

**STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

**In the Matter of the Petition of
Public Service Electric and Gas Company
for Approval of an Increase in Electric and Gas Rates
and for Changes in the Tariffs for Electric and Gas Service,
B.P.U.N.J. No. 14 Electric and B.P.U.N.J No. 14 Gas
Pursuant to N.J.S.A. 48:2-21 and N.J.S.A. 48:2-21.1
and for Approval of a Gas Weather Normalization Clause;
a Pension Expense Tracker and for other Appropriate Relief**

BPU Docket No. _____

DIRECT TESTIMONY

OF

**RALPH A. LaROSSA
PRESIDENT AND CHIEF OPERATING OFFICER**

OF

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

1 **PUBLIC SERVICE ELECTRIC AND GAS COMPANY**

2
3 **DIRECT TESTIMONY**
4 **OF**

5 **RALPH A. LaROSSA**
6 **PRESIDENT AND CHIEF OPERATING OFFICER**
7

8
9 My name is Ralph A. LaRossa. I am the President and Chief Operating
10 Officer of Public Service Electric and Gas Company (PSE&G, Public Service, the
11 Company, Petitioner), a position I have held since October 2006. In this case, I am
12 serving as the Company's overall policy witness. Schedule RL-1 describes my
13 qualifications.

14 Since PSE&G's current electric and gas rates were last reset in November
15 2006, we have continued to provide safe, adequate, proper and reliable service to our
16 customers, as evidenced by the Company's numerous awards for reliability, outstanding
17 customer service and safe operations reflected in this filing. Operational excellence,
18 including continuing and improving our record of safe, adequate, proper and reliable
19 electric and gas delivery, is our number one priority as an electric and gas distribution
20 utility.

21 Notwithstanding PSE&G's outstanding record of service and high levels
22 of customer satisfaction, I am acutely aware that it is difficult to raise rates for customers,
23 especially in a challenging economic environment. However, PSE&G is currently
24 challenged by a variety of factors, and with this filing, PSE&G is seeking to recover the

1 costs needed to maintain its aging infrastructure and continue to provide the safe,
2 adequate, proper and reliable service that the five million New Jersey residents we serve
3 have come to expect.

4 In addition to the need to address infrastructure replacement, there are
5 other factors that are having a significant impact on PSE&G's revenue requirements and
6 on our customers. First, the cost of accessing capital markets has increased and that is
7 making it more expensive for PSE&G to invest in its business. In addition, increased
8 pension contributions, wages, and benefit costs in our labor-intensive business are
9 straining our revenue base.

10 While these urgent priorities are increasing our costs of doing business, we
11 are simultaneously seeing reduction – and anticipating further reductions – in revenue. A
12 major focus of PSE&G is to help New Jersey reach the aggressive goals of the recently-
13 finalized New Jersey Energy Master Plan (EMP) and legislation in support of the EMP,
14 which requires the deployment of significant amounts of energy conservation and energy
15 efficiency measures in order to reduce New Jersey's projected energy use by 20 percent
16 by the year 2020. The increasing emphasis of consumers, regulators, legislators, and
17 state and federal policy-makers on efficiency and conservation is certainly appropriate,
18 particularly in light of the volatile and increasing commodity costs of natural gas and
19 electricity and the environmental costs associated with energy use. Indeed, PSE&G is a
20 leading supporter of these initiatives, as I discuss later in my testimony. However,

1 reductions in energy usage, whether due to higher prices and the general economic
2 slowdown, or due to affirmative actions in support of the EMP, have led and will lead to
3 reduced revenue for PSE&G's electric and gas delivery systems. Absent an increase in
4 the Company's electric and gas base distribution rates, there is a shortfall in the revenue
5 required to pay for and maintain those distribution systems.

6 For these reasons, as detailed below and in the other elements of this filing,
7 PSE&G is seeking the requested rate relief at this time.

