

STATE OF NEW JERSEY

Board of Public Utilities
44 South Clinton Avenue, 1st Floor
Post Office Box 350
Trenton, New Jersey 08625-0350
www.ni.gov/bpu/

ENERGY

IN THE MATTER OF THE PETITION OF PUBLIC)	DECISION AND ORDER
SERVICE ELECTRIC AND GAS COMPANY FOR)	APPROVING STIPULATION
APPROVAL OF THE NEXT PHASE OF THE GAS)	
SYSTEM MODERNIZATION PROGRAM AND)	
ASSOCIATED COST RECOVERY MECHANISM)	
("GSMP II") (JUNE 2022 GSMP II RATE FILING))	BPU DOCKET NO. GR22060409

Parties of Record:

Brian O. Lipman, Esq., Director, New Jersey Division of Rate Counsel **Danielle Lopez, Esq.,** on behalf of Public Service Electric and Gas Company

BY THE BOARD:

On June 30, 2022, Public Service Electric and Gas Company ("PSE&G" or "Company") filed a petition with the New Jersey Board of Public Utilities ("Board" or "BPU") seeking review and approval of gas base rate changes to provide for cost recovery associated with the extension of the Company's Gas System Modernization Program ("GSMP II" or "Program") ("June 2022 Petition"). By this Order, the Board considers a Stipulation of Settlement ("Stipulation") executed by PSE&G, Board Staff ("Staff"), and the New Jersey Division of Rate Counsel ("Rate Counsel") (collectively, "Parties") intended to resolve the Company's requests related to the June 2022 Petition.

BACKGROUND

By Order dated November 16, 2015, the Board authorized PSE&G to implement a three (3) year Gas System Modernization Program ("GSMP") through which the Company would invest approximately \$650 million [excluding Allowance for Funds Used During Construction ("AFUDC")] to replace the Company's utilization pressure cast iron ("UPCI") and unprotected steel mains and associated services, and the uprating of the UPCI segments to higher pressure. The November 2015 Order also approved a cost recovery mechanism that allowed for annual rate adjustments

¹ In re the Petition of Public Service Electric and Gas Company for Approval of a Gas System Modernization Program and Associated Cost Recovery Mechanism, BPU Docket No. GR15030272, Order dated November 16, 2015 ("November 2015 Order").

("Alternative Rate Mechanism"), and required PSE&G to maintain a base level of capital spending of approximately \$85 million not recoverable through the Alternative Rate Mechanism.

By Order dated May 22, 2018, the Board authorized PSE&G to implement the GSMP II wherein PSE&G would: a) replace its UPCI mains and associated services and Unprotected Steel mains and associated services; b) uprate the UPCI systems (including the uprating of associated protected steel and plastic mains and associated services) to higher pressures; and c) install excess flow valves and eliminate district regulators, where applicable.² Pursuant to the GSMP II Order, costs would be eligible for recovery under the GSMP II Accelerated Rate Recovery Mechanism ("GSMP II Rate Mechanism").

The GSMP II Order establishes various parameters for cost recovery under the GSMP II Rate Mechanism. Costs eligible for recovery under the GSMP II Rate Mechanism must not exceed \$1.575 billion, representing replacement of 875 miles of main.³ The \$1.575 billion excludes AFUDC and the cost associated with the "Stipulated Base," which is \$300 million during the five (5) year Program, is the minimum amount the Company must spend on certain projects, with no less than \$20 million expended in each calendar year from 2019 through 2023.⁴ Costs recoverable under the GSMP II Rate Mechanism shall not exceed \$1.80 million per mile.⁵ Costs incurred by the Company in excess of the \$1.80 million per mile on its replacements would be credited toward the baseline capital expenditure requirement for the year in which the cost is incurred.⁶ For each of the five (5) years, 2019 through 2023, the Company must maintain a baseline capital expenditure level of at least \$155 million.⁷ Recovery of costs in excess of \$1.80 million per mile may be sought through a base rate case.⁸

JUNE 2022 PETITION

In compliance with the GSMP II Order, PSE&G filed the June 2022 Petition seeking recovery of the projected revenue requirement of approximately \$27.945 million associated with the capitalized investment costs through August 31, 2022, not yet recovered in rates.

According to the June 2022 Petition, through May 31, 2022, PSE&G replaced 873.8 miles of main and 71,518 services. The Company anticipated having a total of 900.6 miles of main installed and in-service, and 73,711 services replaced and in-service, by August 31, 2022.

