



STATE OF NEW JERSEY
Board of Public Utilities
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ENERGY

IN THE MATTER OF THE PETITION OF PUBLIC)
SERVICE ELECTRIC AND GAS COMPANY FOR) ORDER APPROVING
APPROVAL OF THE ENERGY STRONG) STIPULATION OF SETTLEMENT
PROGRAM))
) DOCKET NOS. EO13020155 and
) GO13020156

Parties of Record:

- Tamara Linde, Esq.**, Public Service Electric and Gas Company
- Stefanie A. Brand, Esq.**, Director, Division of Rate Counsel
- Janine G. Bauer, Esq.**, Szaferman, Lakind, Blumstein & Blader, P.C. for AARP
- Steven S. Goldenberg, Esq.**, Fox Rothschild, LLP, for New Jersey Large Energy Users Coalition (NJLEUC)
- Roger Schwarz, Esq.**, Issues Management LLC for the International Brotherhood of Electrical Workers, Local Union 94, Local 855 of the United Association of Journeymen and Apprentices of Plumbing and Pipefitting Industry, Local 601 of the Utility Workers Union of America and Local 153 of the Office of Professional Employees International Union (collectively the "PSE&G Unions")
- Vincent M. Giblin, Esq.**, Pitta & Giblin, LLP for International Union of Operating Engineers, Local Union 825
- Albert G. Kroll, Esq.**, Kroll Heineman Carton, LLC for New Jersey Laborers' – Employer's Cooperation and Education Trust (NJLECET)
- John Finnigan, Esq. and Phyllis J. Kessler, Esq.**, Duane Morris LLP for Environmental Defense Fund (EDF)
- Aaron Kleinbaum, Esq.**, Eastern Environmental Law Center for the Sierra Club – New Jersey Chapter and the New Jersey Environmental Federation ("Environmental Participants")
- Thomas P. Scrivo, Esq.**, McElroy, Deutsch, Mulvaney & Carpenter, LLP for Ferreira Construction

BY THE BOARD:

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.

In 2011 and 2012 New Jersey was struck by five unusually damaging major storm events which caused severe damage to the State's utility infrastructure, Hurricane Irene on August 28, 2011, an unseasonal and powerful snowstorm on October 29, 2011, a derecho wind storm on June 20, 2012, Superstorm Sandy on October 29, 2012 and ten days later a powerful nor'easter on November 7, 2012.

On January 23, 2013, the Board issued an Order¹ ("January 23 Order") addressing five categories of potential improvements to be undertaken by New Jersey's electric distribution companies ("EDCs") in response to large-scale weather events. The areas for potential improvements include: 1) Preparedness Efforts; 2) Communications; 3) Restoration and Response; 4) Post Event; and 5) Underlying Infrastructure Issues.

In the January 23 Order, among other actions, the Board directed the EDCs to provide a detailed cost benefit analysis for a variety of utility infrastructure upgrades. The Board further required the EDCs to "carefully examine their infrastructure and use data available to determine how substations can be better protected from flooding, how vegetation management is impacting electric systems, and how Distribution Automation can be incorporated to improve reliability." January 23 Order at 56.

On February 20, 2013, Public Service Electric and Gas Company ("PSE&G" or "Company") petitioned the Board for approval of a program to bolster its "electric and gas infrastructure to make them less susceptible to damage from wind, flying debris and water damage in anticipation" of future Major Storm Events (hereafter "Energy Strong" or "ES"). PSE&G requested approval of approximately \$2.6 billion in infrastructure upgrades over a period of five years with the costs to be collected from ratepayers through the implementation of an "Energy Strong Adjustment Mechanism." Petition at 5, 36. The \$2.6 billion requested was split \$1.703 billion for electric delivery infrastructure and \$906 million for gas delivery infrastructure.

On March 20, 2013, the Board issued an Order² ("March 20 Order") that initiated a generic proceeding (hereinafter "Storm Mitigation Proceeding") to investigate possible avenues to support and protect New Jersey's utility infrastructure so that it may be better able to withstand the effects of future Major Storm Events,³ and focused on a portion of the January 23 Order-Underlying Infrastructure Issues – but for all utility companies, not exclusively for the EDCs. It also invited all regulated utilities to submit detailed proposals for infrastructure upgrades designed to protect the State's utility infrastructure from future Major Storm Events, pursuant to the terms and level of detail requested in the January 23 Order. The Order also found that the

¹ In the Matter of the Board's Review of the Utilities Response to Hurricane Irene, Order Accepting Consultants' Report and Additional Staff Recommendations and Requiring Electric Utilities to Implement Recommendations. BPU Docket No. EO11090543, January 23, 2013.

² 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.

³ Major Storm Event is defined as sustained impact on or interruption of utility service resulting from conditions beyond the control of the utility that affect at least 10 percent of the customers in an operating area. March 20 Order at 2.

Energy Strong petition and all future filed petitions should be retained by the Board for review and hearing as authorized by N.J.S.A. 52:14F-8. March 20 Order at 3.

In the March 20 Order, the Board also found that PSE&G's Energy Strong petition failed to provide the required detailed estimate of cost benefits or rate impacts to allow adequate consideration of the measures proposed by its petition, and that the petition failed to adequately distinguish the storm hardening and maintenance aspects from normal operations and maintenance reliability projects and programs necessary to maintain safe, adequate and reliable service.⁴ March 20 Order at 4-5. The Board directed Staff to seek additional information necessary to begin to properly evaluate any proposed mitigation measures. March 20 Order at 5.

On June 21, 2013, the Board ordered the Company to initiate preliminary engineering and planning necessary to fully evaluate the siting, study and permitting for the proposed mitigation measures, as well as identify any Federal, State, or local permitting requirements for each location.⁵ PSE&G was also directed to provide the Board with detailed estimates of the costs necessary to perform the work described above, and the Company was to submit monthly status reports to Staff.⁶ June 20 Order at 3. In addition, the Board designated Commissioner Joseph Fiordaliso as the presiding officer for the Energy Strong proceeding with authority to rule on all motions that would arise during the proceeding, and to set schedules to secure a just and expeditious determination of the issues. Ibid.

Commissioner Fiordaliso issued an Order on July 2, 2013, granting the Motions to Intervene that were filed by the New Jersey Large Energy Users Coalition ("NJLEUC") and AARP. Commissioner Fiordaliso also granted a Motion to Participate to the Local Union 94 of the International Brotherhood of Electrical Workers Local 855 of the United Association of Journeymen and Apprentices of Plumbing and Pipefitting Industry, Local 601 of the Utility Workers Union of American and Local 153 of the Office and Professional Employees International Union (collectively, "PSE&G Unions").

On August 2, 2013, Commissioner Fiordaliso issued a Prehearing Order in the matter outlining the nature of the proceeding and the issues to be resolved. Dates for public hearings and evidentiary hearings⁷ were scheduled, and witnesses for each party were designated. The Order required all motions to intervene or participate be submitted no later than August 12, 2013. In the August 2, 2013 Order, Commissioner Fiordaliso also denied the Motion to Intervene filed jointly by Sierra Club-New Jersey Chapter and the New Jersey Environmental Federation (collectively, "Environmental Intervenors"). However, they were granted participant status, which permitted the filing of statements or briefs consistent with the procedural schedule.

⁴ In re the Board's Establishment of a Generic Proceeding to Review Costs, Benefits, and Reliability Impacts of Major Storm Event Mitigation Efforts, BPU Docket No. AX130301497 and In re the Board's Review of the Petition of PSE&G for Approval of the Energy Strong Program, BPU Docket Nos. EO13020155 and GO13020156, March 20, 2013.

⁵ In re the Board's Review of the Petition of PSE&G for Approval of the Energy Strong Program- Order-Request for Specific Action and Additional Information, BPU Docket Nos. EO13020155 and GO13020156, June 21, 2013 ("June 20 Order").

⁶ PSE&G provided costs estimates for the electric program substations, the largest portion of the petition request in November 2013.

⁷ Later in the proceedings, the evidentiary hearing dates were adjourned from mid-January 2014 and re-scheduled to the end of February and early March 2014 due to discovery issues.

