



Agenda Date: 03/30/11
Agenda Item: LSD

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center, Suite 801
Newark, NJ 07102
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE ANNUAL FILING OF SOUTH)	DECISION AND ORDER
JERSEY GAS COMPANY TO ADJUST ITS CAPITAL)	APPROVING STIPULATION
INVESTMENT RECOVERY TRACKER ("CIRT") AND)	
FOR APPROVAL OF AN EXTENSION OF THE CIRT)	
PURSUANT TO N.J.S.A. 48:2-21 AND N.J.S.A. 48:2-)	DOCKET NO. GR10100765
21.1)	
And)	
IN THE MATTER OF THE PETITION OF SOUTH)	
JERSEY GAS COMPANY FOR APPROVAL OF)	
INCREASED BASE TARIFF RATES AND CHARGES)	
FOR GAS SERVICE AND OTHE TARIFF REVISION)	DOCKET NO. GR10010035

Ira G. Megdal, Esq. and Daniel J. Bitonti, Esq., Cozen O'Connor, Counsel for Petitioner South Jersey Gas Company

Felicia Thomas-Friel, Esq., Deputy Rate Counsel, for the New Jersey Division of Rate Counsel (**Stefanie A. Brand, Esq.,** Director)

Alex Moreau and Anne Marie Shatto, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (**Paula T. Dow,** Attorney General of New Jersey)

BY THE BOARD:

BACKGROUND

In an effort to maintain the reliability and safety of its delivery system, while providing stimulus to New Jersey's economy, on January 20, 2009, South Jersey Gas Company ("SJG" or "Company") petitioned the New Jersey Board of Public Utilities ("BPU" or "Board") , in Docket No. GO09010051, for approval to accelerate the timing of certain infrastructure projects ("2009 Filing"). SJG proposed to expedite the planning and construction work related to capital projects that had been in the development stages for future implementation through the Capital Investment Recovery Tracker ("CIRT").

More specifically, according to the Company, these CIRT projects were incremental to its planned fiscal 2009, 2010 and 2011 capital investment programs. Additionally, expediting the work on

these projects would assist in mitigating the negative impact of the recession by creating additional job opportunities in the State while enhancing service and reliability for SJG's existing customers. In the 2009 Filing, SJG also requested approval of a proposed method for recovering the investment costs associated with the CIRT projects.

On April 16, 2009, the BPU issued an Order (the "April 16 Order") which approved a stipulation permitting SJG to proceed with the design and construction of eleven CIRT projects ("Qualifying Projects"). On November 6, 2009, the Company submitted its first Annual Filing in Docket No. GR09110907, and on December 17, 2009, the Board approved, effective January 1, 2010, the stipulation for provisional CIRT rates which had been entered into by SJG, the Division of Rate Counsel ("Rate Counsel") and Board Staff.

In accordance with the Stipulation in Docket No. GR09110907, and as approved by Board Order dated September 17, 2010, in the Company's base rate case (Docket No. GR10010035) ("Base Rate Case"), certain Qualifying Projects were rolled into the Company's rate base. Additionally, in the Base Rate Case, the Parties agreed that SJG would be permitted to continue the recovery of approximately \$24.1 million of Qualifying Projects. These Qualifying Projects remained in the CIRT, subject to a prudency review of costs associated with these projects in the forthcoming Phase II portion of the Base Rate Case.

The Current Filing (CIRT)

Based on the continued need to stimulate the economy and further foster job retention or creation in SJG's service territory, the Company sought BPU approval to continue the acceleration of incremental capital spending for additional capital projects. Accordingly, on October 22, 2010, SJG made a filing (Docket No. GR10100765) for approval of an extension of the CIRT including eleven proposed projects with overall anticipated construction costs of \$150 million over a period of three (3) years.

