



STATE OF NEW JERSEY
Board of Public Utilities
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Trenton, New Jersey 08625-0350
www.nj.gov/bpu

ENERGY

IN THE MATTER OF THE PETITION OF NEW)	DECISION AND ORDER APPROVING
JERSEY NATURAL GAS COMPANY FOR)	INITIAL DECISION AND
THE ANNUAL REVIEW AND REVISION OF)	STIPULATION FOR FINAL RATES
ITS BASIC GAS SUPPLY SERVICE (BGSS))	
AND CONSERVATION INCENTIVE)	DOCKET NO. GR17060588
PROGRAM (CIP) RATES FOR F/Y 2018)	OAL DOCKET NO. PUC 16597-17

Parties of Record:

Andrew K. Dembia, Esq., for New Jersey Natural Gas Company
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

By this Order, the New Jersey Board of Public Utilities ("Board" or "BPU") considers an Initial Decision executed by the Administrative Law Judge ("ALJ") and Stipulation for Final Rates ("Stipulation") executed by New Jersey Natural Gas Company ("NJNG" or "Company"), Board Staff, and the New Jersey Division of Rate Counsel ("Rate Counsel") (collectively, "Parties") intended to resolve the Company's requests related to the above docketed matter.

By Order¹ dated January 6, 2003, the Board directed each of New Jersey's four (4) gas distribution companies ("GDCs") to submit to the Board by June 1 its annual Basic Gas Supply Service ("BGSS") cost filing for the BGSS year beginning October 1. In addition, the January 2003 BGSS Order authorizes each GDC to: a) self-implement up to a five (5) percent BGSS increase effective December 1 of the current year and February 1 of the following year with one (1) month's advance notice to the Board and Rate Counsel; and b) implement a decrease in its BGSS rate at any time during the year upon five (5) days' notice to the Board and Rate Counsel.

¹ In re the Provision of Basic Gas Supply Service Pursuant to the Electric Discount and Energy Act, N.J.S.A. 48:3-49 et seq. – Order Approving BGSS Price Structure, BPU Docket No. GX01050304 (January 6, 2003) ("January 2003 BGSS Order").

2018 BGSS/CIP Petition

In accordance with the January 2003 BGSS Order, on June 1, 2017, the Company filed with the Board its annual BGSS petition ("2018 BGSS/CIP Petition") proposing to increase the current per therm Periodic BGSS rate² from \$0.3654 to \$0.4099 effective October 1, 2017, anticipated to result in an increase of \$20.6 million in annual revenues. The 2018 BGSS/CIP Petition was based on actual data from October 1, 2016 through April 30, 2017 and projected data from May 1, 2017 through September 30, 2018. The Company's proposed modification to the Periodic BGSS rate translated into an annual increase of \$44.50 (4.2%) for a residential heating customer using 1,000 therms.

The Company also proposed to increase its Balancing Charge rate by \$0.0062 per therm, from \$0.0621 to \$0.0683 per therm, to reflect updated costs. Supply imbalances occur when transportation customers use more or less gas than the amount delivered by their third party supplier. The Balancing Charge represents the cost to NJNG's transportation customers for NJNG providing gas from its BGSS portfolio to adjust for transportation customers' over/under consumption. On September 23, 2016, the Board issued an Order approving the August 15, 2015 NJNG Base Rate Case Stipulation in BPU Docket No. GR15111304³ ("2015 Rate Case Stipulation") which provides for the balancing charge to also be applied to sales customers in the appropriate rate classes and the BGSS rate to be reduced by the balancing charge. All Balancing Charge revenues from sales and transportation customers are credited to the BGSS. The Company's proposed modification in the Balancing Charge rate translated into an annual increase of \$6.20 (0.6%) for a residential heating customer using 1,000 therms.

The 2018 BGSS/CIP Petition also sought approval of the following per therm changes to the Company's Conservation Incentive Program ("CIP")⁴ rates to be effective October 1, 2017: Residential Non-Heating ("Group I Residential Non-Heat customers") – a charge of \$0.0076; Residential Heating ("Group II Residential Heat customers") – a charge of \$0.0401; Small General Service ("Group III Small Commercial customers") – a charge of \$0.0302; and Large General Service ("Group IV Large Commercial customers") – a charge of \$0.0308.

According to the 2018 BGSS/CIP Petition, the non-weather related CIP value subject to the tests⁵ is \$0.972 million. As this amount was less than the variable margin recovery cap of

² All rates quoted include sales and use tax ("SUT") unless otherwise specified.

³ In re the Petition of New Jersey Natural Gas Company for Approval of an Increase in Gas Base Rates and for Changes in its Tariff for Gas Service, Approval of Safe Program Extension, and Approval of Safe Extension and NJ RISE Rate Recovery Mechanisms Pursuant to N.J.S.A. 48:2-21, 48:2-21.1 and for Changes to Depreciation Rates for Gas Property Pursuant to N.J.S.A. 48:2-18, BPU Docket No. GR15111304 (September 23, 2016.)

⁴ The CIP was approved by the Board in Docket No. GR05120120 IN Board Orders dated October 12 and December 12, 2006. By Order dated May 21, 2014 in Docket No. GR13030185, the Board authorized NJNG to continue its CIP. The CIP encourages the Company to foster customer conservation by allowing it to recover margins associated with a defined use per customer. The non-weather related CIP surcharges are subject to tests associated with variable margins and reductions in BGSS related costs. Total CIP surcharges are subject to return on equity limits.

⁵ Pursuant to the Board's May 21, 2014 Order in Docket No. GR13030185, recovery of any non-weather related CIP surcharges are subject to a BGSS Savings Test, under which the Company must have BGSS savings of at least 75 percent of the non-weather related margin deficiency, and a Variable Margin Test under which the non-weather related margin deficiency must be less than or equal to 6.5 percent of aggregate variable margins.

\$14.988 million and the Company-identified BGSS related reductions of \$13.407 million, the Company maintains that it has met the tests. In addition, as the Company's estimated return on equity at September 30, 2017 of 8.58% was less than the 9.75% ceiling, the Company looks to pass through to customers the combined weather and non-weather margin CIP shortfall of \$21.0 million. The Company's proposed modification to its CIP rates translated into an annual decrease of \$16.10 (1.5%) for a residential heating customer using 1,000 therms.