The parties participated in an electric delivery infrastructure technical conference in July 2013 and a gas delivery infrastructure technical conference in August 2013.

Commissioner Fiordaliso issued a second Order on September 30, 2013 denying the motions to intervene filed by the International Union of Operators and Engineers ("Local 825"), New Jersey Laborer's – Employer's Cooperation and Education Trust ("NJLECET"), Environmental Defense Fund ("EDF"), Ferreira Construction ("Ferreira") and Coopers Ferry Partnership, and J. Fletcher Creamer and Son. The September Order granted participant status to the Local 825, NJLECET, EDF, and Ferreira.

On October 22, 2013, Commissioner Fiordaliso and representatives from all parties and participants participated in a site visit, with notice and invitation to all parties. The site visit involved touring three PSE&G substation facilities, New Milford, Sewaren and Bayway. The site visit also allowed those participating to view storm damage from Hurricanes Irene and Sandy and to learn about the Company's potential mitigation methods and options.

After notice, Commissioner Fiordaliso presided over public hearings held in Newark with Commissioner Holden on September 16, 2013, in New Brunswick with Commissioner Fox on September 19, 2013 and Cherry Hill with President Solomon on October 7, 2013, respectively. Hearings were held each day at 3:30 p.m. and 6:30 p.m. All hearings were well attended by the public, the parties, and municipal officials.

Testimony was filed by the Division of Rate Counsel, ("Rate Counsel") AARP and NJLEUC. PSE&G filed rebuttal testimony. Rate counsel and AARP filed supplemental direct testimony, and PSE&G filed supplemental rebuttal testimony.

Evidentiary hearings were held before Commissioner Fiordaliso, joined by Commissioners Holden, Fox and President Solomon at various times throughout the hearings, at the Board's offices in Trenton, on February 25, 26, 27, and 28 and March 6 and 7, 2014. PSE&G presented the testimony of Jorge Cardenas, Stephen Swetz, Dr. Peter Fox-Penner, Paul Moul and Bradford Huntington. Rate Counsel presented the testimony of Andrea Crane, David Dismukes, Edward McGee, Matthew Kahal, and Charles Salamone. NJLEUC presented the testimony of Jeffry Pollock. AARP presented the testimony of Barbara Alexander.

Following the hearings, Commissioner Fiordaliso approved a briefing schedule, which was subsequently amended to allow the parties to file their briefs on April 9, 2014. On April 8, 2014, PSE&G requested an adjournment of the procedural schedule to allow for settlement discussions. On April 9, 2014, Commissioner Fiordaliso extended the filing deadline for the remaining initial briefs or statements to April 30, 2014. Prior to April 30, 2014, briefs were filed by the following parties: Rate Counsel, NJLEUC and AARP, and statements and/or briefs were filed by participants PSE&G Unions, the Environmental Participants, EDF, NJLECET, Local 825 and Ferreira. PSE&G and Board staff did not file briefs in the matter.

Numerous settlement conferences were conducted at the Office of Rate Counsel from December 2013 through April 2014. Several phone conferences were also held. A settlement agreement was reached in principle on Thursday May 1, 2014.

STIPULATION

Following the review of discovery, testimony, and transcripts, on May 2, 2014 the parties, PSE&G, Rate Counsel, AARP, NJLEUC and Board Staff (collectively, "Signatory Parties") and all participants excluding the Environmental Participants⁸, executed a Stipulation of Settlement ("Stipulation") resolving all of the issues in the proceeding. In pertinent part, the Stipulation provides the following⁹:

(1) Energy Strong Program Investment Level terms:

PSE&G will invest up to \$1 billion, \$600 million for the Electric Investment Program and \$400 million for the Gas Investment Program, recovered through the cost recovery mechanism described in the stipulation. PSE&G will invest an additional \$220 million into the electric investment program, related to substation investment, the recovery of which will not be included in the Energy Strong rate recovery mechanism but which it will seek to recover in its next base rate case.

The Energy Strong Investments will be made over a three-year (36-month) period beginning on the effective date of the Board order with the exception of the Electric Station Flood Mitigation subprogram, which involves 29 substations, and Gas M & R Station Flood Mitigation subprograms, which will be 5 years. The Gas Utilization Pressure Cast Iron subprogram, which involves 250 miles of cast iron pipe, may be accelerated and completed in two years.

(2) Cost Recovery

The Energy Strong Program investment proposals and associated cost recovery mechanism, the Energy Strong Adjustment Mechanism ("ESAM"), modified from the mechanism as-filed, provides that the \$1 billion of the investment plus associated allowance for funds used during construction ("AFUDC") will be recovered through the individual electric and gas new ESAMs. Cost recovery for the completed Electric-ES projects will be reviewed and recovered on a semiannual basis, and completed Gas-ES program projects will be reviewed and recovered on an annual basis. The costs to be recovered will include the return on net plant in service as of the end of the semi-annual period for electric, and as of the end of the annual period for gas. Net plant will be calculated as gross plant in service less accumulated depreciation less accumulated deferred income taxes. The revenue requirement will also include depreciation expense, income taxes, the associated interest synchronization adjustment and Board/Rate Counsel assessments. The revenue requirement will not include an expense for the recovery of the Cost of Removal (unless embedded in the depreciation rates); however, the revenue requirement will include the return on the Cost of Removal Investment. Depreciation rates to be used are listed in the "ES Depreciation Rates" table on table 20 of the Stipulation. Any operation and maintenance ("O&M") expenses associated with Energy Strong Programs will not be included in the semi-annual and annual revenue requirements filings nor will such costs be deferred. Depreciation of an asset will only occur once it has gone into service.

⁸ By letter dated May 8, 2014, the Environmental Participants stated that they take no position in regards to the Stipulation but look forward to working on energy efficiency programs.

⁹ Although described at some length in this Order the full terms of the programs, cost recovery, metrics and reporting requirements are enumerated in the Stipulation. Should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusions of this Order.

The Stipulation contains a detailed schedule for PSE&G to follow to effectuate the cost recovery of its Electric Program investments which will include public notice and public hearings for any and all rate adjustments, Stipulation at page 21, and a detailed schedule and process for recovery of the PSE&G Gas Program investments with required procedures outlined in the Stipulation at pages 22 and 23.

(3) Metrics and Reporting

Extensive reporting and performance metrics have been established to provide continuous monitoring of the Company's expenditure of forecasted and actual program costs along with specific benchmarks for analyzing the Company's program goals and success. The Company will file quarterly reports with Board Staff and Rate Counsel for expenditures, broken down by materials and other costs, and for performance. Reporting on the electric infrastructure performance will include Customer Average Interruption Duration Index ("CAIDI") Major Event performance on a circuit, operating level and system wide basis. On the gas infrastructure, the Company will report on its progress in implementing best efforts to reduce its active leak inventory by 582 leaks (194 per year) or approximately 30% within the first three years of the Energy Strong Program. If the Company fails to reduce leak inventory by 10% annually two years in succession, the Company shall achieve compliance with this obligation without seeking cost recovery for the incremental expense from ratepayers. Additionally PSE&G will retain an independent monitor to review and report to Board Staff and Rate Counsel on the impact of the Energy Strong program on overall system performance during severe weather events; cost effectiveness and efficiency; appropriate cost assignment; and other information deemed appropriate by the Company, Board Staff and Rate Counsel.

(4) All signatories to the stipulation agree that acceptance of the terms of this Stipulation of Settlement in this proceeding does not constitute acceptance of any future submissions by PSE&G for a future phase of the Energy Strong Program. Any such future submissions shall be reviewed de novo.

(5) The prudence of all projects and incurred expenses will be reviewed in the Company's next base rate case or a subsequent base rate case to the extent any of the investments up to the \$1 billion are not included in the test year of the next base rate case.

(6) PSE&G will file its next base rate case no later than November 1, 2017.

DISCUSSION AND FINDINGS

In evaluating a proposed settlement, 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). After carefully considering the extensive record in this proceeding and the terms of the Stipulation, the Board is persuaded that the current proposal satisfies those goals as well as the directives in the March 20 Order.