8

9 **OVERVIEW OF THIS FILING**

10 In this proceeding, the Company is requesting an increase in its annual
11 electric base rate revenues of \$133.7 million or 1.93%, and an increase in its gas base
12 rate revenues of \$96.9 million or 2.95%, based upon the test period ending December 31,
13 2009, as adjusted. These increases will be sufficient to permit recovery of PSE&G's
14 costs to provide safe, adequate, proper and reliable service and to allow the Company to
15 earn a fair and reasonable return on its investment in its electric and gas utility assets. To
16 support this rate request, the Company is presenting the direct testimony of five
17 Company employees in addition to my testimony, and the direct testimony of one
18 outside witness. The Company's positions will be further detailed in the testimony of the
19 following individuals:

- 1 • Mark G. Kahrer, Vice President – Finance for PSE&G, is the Company’s
2 financial policy and accounting witness. Mr. Kahrer will address the overall need
3 for the relief being sought in this filing, and will discuss the Company’s capital
4 structure; the growth in the Company’s rate base investment; the creation of a
5 weather normalization clause for gas operations to provide for a level of stability
6 of earnings and avoid potential dramatic fluctuations due to the vagaries of
7 weather; changes to the Capital Adjustment Charge (CAC) that was previously
8 approved by the New Jersey Board of Public Utilities (Board or BPU) in
9 connection with the Company’s Capital Economic Stimulus Infrastructure
10 Investment Program; the creation of a pension expense tracker to ensure the
11 proper and timely recovery of the Company’s pension expenses through an
12 annual rate adjustment; and the Company’s revenue requirements based upon
13 electric and gas operating income for the proposed test year ending December 31,
14 2009, and pro-forma adjustments necessary to account for conditions during the
15 twelve-month period of time after new rates are expected to be in effect.
- 16 • David M. Daly, Vice President – Asset Management and Centralized Services,
17 will discuss the Company’s electric distribution business. Mr. Daly will describe
18 the electric distribution service territory and equipment, organizational structure,
19 and staffing; electric distribution capital expenditures and the asset management
20 funding decision-making and prioritization process; the annual operation and

1 maintenance (O&M) expenses associated with electric delivery; and the
2 Company's electric delivery performance.

3 • Jorge L. Cardenas, Vice President – Gas Delivery, will describe the Company's
4 gas business operations. He will discuss the Company's gas service territory, gas
5 distribution pipeline system and supporting facilities; the gas delivery
6 department's organizational structure and staffing; the gas delivery business
7 construction program and the annual O&M expenses associated with gas
8 delivery; and PSE&G's gas delivery employee safety program, operating
9 performance, and customer service.

10 • Dr. Michael J. Vilbert, a Principal of The Brattle Group, will discuss the
11 Company's cost of capital. In addition to analyzing and providing conclusions
12 regarding PSE&G's specific cost of equity capital, Dr. Vilbert will testify
13 regarding the impact of the current economic turmoil on the cost of capital.

14 • Daniel M. Furlong, Assistant Controller, is responsible for the analysis of the
15 Company's cash-working capital requirement, and has prepared the detailed
16 Lead-Lag Study and Asset/Liability Analysis that support that requirement.

17 • Stephen Swetz, Manager – Rates and Regulation, will present the Company's
18 proposed electric and gas rates and their underlying cost studies and analyses.
19 Mr. Swetz's testimony supports the Company's proposed changes to its tariffs
20 for gas and electric service which are designed to recover the revenue

1 requirements for the gas and electric distribution businesses as presented in this
2 filing. His testimony provides the Company's cost analyses used as the bases
3 for development of the new gas and electric rates and other proposed tariff
4 changes, and also addresses the Company's forecast of gas and electric
5 deliveries and customers.

6

7 **OVERVIEW OF PSE&G**

8 PSE&G is one of the largest combined electric and gas companies in the
9 United States, and is also New Jersey's oldest and largest publicly-owned utility.

10 PSE&G provides gas and electric service to approximately 1.7 million gas customers and
11 2.1 million electric customers in more than 300 urban, suburban, and rural communities.