The net impact of the Company's BGSS, Balancing Charge, and CIP proposed rates would be a net annual increase of \$34.60 (3.3%) for a residential heating customer using 1,000 therms.

After publication of notice in newspapers of general circulation in the Company's service territory, public hearings in this matter were conducted on September 5, 2017 in Freehold Township and September 7, 2017 in Rockaway Township. No members of the public appeared at any of the public hearings, and no written comments were received by the Board, the Company or Rate Counsel.

On September 22, 2017, the Board issued an Order ("September 2017 Provisional Order") in this docket approving a stipulation for provisional rates executed by the Parties. The September 2017 Provisional Order authorized NJNG to implement the proposed Balancing Charge and CIP rates, as well as maintain the current Periodic BGSS rate on a provisional basis. As a result of the September 2017 Provisional Order, a typical residential heating customer using 1,000 therms annually experienced an annual decrease in their bill of \$9.90 or 0.9%.

On September 26, 2017 the Secretary of the Board issued a letter under Docket No. ER17090984 to all New Jersey electric and gas utilities, pursuant to P.L. 2016, c. 57, stating that the Sales and Use Tax ("SUT") to be charged to customers for utility service has been changed from 6.875 percent to 6.625 percent effective January 1, 2018. Accordingly, NJNG implemented the 6.625 percent SUT rate as of January 1, 2018, making the necessary changes to all rates and tariffs to reflect that decrease.

On November 7, 2017, this matter was transferred to the Office of Administrative Law as a contested case and assigned to ALJ Jacob S. Gertsman.

STIPULATION

Following discovery, the Parties met to discuss the issues in this matter. As a result, on March 2, 2018, the Parties executed the Stipulation, which provides for the following⁶:

14. The Parties agree that the previously approved provisional rates, as described in paragraphs eight (8), nine (9), and eleven (11) of the Stipulation, should be deemed by ALJ Gertsman and the Board to be final rates. Those rates, effective October 1, 2017 through December 31, 2017 are: 1) the Company's Periodic BGSS rate of \$0.3654; 2) the Company's balancing charge of \$0.0683; and 3) the following CIP rates: a charge of \$0.0076 for Group I Residential Non-Heat customers; a charge of \$0.0401 for Group II Residential Heat customers; a charge of \$0.0302 for Group III Small Commercial customers; and a charge of \$0.0308 for Group IV Large Commercial customers. Those rates reflecting the

⁶ Although summarized in this Order, the detailed terms of the Stipulation are controlling, subject to the findings and conclusions of this Order. Each paragraph is numbered to coincide with the paragraphs in the Stipulation.

SUT change effective on and after January 1, 2018 are: 1) the Company's Periodic BGSS rate of \$0.3646; 2) the Company's balancing charge of \$0.0681; and 3) the following CIP rates: a charge of \$0.0076 for Group I Residential Non-Heat customers; a charge of \$0.0400 for Group II Residential Heat customers; a charge of \$0.0302 for Group III Small Commercial customers; and a charge of \$0.0307 for Group IV Large Commercial customers. As a result of the Stipulation, the provisional rates included in the Stipulation will be final and remain in effect until further Board Order or further action by the Company in accordance with the January 2003 BGSS Order.

15. The Parties reserve their rights to fully litigate the following issue in the Company's next BGSS/CIP Annual Rate filing: Whether the Company's decision to enter into an asset management agreement with New Jersey Resources Energy Services, an affiliate of NJNG, to permanently release 40,000 Dth/day of Texas Eastern transportation capacity under contract 910230 and 40,000 Dth/day of Texas Eastern transportation capacity under contract 910240, was more beneficial to customers than other available alternatives. As part of its next BGSS/CIP annual filing, the Parties agree that the Company will provide prefiled testimony and supporting documentation addressing the foregoing issue. The prefiled testimony will include a cost benefit analysis of the transaction and discuss how NJNG's design day reserve changes associated with the addition of transportation capacity on the Transco Garden State Expansion affected its decision to enter into the transaction. NJNG will also address how the permanent capacity release affects the calculation of the Capacity Release incentive.
16. Specifically regarding the Company's BGSS Incentive Programs, the Parties reserve their rights to fully litigate the following issue in the Company's next BGSS/CIP Annual Rate filing:
 - a. Whether the following types of transactions currently included in the Company's Capacity Release Program in accordance with Board-approved stipulations in Docket Nos. GR12060472 and GR15030392 should continue to be included in the Company's Capacity Release programs: (i) capacity management transactions with counterparties where NJNG receives a reservation charge for the release of capacity to a counterparty; (ii) supply transactions with counterparties where NJNG receives a reservation charge for the commitment to purchase supply from a counterparty; and (iii) restructuring, including termination, of capacity with various pipeline and storage providers to update NJNG's assets with the value of the reduction being included in the Capacity Release sharing mechanism; and,
 - b. If such transactions are included, the methodology to be utilized to calculate the BGSS customer savings subject to sharing.

As part of its next BGSS/CIP annual filing, the Parties agree that the Company will also provide prefiled testimony and supporting documentation addressing the foregoing issues. The Parties further agree that the Company will also prefile confidential testimony and supporting confidential documentation for the demonstration of the actual and expected future net savings realized by BGSS

customers as a result of NJNG's July 12, 2017 supply transaction confirmation with a producer as described in Confidential Discovery Response RCR-POL-10 in the instant case. The NJNG prefiled confidential testimony will also address the market value of natural gas at the transaction supply points compared to the TETCO M3 index price.

On March 15, 2018, ALJ Gertsman issued his Initial Decision finding that the Parties voluntarily agreed to the terms of the Stipulation, and that the Stipulation disposed of all matters in controversy and is consistent with the law.