As reflected in the January 23 and March 20 Orders, Board has determined that the public interest requires gas and electric infrastructure enhancements beyond "business as usual." Such enhancements are necessary in light of the recent Major Storm Events, which caused unprecedented widespread outages, outage durations, and damage to utility systems.

However, the Board was concerned with the size of the proposed Energy Strong program, the uncertainty surrounding costs, and risks to reliability during certain phases of construction that could expose customers to the significant risk of cost overruns and degradation in reliability.

Additionally, the Board was concerned with the Company's cost estimates for many of the proposed hardening measures, as well as with the length of the program as proposed, and with the lack of any metrics for evaluation of the Company's performance under the Energy Strong program.

The Board is persuaded that the Energy Strong Program, as modified by the terms of the Stipulation, addresses these concerns. A three-year gas and electric infrastructure program, rather than the five-year program as proposed, strikes a more appropriate balance between cost and risk. As detailed below, the Stipulation recommends that the program investment level be capped at \$1 billion, with electric programs capped at \$600 million and gas programs capped at \$400 million.

The Board agrees that "hardening" is required of certain of the Company's switching and substations along with acceleration of certain investments in other areas of the electric system to help with overall reliability and to improve storm response measures. Likewise, the Board agrees that certain investments in the Company's gas system, if properly executed, should mitigate potential damage to the system from Major Storms and other water intrusion events. These investments include replacement of utilization pressure cast iron mains and associated services with higher pressure plastic or cathodically protected steel mains and services in areas that were flooded during the 2011 and 2012 Major Storms.

With respect to cost recovery, 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 base rate case that the Company has committed to file by November 1, 2017.

Therefore, the Board believes the cost recovery mechanism adopted in the Stipulation strikes a more effective balance between giving the Company a reasonable opportunity to earn its allowed rate of return over the life of its investment while still protecting ratepayers from paying more than is reasonably necessary. First, no rates will be charged to customers until the facilities for which the rates are being charged are in service. This contrasts with the original proposal calling for contemporaneous recovery. Second, there will be no deferred cost recovery allowed so that the Company will not book returns between the time the plant goes into service and the rates go into effect. The stipulation permits the Company to place rates into effect annually with respect to investments in gas infrastructure and every six months with respect to electric infrastructure. The shorter period for rate adjustments for electric investments reflects the greater investments and the fact that certain of the electric investments such as the raising of substations, are considered "lumpy" in that the dollars invested do not typically follow a smooth path—e.g., x amount per month. Because the Stipulation does not provide for deferred cost accounting, it is appropriate to include rate relief on a more frequent basis.

The Board is also persuaded that the reduced return on common equity from that approved by the Board in the Company's 2009 Base Rate Case is reasonable in light of the recovery of costs from ratepayers on a more contemporaneous basis which reduces the risk of recovery of capital invested during the time between rate cases. The metrics and reporting requirements provide a means to maintain accountability and oversight of the execution of the modified Energy Strong Program.

Accordingly, based on the Board's careful review and consideration of the extensive record in this proceeding, and in conformance with its requests for utility infrastructure analysis and hardening measures proposals in its January 23, 2013 and March 20, 2013 Orders, the Board **HEREBY FINDS** the Stipulation to be reasonable and in accordance with the law. Therefore, 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 Fiordaliso rendered during the proceedings for the reasons stated in his Orders.

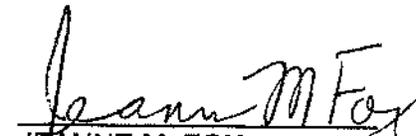
The Company's costs will remain subject to audit by the Board. This Decision and Order shall not preclude, nor prohibit, the Board from taking any actions determined to be appropriate as a result of any such audit.

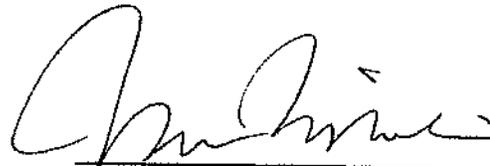
The effective date of the Order shall be May 23, 2014.

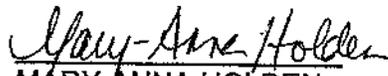
DATED: 5/21/14

BOARD OF PUBLIC UTILITIES
BY:


DIANNE SOLOMON
PRESIDENT


JEANNE M. FOX
COMMISSIONER

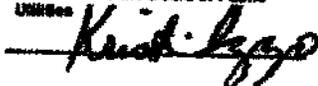

JOSEPH L. FIORDALISO
COMMISSIONER


MARY-ANNA HOLDEN
COMMISSIONER

ATTEST:


KRISTI IZZO
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 PUBLIC SERVICE ELECTRIC AND GAS COMPANY
FOR APPROVAL OF THE ENERGY STRONG PROGRAM
Docket Nos. EO13020155 and GO13020156

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF
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COMPANY FOR APPROVAL OF THE
ENERGY STRONG PROGRAM

STIPULATION
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Thomas P. Scrivo, Esq., McElroy, Deutsch, Mulvaney & Carpenter, LLP for Ferreira Construction

TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

It is hereby AGREED, as of the 1st day of May, 2014, by and between Public Service Electric and Gas Company (“Public Service,” PSE&G” or the “Company”); the Staff of the New Jersey Board of Public Utilities (“Board Staff”); the New Jersey Division of Rate Counsel (“Rate Counsel”); AARP; New Jersey Large Energy Users Coalition (NJLEUC); Local 94 of the International Brotherhood of Electrical Workers, Local 855 of the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry, Local 601 of the Utility Workers Union of America, and Local 153 of the Office of Professional Employees International Union (collectively the “PSE&G Unions”); Sierra Club-New Jersey Chapter and the New Jersey Environmental Federation (“Environmental Participants”); New Jersey Laborer’s – Employers Cooperation and EDUCATION Trust (“NJLECET”); International Union of Operating Engineers, Local Union 825; Ferreira Construction; and the Environmental Defense Fund (“EDF”), the undersigned parties and participants (hereinafter referred to as “the Signatories”) to execute this Settlement Agreement resolving PSE&G’s Petition for Approval of the Energy Strong Program.

The Signatories do hereby join in recommending that the Board issue a Final Decision and Order approving this Settlement Agreement.

BACKGROUND

1. In 2011 and 2012 New Jersey was struck by four major storm events that caused severe damage to the State's utility infrastructure: (1) Hurricane Irene on August 28, 2011; (2) an unseasonal and powerful snowstorm on October 29, 2011; (3) Superstorm Sandy on October 29, 2012; and (4) a powerful nor'easter, ten days after Superstorm Sandy, on November 7, 2012.
2. On February 20, 2013, Public Service petitioned the Board in BPU Docket Nos. EO13020155 and GO13020156 for approval of a program and for the recovery of costs (hereinafter "Energy Strong" or the "Program") to harden its "electric and gas infrastructure to make them less susceptible to damage from wind, flying debris and water damage in anticipation" of future Major Storm Events and to increase the resiliency of PSE&G's electric delivery system. PSE&G supplemented this filing on March 20, 2013. Through this Energy Strong filing, PSE&G sought approval of approximately \$2.6 billion of such investments over five years with cost recovery related to these investments to be through the implementation of two new Energy Strong Adjustment Mechanisms ("ESAMs"), one for electric and one for gas. Petition at 4-5.
3. As filed, Energy Strong included sub-programs relating to improvements to the electric delivery infrastructure representing an investment of approximately \$1.703 billion for electric delivery and \$906 million for gas delivery, and associated gas and electric operation and maintenance expenses over the first five years (60 months) of the Program. However the Program described in the Petition provides for investments over a 10 year (120 months) period. The estimated cost of the entire Program, including the first five

years that PSE&G requested approval of in this filing, contemplated an investment of approximately \$2.762 billion for electric delivery and \$1.180 billion for gas delivery over ten years.