On September 15, 2022, the Company provided an update reflecting actual data through August 31, 2022 that supported a revised revenue requirement of approximately \$22.970 million

² In re the Petition of Public Service Electric and Gas Company for Approval of the Next Phase of the Gas System Modernization Program and Associated Cost Recovery Mechanism ("GSMP II"), BPU Docket No. GR17070776, Order dated May 22, 2018 ("GSMP II Order").

³ GSMP II Order at p.4. The Stipulated Base is recoverable from base rates and not recoverable through the GSMP II Rate Mechanism. <u>Id.</u> If the Company fails to spend at least \$20 million in any calendar year or \$300 million over the five (5) year period for Stipulated Base, the Company shall expend the amount of the shortfall without seeking cost recovery from ratepayers for such expenditures to make up the shortfall. <u>Id.</u>

⁴ ld.

⁵ ld.

⁶ <u>ld.</u>

⁷ Id. at p.5.

⁸ ld. at p.4.

("September 2022 Update"). Based upon the September 2022 Update, PSE&G replaced approximately 900 miles of main and 76,830 services through August 31, 2022.

The GSMP II capital investment costs calculations for approximately \$22.970 million are as follows:

PSE&G GSMP II Revenue Requirement (\$000)				
Rate Base Calculation	Total			
Gross Plant	\$209,077			
Accumulated Depreciation	\$7,027			
Net Plant	\$216,104			
Accumulated Deferred Taxes	(\$3,870)			
Rate Base	\$212,234			
Rate of Return – After Tax (Schedule WACC)	6.48%			
Return Requirement (After Tax)	\$13,756			
Depreciation Exp, net	\$2,610			
Expense Adjustment (After Tax)	(\$167)			
Tax Adjustment	\$0			
Revenue Factor	1.418			
Roll-in Revenue Requirement	\$22,970			

After publication of notice in newspapers of general circulation in the Company's service territory, public hearings were held virtually at 4:30 pm and 5:30 pm on October 27, 2022. No members of the public commented at the public hearings or filed comments with the Board related to the June 2022 Petition.

STIPULATION

Following the review of the June 2022 Petition, the September 2022 Update, and discovery, the Parties executed the Stipulation, which provides for the following:¹⁰

- 1. The Parties agree that the Company will implement rates to recover approximately \$22.970 million.
- 2. The Company shall implement the rates provided in the Update to Schedule SS-GSMPII-5 (UPDATE), effective upon Board approval. Schedule SS-GSMPII-5 (UPDATE) is attached to the Stipulation as Attachment 1.
- 3. Under the Company's proposal, a typical residential gas heating customer using 172 therms per month during the winter months and 1,040 therms on an annual basis, would see an initial increase in the annual bill from \$1,345.42 to \$1,358.02 or \$12.60,

⁹ The hearings were held virtually via Zoom due to the COVID-19 pandemic.

¹⁰ Although described at some length in this Order, should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusion in this Order. Paragraphs are numbered to coincide with the Stipulation.

or approximately 0.94%, based upon current Delivery Rates and Basic Gas Supply Service (BGSS-RSG) charges in effect as of October 1, 2022.

4. The Parties agree that pursuant to the terms of the GSMP II Order, PSE&G may implement the rates in Attachment 1 of the Stipulation effective upon Board approval. The rate adjustments established in the Stipulation shall be provisional and subject to refund contingent upon the Board finding that PSE&G imprudently incurred capital expenditures under GSMP II. Such prudency review shall take place in the Company's next base rate case. The Company will file its next base rate case no later than January 1, 2024 ("2024 Base Rate Case"), in accordance with paragraph 40 of the GSMP II Order. Nothing in the Stipulation will preclude any party from raising any objection in the 2024 Base Rate Case that could have been raised in the annual GSMP II cost recovery filings.

DISCUSSION AND FINDINGS

The Board reviewed the record in this proceeding, including the June 2022 Petition, the September 2022 Update, discovery and the Stipulation, and <u>HEREBY FINDS</u> the Stipulation to be reasonable, in the public interest and in accordance with the law. Accordingly, the Board <u>HEREBY ADOPTS</u> the Stipulation in its entirety, and <u>HEREBY INCORPORATES</u> its terms and conditions as though fully set forth herein, subject to any terms and conditions set forth in this Order.

The Board <u>HEREBY APPROVES</u> the rate adjustments calculated in Attachment 1 of the Stipulation, on a provisional basis, subject to refund and review for prudency in the 2024 Base Rate Case, to be effective for services rendered on and after December 1, 2022.