DISCUSSION AND FINDING

Having reviewed the record in this matter, including ALJ Gertsman's Initial Decision and the Stipulation, the Board **FINDS** that the Parties have voluntarily agreed to the Stipulation, and that the Stipulation fully disposes of all issues in this proceeding and is consistent with the law. The Board **FINDS** the Initial Decision, which adopts the Stipulation, to be reasonable, in the public interest, and in accordance with the law. Therefore, the Board **HEREBY ADOPTS** the Initial Decision and the Stipulation, attached hereto as its own, incorporating by reference the terms and conditions of the Stipulation, as if they were fully set forth at length herein.

The Board **HEREBY APPROVES** as final the Company's previously approved after-tax per therm rates as described in Paragraph 14 of the Stipulation. Those rates, effective October 1, 2017 through December 31, 2017 are: 1) the Company's Periodic BGSS rate of \$0.3654; 2) the Company's balancing charge of \$0.0683; and 3) the following CIP rates: a charge of \$0.0076 for Group I Residential Non-Heat customers; a charge of \$0.0401 for Group II Residential Heat customers; a charge of \$0.0302 for Group III Small Commercial customers; and a charge of \$0.0308 for Group IV Large Commercial customers.

The above rates, inclusive of the SUT change effective on and after January 1, 2018 are: 1) the Company's Periodic BGSS rate of \$0.3646; 2) the Company's balancing charge of \$0.0681; and 3) the following CIP rates: a charge of \$0.0076 for Group I Residential Non-Heat customers; a charge of \$0.0400 for Group II Residential Heat customers; a charge of \$0.0302 for Group III Small Commercial customers; and a charge of \$0.0307 for Group IV Large Commercial customers.

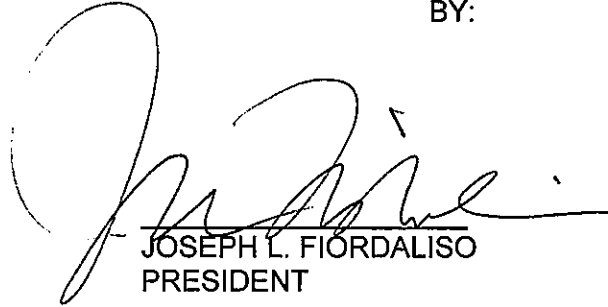
The Board **HEREBY DIRECTS** NJNG to file tariffs consistent with the Board's Order within five (5) days of service of this Order.

The Company's costs, including those related to BGSS, 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.

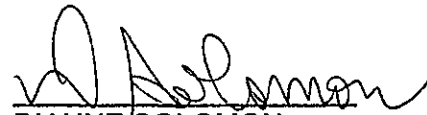
The effective date of this Order is April 5, 2018.

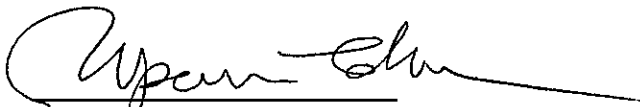
DATED: 3/26/18

BOARD OF PUBLIC UTILITIES
BY:

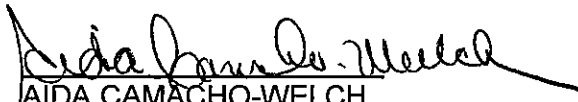

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COMMISSIONER


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COMMISSIONER


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COMMISSIONER

ATTEST: 
AIDA CAMACHO-WELCH
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 NEW JERSEY NATURAL GAS COMPANY FOR THE
ANNUAL REVIEW AND REVISION OF ITS BASIC GAS SUPPLY SERVICE (BGSS) AND
CONSERVATION INCENTIVE PROGRAM (CIP) RATES FOR F/Y 2018
BPU DOCKET NO. GR17060588
OAL DOCKET NO. PUC 16597-17

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March 5, 2018

VIA FEDERAL EXPRESS, FACSIMILE and ELECTRONIC MAIL

Honorable Jacob Gertsman
Administrative Law Judge
Office of Administrative Law
P.O. Box 049
Trenton, NJ 08625-0049

Re: IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL
GAS COMPANY FOR THE ANNUAL REVIEW AND REVISION OF
ITS BASIC GAS SUPPLY SERVICE (BGSS) AND CONSERVATION
INCENTIVE PROGRAM (CIP) RATES FOR F/Y 2018
BPU DOCKET NO. GR17060588
OAL DOCKET NO. PUC 16597-2017

Dear Judge Gertsman:

Enclosed with this letter is a fully executed Stipulation of Settlement ("Stipulation") in the above captioned matter. The parties respectfully request that you issue an Initial Decision approving the Stipulation at your earliest convenience.

Please do not hesitate to contact me at 732-938-1073 if you need any additional information.

Respectfully submitted,

A handwritten signature in black ink that reads 'Andrew K. Dembia'.

Andrew K. Dembia
Regulatory Affairs Counsel

AKD:fk

C: Service List (electronically only)

**NEW JERSEY NATURAL GAS COMPANY
ANNUAL REVIEW AND REVISION OF ITS
BASIC GAS SUPPLY SERVICE (BGSS) AND
CONSERVATION INCENTIVE PROGRAM (CIP)
RATES FOR F/Y 2018
DOCKET NO. GR17060588**

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**NEW JERSEY NATURAL GAS COMPANY
ANNUAL REVIEW AND REVISION OF ITS
BASIC GAS SUPPLY SERVICE (BGSS) AND
CONSERVATION INCENTIVE PROGRAM (CIP)
RATES FOR F/Y 2018
DOCKET NO. GR17060588**

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

**IN THE MATTER OF THE PETITION OF)
NEW JERSEY NATURAL GAS COMPANY)
FOR THE ANNUAL REVIEW AND) BPU DOCKET NO. GR17060588
REVISION OF ITS BASIC GAS SUPPLY)
SERVICE (BGSS) AND ITS)
CONSERVATION INCENTIVE PROGRAM)
(CIP) RATES FOR F/Y 2018)**

STIPULATION FOR FINAL RATES

APPEARANCES:

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Felicia Thomas-Friel, Deputy Rate Counsel, Maura Caroselli, Esq. and Sarah Steindel, Esq., Assistant Deputy Rate Counsels, New Jersey Division of Rate Counsel (Stefanie Brand, Esq., Director)