On March 28, 2011, SJG filed an amended petition reflecting a total of nine (9) Qualified Projects with an associated investment of \$60.3 million, (CIRT II). The proposed Qualified Projects are described below:

Projects [3/28/11 AMENDED PETITION]			Duration		
Name	Type	Scope	Cost (\$Mil.)	Start	Complete
Accelerated Bare Steel/Cast Iron Main & Service Line Replacements	Replacements	82 miles/3736 svcs	\$28.36	Fall 2011	Fall 2012
12" Atlantic City Pipeline	New pipeline	2.1 miles	\$3.50	Spring 2011	Sum. 2011 Winter 2012
24" Black Horse Pike to Delilah Rd	New pipeline	2.7 miles	\$8.00	Spring 2011	Winter 2012
Absecon Island Ventnor Ave Feeder Main	Replacements	4.5 miles	\$9.36	Spring 2011	Fall 2012 Winter 2011
Distribution District Regular Upgrades	Upgrade	8 regulators	\$1.70	Spring 2011	Winter 2011
LNG Tank Foundation, Impoundment Dike, Security & Vapor Fence Safety Upgrades	Upgrade	Various	\$1.20	Spring 2011	Fall 2011 Winter 2011
Transmission System Retrofits & Valving	Upgrade	Various	\$2.55	Spring 2011	Winter 2011
Water Crossing Replacements at Oldman's Creek	Replacements	One site	\$0.50	Spring 2011	Fall 2011
Absecon Island Ventnor Ave Lateral Mains	Replacements	3.5 miles	\$5.08	Spring 2011	Fall 2011
			\$60.3		

Two public hearings were held on January 13, 2011 in Voorhees. No members of the public attended.

After engaging in settlement negotiations, on March 29, 2011 representatives of SJG, Board Staff, and Rate Counsel (collectively, the "Parties"), executed a stipulation¹ ("Stipulation") that provides for the following:

- 1) SJG represents that the nine CIRT II projects identified in Appendix A will assist SJG in providing safe, adequate and proper service to its customers, are incremental in nature and will continue to create jobs in New Jersey.
- 2) SJG expects the design and construction work associated with the CIRT II Qualifying Projects will generate 269 direct jobs within the State.
- 3) The \$60.3 million in estimated costs, excluding AFUDC, are to be recovered through the Company's base rates, subject to review.
- 4) The Company will endeavor to use New Jersey contractors and estimates that design and construction work on these Qualifying Projects will generate approximately 269 direct jobs in its service territory.
- 5) Work on the Qualifying Projects will commence as soon as practicable following the date of a Board Order in this proceeding, and no later than December 31, 2011.
- 6) Any costs incurred after October 31, 2012, will be deemed outside of the CIRT II Program, and considered for rate treatment in the Company's next base rate case. CIRT II projects that are placed into service after October 31, 2012 will begin accruing depreciation and stop AFUDC when they are placed into service and will not accrue a deferred return.
- 7) Any project eliminations or substitutions will only be made with Board approval, given signatory parties consent.
- 8) The Company agrees to make a CIRT filing in June 2011 that proposes a base rate change to be effective in October 2011, coincident but separate from the Company's annual BGSS filing, and seek recovery of the remaining CIRT program costs and the CIRT II program costs up to that point.
- 9) There is no change in rates at this time. The Company is to seek recovery of the remaining CIRT II program costs through an October 2012 CIRT filing.
- 10) CIRT II-related base rate adjustments will include a revenue requirement that reflects a pre-tax adjusted weighted-average cost of capital rate of 11.63 percent.
- 11) The CIRT II base rate adjustments will include depreciation expense for Qualifying Projects placed into service prior to August 31, 2011 for the June 2011 filing, and prior to October 31, 2012 for the October 2012 filing, based on a composite depreciation rate of 2.24 percent.
- 12) The Company agrees that it will exclude any incremental operation and maintenance expenses in the CIRT II filings.
- 13) The details relating to the agreed upon accounting for Construction Work In Progress and AFUDC are as specified in paragraphs 11, 14 and 15 of the Stipulation.
- 14) SJG will submit the minimum filing requirements as set forth in Appendix D of this Stipulation in each annual CIRT filing.
- 15) The Company will recover the costs approved in each of the CIRT II filings on a volumetric basis utilizing the weather-normalized forecast for the up-coming annual October through September BGSS period.