The annual bill impact on the typical residential gas heating customer using 172 therms in a winter month, and 1,040 therms annually, is an increase of \$12.60, or approximately 0.94%.

Accordingly, the Board <u>HEREBY ORDERS</u> PSE&G to file revised tariff sheets conforming to the terms of the Stipulation by November 30, 2022.

The Company's costs, including those related to GSMP II, 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 this Order is November 16, 2022.

DATED: November 9, 2022

BOARD OF PUBLIC UTILITIES

BY:

JOSEPH L. FIORDALISO

PRESIDENT

MARY-ANNA HOLDEN COMMISSIONER

ROBERT M. GORDON COMMISSIONER DIANNE SÖLÖMÖN COMMISSIONER

DR. ZENON CHRISTODOULOU COMMISSIONER

ATTEST:

CARMEN D. DIAZ ACTING 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 NEXT PHASE OF THE GAS SYSTEM MODERNIZATION PROGRAM AND ASSOCIATED COST RECOVERY MECHANISM ("GSMP II") (JUNE 2022 GSMP II RATE FILING)

BPU DOCKET NO. GR22060409

SERVICE LIST

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October 28, 2022

In The Matter of The Petition of Public Service Electric and Gas Company for Approval of the Next Phase of the Gas System Modernization Program and Associated Cost Recovery Mechanism ("GSMP II") (June 2022 GSMP II Rate Filing)

Docket No. GR22060409

VIA ELECTRONIC MAIL

Carmen Diaz, Acting Secretary Board of Public Utilities 44 South Clinton Avenue, 9th Floor P.O. Box 350 Trenton, New Jersey 08625-0350

Dear Acting Secretary Diaz:

Attached is the fully executed Stipulation in the above-reference matter resolving all aspects of this matter. All the parties have signed the Stipulation: Public Service Electric and Gas Company, the Staff of the New Jersey Board of Public Utilities, and the New Jersey Division of Rate Counsel.

Consistent with the Order issued by the New Jersey Board of Public Utilities ("BPU or Board") in connection with In the Matter of the New Jersey Board of Public Utilities' Response to the COVID-19 Pandemic for a Temporary Waiver of Requirements for Certain Non-Essential Obligations, BPU Docket No. EO20030254, Order dated March 19, 2020, this filing is being electronically filed with the Secretary of the Board and the New Jersey Division of Rate Counsel. No paper copies will follow.

If you have any questions, please do not hesitate to contact me. Thank you for your consideration in this matter.

Very truly yours,

Samilly for of

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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 THE NEXT : BPU DOCKET NO. GR22060409

PHASE OF THE GAS SYSTEM MODERNIZATION

PROGRAM AND ASSOCIATED COST : RECOVERY MECHANISM ("GSMP II") : (JUNE 2022 GSMP II RATE FILING) :

STIPULATION AND AGREEMENT

APPEARANCES:

Matthew M. Weissman, Esq. and Danielle Lopez, Esq., Associate Counsel—Regulatory, for the Petitioner, Public Service Electric and Gas Co.

Maura Caroselli, Esq., Managing Attorney—Gas and Sarah H. Steindel, Esq., Assistant Deputy Rate Counsel and Megan Lupo, Assistant Deputy Rate Counsel (Brian O. Lipman, Director, Division of Rate Counsel)

Matko Ilic, Deputy Attorney General, for the Staff of the New Jersey Board of Public Utilities (Matthew J. Platkin, Attorney General of New Jersey)

On June 30, 2022, Public Service Electric and Gas Company ("PSE&G" or "Company") filed a petition and supporting documentation with the New Jersey Board of Public Utilities ("Board" or "BPU") seeking approval for gas base rate changes to provide for cost recovery associated with PSE&G's Gas System Modernization Program II ("GSMP II" or "Program") from March 1, 2022 through August 31, 2022 ("June 2022 Petition"). The June 2022 Petition was filed pursuant to an Order dated May 22, 2018 in BPU Docket No. GR17070776. The GSMP II Order adopted a stipulation that authorized rate increases. Paragraph 36 of the stipulation provided, in pertinent part, that revenue requirements associated with Program investments that are placed into

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¹ In the Matter of the Petition of Public Service Electric and Gas Company for Approval of the Next Phase of the Gas System Modernization Program and Associated Cost Recovery Mechanism ("GSMP II"), Docket No. GR17070776, Order dated May 22, 2018 ("GSMP II Order").

service through and including August 31, 2022 shall go into base rates effective December 1, 2022. The stipulation further provided that PSE&G shall make its initial filing for such rates as of June 30, 2022, and update such filing for actual data through August 31, 2022, by September 15, 2022.