Alex Moreau and Renee Greenberg, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (Gurbir S. Grewal, Attorney General of New Jersey)

**TO: THE HONORABLE JACOB S. GERSTMAN, ADMINISTRATIVE LAW
JUDGE AND
THE NEW JERSEY BOARD OF PUBLIC UTILITIES**

BACKGROUND

1. New Jersey Natural Gas Company (“NJNG” or “Company”) filed a petition in Docket No. GR17060588 on June 1, 2017 (“2018 Annual Filing”), requesting that the New Jersey Board of Public Utilities (“BPU” or “Board”) approve NJNG’s 2018 Annual Filing to: 1) increase the Company’s Periodic Basic Gas Supply Service (“BGSS”) effective October 1, 2017; 2) approve an increase to the Company’s Balancing Charge effective October 1, 2017; and 3) approve decreases to the Company’s Conservation Incentive Program (“CIP”) recovery rates for Group I

Residential Non-Heat customers, Group II Residential Heat customers, Group III General Service – Small customers, and Group IV General Service – Large customers effective October 1, 2017.

2. Specifically, the 2018 Annual Filing requested that the BPU increase the existing per therm after-tax Periodic BGSS rate of \$0.3654 that is applicable to residential and small commercial customers subject to the Periodic BGSS Pricing Mechanism to \$0.4099 per therm. As requested by Board Staff, NJNG's filing reflected market conditions as of May 10, 2017 and was based on a one-year BGSS recovery period. The requested change results in an overall increase of after-tax revenue of approximately \$20.6 million to the current estimated annual BGSS revenue of \$169.0 million.

3. The 2018 Annual Filing also requested a \$0.0062 per therm increase to the NJNG after-tax balancing charge, thereby increasing it from \$0.0621 to \$0.0683. As approved by the Board on September 23, 2016 in BPU Docket No. GR15111304 ("Base Case Order"), NJNG is to adjust its Balancing Charge in the annual BGSS filing to reflect updated pipeline demand charges, credit adjustments and the percentage of peak day volume related to balancing associated with the pipeline demand portion of the Balancing Charge. The Base Case Order also provides for the inventory portion of the Balancing Charge to be updated in a base rate case. The Balancing Charge is a component of the delivery charge for certain sales and transportation customers and all Balancing Charge revenues are credited to BGSS. The requested change results in an overall increase of after-tax revenue of approximately \$4.0 million to the current estimated annual Balancing Charge revenue of \$40.0 million.

4. Within the 2018 Annual Filing, as authorized by the Board in Docket Nos. GR05121020 and GR13030185, the Company also submitted its annual CIP rate filing for CIP year 2018, October 1, 2017 through September 30, 2018, requesting that the BPU approve the

implementation of updated CIP factors effective October 1, 2017. The requested changes result in an overall decrease of after-tax revenue of approximately \$17.3 million to the current estimated annual CIP revenue of \$41.4 million. Specifically, the Company is seeking approval for the following changes to its after-tax per therm CIP factors: 1) a \$0.0150 decrease to the current rate of \$0.0226 for Group I Residential Non-Heat customers resulting in the proposed rate of \$0.0076; 2) a \$0.0161 decrease to the current rate of \$0.0562 resulting in the proposed rate of \$0.0401 for Group II Residential Heat customers; 3) a decrease of \$0.0697 to the current rate of \$0.0999 for Group III Small Commercial customers resulting in the proposed rate of \$0.0302; and 4) a decrease of \$0.0525 to the current rate of \$0.0833 resulting in the proposed rate of \$0.0308 for Group IV Large Commercial customers, all effective as of October 1, 2017.

5. Pursuant to the Board's May 21, 2014 Order in Docket No. GR13030185, recovery of any non-weather related CIP surcharges are subject to a BGSS Savings Test under which the Company must have BGSS savings of at least 75 percent of the non-weather related margin deficiency and a Variable Margin Test under which the non-weather related margin deficiency must be less than or equal to 6.5 percent of aggregate variable margins. The Company reported total estimated CIP related margin credit for CIP year 2017, October 1, 2016 through September 30, 2017, of approximately \$21.0 million with \$20.027 million margin credit related to weather and \$0.972 million related to non-weather factors. The amount of the BGSS Savings required to meet the BGSS Savings test is 75 percent of the non-weather change or \$0.729 million. Under the Variable Margin Test, the recovery limitation is \$15.0 million based on the aggregate variable margins reported by the Company. The Company has identified approximately \$13.4 million in BGSS savings available to offset non-weather related CIP margin deficiency and charges for the October 2017 through September 2018 recovery period. Since the non-weather related CIP margin

deficiency is less than the BGSS Savings and the Variable Margin Test recovery limitation, the Company has met both tests based on the information and representations contained in the Company's filing. The Company also provided testimony that the margin deficiency will not result in a return on equity in excess of 9.75 percent.

6. Modifying the BGSS, Balancing Charge, and CIP rates will result in a requested overall increase of approximately \$3.46 per month, or 3.3 percent, to the average residential heating customer (Group II) using 100 therms per month. The impact to the average residential non-heat customer (Group I) using 25 therms per month from these requested rate changes will be an increase of 2.8 percent per month, and to the average small commercial customer (Group III) using 100 therms a month will be a decrease of 1.5 percent per month. Since the BGSS change does not impact larger commercial customers to whom the monthly BGSS is applicable, the impact of the Balancing Charge and CIP rate changes will result in a 4.5 percent decrease to the average large commercial customer (Group IV) using 1200 therms a month. The above BGSS, Balancing Charge and CIP rate changes result in an increase in annual after-tax revenues to NJNG of approximately \$7.3 million.

7. After publication of notice in newspapers of general circulation in NJNG's service territory, public hearings were scheduled and conducted on September 5, 2017 in Freehold Township and on September 7, 2017 in Rockaway Borough. No members of the public appeared at either hearing nor were any written comments received by the BPU, NJNG or the New Jersey Division of Rate Counsel ("Rate Counsel").