¹Although summarized in this Order, the detailed terms of the Stipulation control, subject to the findings and conclusions of this Order.

- 16) The Company will provide BPU staff and Rate Counsel with quarterly progress reports as specified in paragraph 22 of the Stipulation.
- 17) SJG's annual CIRT II base rate adjustment filing will be subject to review by the Board Staff and Rate Counsel, prior to the final approval and issuance of an Order by the Board establishing that the proposed rates are just and reasonable.
- 18) At the conclusion of the filing to review the June 2012 filing, the reopened Base Rate Case will close.
- 19) Should SJG receive any federal, state, county or municipal funds or credits directly applicable to the CIRT II projects, the Company will use that funding as a benefit to customers by offsetting the costs for which recovery is sought through the CIRT II filing, to the extent permitted by law.

DISCUSSION AND FINDING

In the April 16 Order, the Board recognized that the acceleration of utility infrastructure projects and the treatment of capital expenses on an expedited schedule outside the purview of a rate case is not part of the normal course of utility regulation. However, based on economic conditions at that time, the Board found that it was appropriate and within the Board's authority to allow infrastructure projects which had already been researched and planned by the companies to be accelerated, and that enhanced investments in infrastructure would both increase reliability and promote employment. The Board continues to find those conclusions valid.

Now, as then, the Board takes notice of the fact that the financial markets remain volatile, affecting the utilities' ability to fund incremental infrastructure projects within the usual framework which requires that capital expenditures be recovered through a rate case only after projects are completed. N.J.S.A. 48:2-21. It is within a rate case that the property that is used and useful in the utility's provision of service is evaluated, and the expenses that can become components of just and reasonable rates are determined. In re Investigation of Tele. Cos., 66 N.J. 476 (1975). These difficult economic times continue to require creative responses that respect the law but adapt to extraordinary circumstances. In the past, the Board has found that it has the power to act to meet such challenges. N.J.S.A. 48:2-13; In re Implementation of the Two Bridges/Ramapo Water Diversion Project, BPU Docket No. 8011-870 (March 17, 1981). The Board continues to have that power.

Looking at the proposed infrastructure program extension, the Board is persuaded that the CIRT II, if successfully executed, will both increase employment in the State and enhance the reliability of SJG's distribution system. Only capital projects which enhance the reliability, safety and security of a utility's distribution system are eligible as Qualifying Projects. These are projects originally scheduled for future years which can be brought forward into the 2011--2012 time period because they have already been researched and planned by the Company. In the absence of this program, most of the projects would be completed, but only in future years.

Therefore, after review of the Stipulation and exhibits, the Board HEREBY FINDS the Stipulation to be reasonable, in the public interest, and in accordance with law, and HEREBY APPROVES the attached Stipulation in its entirety and HEREBY INCORPORATES its terms and conditions as though fully set forth herein.

DATED: 3/31/11

BOARD OF PUBLIC UTILITIES
BY:



LEE A. SOLOMON
PRESIDENT



JEANNE M. FOX
COMMISSIONER



JOSEPH L. FIORDALISO
COMMISSIONER



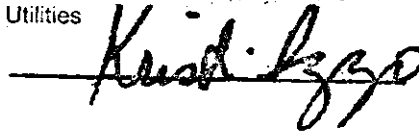
NICHOLAS ASSELTA
COMMISSIONER

ATTEST:



KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



In the Matter of the Annual Filing of South Jersey Gas Company to adjust its Capital Investment Recovery Tracker ("CIRT") and for Approval of an Extension of the CIRT Pursuant to N.J.S.A. 48:2-21 AND N.J.S.A. 48:2-21.1 and In the Matter of the Petition of South Jersey Gas Company for Approval of Increased Base Tariff Rates and Charges for Gas Service and Other Tariff Revisions BPU Docket Nos. GR10100765 GR10010035

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**South Jersey Gas Company
Capital Investment Recovery Tracker
Qualifying Projects**

