348)	4,316,694	0.52%	-11.46%
2016	874,132,550	1,816,287	481	37,989,607	4,466,708	0.51%	4.57%
2017	$ 909,108,177	1,831,737	$ 496	$ 27,307,648	$ 7,667,979	0.85%	3.12%

Source: FERC Form 2.