8. NJNG, Board Staff, and Rate Counsel (collectively, the "Parties"), the only Parties to this proceeding, have discussed certain matters at issue in this proceeding and determined that additional time was needed to complete the review of NJNG's proposed BGSS, Balancing Charge,

and CIP rates. The Parties also agreed that, in order to reflect the decrease in costs in the natural gas market since the original filing date in June 2017, the existing Periodic BGSS rate of \$0.3654 per therm after-tax be should be maintained and the original requested increase to the Periodic BGSS rate should not be implemented. However, the Parties have agreed that the implementation of the increase to the Company's Balancing Charge and the decreases to the CIP rates, on a provisional basis would be reasonable and accordingly executed a Stipulation for provisional rates.

9. On September 22, 2017, the Board issued an Order ("September 2017 Order") in this proceeding approving the Stipulation and authorizing the Company to: 1) maintain the Company's existing periodic BGSS rate of \$0.3654 per therm after-tax; 2) increase the Company's balancing charge to \$0.0683 per therm after tax; and 3) adjust the following CIP rates all on an after-tax basis to: \$0.0076 per therm for Group I Residential Non-Heat customers; \$0.0401 per therm for Group II Residential Heat customers; \$0.0302 per therm for Group III General Service – Small customers; and, \$0.0308 per therm for Group IV General Service – Large customers. Those rates, effective October 1, 2017, were subject to refund with interest, with an opportunity for a full review at the Office of Administrative Law ("OAL"), if necessary, and final approval by the Board.

10. On November 7, 2017, this matter was transmitted to the OAL as a contested case and was assigned to the Honorable Jacob S. Gertsman, Administrative Law Judge ("ALJ"). A telephonic pre-hearing conference was held on December 6, 2017. ALJ Gertsman issued a Prehearing Order dated December 19, 2017 establishing the procedural schedule.

11. Pursuant to P.L. 2016, c. 57, the New Jersey Sales and Use Tax ("SUT") to be charged to customers for utility service has been changed from 6.875 percent to 6.625 percent effective January 1, 2018. All sales on and after the effective date are to have the new rate applied.

Accordingly, NJNG has implemented the 6.625 percent SUT rate as of January 1, 2018, making the necessary changes to all of our rates and tariffs to reflect that decrease.

12. NJNG has received and responded to all discovery requests that have been propounded in this proceeding by BPU Staff and Rate Counsel.

13. The Parties have discussed this matter and now hereby **STIPULATE AND AGREE** as follows:

STIPULATED ISSUES

14. The Parties agree that the previously approved provisional rates, as described above in Paragraphs 8, 9, and 11 should be deemed by Your Honor and the Board to be final rates. Those rates, effective October 1, 2017 through December 31, 2017 are: 1) the Company's periodic BGSS rate to \$0.3654 per therm after-tax; 2) the Company's Balancing Charge rate to \$0.0683 per therm after-tax; and 3) the following CIP rates all on an after-tax basis: a charge of \$0.0076 per therm for Group I Residential Non-Heat customers; a charge of \$0.0401 per therm for Group II Residential Heat customers; a charge of \$0.0302 per therm for Group III Small Commercial customers; and a charge of \$0.0308 per therm for Group IV Large Commercial customers. Those rates reflecting the SUT change effective on and after January 1, 2018 are: 1) the Company's Periodic BGSS rate of \$0.3646 per therm after-tax; 2) the Company's balancing charge of \$0.0681 per therm after tax; and 3) the following CIP rates all on an after-tax basis: a rate of \$0.0076 per therm for Group I Residential Non-Heat customers; a rate of \$0.0400 per therm for Group II Residential Heat customers; a rate of \$0.0302 per therm for Group III Small Commercial customers; and a rate of \$0.0307 per therm for Group IV Large Commercial customers. As a

result of this Stipulation, the provisional rates included in this paragraph will be final and remain in effect until further Board Order or further action by the Company in accordance with the Generic Order.

15. The Parties reserve their rights to fully litigate the following issue in the Company's next BGSS/CIP Annual Rate filing: Whether the Company's decision to enter into an asset management agreement with New Jersey Resources Energy Services, an affiliate of NJNG, to permanently release 40,000 Dth/day of Texas Eastern transportation capacity under contract 910230 and 40,000 Dth/day of Texas Eastern transportation capacity under contract 910240, was more beneficial to customers than other available alternatives. As part of its next BGSS/CIP annual filing, the Company will provide prefiled testimony and supporting documentation addressing the foregoing issue. The prefiled testimony will include a cost benefit analysis of the transaction and discuss how NJNG's design day reserve changes associated with the addition of transportation capacity on the Transco Garden State Expansion affected its decision to enter into the transaction. NJNG will also address how the permanent capacity release affects the calculation of the Capacity Release incentive.

16. Specifically regarding the Company's BGSS Incentive Programs, the parties reserve their rights to fully litigate the following issue in the Company's next BGSS/CIP Annual Rate filing:

- a. Whether the following types of transactions currently included in the Company's Capacity Release Program in accordance with Board-approved Stipulations in Docket Nos. GR12060472 and GR15030392 should continue to be included in the Company's Capacity Release programs: (i) capacity management transactions


- with counterparties where NJNG receives a reservation charge for the release of capacity to a counterparty, (ii) supply transactions with counterparties where NJNG receives a reservation charge for the commitment to purchase supply from a counterparty; and (ii) restructuring, including termination, of capacity with various pipeline and storage providers to update NJNG's assets with the value of the reduction being included in the Capacity Release sharing mechanism; and,
- b. If such transactions are included, the methodology to be utilized to calculate the BGSS customer savings subject to sharing.

As part of its next BGSS/CIP annual filing, the Company will also provide prefiled testimony and supporting documentation addressing the foregoing issues. The Company will also prefile confidential testimony and supporting confidential documentation for the demonstration of the actual and expected future net savings realized by BGSS customers as a result of NJNG's July 12, 2017 supply transaction confirmation with a producer as described in confidential discovery response RCR-POL-10. The NJNG prefiled confidential testimony will also address the market value of natural gas at the transaction supply points compared to the TETCO M3 index price.