CIRT II - Proposed 2011 & 2012 Projects

	Project	Type	Construction Start	In-Service	2011 Estimated Cost	2012 Estimated Cost	Description	2011 Jobs Created	2012 Jobs Created
1	Accelerated Bare Steel/Cast Iron Main & Service Line Replacements	R	March 2011	Various	\$18,000,000	\$10,364,000	Replace approximately 82 miles of incremental bare steel/cast iron main and 3736 associated bare steel services. This improves reliability by improving the integrity of the Company's distribution system.	90	52
2	12" Atlantic City Pipeline	N	March 2011	August 2011	\$3,500,000	\$0	Install approximately 1.9 miles of 12" pipeline extension along Absecon Boulevard, 1000' of 8" pipeline, and a new distribution district regulator to supply Atlantic City and Absecon Island from the Huron Avenue station to improve delivery reliability.	8	
3	24" Black Horse Pike to Delilah Road	N	March 2011	December 2011	\$7,600,000	\$400,000	Install approximately 2.7 miles of 24" pipeline along Black Horse Pike and Fire Road in Egg Harbor Township to improve delivery reliability to the Pleasantville Station and Absecon Island.	12	2
4	Absecon Island Ventnor Ave Feeder Main	R	March 2011	September 2011	\$9,356,000	\$0	Replace approximately 4.5 miles intermediate pressure cast iron feeder main on Ventnor Avenue supplying the communities of Atlantic City, Ventnor, Margate and Longport.	47	
5	Distribution District Regulator Upgrades	U	March 2011	December 2011	\$1,700,000	\$0	Upgrade approximately 8 distribution district regulator facilities throughout the service territory to improve delivery reliability.	9	
6	LNG Tank Foundation, Impoundment Dike, Security & Vapor Fence Safety Upgrades	U	March 2011	November 2011	\$1,200,000	\$0	Upgrade refurbishment of the existing LNG Tank foundation, liquid spill impoundment dike, vapor dispersion barrier fence, IR gas detection, and perimeter microwave security system	2	

**South Jersey Gas Company
Capital Investment Recovery Tracker
Qualifying Projects**

CIRT II - Proposed 2011 & 2012 Projects

	Project	Type	Construction Start	In-Service	2011 Estimated Cost	2012 Estimated Cost	Description	2011 Jobs Created	2012 Jobs Created
7	Transmission System Retrofits & Valving	U	April 2011	December 2011	\$2,550,000	\$0	Replacement and/or retrofitting of existing transmission and high pressure sectionalizing valving and piping components to accommodate in-line inspection tools.	20	
8	Water Crossing Replacements at Oldman's Creek	R	April 2011	September 2011	\$500,000	\$0	Horizontal directional drill replacement of two parallel 8" pipelines (250/60) crossing Oldman's Creek between Gloucester and Salem Counties along NJ Route 130.	2	
9	Absecon Island Ventnor Ave Lateral Mains	R	April 2011	September 2011	\$5,080,000	\$0	Replace approximately 3.5 miles of low pressure bare steel and cast iron lateral mains associated with the Ventnor Avenue feeder main project.	25	
Total 2011 & 2012 CIRT Project Est. Cost					\$49,486,000	\$10,764,000		215	54

Project Type:

R = Replacements of existing distribution pipe

N= New pipeline extension

U= Upgrade of existing facilities

South Jersey Gas Company

**Capital Investment Recovery Tracker
Revenue Requirement**

Investment as of August 31, 2011	\$32,786,000
AFUDC	<u>775,568</u>
Total Investment as of August 31, 2011	33,561,568
Less Depreciation ⁽¹⁾	<u>(161,236)</u>
Net Plant	33,400,333
Less Deferred Tax ⁽²⁾	<u>(79,158)</u>
Net Investment	33,321,175
Pre-Tax Rate of Return	<u>11.63%</u>
Pre-Tax Return on Investment	3,875,253
Add: Depreciation	<u>322,471</u>
Revenue Recovery	4,197,724
Revenue Factor	<u>1.07834</u>
Revenue Requirement	<u><u>\$4,526,565</u></u>

