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PSEG Services Corporation

June 15, 2021

VIA ELECTRONIC FILING
Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street
N.E. Washington, DC 20426

Re: Informational Filing
Public Service Electric and Gas Company
Annual Transmission Formula Rate True-Up Adjustment
Docket No. ER09-1257-000

Dear Secretary Bose:

Public Service Electric and Gas Company ("PSE&G" or "Company") hereby submits for informational purposes its annual true-up adjustment ("True-Up Adjustment") for its transmission formula rate in accordance with its Formula Rate Implementation Protocols ("Protocols") set forth in Attachment H-10B of the Open Access Transmission Tariff ("OATT") of PJM Interconnection, L.L.C. ("PJM").[1] Section 1.b of the Protocols requires PSE&G to annually calculate the true-up of its formula rate on or before June 15th and cause it to be posted on the PJM website (www.PJM.com), and filed with the Federal Energy Regulatory Commission (Commission) for informational purposes. In accordance with the Protocols section 1.b, this True-Up Adjustment does not require any Commission action.

This True-Up Adjustment pertains to PSE&G's transmission formula rates in effect for calendar year 2020. In accordance with the Protocols, adjustments from this True-Up Adjustment will be incorporated into the Transmission Formula Rate Annual Update to be filed by PSE&G on or before October 15, 2021 for the 2022 rate year.

PSE&G's True-Up Adjustment filing includes six Attachments (A-F). Attachment A contains a recalculated Appendix A to Attachment H-10A that sets forth PSE&G's

[1] PSE&G's Formula Rate Implementation Protocols were approved by the Commission on September 30, 2008, *Public Service Electric and Gas Company*, 124 FERC ¶ 61,303 (2008), and by *Public Service Electric and Gas Company*, Docket No. ER08-1233-001 (January 13, 2009) (unpublished letter order).

Annual Transmission Revenue Requirement ("ATRR") and Network Integration Transmission Service ("NITS") rate. Attachment B is a report on each transmission project listed in PSE&G's formula rate for which the Commission has authorized PSE&G to include CWIP in transmission rate base, in accordance with section 2.b of the Protocols. Attachment C contains supporting documentation that is being provided consistent with the Commission Staff's Guidance on Formula Rate updates encouraging formula rate transparency.[2] Attachment D shows the derivation of the 2020 Actual Annual PBOP Expense included in the formula rate.[3] Attachment E contains confidential excerpts from PSE&G's annual actuarial valuation report, as of January 1, 2020, supporting the Actual Annual PBOP Expense shown in Attachment D. Attachment F contains additional supporting information pursuant to Commission Staff's Guidance on Formula Rate Updates for the computation of accumulated deferred income taxes ("ADIT").

The cost support in Attachment E contains actuarial report information and data that are both confidential and commercially sensitive. Accordingly, the Company is filing these data under the provisions of 18 C.F.R. § 388.112 (2020) and as such the Company is requesting privileged treatment of the information. The Company has maintained the confidentiality of this data in its confidential actuarial reports, and their public release would divulge commercially sensitive information. A public version of Attachment E is included in the filing and the Confidential version of Attachment E is being provided under the provisions of 18 C.F.R. § 388.112 (2020).

Section 1.i(iii) of the Protocols requires an explanation of any material changes in PSE&G's accounting policies and practices from those in effect for the calendar year upon which the immediately preceding Annual Update was based, as reported in PSE&G's Securities and Exchange Commission Form 10-K. In 2020, PSE&G effectuated the accounting changes explained herein.

1. On January 1, 2020, PSE&G adopted The Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326).* ASU No. 2016-13 adds FASB Accounting Standards Codification, Topic 326, *Measurement of Credit Losses on Financial Instruments,* with the intent to provide financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. ASU No. 2016-13 requires companies to change the method of measuring credit losses, including uncollectible accounts receivable, from an incurred loss basis to a current expected credit loss (CECL) basis. ASU No. 2016-13 is required to be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., a modified-retrospective approach), and was

[2] *See* https://www.ferc.gov/sites/default/files/2020-04/staff-guidance.pdf.

[3] On October 2, 2015, the Federal Energy Regulatory Commission issued a letter order accepting a tariff revision modifying the formula rate PBOP expense to the actual annual PBOP expense. *Public Service Electric and Gas Company*, Docket No. ER15-2397-000.

generally effective January 1, 2020 for accounting and reporting compliance under generally accepted accounting principles ("GAAP").