12 The Company's service territory encompasses the most heavily populated,
13 commercialized and industrialized territory in the state, including New Jersey's six
14 largest cities.

15

16 **COST OF DOING BUSINESS -- CAPITAL EXPENSES, INCLUDING CAPITAL**
17 **ECONOMIC STIMULUS INFRASTRUCTURE INVESTMENT (CESI)**
18 **PROGRAM**

19 There is a substantial need for ongoing investment in electric utility
20 infrastructure across the nation, driven in part by new technology, efficiency and
21 environmental requirements. PSE&G is no exception. The Company has a mature

1 service territory with substantial capital infrastructure improvement requirements. As
2 detailed in Mr. Daly's testimony, PSE&G has made and will continue to make
3 substantial capital expenditures in order to, among other things, connect new customers
4 and upgrade existing electric services; permanently replace defective or aging electric
5 delivery equipment; and perform system reinforcement to increase capacity and enhance
6 electric delivery system reliability.

7 Capital needs have also been, and will continue to be, substantial in the gas
8 delivery business. As described in detail by Mr. Cardenas, gas delivery construction
9 investment has been and will continue to be required in order to provide new mains,
10 services and meters; replace and upgrade mains and services to maintain the safety and
11 reliability of the gas delivery system; and enhance peak-shaving plant, metering and
12 regulating, and support facilities.

13 Notwithstanding the pressing need for investment, it is important to
14 recognize that PSE&G had no choice but to move aggressively in response to the sharp
15 downturn in the economy and the liquidity crisis of late 2008. In particular, the
16 Company reduced its capital spending plans for 2009 by roughly \$300 million well
17 before the year had begun. Then, in January 2009, in response to Governor Corzine's
18 proposal to help revive the economy through job growth and capital spending, we
19 announced plans for an additional \$698 million in capital infrastructure investments for
20 electric and gas programs over a 24-month period. Following modification of the

1 Company's original proposal through a collaborative process involving the Company,
2 Board Staff, representatives of the Division of Rate Counsel, and other interested parties,
3 on April 16, 2009, the Board approved a Stipulation of Settlement regarding PSE&G's
4 CESI Program. Under this Settlement, the Company will accelerate investments in
5 energy infrastructure in a manner estimated to create enough additional work to employ
6 more than 900 people over the next two years. As part of the Settlement, the CAC was
7 established for both gas and electric customers, providing for recovery of costs
8 associated with the capital stimulus program.

9 Planned expenditures for the years 2009-2010 and descriptions of the
10 types of capital projects to be undertaken in the electric and gas delivery businesses are
11 set forth in the testimonies of Mr. Daly and Mr. Cardenas, respectively. In addition, Mr.
12 Kahrer, in his testimony, has proposed an adjustment to the electric and gas CACs.

13

14 **COST OF DOING BUSINESS – CUSTOMER SERVICE**

15 PSE&G's Customer Operations has 1,600 employees, of whom over 1,000
16 are frontline bargaining unit associates serving both electric and gas customer needs.
17 Customer Operations consists of two centralized call centers and sixteen business offices
18 or inner city customer service centers (customer service centers) that handle customer
19 inquiries and transactions. These customer service centers are located throughout our

1 service territory, most of them in the urban centers that we serve, to better respond to the
2 needs of our customers and the communities therein.

3 PSE&G's call centers handle any kind of customer call, from the reporting
4 of leaks to billing inquiries, 24 hours a day, seven days a week. Customer Operations
5 engages in over 75 million customer transactions per year, about half of which are
6 related to gas operations and half of which relate to electric operations. This includes
7 over five million annual customer telephone inquiries to the two centralized call centers,
8 processing 2.6 million in-person payments at the 16 customer service centers, over 40
9 million annual meter readings at customers' premises, and over 600,000 credit-related
10 transactions. The customer service centers also provide essential services that help to
11 safely and effectively serve the needs of our customers as well as providing access to
12 customer assistance programs such as Lifeline, NJ Shares, and the Universal Service
13 Fund. Customer Operations is supported by two billing centers and a centralized
14 payment processing center located in South Plainfield.