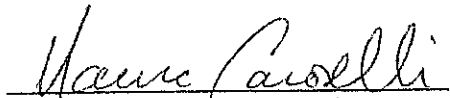
17. This Stipulation represents a mutual balancing of interests, contains interdependent provisions, and, therefore, is intended to be accepted and approved in its entirety. In the event any particular aspect of this Stipulation is not accepted and approved in its entirety by the Board, any Party aggrieved 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, 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.

WHEREFORE, the Parties hereto do respectfully submit this Stipulation and request that the Your Honor issue an Initial Decision and that the Board issue an Order approving it in its entirety, in accordance with the terms hereof.

**NEW JERSEY NATURAL GAS
PETITIONER**

By: 
ANDREW K. DEMBIA, ESQ.
New Jersey Natural Gas

**STEFANIE BRAND, ESQ., DIRECTOR
NEW JERSEY DIVISION OF RATE COUNSEL**

By: 
MAURA CAROSELLI, ESQ.
ASSISTANT DEPUTY RATE COUNSEL

**GURBIR S. GREWAL
ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the Board of Public Utilities**

By: 
ALEX MOREAU
DEPUTY ATTORNEY GENERAL

Date: March 1, 2018

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CASE M



State of New Jersey
OFFICE OF ADMINISTRATIVE LAW

MAR 19 2018

BOARD OF PUBLIC UTILITIES
TRENTON, NJ

INITIAL DECISION

SETTLEMENT

OAL DKT. NO. PUC 16597-17

AGENCY DKT. NO. GR17060588

**IN THE MATTER OF THE PETITION OF
NEW JERSEY NATURAL GAS COMPANY'S
ANNUAL REVIEW AND REVISION OF ITS
BASIC GAS SUPPLY SERVICE (BGSS)
AND CONSERVATION INCENTIVE PROGRAM
(CIP) FACTORS FOR FISCAL YEAR 2018.**

Andrew K. Dembia, Regulatory Affairs Counsel, for petitioner New Jersey Natural Gas Company

Alex Moreau and Renee Greenberg, Deputy Attorneys General, for Staff of the Board of Public Utilities (Gurbir S. Grewal, Attorney General of New Jersey, attorney)

Maura Caroselli and Sarah H. Steindel, Assistant Deputies Rate Counsel, for Division of Rate Counsel (Stefanie A. Brand, Director)

Record Closed: March 6, 2018

Decided: March 15, 2018

BEFORE JACOB S. GERTSMAN, ALJ:

This proceeding involves a petition filed on June 1, 2017, by New Jersey Natural Gas Company (Company) for its annual filing for Basic Gas Supply Service (BGSS) and the

OAL DKT. NO. PUC 16597-17

Company's related request to increase the BGSS rate applicable to residential and certain small commercial customers effective October 1, 2017, pursuant to N.J.S.A. 48:2-21.

The petition was transmitted to the Office of Administrative Law (OAL) on November 8, 2017, for determination as a contested case, and assigned to the undersigned, who conducted the initial case management conference on December 6, 2017. Duly-noticed public hearings were held prior to the transmittal to the OAL, on September 5, 2017, in Freehold, New Jersey and on September 7, 2017, in Rockaway, New Jersey. No members of the public appeared at either hearing.

The parties filed on March 6, 2018, a Stipulation of Settlement (J-1) which resolves all issues in this proceeding. Said Stipulation of Settlement has been signed by petitioner, Staff of the Board of Public Utilities, and Division of Rate Counsel. It indicates the terms of settlement, and is attached and fully incorporated herein.

I have reviewed the terms of settlement and I **FIND:**

1. The parties have voluntarily agreed to the settlement as evidenced by their signatures or their representatives' signatures on the attached document.
2. The settlement fully disposes of all issues in controversy between the parties and is consistent with the law.

I hereby **FILE** my initial decision with the **BOARD OF PUBLIC UTILITIES** for consideration.

This recommended decision may be adopted, modified or rejected by the **BOARD OF PUBLIC UTILITIES**, which by law is authorized to make a final decision in this matter. If the Board of Public Utilities does not adopt, modify or reject this decision within forty-five days

OAL DKT. NO. PUC 16597-17

and unless such time limit is otherwise extended, this recommended decision shall become a final decision in accordance with N.J.S.A. 52:14B-10.

March 15, 2018

DATE



JACOB S. GERTSMAN, ALJ

Date Received at Agency:

3/16/18

Date Mailed to Parties:

JSG/nd

APPENDIX

EXHIBITS

Jointly Submitted

J-1 Stipulation of Settlement

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STATE OF NEW JERSEY
OFFICE OF ADMIN LAW

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

**IN THE MATTER OF THE PETITION OF)
NEW JERSEY NATURAL GAS COMPANY)
FOR THE ANNUAL REVIEW AND)
REVISION OF ITS BASIC GAS SUPPLY)
SERVICE (BGSS) AND ITS)
CONSERVATION INCENTIVE PROGRAM)
(CIP) RATES FOR F/Y 2018)**

BPU DOCKET NO. GR17060588

STIPULATION FOR FINAL RATES

APPEARANCES:

Andrew Dembia, Esq., New Jersey Natural Gas Company for the Petitioner, New Jersey Natural Gas Company

Felicia Thomas-Friel, Deputy Rate Counsel, Maura Caroselli, Esq. and Sarah Steindel, Esq., Assistant Deputy Rate Counsels, New Jersey Division of Rate Counsel (Stefanie Brand, Esq., Director)

Alex Moreau and Renee Greenberg, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (Gurbir S. Grewal, Attorney General of New Jersey)

**TO: THE HONORABLE JACOB S. GERSTMAN, ADMINISTRATIVE LAW
JUDGE AND
THE NEW JERSEY BOARD OF PUBLIC UTILITIES**

BACKGROUND

1. New Jersey Natural Gas Company ("NJNG" or "Company") filed a petition in Docket No. GR17060588 on June 1, 2017 ("2018 Annual Filing"), requesting that the New Jersey Board of Public Utilities ("BPU" or "Board") approve NJNG's 2018 Annual Filing to: 1) increase the Company's Periodic Basic Gas Supply Service ("BGSS") effective October 1, 2017; 2) approve an increase to the Company's Balancing Charge effective October 1, 2017; and 3) approve decreases to the Company's Conservation Incentive Program ("CIP") recovery rates for Group I

Residential Non-Heat customers, Group II Residential Heat customers, Group III General Service – Small customers, and Group IV General Service – Large customers effective October 1, 2017.