On May 7, 2020 FERC issued Docket No. AI 20-2-000, "Accounting for Cumulative-Effect Adjustments to Retained Earnings Related to the Implementation of FASB's Accounting Standard on Credit Losses". In paragraph 2 of that Docket, FERC opined that:

> "*Based on the Commission's Uniform System of Accounts, Commission jurisdictional public utilities and licensees, natural gas companies, oil pipeline companies, and centralized service companies recognize expected credit losses on accounts receivable using a reasonable method. The method of measuring expected credit losses under ASU No. 2016-13 is a reasonable methodology and is acceptable for Commission financial accounting and reporting purposes. To the extent a jurisdictional entity determines that a cumulative adjustment to its beginning retained earnings account is necessary to the implementation of ASU No. 2016-13, the entity is authorized to make such an adjustment, and is relieved of the requirement to seek Commission approval to do so. This guidance is for Commission accounting and reporting purposes only and is without prejudice to the ratemaking practice or treatment that should be afforded the items addressed herein.*"

Under this new standard, entities are required to use an estimate of expected credit losses that will be estimated based on past events, current conditions and supportable forecasts over a reasonable period. The most significant impact to PSE&G was the requirement to record an estimated expected credit loss for unbilled customer accounts receivables. Upon adoption, PSE&G recorded an increase of $8 million to its allowance for credit losses, offset by a $6 million increase to Regulatory and Other Assets, and a $2 million cumulative effect charge to Retained Earnings.

2. On January 1, 2020, PSE&G adopted "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract—ASU 2018-15". This accounting standard aligns the capitalization requirements for implementation costs incurred in a hosting arrangement that is a service contract with capitalization requirements for implementation costs incurred to develop or obtain internal-use software, including hosting arrangements that include an internal-use software license. The standard follows the guidance in Accounting Standard Codification 350—Intangibles—Goodwill and Other to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The standard requires the amortization of capitalized costs to be presented in O&M Expense for reporting under GAAP. In addition, the standard also adds presentation requirements for these costs in the statements of cash flows and financial position.

On December 19, 2019, FERC issued Docket No. AI20-1-000, "Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract". As discussed therein, for regulatory accounting and reporting to the Commission, jurisdictional entities will be permitted to capitalize certain implementation costs and to amortize those costs over the term of the associated cloud computing arrangement. However, in capitalizing those costs, jurisdictional entities must adhere to the regulations related to plant construction costs set forth under Part 101, Part 201, and Part 367 of the Commission's regulations. Jurisdictional entities must also follow the guidance provided therein with regards to the accounts they should use to record the capitalized costs and the related amortization expense. Service fees and other non-capital costs for the cloud computing arrangement are generally recorded as an expense.

Adoption of this standard by PSE&G on January 1, 2020 did not have any impact on PSE&G's 2020 financial statements for either GAAP or regulatory reporting purposes.

Section 3 of the Protocols sets forth Annual Review Procedures that permit interested parties to review annual true-up filings. During the course of the review of PSE&G's 2019 True-Up Adjustment filing, PSE&G agreed that a number of corrections should be included in this current True-Up Adjustment, including the following:

- Adjustment to expenses recorded to Account 930.2 to instead be recorded to Account 930.1 ($181,101 ATRR reduction impact);
- Adjustment to remove PSEG Services Corporation charge included in Account 566 ($683 ATRR reduction impact);
- Adjustment to allocations from Public Service Enterprise Group Incorporated to PSE&G of donations, penalties and corporate box seats in Account 930.2 to instead be recorded to Account 426.1 ($588,383 ATRR reduction impact);
- Adjustment related to Account 566 write-off for erroneous interconnection receivables ($191,599 ATRR reduction impact);[4]
- Adjustment to 2018 and 2019 ADIT Account 283 balances for Performance Incentive Plans Accrual ($23,389 ATRR reduction impact);
- Adjustment to 2018 and 2019 ADIT Account 283 balances for Real Estate Taxes ($156,741 ATRR reduction impact);
- Adjustment to 2018 and 2019 ADIT Account 283 balances for Legal Reserves ($7,629 ATRR reduction impact);

[4] PSE&G notes that this adjustment is offset by a $192,717 ATRR under recovery related to 2018 Revenue Credits associated with erroneous interconnection billings.

- Adjustment to remove expenses related to electric distribution mandatory communications expenses from Account 923 ($60,490 ATRR reduction impact);
- Adjustment to remove expenses related to PSEG Services Corporation's permanent tax differences related to the disallowance of meals and entertainment Account 923 ($3,735 ATRR reduction impact).

The sum of these adjustments with interest is reflected as a reduction in cell G60, ATRR based on actual costs included for the previous calendar year, of Attachment 6 of the True-Up Adjustment.

PSE&G is providing this annual True-Up Adjustment to parties identified on the service list in this docket as well as all Interested Parties who have informed PSE&G that they wish to receive such updates. Additionally, PSE&G has provided this true-up to PJM for posting on its website www.PJM.com.

Thank you for your attention to this informational filing. Please contact the undersigned should you have any questions.

Respectfully submitted,

Public Service Electric and Gas Company

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Attachments