15 Public Service is also investing to improve customer service. The
16 centerpiece of this effort is a new customer information system with a range of advanced
17 data and communications capabilities.

1 **COST OF DOING BUSINESS – LABOR EXPENSES**

2 Public Service Enterprise Group (PSEG), the Company's parent
3 corporation, was named by Business Week magazine as one of the "Best Places to
4 Launch a Career" because of its focus on workforce development. The Company has
5 a very strong relationship with represented employees, marked by a common drive for a
6 safe, trained and customer-focused workforce. This shared determination to succeed is
7 exemplified by agreements to three-year contract extensions between the Company and
8 its Unions in 2002, and a new six-year agreement in 2005. The Company's use of mid-
9 term agreements and mutual gains have provided a road map to help the Unions compete
10 effectively with contractor labor, thus assuring that our customers are getting the best
11 value while preserving jobs for employees that want to work effectively for our
12 customers.

13 As detailed in Mr. Kahrer's testimony, the Company is requesting
14 recognition of wage increases and associated payroll taxes for bargaining unit employees
15 as provided under the current union contract, and is also requesting modest adjustments
16 for wage increases for MAST employees. As the Board is aware, attracting and retaining
17 skilled employees is crucial to PSE&G's mission.

18 The financial turmoil of the past year has resulted in a substantial increase
19 in the Company's pension expenses, since a significant driver of future pension cost is
20 asset performance, which is subject to market uncertainty. Therefore, as detailed in Mr.

1 Kahrer's testimony, the Company is proposing a pension expense tracker to ensure
2 timely recognition of increases or decreases in pension expenses through annual rate
3 adjustments.

4

5 **RELIABILITY AND QUALITY OF SERVICE**

6 As I previously noted, operational excellence, including continuing and
7 improving our record of safe and reliable electric and gas delivery service, is our number
8 one priority as an electric and gas distribution utility. To sustain operational excellence
9 requires a strong focus on finding ways to do the job better. In part, PSE&G uses a tool
10 called the Balanced Scorecard to define successful operations with a degree of detail that
11 has earned national recognition and helped to improve the Company's performance.

12 The Company uses the Balanced Scorecard approach to evaluate and
13 improve performance with respect to key people, safety, reliability, customer service,
14 financial, and environmental metrics. Balanced Scorecard targets are set based upon a
15 strategy of being "among the very best" (i.e., top decile or top quartile, depending upon
16 the metric) and upon "continuous improvement" for those areas lacking comparable
17 benchmarks or where we are already achieving the targets. These targets are then
18 reflected in employee goals, and become an integral part of performance and
19 compensation reviews.

1 The Balanced Scorecard measurement process allows utility personnel to
2 strive for a set of common goals. The Balanced Scorecard is divided into four
3 quadrants: (1) People, (2) Safe and Reliable, (3) Economic and (4) Green (Energy).
4 This is tied into the PSEG Vision:

5 **PSEG: Being a recognized leader...**

6 **People providing**
7 **Safe, reliable**
8 **Economic and**
9 **Green Energy**

10 The Balanced Scorecard is used to review organizational performance and to gauge how
11 Public Service is performing in providing safe, adequate, proper, reliable and low cost
12 utility services in a manner that is consistent with the State's environmental objectives.
13 Scorecard data is gathered utilizing documented performance measurement procedures
14 and automated queries are utilized to the greatest extent possible to insure accuracy of
15 reporting.

16 There are numerous examples of our success. In 2008, our gas operations
17 group responded to 99.9 percent of gas leak calls within one hour. As in past years, our
18 employees excelled in responding to our customers in all types of weather and
19 conditions. Many New Jersey communities were struck by devastating storms in June
20 2008; our employees restored service to hundreds of thousands of customers safely and
21 quickly. They responded with the same dedication in other restoration efforts.