2. Specifically, the 2018 Annual Filing requested that the BPU increase the existing per therm after-tax Periodic BGSS rate of \$0.3654 that is applicable to residential and small commercial customers subject to the Periodic BGSS Pricing Mechanism to \$0.4099 per therm. As requested by Board Staff, NJNG's filing reflected market conditions as of May 10, 2017 and was based on a one-year BGSS recovery period. The requested change results in an overall increase of after-tax revenue of approximately \$20.6 million to the current estimated annual BGSS revenue of \$169.0 million.

3. The 2018 Annual Filing also requested a \$0.0062 per therm increase to the NJNG after-tax balancing charge, thereby increasing it from \$0.0621 to \$0.0683. As approved by the Board on September 23, 2016 in BPU Docket No. GR15111304 ("Base Case Order"), NJNG is to adjust its Balancing Charge in the annual BGSS filing to reflect updated pipeline demand charges, credit adjustments and the percentage of peak day volume related to balancing associated with the pipeline demand portion of the Balancing Charge. The Base Case Order also provides for the inventory portion of the Balancing Charge to be updated in a base rate case. The Balancing Charge is a component of the delivery charge for certain sales and transportation customers and all Balancing Charge revenues are credited to BGSS. The requested change results in an overall increase of after-tax revenue of approximately \$4.0 million to the current estimated annual Balancing Charge revenue of \$40.0 million.

4. Within the 2018 Annual Filing, as authorized by the Board in Docket Nos. GR05121020 and GR13030185, the Company also submitted its annual CIP rate filing for CIP year 2018, October 1, 2017 through September 30, 2018, requesting that the BPU approve the

implementation of updated CIP factors effective October 1, 2017. The requested changes result in an overall decrease of after-tax revenue of approximately \$17.3 million to the current estimated annual CIP revenue of \$41.4 million. Specifically, the Company is seeking approval for the following changes to its after-tax per therm CIP factors: 1) a \$0.0150 decrease to the current rate of \$0.0226 for Group I Residential Non-Heat customers resulting in the proposed rate of \$0.0076; 2) a \$0.0161 decrease to the current rate of \$0.0562 resulting in the proposed rate of \$0.0401 for Group II Residential Heat customers; 3) a decrease of \$0.0697 to the current rate of \$0.0999 for Group III Small Commercial customers resulting in the proposed rate of \$0.0302; and 4) a decrease of \$0.0525 to the current rate of \$0.0833 resulting in the proposed rate of \$0.0308 for Group IV Large Commercial customers, all effective as of October 1, 2017.

5. Pursuant to the Board's May 21, 2014 Order in Docket No. GR13030185, recovery of any non-weather related CIP surcharges are subject to a BGSS Savings Test under which the Company must have BGSS savings of at least 75 percent of the non-weather related margin deficiency and a Variable Margin Test under which the non-weather related margin deficiency must be less than or equal to 6.5 percent of aggregate variable margins. The Company reported total estimated CIP related margin credit for CIP year 2017, October 1, 2016 through September 30, 2017, of approximately \$21.0 million with \$20.027 million margin credit related to weather and \$0.972 million related to non-weather factors. The amount of the BGSS Savings required to meet the BGSS Savings test is 75 percent of the non-weather change or \$0.729 million. Under the Variable Margin Test, the recovery limitation is \$15.0 million based on the aggregate variable margins reported by the Company. The Company has identified approximately \$13.4 million in BGSS savings available to offset non-weather related CIP margin deficiency and charges for the October 2017 through September 2018 recovery period. Since the non-weather related CIP margin

deficiency is less than the BGSS Savings and the Variable Margin Test recovery limitation, the Company has met both tests based on the information and representations contained in the Company's filing. The Company also provided testimony that the margin deficiency will not result in a return on equity in excess of 9.75 percent.

6. Modifying the BGSS, Balancing Charge, and CIP rates will result in a requested overall increase of approximately \$3.46 per month, or 3.3 percent, to the average residential heating customer (Group II) using 100 therms per month. The impact to the average residential non-heat customer (Group I) using 25 therms per month from these requested rate changes will be an increase of 2.8 percent per month, and to the average small commercial customer (Group III) using 100 therms a month will be a decrease of 1.5 percent per month. Since the BGSS change does not impact larger commercial customers to whom the monthly BGSS is applicable, the impact of the Balancing Charge and CIP rate changes will result in a 4.5 percent decrease to the average large commercial customer (Group IV) using 1200 therms a month. The above BGSS, Balancing Charge and CIP rate changes result in an increase in annual after-tax revenues to NJNG of approximately \$7.3 million.

7. After publication of notice in newspapers of general circulation in NJNG's service territory, public hearings were scheduled and conducted on September 5, 2017 in Freehold Township and on September 7, 2017 in Rockaway Borough. No members of the public appeared at either hearing nor were any written comments received by the BPU, NJNG or the New Jersey Division of Rate Counsel ("Rate Counsel").

8. NJNG, Board Staff, and Rate Counsel (collectively, the "Parties"), the only Parties to this proceeding, have discussed certain matters at issue in this proceeding and determined that additional time was needed to complete the review of NJNG's proposed BGSS, Balancing Charge,

and CIP rates. The Parties also agreed that, in order to reflect the decrease in costs in the natural gas market since the original filing date in June 2017, the existing Periodic BGSS rate of \$0.3654 per therm after-tax be should be maintained and the original requested increase to the Periodic BGSS rate should not be implemented. However, the Parties have agreed that the implementation of the increase to the Company's Balancing Charge and the decreases to the CIP rates, on a provisional basis would be reasonable and accordingly executed a Stipulation for provisional rates.