4. PSE&G proposed to recover the revenue requirements associated with the Program in a manner that it alleged was similar to the Company's first Capital Economic Stimulus Infrastructure Investment Program (CIP I).¹ Under this proposal, the Company's monthly revenue requirements associated with the Program would be subject to deferred accounting and would be recovered through two new ESAMs, one for electric and one for gas. PSE&G proposed to roll unrecovered Program Net Investment into base rates as part of the Company's next base rate case. Petition, at 33.
5. On June 21, 2013, the Board issued an Order ("June 2013 Order") designating Commissioner Joseph L. Fiordaliso as the presiding officer in the matter to rule on all motions that arise during the pendency of the proceeding, establish and modify any schedules that may be set as necessary and to conduct public and evidentiary hearings.
6. Additionally, the June 2013 Order directed Public Service to begin the investigative and planning stages for storm damage mitigation of substations listed in paragraph 23 of the Energy Strong Petition in order of the priority identified in the "Substation Flood and

¹ I/M/O the Proceeding for Infrastructure Investment and a Cost Recovery Mechanism for all Gas and Electric Utilities; and I/M/O the Petition of Public Service Electric & Gas Company for Approval of a Capital Economic Stimulus Infrastructure Investment Program and an Associated Cost Recovery Mechanism Pursuant to N.J.S.A. 48:2-21 and 48:2-21.1, BPU Docket Nos. EO09010049 and GO09010050, Decision and Order Approving Stipulation (April 29, 2009).

Storm Surge Mitigation” charts incorporated into the filing. The Board directed PSE&G to commence site assessments necessary to complete any outstanding review and analyses of mitigation steps and options for each substation, such as temporary or permanent flood walls, raising of equipment, installation of berms and/or relocation as well as other alternatives, if appropriate. The Order further directed PSE&G to initiate preliminary engineering and planning necessary to fully evaluate the siting, study and permitting for the proposed mitigation measures, as well as identify any Federal, State, or local permitting requirements for each location.

7. From July 2013 through October 2013, Commissioner Fiordaliso ruled on various Motions to Intervene or Participate in the proceeding. Interventions were granted to: NJLEUC and AARP. Participant status was accorded to: the PSE&G Unions,² Environmental Participants,³ International Union of Operating Engineers -- Local Union 825, NJLECET,⁴ EDF⁵ and Ferreira Construction.
8. Public hearings were held in both the afternoon and the evening in Newark on September 16, 2013; in New Brunswick on September 19, 2013; and in Cherry Hill on October 7, 2013. All hearings were well-attended by the public.

² Local Union 94 of the International Brotherhood of Electrical Workers, Local 855 of the United Association of Journeymen and Apprentices of Plumbing and Pipefitting Industry, Local 601 of the Utility Workers Union of America, and Local 153 of the Office and Professional Employees International Union.

³ Sierra Club-New Jersey Chapter and the New Jersey Environmental Federation.

⁴ New Jersey Laborer's-Employer's Cooperation and Education Trust.

⁵ Environmental Defense Fund.

9. On October 22, 2013, Commissioner Fiordaliso and the Parties conducted a site visit (the "Site Visit") in this matter, with proper notice and invitation to the parties. The Site Visit involved inspection of three different electric substations – New Milford, Bayway and Sewaren -- to observe damage and hear further about station designs, flood levels, potential mitigation methods and risks associated with different options.
10. On October 28, 2013 Rate Counsel and interveners AARP and NJLEUC submitted pre-filed direct testimony with Public Service's rebuttal testimony submitted on November 27, 2013. On January 10, 2014, Rate Counsel and AARP filed supplemental direct testimony and on January 31, 2014 PSE&G filed supplemental rebuttal testimony.
11. Commissioner Fiordaliso, joined periodically by President Dianne Solomon, Commissioner Mary-Anna Holden and Commissioner Jeanne Fox, presided over evidentiary hearings conducted February 25 through 28, 2014 with additional hearings held on March 6 and 7, 2014. Witnesses were presented as follows:
 - February 25, 2014 – Opening Statements and Jeffrey Pollock, NJLEUC
 - February 26, 2014 - Rate Recovery: PSE&G- Jorge L. Cardenas and Stephen Swetz; Rate Counsel- Andrea C. Crane
 - February 27, 2014 - Economic Issues- PSE&G- Dr. Peter S. Fox-Penner; Rate Counsel- Dr. David E. Dismukes; AARP- Barbara R. Alexander
 - February 28, 2014 - Economic Issues continued and Gas issues- PSE&G- Jorge L. Cardenas; Rate Counsel- Dr. David E. Dismukes and Edward A. McGee
 - March 6, 2014 - Electric Issues- PSE&G- Jorge L. Cardenas; Rate Counsel- Charles P. Salamone
 - March 7, 2014 - Electric issues and Rate of Return issues- PSE&G- Paul R. Moul and Bradford D. Huntington; Rate Counsel- Matthew I. Kahal

Discovery and Settlement Discussions

12. Over the course of the past year, discovery has been issued and responded to pursuant to a procedural schedule issued and modified thereafter by Commissioner Fiordaliso.
13. Additionally, during this time period, the parties met on several occasions in discovery/technical conferences in order to facilitate information gathering and to discuss opportunities for settlement. Settlement conferences were also conducted periodically throughout the proceedings.
14. Settlement efforts continued in parallel with the evidentiary hearings as well as sporadically throughout the initial post-hearing briefing period. Upon request by Public Service, Commissioner Fiordaliso extended the deadline for the filing of Initial Briefs twice in order to provide the parties with additional time to explore amicable resolution of the matter. A second extension established that Initial Briefs would be due to the Board by April 30, 2014 should the matter not be settled. On April 30, 2014, the Commissioner granted a temporary suspension of the briefing schedule pending the provision of further information on May 1, 2014.
15. On May 1, 2014 the Signatories reached an agreement on a settlement resolving all issues in the instant proceeding.
16. As part of the settlement discussions, PSE&G indicated that further energy efficiency programs will be considered by the Company in the future as such measures can be cost effective, may enhance resiliency and may reduce the need for new infrastructure.
17. In the comprehensive settlement, the Signatories agreed, subject to submission of this Stipulation to the Board for approval that: (1) PSE&G will proceed to invest in and put into

service certain aspects of the Energy Strong Program; (2) the Energy Strong Program investment proposals and associated cost recovery mechanism, modified from the mechanism as-filed and as set forth herein, will be implemented; and (3) the incremental approach to Energy Strong espoused by PSE&G in this proceeding will allow the Company to initiate the Program expeditiously and thereby begin to bring the benefits of these hardening and resiliency infrastructure investments to its customers. All Signatories reserve their rights if PSE&G seeks approval of further storm hardening measures, and under no circumstances does acceptance of the terms of this Stipulation of Settlement in this proceeding constitute acceptance of the submission of a filing for a future phase of the Energy Strong Program or any specific measures recommended in such a future submission. Such a future submission shall be reviewed de novo.

In light of the foregoing, the Signatories have agreed to submit this Stipulation of Settlement, the terms of which are set forth below. Specifically, the Signatories hereby **STIPULATE AND AGREE** to the following:

STIPULATED MATTERS

A. Energy Strong (ES) Program Investment Levels

18. The Signatories agree that the Energy Strong Program will include an investment level of up to \$1.0 billion recovered through the stipulated cost recovery mechanism described below. Public Service will invest up to an additional \$220 million, recovery of which the Company will seek in the Company's next base rate case. The \$1.0 billion investment level includes the actual cost of removal expenditures but excludes Allowance of Funds

Used During Construction (“AFUDC”), which will be recovered in the stipulated cost recovery mechanism as addressed below. These Energy Strong investments are anticipated to be made over a three year (36-month) period beginning on the effective date of the Board’s Order authorizing the Program, including up to \$600 million of electric infrastructure investment and up to \$400 million of gas infrastructure investment over that three-year time period, with the exception of additional time provided for the Electric Station Flood Mitigation subprogram and the Gas M&R Station Flood Mitigation subprogram as specified below.