1 In 2008, PSE&G was named, for the third time in four years, as America's
2 most reliable electric utility and awarded the prestigious National Reliability Excellence
3 Award from the industry benchmarking group PA Consulting Group. This recognition
4 came as a result of PSE&G's significant investments in its delivery system and the
5 constant commitment of PSE&G's skilled personnel. Also in 2008, PSE&G received,
6 for the seventh straight year, PA Consulting's ReliabilityOne Award for the Mid-Atlantic
7 region, in recognition of the Company's solid engineering, innovation, and superior
8 electric system reliability. Public Service also received, in 2008, the Governor's
9 Continued Excellence Award for outstanding safety achievement in New Jersey.

10 PSE&G is also the leader in coordinating a national panel of utility
11 companies which annually produces a Utility Peer Panel Study (Study). The purpose of
12 the Study is to gather information regarding key measures in the electric and gas utility
13 business which can then be used to highlight areas of strength and identify opportunities
14 for improvement. PSE&G has sponsored industry Best Practices meetings for the past
15 three years with over 100 utility companies participating. The 2006 meeting covered
16 New Service Installation Process and Gas Leak Management and Storm Preparedness for
17 Electric Delivery; in 2007, Gas Damage Awareness and Prevention and Poorest
18 Performing Circuits ID and Mitigation for Electric Delivery; and in 2008, Workforce
19 Excellence for both Gas Delivery and Electric Delivery.

1 **CUSTOMER SATISFACTION**

2 Customer satisfaction is one of the most important internal benchmarks we
3 measure in order to determine how successful we are in serving and focusing on our
4 customers' needs and expectations.

5 The Company continually surveys our customers to determine their
6 satisfaction with our overall service, and we also perform "Moment of Truth" surveys
7 immediately after providing a particular service to customers to measure how well
8 individuals and departments are performing in relation to satisfying our customers. The
9 major areas of measurement on our Moment of Truth Survey are telephone service,
10 electric and gas field service, appliance repair, emergency service, and office service. In
11 addition, since our last gas base rate case in 2006, we began surveying builders and
12 developers through our New Business Construction Survey in order to evaluate their
13 level of satisfaction with PSE&G's process and employees. The major areas of
14 measurement on this survey include project initiation, scheduling, construction, service
15 inspection and meter installation.

16 The results of all of these surveys are published quarterly for all employees
17 to see and to use the results as a tool to improve their performance. In 2005, we also
18 added a Constituent Survey to measure the satisfaction level of our key opinion leaders
19 in the community in the areas of community involvement, communications and
20 PSE&G's support of local economies, businesses and government.

1 **PSE&G’S SUPPORT OF STATE POLICIES FAVORING CONSERVATION,**
2 **ENERGY EFFICIENCY, AND INCREASED USE OF RENEWABLES**

3 Climate change is the pre-eminent environmental issue that will define our
4 industry into the future. Consistent with New Jersey policy and statutory requirements,
5 we are pursuing a variety of solutions, including conservation through energy-efficiency
6 improvements, and the development of renewable, non-carbon producing generation
7 sources such as solar. These solutions can result in reduced utilization of PSE&G’s
8 electric and gas delivery infrastructure.

9 For example, in January 2008 PSE&G proposed a Carbon Abatement
10 Program designed to support the goals of the EMP and promote energy efficiency. The
11 Company proposed to invest up to \$46 million over four years in energy efficiency
12 programs across specific customer segments, including household energy audits and
13 energy-saving measures for homes, businesses and hospitals. This program has a strong
14 urban emphasis, reflecting the key role that utilities can play in providing universal
15 access to green energy and green jobs. The program has been approved by the Board
16 and rates associated with the program went into affect on January 1, 2009.

17 In January 2009, as part of our efforts to provide an additional economic
18 stimulus and in direct response to Governor Corzine’s call to invigorate the economy as
19 part of the State’s economic assistance and recovery plan, we proposed a new \$190
20 million investment to improve customer access to the benefits of conservation and to
21 create green jobs. This proposed energy efficiency stimulus initiative is intended to

1 encourage conservation and energy efficiency and to provide energy and money saving
2 measures directly to businesses and families.