9. On September 22, 2017, the Board issued an Order ("September 2017 Order") in this proceeding approving the Stipulation and authorizing the Company to: 1) maintain the Company's existing periodic BGSS rate of \$0.3654 per therm after-tax; 2) increase the Company's balancing charge to \$0.0683 per therm after tax; and 3) adjust the following CIP rates all on an after-tax basis to: \$0.0076 per therm for Group I Residential Non-Heat customers; \$0.0401 per therm for Group II Residential Heat customers; \$0.0302 per therm for Group III General Service - Small customers; and, \$0.0308 per therm for Group IV General Service - Large customers. Those rates, effective October 1, 2017, were subject to refund with interest, with an opportunity for a full review at the Office of Administrative Law ("OAL"), if necessary, and final approval by the Board.

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11. Pursuant to P.L. 2016, c. 57, the New Jersey Sales and Use Tax ("SUT") to be charged to customers for utility service has been changed from 6.875 percent to 6.625 percent effective January 1, 2018. All sales on and after the effective date are to have the new rate applied.

Accordingly, NJNG has implemented the 6.625 percent SUT rate as of January 1, 2018, making the necessary changes to all of our rates and tariffs to reflect that decrease.

12. NJNG has received and responded to all discovery requests that have been propounded in this proceeding by BPU Staff and Rate Counsel.

13. The Parties have discussed this matter and now hereby **STIPULATE AND AGREE** as follows:

STIPULATED ISSUES

14. The Parties agree that the previously approved provisional rates, as described above in Paragraphs 8, 9, and 11 should be deemed by Your Honor and the Board to be final rates. Those rates, effective October 1, 2017 through December 31, 2017 are: 1) the Company's periodic BGSS rate to \$0.3654 per therm after-tax; 2) the Company's Balancing Charge rate to \$0.0683 per therm after-tax; and 3) the following CIP rates all on an after-tax basis: a charge of \$0.0076 per therm for Group I Residential Non-Heat customers; a charge of \$0.0401 per therm for Group II Residential Heat customers; a charge of \$0.0302 per therm for Group III Small Commercial customers; and a charge of \$0.0308 per therm for Group IV Large Commercial customers. Those rates reflecting the SUT change effective on and after January 1, 2018 are: 1) the Company's Periodic BGSS rate of \$0.3646 per therm after-tax; 2) the Company's balancing charge of \$0.0681 per therm after tax; and 3) the following CIP rates all on an after-tax basis: a rate of \$0.0076 per therm for Group I Residential Non-Heat customers; a rate of \$0.0400 per therm for Group II Residential Heat customers; a rate of \$0.0302 per therm for Group III Small Commercial customers; and a rate of \$0.0307 per therm for Group IV Large Commercial customers. As a

result of this Stipulation, the provisional rates included in this paragraph will be final and remain in effect until further Board Order or further action by the Company in accordance with the Generic Order.

15. The Parties reserve their rights to fully litigate the following issue in the Company's next BGSS/CIP Annual Rate filing: Whether the Company's decision to enter into an asset management agreement with New Jersey Resources Energy Services, an affiliate of NJNG, to permanently release 40,000 Dth/day of Texas Eastern transportation capacity under contract 910230 and 40,000 Dth/day of Texas Eastern transportation capacity under contract 910240, was more beneficial to customers than other available alternatives. As part of its next BGSS/CIP annual filing, the Company will provide prefiled testimony and supporting documentation addressing the foregoing issue. The prefiled testimony will include a cost benefit analysis of the transaction and discuss how NJNG's design day reserve changes associated with the addition of transportation capacity on the Transco Garden State Expansion affected its decision to enter into the transaction. NJNG will also address how the permanent capacity release affects the calculation of the Capacity Release incentive.

16. Specifically regarding the Company's BGSS Incentive Programs, the parties reserve their rights to fully litigate the following issue in the Company's next BGSS/CIP Annual Rate filing:

- a. Whether the following types of transactions currently included in the Company's Capacity Release Program in accordance with Board-approved Stipulations in Docket Nos. GR12060472 and GR15030392 should continue to be included in the Company's Capacity Release programs: (i) capacity management transactions

- with counterparties where NJNG receives a reservation charge for the release of capacity to a counterparty, (ii) supply transactions with counterparties where NJNG receives a reservation charge for the commitment to purchase supply from a counterparty; and (ii) restructuring, including termination, of capacity with various pipeline and storage providers to update NJNG's assets with the value of the reduction being included in the Capacity Release sharing mechanism; and,
- b. If such transactions are included, the methodology to be utilized to calculate the BGSS customer savings subject to sharing.

As part of its next BGSS/CIP annual filing, the Company will also provide prefiled testimony and supporting documentation addressing the foregoing issues. The Company will also prefile confidential testimony and supporting confidential documentation for the demonstration of the actual and expected future net savings realized by BGSS customers as a result of NJNG's July 12, 2017 supply transaction confirmation with a producer as described in confidential discovery response RCR-POL-10. The NJNG prefiled confidential testimony will also address the market value of natural gas at the transaction supply points compared to the TETCO M3 index price.


17. 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, 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.

18. The Parties agree that they consider the Stipulation to be binding on them for all purposes herein.

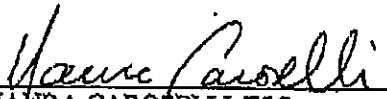
19. It is specifically understood and agreed that this Stipulation represents a negotiated agreement and has been made exclusively for the purpose of these proceedings. Except as expressly provided herein, NJNG, Board Staff, and Rate Counsel shall not be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein. All rates are subject to audit by the Board. The Parties recommend that the Board transmit this proceeding to the OAL for an opportunity for a full review of all issues in this matter. 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.

WHEREFORE, the Parties hereto do respectfully submit this Stipulation and request that the Your Honor issue an Initial Decision and that the Board issue an Order approving it in its entirety, in accordance with the terms hereof.

NEW JERSEY NATURAL GAS.
PETITIONER

By: 
ANDREW K. DEMBIA, ESQ.
New Jersey Natural Gas

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

By: 
MAURA CAROSELLI, ESQ.
ASSISTANT DEPUTY RATE COUNSEL

GURBIR S. GREWAL
ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the Board of Public Utilities

By: 
ALEX MORRAU
DEPUTY ATTORNEY GENERAL

Date: March 1, 2018