19. The Signatories agree that specific Energy Strong subprogram investment levels shall be up to the following:

	<u>\$ million</u>
A. Electric Energy Strong Program	
• Electric Station Flood Mitigation	\$400
• Contingency Reconfiguration Strategies	\$100
• Advanced Technologies	<u>\$100</u>
Electric ES Total	\$600
B. Gas Energy Strong Program	
• Utilization Pressure Cast Iron (UPCI)	\$350
• M&R Station Flood Mitigation	<u>\$ 50</u>
Gas ES Total	\$400
TOTAL ES Program	\$1,000

20. The time period for investment under the Electric Station Flood Mitigation subprogram and the Gas M&R Station Flood Mitigation subprogram shall be 5 years. The Gas Utilization Pressure Cast Iron subprogram may be accelerated and completed in two years.
21. Electric Station Flood Mitigation subprogram. With respect to the investment under the Electric Station Flood Mitigation subprogram, the Company will mitigate the 29

switching/substations listed in the chart below in the manner recommended by the Engineering Reports provided to the Parties in this proceeding on or about November 15, 2013:

Station

Bayonne 26/13kV
Bayway 26kV Substation
Bayway 4kV Substation
Belmont Unit Substation
Cranford Substation
Essex Switching Station
Ewing Substation
Garfield Place Substation
Hackensack Substation
Hillsdale Substation
Hoboken 13kV Substation
Howell Street Substation
Jackson Road Substation
Jersey City 13kV Substation
Linden Switching Station
Little Ferry Unit Substation
Madison Substation
Marion Switching Station 26kV
Marshall Substation
New Milford 26/13kV
Newark Airport Breaker Station
Port Street Substation
Rahway Substation
River Edge
Sewaren Switching Station
Somerville Substation
South Waterfront 26kV
St. Pauls Unit Substation
Third Street Substation

22. PSE&G may change the mitigation method for a station if it concludes that an alternate method would provide the same benefits to customers at a lower cost, or if permitting or other circumstances make it impossible or inappropriate to use the method specified in the

Engineering Reports. Any change in the mitigation method for a station will not be made without 15 days prior written and electronic notification to Board Staff (Director, Division of Energy or designee) and Rate Counsel providing them with the opportunity to object within that time period. If there is no objection by Board Staff or Rate Counsel within 15 days of receipt of the electronic notice, the Company may move forward with the change. The Electric Station Flood Mitigation subprogram is currently anticipated to be completed over the next five years.

23. Electric Station Flood Mitigation. Subprogram costs are estimated by the Company to be \$620 million without any inflation adjustment. The Signatories further agree that no more than \$400 million of expenditures in the Electric Station Flood Mitigation subprogram shall be recoverable through the electric Energy Strong Adjustment Mechanism established herein. The Company will seek recovery of up to an additional \$220 million of investment in this sub-program in the context of the Company's next base rate case.
24. Contingency Reconfiguration Strategies. Public Service will invest up to \$100 million for the Contingency Reconfiguration Strategies subprogram over the next three years following issuance of a Board Order approving this Settlement. This investment will be recoverable through the electric Energy Strong Adjustment Mechanism established herein.
25. Advanced Technologies. The Company will invest up to \$100 million for the Advanced Technologies subprogram in order to install and implement Microprocessor Relays and expanded Supervisory Control and Data Acquisition ("SCADA"). This investment will be made over the next three years following issuance of a Board Order approving this

Settlement and will be recoverable through the electric Energy Strong Adjustment Mechanism established herein.

26. Gas Utilization Pressure Cast Iron (UPCI) Subprogram. With respect to the ES-Gas Program investments, Public Service will invest up to \$350 million in the UPCI subprogram to replace an estimated 250 miles of utilization pressure cast iron main and associated services over a three year period with a higher operating pressure system utilizing plastic or cathodically protected steel mains and services in areas that were previously flooded or are in Federal Emergency Management Agency (“FEMA”) flood zones or proximity thereto. Replacement priority will reflect the Signatories' agreement that previously flooded areas and adjoining FEMA flood zones with the lowest ratio of proximity mains will be addressed first. The Company further agrees to prioritize to the greatest extent possible mains in those areas that have a history of leaks. The Gas UPCI subprogram may be accelerated and completed in two years if possible.
27. Metering and Regulating (M&R) Station Flood Mitigation. The Company will invest up to \$50 million for the raising and hardening of stations listed below that were flooded during Superstorm Sandy as well as for an auxiliary generator at the Burlington Liquefied Natural Gas (LNG) Plant station. The previously flooded stations that will be addressed are:

Crown Central M&R Station and LPG Storage in Linden

Piles Creek M&R Station in Linden

Newark Airport M&R Station in Newark

West End M&R Station in Jersey City

Harrison M&R Stations (2) in Harrison

Harrison LPG peak shaving plant in Harrison

28. Investment funds will not be moved between the Energy Strong electric subprograms and the Energy Strong gas subprograms. However, funds may be moved within the ES-Gas subprograms and the ES-electric subprograms. The Signatories recognize that the infrastructure initiatives covered under the ES-Electric and the ES-Gas Programs will be of such substantial scale and scope that it will be difficult to precisely budget each sub-program project initiative within each ES Program. Accordingly, the Signatories agree that a process enabling the Company to make adjustments to sub-program budgets in response to real market and service conditions experienced is justified. The process shall be as follows: For changes in the cumulative amount 5% or less of the ES-Electric overall program investment set forth above and, for Gas, 5% or less of the ES-Gas overall program investment set forth above, PSE&G shall be authorized to make adjustments on an immediate basis. PSE&G shall notify Board Staff and Rate Counsel of the changes within 30 days following the change. PSE&G shall not make changes exceeding 5% of the ES-Electric or ES-Gas program investments without 15 days prior written and electronic notification to Board Staff (Director, Division of Energy or designee) and Rate Counsel providing them with the opportunity to object within that time period. If there is no objection by Board Staff or Rate Counsel within 15 days of receipt of the electronic notice, the Company may move forward with the change.

B. Energy Strong Subprogram Descriptions

29. The work to be conducted under each subprogram is outlined below:

ES Program - Electric

Electric Station Flood Mitigation. This subprogram will implement flood mitigation for 29 substations that had water intrusion in Superstorm Sandy, Hurricane Irene, or other recent water intrusion events.⁶ The stations will be remediated to sustain the higher of one foot above the FEMA flood elevation level or one foot above the highest observed flood levels and constructed in accordance with New Jersey Department of Environmental Protection ("NJDEP") Flood Hazard rules (except for any station that is eliminated).

Electric Distribution Contingency Reconfiguration Strategies. PSE&G will increase the sections in its present loop designs, creating multiple sections, utilizing smart switches, smart fuses, and adding redundancy within its loop scheme. By having more sections in loop schemes and/or more circuit ties, fewer customers should be interrupted when damage occurs in a specific section of the loop. The work will include the deployment of additional feeder reclosers to traditional 13-kV loops.

Advanced Technologies. The Advanced Technologies subprogram will equip certain stations with Microprocessor Relays and expanded SCADA and is intended to shorten storm restoration processes with respect to damage assessment and efficiency of storm restoration work preparation for PSE&G and mutual aid crews. Installation of Microprocessor Relays and expanded SCADA is also intended to enhance available information with respect to the operation of the electric distribution system.

ES Program – Gas

Utilization Pressure Cast Iron (UPCI). PSE&G will replace an estimated 250 miles of utilization pressure cast iron main and associated services over a three year period with a higher operating pressure system utilizing plastic or cathodically protected steel mains and services in areas that were previously flooded or are in FEMA flood zones or proximity thereto. This initiative is intended to eliminate water infiltration and thereby reduce associated outages.

Metering & Regulating ("M&R") Station Flood Mitigation. This subprogram will implement flood mitigation for the stations listed above that had water intrusion in

⁶ The Bayway 26kV station is on the same property as the Bayway 4kV station that was in the original filing. The Bayway 26 kV station did not flood during these recent storms but is in the flood zone and is attached to the 4 kV station that did flood.

Superstorm Sandy as well as provide an auxiliary generator at the Burlington Liquefied Natural Gas (LNG) Plant station. The stations will be raised to the higher of one foot above the FEMA flood elevation level or one foot above the highest observed flood levels and constructed in accordance with New Jersey Department of Environmental Protection ("NJDEP") Flood Hazard rules.