⁽¹⁾ Depreciation

Plant in Service at August 31, 2011	\$14,100,000
AFUDC	<u>296,036</u>
	14,396,036
Depreciation rate	<u>2.24%</u>
Depreciation Expense	<u>322,471</u>
1/2 Year Convention	<u><u>\$161,236</u></u>

⁽²⁾ Deferred Taxes

Plant in Service at August 31, 2011	\$14,100,000
AFUDC	<u>100,496</u>
	14,200,496
Tax Depreciation	355,012
Book Dep	<u>(161,236)</u>
Net	193,777
Deferred Taxes - 40.85%	<u><u>\$79,158</u></u>

**SOUTH JERSEY GAS COMPANY
CIRT II INVESTMENTS**

	In-Service Date	Projected Mar-11	Projected Apr-11	Projected May-11	Projected Jun-11	Projected Jul-11	Projected Aug-11	Projected Sep-11	Projected Oct-11	Projected Nov-11	Projected Dec-11	2011 TOTAL
Accelerated Bare Steel/Cast Iron Main & Service Line Replacements	Various	\$2,500,000	\$2,000,000	\$2,500,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,500,000	\$1,000,000	\$1,000,000	\$500,000	\$18,000,000
12" Atlantic City Pipeline	August-11	\$700,000	\$1,000,000	\$800,000	\$400,000	\$400,000	\$400,000	\$0	\$0	\$0	\$0	\$3,500,000
24" Black Horse Pike to Delilah Road	December-11	\$150,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$700,000	\$2,000,000	\$2,500,000	\$2,000,000	\$7,800,000
Absecon Island Ventnor Ave Feeder Main	September-11	\$0	\$2,500,000	\$3,500,000	\$856,000	\$500,000	\$500,000	\$1,000,000	\$500,000	\$0	\$0	\$8,356,000
Distribution District Regulator Upgrades	December-11	\$0	\$50,000	\$100,000	\$200,000	\$300,000	\$350,000	\$200,000	\$200,000	\$150,000	\$150,000	\$1,700,000
LNG Tank Foundation, Impoundment Dike, Security & Vapor Fence Safety Upgrades	November-11	\$175,000	\$75,000	\$150,000	\$150,000	\$150,000	\$250,000	\$150,000	\$50,000	\$25,000	\$25,000	\$1,200,000
Transmission System Retrofits & Valving	December-11	\$100,000	\$150,000	\$150,000	\$150,000	\$300,000	\$500,000	\$300,000	\$300,000	\$250,000	\$350,000	\$2,550,000
Water Crossing Replacements at Oldman's Creek	September-11	\$50,000	\$50,000	\$200,000	\$200,000	\$0	\$0	\$0	\$0	\$0	\$0	\$500,000
Absecon Island Ventnor Ave Lateral Mains	September-11	\$0	\$846,000	\$846,000	\$846,000	\$846,000	\$846,000	\$850,000	\$0	\$0	\$0	\$5,080,000
		\$3,675,000	\$6,721,000	\$8,096,000	\$4,852,000	\$4,546,000	\$4,896,000	\$5,700,000	\$4,050,000	\$3,825,000	\$3,025,000	\$49,486,000
Cumulative Expenditures		\$3,675,000	\$10,396,000	\$18,492,000	\$23,344,000	\$27,890,000	\$32,786,000	\$5,700,000	\$9,750,000	\$13,675,000	\$16,700,000	
CWIP		\$3,675,000	\$7,886,000	\$13,992,000	\$16,344,000	\$18,890,000	\$18,686,000	\$5,700,000	\$5,400,000	\$7,825,000	\$3,025,000	
UPIS		0	\$2,500,000	\$4,500,000	\$7,000,000	\$9,000,000	\$14,100,000	\$0	\$4,350,000	\$6,050,000	\$13,675,000	
Total		\$3,675,000	\$10,396,000	\$18,492,000	\$23,344,000	\$27,890,000	\$32,786,000	\$5,700,000	\$9,750,000	\$13,675,000	\$16,700,000	