In the June 2022 Petition, PSE&G sought the authority to establish rates to recover an annualized increase in gas revenue requirement of approximately \$27.945 million associated with actual GSMP II investment costs. The annualized increase was supported by Schedule SS-GSMPII-2 Attachment 2 of the June 2022 Petition, and was based upon actual expenditures inservice through May 31, 2022 and a forecast through August 31, 2022.

On September 15, 2022, the Company provided updated schedules [SS-GSMPII-2 (Update)] with actual data through August 31, 2022 ("Update"). As a result, the Company's revenue requirement decreased from approximately \$27.945 million to approximately \$22.970 million. The Company also provided an update to its Gas Proof of Revenue Schedule SS-GSMPII–5 (UPDATE), which included proposed rates reflecting changes from those in effect September 1, 2022. The Company provided an update to Schedule SS-GSMPII-7 (UPDATE), updating the Company's earnings test in this matter with actual data through June 30, 2022 by way of discovery response RCR-A-0009 on August 29, 2022. The response reflected the latest quarter of financial data filed with the Board.

Notice of the Company's June 2022 Petition, and the date, time and details for virtual public hearings, were placed in newspapers having a circulation within the Company's gas service territory, and served on the Clerks of the municipalities, the Clerks of the Board of County Commissioners, and the County Executives within the Company's gas service territory. In accordance with the notice, virtual public hearings occurred at 4:30 p.m. and 5:30 p.m. on October

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² The public hearings were conducted virtually due to the COVID-19 Pandemic.

- 27, 2022. One member of the public appeared virtually at the 4:30 p.m. public hearing but did not comment concerning the June 2022 Petition. The Board did not receive written comments. Upon review of the June 2022 Petition, the Update, and discovery, Board Staff, the New Jersey Division of Rate Counsel ("Rate Counsel"), and PSE&G, the only parties to this proceeding (collectively, "Parties"), HEREBY STIPULATE AND AGREE AS FOLLOWS:
- The Parties agree that the Company will implement rates to recover approximately \$22.970 million.
- The Company shall implement the rates provided in the Update to Schedule SS-GSMPII-5 (UPDATE), effective upon Board approval. Schedule SS-GSMPII-5 (UPDATE) is attached hereto as Attachment 1.
- 3. Under the Company's proposal, a typical residential gas heating customer using 172 therms per month during the winter months and 1,040 therms on an annual basis, would see an initial increase in the annual bill from \$1,345.42 to \$1,358.02 or \$12.60, or approximately 0.94%, based upon current Delivery Rates and Basic Gas Supply Service (BGSS-RSG) charges in effect as of October 1, 2022.
- 4. The Parties agree that pursuant to the terms of the GSMP II Order, PSE&G may implement the rates in Attachment 1 effective upon Board approval. The rate adjustments established herein shall be provisional and subject to refund contingent upon the Board finding that PSE&G imprudently incurred capital expenditures under GSMP II. Such prudency review shall take place in the Company's next base rate case. The Company will file its next base rate case no later than January 1, 2024 ("2024 Base Rate Case"), in accordance with paragraph 40 of the GSMP II Order. Nothing herein will preclude any party from raising

- any objection in the 2024 Base Rate Case that could have been raised in the annual GSMP II cost recovery filings.
- 5. This Stipulation of Settlement ("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 that 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.
- 6. The Parties agree that they consider the Stipulation to be binding on them for all purposes herein.
- 7. 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, PSE&G, Board Staff, and Rate Counsel 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, in total or by specific item. The Parties further agree that this Stipulation is in no way binding upon them in any other proceeding, except to enforce the terms of this Stipulation.
- 8. The Parties 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.

9. WHEREFORE, the Parties hereto respectfully submit this Stipulation to the BPU and recommend that the Board issue a Final Decision and Order adopting and approving this Stipulation in its entirety in accordance with the terms hereof.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

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Danielle Lopez, Esq. Associate Counsel, Regulatory

DATED: October 27, 2022

MATTHEW J. PLATKIN ATTORNEY GENERAL OF NEW JERSEY Attorney for the Staff of the New Jersey Board of Public Utilities

Deputy Attorney General

DATED: October 28, 2022

NEW JERSEY DIVISION OF RATE COUNSEL **BRIAN O. LIPMAN, DIRECTOR**

BY: /s/Sarah H. Steindel

Sarah H. Steindel, Esq.