C. **Energy Strong Reporting and Performance Metrics**

30. PSE&G will provide quarterly reports on the Energy Strong program to the BPU Staff and Rate Counsel ("Quarterly Report") setting forth the following for each of the electric and gas Energy Strong subprograms:

- the estimated quantity of work and the quantity completed to date or, if the project cannot be quantified with numbers, the major tasks completed, e.g., design phase, material procurement, permit gathering, phases of construction, etc.;
- the forecasted and actual Energy Strong costs to date for the quarterly reporting period and for the program-to-date;
- the estimated Energy Strong project completion date.

The project expenditures shall be broken out between material and other costs. This reporting will begin two months after the end of the first full calendar quarter following the issuance of a written Board Order authorizing the Energy Strong Program and continue through the Energy Strong Program construction phase.

31. For the ES-Electric Program, PSE&G will report to Board Staff and Rate Counsel, on a quarterly basis, CAIDI Major Event performance at the circuit level (redacted and confidential un-redacted) for all circuits improved by Energy Strong and affected by a Major Event and at the operating area level and system wide, measured against a CAIDI performance baseline that reflects Major Event conditions for the five years prior to the reporting date for the applicable operating area and system wide. A Major Event shall be

defined as per paragraph 1 of the definition of "Major Event" at N.J.A.C. 14:5-1.2. A non-Major Event, excludes all "Major Events" as defined at N.J.A.C. 14:5-1.2. Circuit level data will be provided for circuits in which ES-Electric investments were made under the Contingency Reconfiguration Subprogram as detailed herein. Additionally, PSE&G will report quarterly to Board Staff and Rate Counsel for all circuits improved by Energy Strong on non-Major Event performance including circuit designation (information to be provided redacted and confidential unredacted), that reflects non-Major Event conditions for the prior quarters, on an annual basis per the current reporting to the Board pursuant to the Board's February 20, 2013 Order in BPU Docket No. EO12070650 and will report quarterly non-Major Event CAIDI, SAIFI, SAIDI and MAIFI for all circuits improved by Energy Strong. This material, which will be provided together in a single submission to Board Staff and Rate Counsel, will begin two months after the end of the first full calendar quarter following the issuance of a written Board Order authorizing the Energy Strong Program and continue through the review of the prudence of the Energy Strong investments.

32. For the ES-Gas UPCI Subprogram the Company's leak reports demonstrate an active leak inventory as of December 31, 2013 of 1,937 leaks as set forth in the Company's 2013 U.S. Department of Transportation Annual Report.
33. The Signatory Parties stipulate and agree that the Company will use best efforts to annually reduce the inventory of open leaks by 10 percent. The Company represents and warrants that it will use best efforts to reduce that active leak inventory by 582 leaks (194 per year) or approximately 30 percent within the first three years of the Energy Strong Program.

This metric is irrespective of incremental, new, post-2013 leaks which will not be counted in such metric.

34. During the Company's next base rate case proceeding, the Signatory Parties shall review the relevant reports, and such discovery requests as may be appropriate, to determine whether the Company's leak inventory has been reduced by 582 or more from December 31, 2013 through the conclusion of the next base rate proceeding. Additionally, during the time period between approval of this Stipulation of Settlement and the conclusion of the Company's next base rate proceeding, if the Company reduces leak inventory by less than 10% in a year, the Company will notify Board Staff and Rate Counsel and schedule a teleconference to discuss. If the Company fails to reduce leak inventory by 10% annually two years in succession, the Company shall achieve compliance with this obligation without seeking cost recovery for the incremental expense from ratepayers.
35. The Company represents that in those areas where UPCI mains are replaced and system pressures are increased as part of the Energy Strong Program, the Company shall not have customer outages due to water infiltration during the ten years following such replacement and pressure increase. If PSE&G fails to meet this requirement, except if such failure is caused by third party damage, the Company shall repair or replace impacted mains without seeking cost recovery for the repair or replacement from ratepayers.
36. PSE&G, following consultation with Board Staff and Rate Counsel, will retain an independent monitor to review and report to Board Staff and Rate Counsel on the impact of the Energy Strong program on overall system performance during severe weather events; cost effectiveness and efficiency; appropriate cost assignment; and other information

deemed appropriate by the Company, Board Staff and Rate Counsel. The independent monitor shall continue until one quarter following the completion of the Energy Strong investments unless the Company, Board Staff and Rate Counsel agree that the services of the independent monitor should continue. Independent monitor expenses shall be capitalized to the extent consistent with Generally Accepted Accounting Principles ("GAAP") and shall be included as part of the \$1 billion dollars recovered through the ESAMs.

37. The reporting requirements and metrics set forth herein will allow the Board to review the performance of the investments:

- Electric Stations and Gas M&R Stations. Any station with flood mitigation work completed should not go out of service due to water intrusion from flooding or storm surge within the applicable FEMA Advisory Based Flood Elevation that the station is designed to withstand.
- Contingency Reconfiguration Strategies. Storm Circuit CAIDI will be measured against a baseline that reflects performance under Major Event conditions for the 5 years prior to the reporting date for the applicable group of impacted circuits associated with the Contingency Reconfiguration investments. PSE&G will compare aggregated Storm Circuit CAIDI performance of circuits where Contingency Reconfiguration investments are completed to those without such investments under Major Event conditions.
- Advanced Technology. Storm Circuit CAIDI will be measured against a baseline that reflects performance under Major Event conditions for the 5 years prior to the reporting date for the applicable group of impacted stations associated with the Advanced Technology investments. PSE&G will compare Storm Circuit CAIDI performance of stations where Advance Technology investments are targeted to those without such investments under Major Event conditions.

These metrics shall be reported quarterly and following any Major Event as defined in paragraph 31 above. This reporting will begin two months after the end of the first full calendar quarter following the issuance of a written Board Order authorizing the Energy

Strong Program and continue through review of the prudence of the Energy Strong investments.

D. Cost Recovery

38. The Signatories agree that one billion dollars (\$1B) of the Energy Strong investment as defined in paragraph 18 above, plus associated AFUDC, shall be eligible to flow through the two new Energy Strong Adjustment Mechanisms ("ESAMs"), one for electric and one for gas, as defined herein. This mechanism will be as indicated in Section D of this stipulation and Attachment B to this stipulation. The Company will seek to recover the remaining two hundred and twenty million dollars (\$220M) in either its next or a subsequent base rate case. The Company's next base rate case following approval of this settlement by the Board shall be filed no later than November 1, 2017 ("Next Base Case"). Recognizing that the time period for investment under the Electric Station Flood Mitigation subprogram and the Gas M&R Station Flood Mitigation subprogram has been set at 5 years, the ESAMs will continue to be used to recover the Energy Strong Program investments up to \$1 billion. The prudence of these investments will be reviewed in the next appropriate base rate case proceeding.
39. Cost recovery will occur for completed projects with review on a semi-annual basis for the Electric-ES Program investments and on an annual basis for the Gas-ES Program investments, with schedules, procedures, and filings as detailed in subsequent paragraphs. Costs to be recovered will include the return on net plant in service as of the end of the semi-annual period for electric and as of the end of the annual period for gas. Net plant

will be calculated as gross plant in service less accumulated depreciation less accumulated deferred income taxes. The revenue requirement will also include depreciation expense, income taxes, the associated interest synchronization adjustment, and BPU/Rate Counsel assessments. The revenue requirement will not include an expense for the recovery of the Cost of Removal (unless embedded in the depreciation rates); however, the revenue requirement will include the return on the Cost of Removal investment. Depreciation will be included at the rates reflected in the table below. The Company will begin to depreciate an asset once it goes into service. O&M expenses associated with the Energy Strong Program will not be included in the semi-annual and annual revenue requirement filings nor will such costs be deferred.