3 Turning to the Company's support for renewable energy, in 2008 PSE&G
4 became the first utility to offer a loan program to spur the development of solar energy in
5 New Jersey. This \$105 million pilot program provides financing to expedite 30
6 megawatts of solar energy over two years. Loans are being provided to customers for
7 the installation of solar photovoltaic (PV) systems on their premises. The borrowers can
8 repay the loans over a period of either ten years (for residential customer loans) or fifteen
9 years by providing solar renewable energy certificates. Borrowers will also have the
10 option to repay the loans with cash. The solar loan program is designed to fulfill
11 approximately 50% of the Board's Renewable Portfolio Standard requirements in
12 PSE&G's service area in 2009 and 2010.

13 In February 2009, PSE&G proposed a new \$773 million program to bring
14 the benefits of solar power directly to all of our utility customers. This initiative is
15 intended to develop 120 MW of PV capacity over a five-year horizon, and consists of
16 four segments: a centralized PV system (35 MW); solar systems installed on distribution
17 system poles (40 MW); roof-mounted systems installed on local government buildings in
18 PSE&G's service territory (43 MW); and roof-mounted solar systems installed in New
19 Jersey Housing and Mortgage Finance Agency affordable housing communities (2 MW).

1 **CONCLUSION**

2 PSE&G has not increased electric or gas distribution rates since 2006.
3 Without timely and adequate rate relief, the Company will be financially weakened,
4 impairing its ability to continue to provide the level of safe, adequate, proper and reliable
5 service demanded by current customers and anticipated by future customers, thereby
6 threatening a basic driver of New Jersey's economic well being.

7 I am mindful of the financial burden a rate increase has upon our
8 customers, and, as such, the Company is seeking a modest increase of 1.93% for its
9 electric distribution rates and 2.95% for its gas distribution rates.

10 Public Service has worked and continues to work prudently and diligently
11 to provide safe, adequate, proper, and reliable service at reasonable rates. The rates
12 requested in this Petition provide the Company the financial flexibility needed to
13 accomplish the Company's goals while at the same time enabling it to provide safe,
14 adequate, proper and reliable cost-based utility service to our customers.

15 This concludes my testimony at this time.

1 **PUBLIC SERVICE ELECTRIC AND GAS COMPANY**

2 **PROFESSIONAL QUALIFICATIONS**
3 **OF**
4 **RALPH A. LaROSSA**
5 **PRESIDENT AND CHIEF OPERATING OFFICER**
6

7 In October 2006, I was appointed President and Chief Operating Officer
8 of Public Service Electric and Gas Company (PSE&G). Prior to this position, I was
9 Vice President - Electric Delivery for PSE&G.

10 I joined PSE&G in 1985 as an Associate Engineer and advanced
11 through a variety of management positions in the utility's gas and electric operations.
12 My past positions include Vice President - Delivery Operations Support, Division
13 Manager - Metropolitan Electric Division, Director - Distribution Operations,
14 Manager - Gas Distribution, Project Manager for AWMS (automated work
15 management system), Assistant Division Manager, District Manager and Field
16 Engineer in gas distribution.

17 I am a graduate of Stevens Institute of Technology with a Bachelor of
18 Engineering degree in industrial engineering and have completed the Harvard
19 Business School's Program for Management Development.

20 In 1998, I received Gas Industry Magazine's Outstanding Manager of
21 the Year Award. I am a member of the PJM Designated Officers Committee. I serve

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1 on the Board of Directors for the American Gas Association (AGA), New Jersey
2 Utilities Association (NJUA), Partnership for a Drug-Free NJ, and Bergen County's
3 United Way. I also serve as a Board of Trustee's member for Montclair State
4 University, Newark Alliance, New Jersey Institute for Social Justice, and the Liberty
5 Science Center.