Assistant Deputy Rate Counsel

DATED: October 28, 2022

Gas Tariff Rates Schedule SS-GSMPII-5 (UPDATE)

		Present		Proposed	
		Charge without	Charge Including	Charge without	Charge Including
Rate Schedule	Description	SUT	SUT	SUT	SUT
RSG	Service Charge	\$8.08	\$8.62	\$8.08	\$8.62
	Distribution Charges	\$0.418429	\$0.446150	\$0.429896	\$0.458377
	Balancing Charge	\$0.094435	\$0.100691	\$0.094435	\$0.100691
	Off-Peak Use	\$0.209215	\$0.223075	\$0.214948	\$0.229188
GSG	Service Charge	\$17.99	\$19.18	\$18.58	\$19.81
	Distribution Charge - Pre July 14, 1997	\$0.318585	\$0.339691	\$0.324411	\$0.345903
	Distribution Charge - All Others	\$0.318585	\$0.339691	\$0.324411	\$0.345903
	Balancing Charge	\$0.094435	\$0.100691	\$0.094435	\$0.100691
	Off-Peak Use Dist Charge - Pre July 14, 1997	\$0.159293	\$0.169846	\$0.162206	\$0.172952
	Off-Peak Use Dist Charge - All Others	\$0.159293	\$0.169846	\$0.162206	\$0.172952
LVG	Service Charge	\$159.75	\$170.33	\$164.99	\$175.92
	Demand Charge	\$4.2464	\$4.5277	\$4.3241	\$4.6106
	Distribution Charge 0-1,000 pre July 14, 1997	\$0.037727	\$0.040226	\$0.034950	\$0.037265
	Distribution Charge over 1,000 pre July 14, 1997	\$0.047127	\$0.050249	\$0.048909	\$0.052149
	Distribution Charge 0-1,000 post July 14, 1997	\$0.037727	\$0.040226	\$0.034950	\$0.037265
	Distribution Charge over 1,000 post July 14, 1997	\$0.047127	\$0.050249	\$0.048909	\$0.052149
	Balancing Charge	\$0.094435	0.100691	\$0.094435	\$0.100691
SLG	Single-Mantle Lamp	\$13.2351	\$14.1119	\$13.2351	\$14.1119
	Double-Mantle Lamp, inverted	\$13.2351	\$14.1119	\$13.2351	\$14.1119
	Double Mantle Lamp, upright	\$13.2351	\$14.1119	\$13.2351	\$14.1119
	Triple-Mantle Lamp, prior to January 1, 19933	\$13.2351	\$14.1119	\$13.2351	\$14.1119
	Triple-Mantle Lamp, on and after January 1, 1993	\$67.4762	\$71.9465	\$67.4762	\$71.9465
	Distribution Therm Charge	\$0.051749	\$0.055177	\$0.052817	\$0.056316

Gas Tariff Rates Schedule SS-GSMPII-5 (UPDATE)

		Present		Proposed	
		Charge without	Charge Including	Charge without	Charge Including
Rate Schedule	Description	SUT	SUT	SUT	SUT
TSG-F	Service Charge	\$855.59	\$912.27	\$883.64	\$942.18
	Demand Charge	\$2.1616	\$2.3048	\$2.1786	\$2.3229
	Distribution Charges	\$0.082626	\$0.088100	\$0.083275	\$0.088792
TSG-NF	Service Charge	\$855.59	\$912.27	\$883.64	\$942.18
	Distribution Charge 0-50,000	\$0.095422	\$0.101744	\$0.097384	\$0.103836
	Distribution Charge over 50,000	\$0.095422	\$0.101744	\$0.097384	\$0.103836
	Special Provision (d)	\$1.89	\$2.02	\$1.89	\$2.02
CIG	Service Charge	\$192.13	\$204.86	\$196.33	\$209.34
	Distribution Charge 0-600,000	\$0.085916	\$0.091608	\$0.087742	\$0.093555
	Distribution Charge over 600,000	\$0.075916	\$0.080945	0.077742	\$0.082892
	Special Provision (c) 1st para	\$1.89	\$2.02	\$1.89	\$2.02
BGSS RSG	Commodity Charge including Losses	\$0.611337	\$0.651838	\$0.611268	\$0.651764
CSG	Service Charge	\$855.59	\$912.27	\$883.64	\$942.18
	Distribution Charge - Non-Firm	\$0.095422	\$0.101744	\$0.097384	\$0.103836