ES Depreciation Rates		
Asset Class	Description	Book Rate
40 year Plant	Electric Distribution Plant (stations, structures and improvements, poles, wires, conduit, etc)	2.49%
15 Year Plant	Utility Device Operating Software (Advanced Technology such as EMS, SCADA, OMS, etc.)	6.67%
7 Year Plant	Computer Equipment (hardware, SCADA, etc.)	14.29%
10 Year Plant	Communication Equipment (remote terminal units, etc.)	10.00%
62 Year Plant	Gas Distribution Plant (mains, regulators, valves, etc.)	1.61%
34 Year Plant	Gas Storage Plant (Structures and improvements, gas holders, compressor equipment, etc.)	2.92%
35 Year Plant	Gas Production Plant (Structures and improvements, other power equipment, etc.)	2.87%

40. The Signatories agree and Public Service understands that the review of the prudence of all projects undertaken in the Energy Strong Program will not take place prior to or in

connection with the base rate roll-ins established herein. PSE&G therefore agrees that the rate adjustments established in the semi-annual electric and annual gas rate filing proceedings established herein shall be provisional and subject to refund solely based upon a Board finding that PSE&G imprudently incurred capital expenditures under the Energy Strong Program. Such prudence review shall take place in the Company's Next Base Case and its base rate case subsequent to the Next Base Case to the extent there are any Energy Strong Program investments up to \$1 billion not included within the test year of the Next Base Case. The Signatories further agree that the review of Energy Strong Program investment costs in the Next Base Case or a subsequent base rate case is not only to ensure that the actual costs incurred in completing the projects were spent prudently, but includes review to ensure that they are distribution, not transmission, investments.

41. In order to effectuate the cost recovery process for the Electric-ES Program investments, Public Service shall proceed on the following schedule following public notice and public hearing, recognizing that the prudence of the investments will be determined in the Next Base Case, as addressed above. The schedule below anticipates semi-annual notice, public hearings, and rate adjustments to cover all rate changes for the Electric-ES Program investments:
 - a. Revenue Requirements associated with program investments that are placed into service through and including 11/30/14 shall go into base rates effective 3/1/15. PSE&G shall make its initial filing for such rates in September 2014, and update such filing for actual data through November 30, 2014 by December 15, 2014.
 - b. Revenue Requirements associated with program investments that are placed into service from 12/1/14 through and including 5/31/15 shall go into base rates effective 9/1/15. PSE&G shall make its initial filing for such rates in March

2015, and update such filing for actual data through May 31, 2015 by June 15, 2015.

- c. Revenue Requirements associated with program investments that are placed into service from 6/1/15 through and including 11/30/15 shall go into base rates effective 3/1/16. PSE&G shall make its initial filing for such rates in September 2015, and update such filing for actual data through November 30, 2015 by December 15, 2015.
- d. Revenue Requirements associated with program investments that are placed into service from 12/1/15 through and including 5/31/16 shall go into base rates effective 9/1/16. PSE&G shall make its initial filing for such rates in March 2016, and update such filing for actual data through May 31, 2016 by June 15, 2016.
- e. Revenue Requirements associated with program investments that are placed into service from 6/1/16 through and including 11/31/16 shall go into base rates effective 3/1/17. PSE&G shall make its initial filing for such rates in September 2016, and update such filing for actual data through November 30, 2016 by December 15, 2016.
- f. Revenue Requirements associated with program investments that are placed into service from 12/1/16 through and including 5/31/17 shall go into base rates effective 9/1/17. PSE&G shall make its initial filing for such rates in March 2017, and update such filing for actual data through May 31, 2017 by June 15, 2017.
- g. To the extent that any portion of the \$1B is not included in the roll-in schedule above, PSE&G shall have the ability to make additional roll-in filings with the Board utilizing the ESAM cost recovery mechanism specified herein below and consistent with the semi-annual schedule identified above.

42. In order to effectuate the cost recovery process for the Gas-ES Program investments, Public Service shall proceed on the following schedule following public notice and public hearing, recognizing that the prudence of implementation of the investments will be determined in the Next Base Case, as addressed above. The schedule below anticipates annual notice, public hearings, and rate adjustments to cover all rate changes for the Gas-ES Program investments:

- a. Revenue Requirements associated with program investments that are placed into service through and including 5/31/15 shall go into base rates effective 9/1/15. PSE&G shall make its initial filing for such rates in March 2015, and update such filing for actual data through May 31, 2015 by June 15, 2015.
 - b. Revenue Requirements associated with program investments that are placed into service from 6/1/15 through and including 5/31/16 shall go into base rates effective 9/1/16. PSE&G shall make its initial filing for such rates in March 2016, and update such filing for actual data through May 31, 2016 by June 15, 2016.
 - c. Revenue Requirements associated with program investments that are placed into service from 6/1/16 through and including 5/31/17 shall go into base rates effective 9/1/17. PSE&G shall make its initial filing for such rates in March 2017, and update such filing for actual data through May 31, 2017 by June 15, 2017.
 - d. To the extent that any portion of the \$1B is not included in the roll-in schedule above, PSE&G shall have the ability to make additional roll-in filings with the Board utilizing the ESAM cost recovery mechanism specified herein below and consistent with the annual schedule identified above.
43. Rate Counsel and Board Staff will have the opportunity to request discovery on the information provided by the Company in its annual and semi-annual filings described in paragraphs 41 and 42. Nothing herein will preclude any party from raising in the Next Base Case any objection that could have been raised to the annual or semi-annual filings.
44. Cost Recovery Detail Summary. The revenue requirement shall be calculated as summarized below.
- a. Energy Strong Investment Costs - All qualifying Energy Strong 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 ("Energy Strong Investment Costs"), will be recovered through base rate roll-ins for each of the time periods described above. The Energy Strong Investment Costs will be recorded, during construction, in an associated Construction Work In Progress ("CWIP") account or in a Plant in Service account upon the respective project being deemed used and useful. The Company will follow

its current policies and practices with regard to capitalizing costs, including overheads.

Net Investment - Is equal to the Energy Strong Investment Costs that have been placed into service less the associated accumulated depreciation less accumulated deferred income taxes.

WACC –Although PSE&G’s Board-authorized return on equity (“ROE”) is 10.3%, Public Service agrees that the return on the incremental investments undertaken in Energy Strong Program at issue in this proceeding shall be at a weighted average cost of capital including a 9.75% return on common equity and a 4.60% cost of debt (the Company’s Long-term debt as of March 31, 2014). The portion of debt and equity in the capital structure shall be as determined in the Company’s 2009 Base Rate Case (Equity: 51.2%, Debt: 48.8%). This results in a WACC of 7.24% at current tax rates.

The rate base roll-ins will be calculated using the following formula:

Revenue Requirement = ((Energy Strong Rate Base * After Tax WACC) + Depreciation Expense (net of tax) + Tax Adjustments)* Revenue Factor

- i. Energy Strong Rate Base – The Energy Strong Rate Base will be calculated as Plant in Service, including CWIP transferred into service and associated AFUDC, less accumulated depreciation and less associated accumulated deferred income taxes. AFUDC will be calculated using the same methodology used for current distribution assets consistent with the Company’s AFUDC policy, and as permitted by FERC Order 561, which includes compounding AFUDC on a semi-annual basis.
- ii. Depreciation Expense – Depreciation expense will be calculated as the Energy Strong Investment Costs by asset class multiplied by the associated depreciation rate applied to the same asset in current base rates and then calculated net of tax.
- iii. Tax Adjustments - Includes the effects of any flow through items and any tax law changes codified by the Internal Revenue Service, the State of New Jersey or any other taxing authority.
- iv. Revenue Factor – The Revenue Factor adjusts the Revenue Requirement Net of Tax for federal and state income taxes and the costs associated with the BPU and Rate Counsel (RC) Annual Assessments and Gas Revenue Uncollectibles. The then-current statutory state and federal income tax rates and the then-current BPU/RC Assessment rates will be utilized. The percentage used to calculate the gas uncollectible expense is based upon the percentage determined in the Company’s latest base rate case.

45. Rate Design – Until the next base rate case, the rate design for the electric semi-annual roll-ins and the gas annual roll-ins will be structured similarly to the rate design methodology used to set rates in the most recent base rate case and will utilize the latest available calendar year weather normalized annualized billing determinants. The weather normalization process for gas will be consistent with the Company’s weather normalization clause (“WNC”). The weather normalization process for electric will be consistent with the methodology used to set rates in the 2009 Base Rate Case except it will use a 65 degree day basis for winter weather to be consistent with gas. Within thirty days of the approval of this Stipulation of Settlement by the Board, the Company will provide to Board Staff and Rate Counsel PSE&G’s weather normalized 2012 electric and gas billing determinants and supporting data, including the weather normalization methodology followed by the Company. To the extent the Company seeks to utilize more current weather normalized billing determinants for future ESAM rate changes or to change the methodology used to weather normalize, PSE&G shall provide such updated billing determinants and supporting data to Board Staff and Rate Counsel sixty days prior to any ESAM rate change filing. However, this review does not apply to the Company’s weather normalization clause included in its tariff for gas service. All parties reserve their right to propose a different weather normalization methodology in the next base rate case.
46. Filing Requirements (MFRs) - Each Electric Energy Strong rate change filing and Gas Energy Strong rate change Filing will be accompanied by the MFRs that are set forth in Attachment A hereto.

FURTHER PROVISIONS

47. 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.
48. It is the intent of the Signatories that the provisions herein be approved by the Board as being in the public interest. The Signatories further agree that they consider the Stipulation to be binding on them for all purposes herein.
49. 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, Public Service, Board Staff, Rate Counsel and all other Signatories 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 Signatories further agree that this Stipulation is in no way binding upon them in any other proceeding, except to enforce the terms of this Stipulation.

50. The Signatories further acknowledge that a Board Order approving this Stipulation will become effective upon the service of said Board Order, 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 Signatories 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.

PUBLIC SERVICE ELECTRIC AND GAS
COMPANY

NEW JERSEY DIVISION OF RATE COUNSEL,
STEFANIE A. BRAND, DIRECTOR

BY: Matthew Weissman
Matthew M. Weissman
General Regulatory Counsel - Rates

BY: Stefanie A. Brand
Stefanie A. Brand
Director

DATED: 5/1/2014

DATED: 5/1/14

JOHN JAY HOFFMAN, ESQ.
ATTORNEY GENERAL OF NEW JERSEY
for the Staff of the Board of Public
Utilities

AARP

BY: T. David Wand
T. David Wand
Deputy Attorney General

BY: _____
Janine G. Bauer, Esq.
Szaferman, Lakind, Blumstein, &
Blader, P.C

DATED: 5/1/14

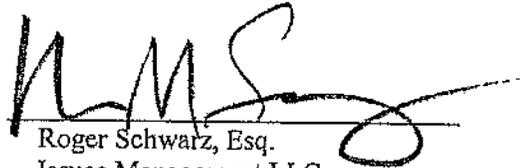
DATED: _____

NEW JERSEY LARGE ENERGY USERS
COALITION (NJLEUC)

BY: _____
Stephen S. Goldenberg, Esq.
Fox Rothschild, LLP

DATED: _____

PSE&G UNIONS

BY:  _____
Roger Schwarz, Esq.
Issues Management LLC

DATED: 5/1/14

INTERNATIONAL UNION OF OPERATING
ENGINEERS, LOCAL UNION 825

BY: _____
Vincent M. Giblin, Esq.
Pitta & Giblin, LLP

DATED: _____

NEW JERSEY LABORERS UNION –
LABORERS’ – EMPLOYEES COOPERATION
AND EDUCATION TRUST (NJLECET)

BY: _____
Albert G. Kroll, Esq.
Kroll Heineman Carton, LLC

DATED: _____

ENVIRONMENTAL DEFENSE FUND (EDF)

BY: _____
Phyllis J. Kessler, Esq.
Duane Morris LLP

DATED: _____

SIERRA CLUB – NEW JERSEY CHAPTER
AND THE NEW JERSEY ENVIRONMENTAL
FEDERATION (“ENVIRONMENTAL
PARTICIPANTS”)

BY: _____
Aaron Kleinbaum, Esq.
Eastern Environmental Law Center

DATED: _____

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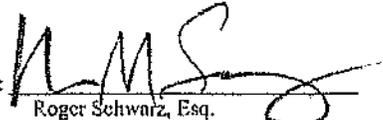
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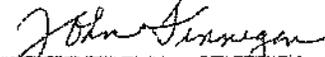
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Albert G. Kroll, Esq.
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DATED: _____

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ENVIRONMENTAL DEFENSE FUND (EDF)

SIERRA CLUB - NEW JERSEY CHAPTER
AND THE NEW JERSEY ENVIRONMENTAL
FEDERATION ("ENVIRONMENTAL
PARTICIPANTS")

BY: 
Phyllis J. Kessler, Esq. JOHN FINNIGAN
Duane Morris LLP LEAD COUNSEL
ENVIRONMENTAL DEFENSE

BY: _____
Aaron Kleinbaum, Esq.
Eastern Environmental Law Center

DATED: 5/1/14

DATED: _____

NEW JERSEY LARGE ENERGY USERS
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PSE&G UNIONS

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BY: _____
Vincent M. Giblin, Esq.
Pitta & Giblin, LLP

BY: Albert G. Kroll
Albert G. Kroll, Esq.
Kroll Heineman Carton, LLC

DATED: _____

DATED: 5/1/14

ENVIRONMENTAL DEFENSE FUND (EDF)

SIERRA CLUB – NEW JERSEY CHAPTER
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Duane Morris LLP

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Eastern Environmental Law Center

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NEW JERSEY LARGE ENERGY USERS
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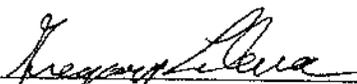
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NEW JERSEY LABORERS UNION –
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BY:  _____
~~Vincent M. Giblin, Esq.~~ ~~Pitta & Giblin, LLP~~ *Gregory Laleuca*
IOE Local 825

BY: _____
Albert G. Kroll, Esq.
Kroll Heineman Carton, LLC

DATED: _____

DATED: _____

ENVIRONMENTAL DEFENSE FUND (EDF)

SIERRA CLUB – NEW JERSEY CHAPTER
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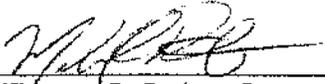
BY: _____
Phyllis J. Kessler, Esq.
Duane Morris LLP

BY: _____
Aaron Kleinbaum, Esq.
Eastern Environmental Law Center

DATED: _____

DATED: _____

FERREIRA CONSTRUCTION

BY: 

Thomas P. Scrivo, Esq.
Michael Rato, Esq.
McElroy, Deutsch, Mulvaney & Carpenter, LLP

DATED: 5/1/14

ATTACHMENT A

MINIMUM FILING REQUIREMENTS

- 1) PSE&G's income statement for the most recent 12 month period, as filed with the BPU.
- 2) PSE&G's balance sheet for the most recent 12 month period, as filed with the BPU.
- 3) PSE&G's overall approved Energy Strong capital budget broken down by major categories, both budgeted and actual amounts.
- 4) For each ES Program subprogram:
 - a. The original project summary for each ES subprogram;
 - b. Expenditures incurred to date.
 - c. Appropriate metric (e.g., miles of main replaced, relays installed, etc.)
- 5) Anticipated subprogram timeline with updates and expected changes.
- 6) A calculation of the proposed rate adjustment based on details related to ES 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.
- 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 ES Program projects, such as relocation, reimbursement, or stimulus money.
 - a. An explanation of the financial treatment associated with the receipt of the government funds or credits.
- 8) A revenue requirement calculation showing the actual capital expenditures for the period for which the filing is made, as well as supporting calculations.

**PSE&G Energy Strong Program
Sample Annual Roll-in Calculation**

Attachment B

RATE BASE CALCULATION

	<u>Total</u>
1 Gross Plant	\$42,038
2 Accumulated Depreciation	\$10,558
3 Rate Base	\$52,596
4 Accumulated Deferred Taxes	-\$4,762
5 Net Rate Base	\$47,834
6 Rate of Return - Net (Schedule WACC)	6.32%
7 Return Requirement (Net of Tax)	\$3,023
8 Depreciation Exp, net	\$1,036
9 Tax Adjustment, net	-\$220
10 Revenue Factor	1.6907
11 Total Revenue Requirement	\$6,491