**SOUTH JERSEY GAS COMPANY
 CIRT II INVESTMENTS**

AFUDC - Debt AFUDC - Equity	In-Service Date	2.71% 6.27%	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	2011	
			Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	TOTAL	
Accelerated Bare Steel/Cast Iron Main & Service Line														
1 Replacements	Various		\$2,500,000	\$4,500,000	\$7,000,000	\$8,000,000	\$11,000,000	\$13,000,000	\$15,500,000	\$3,600,000	\$4,500,000	\$5,000,000	\$11,292	\$170,504
AFUDC - Debt			\$5,646	\$10,163	\$15,808	\$20,325	\$24,842	\$29,358	\$35,004	\$7,904	\$10,163	\$11,292	\$21,971	\$331,760
AFUDC - Equity			\$10,985	\$19,774	\$30,759	\$39,548	\$48,336	\$57,124	\$68,110	\$15,380	\$19,774	\$21,971	\$31,971	\$331,760
2 12" Atlantic City Pipeline	August-11		\$700,000	\$1,700,000	\$2,300,000	\$2,700,000	\$3,100,000	\$3,500,000	\$3,500,000	\$0	\$0	\$0	\$0	\$0
AFUDC - Debt			\$1,581	\$3,838	\$5,184	\$6,098	\$7,001	\$7,904	\$7,904	\$0	\$0	\$0	\$0	\$0
AFUDC - Equity			\$3,078	\$7,470	\$10,107	\$11,864	\$13,622	\$15,380	\$15,380	\$0	\$0	\$0	\$0	\$0
3 24" Black Horse Pike to Dellin Road	December-11		\$150,000	\$200,000	\$250,000	\$300,000	\$350,000	\$400,000	\$400,000	\$2,700,000	\$5,200,000	\$7,200,000	\$16,280	\$40,311
AFUDC - Debt			\$338	\$452	\$565	\$678	\$790	\$903	\$903	\$2,484	\$4,968	\$6,968	\$16,280	\$40,311
AFUDC - Equity			\$659	\$879	\$1,098	\$1,318	\$1,538	\$1,758	\$1,758	\$4,834	\$9,668	\$13,038	\$31,038	\$78,438
4 Abscon Island Ventnor Ave Feeder Main	September-11		\$0	\$2,500,000	\$5,000,000	\$6,858,000	\$7,356,000	\$7,856,000	\$8,856,000	\$1,500,000	\$1,500,000	\$1,500,000	\$3,388	\$98,195
AFUDC - Debt			\$0	\$5,646	\$13,550	\$15,483	\$16,612	\$17,741	\$20,000	\$3,388	\$3,388	\$3,388	\$6,591	\$183,009
AFUDC - Equity			\$0	\$10,985	\$26,365	\$30,128	\$32,323	\$34,521	\$38,915	\$6,591	\$6,591	\$6,591	\$13,182	\$366,018
5 Distribution District Regulator Upgrades	December-11		\$0	\$50,000	\$150,000	\$350,000	\$650,000	\$1,000,000	\$1,200,000	\$400,000	\$550,000	\$700,000	\$3,078	\$11,405
AFUDC - Debt			\$0	\$113	\$338	\$790	\$1,498	\$2,258	\$2,710	\$803	\$1,242	\$1,581	\$3,766	\$11,405
AFUDC - Equity			\$0	\$220	\$659	\$1,538	\$2,856	\$4,394	\$5,273	\$1,758	\$2,417	\$3,078	\$7,614	\$22,810
LNG Tank Foundation, Impoundment Dike, Security & Vapor														
6 Fence Safety Upgrades	November-11		\$175,000	\$250,000	\$400,000	\$550,000	\$700,000	\$950,000	\$1,100,000	\$200,000	\$225,000	\$250,000	\$508	\$10,840
AFUDC - Debt			\$395	\$565	\$903	\$1,242	\$1,581	\$2,145	\$2,484	\$452	\$508	\$565	\$1,140	\$34,440
AFUDC - Equity			\$769	\$1,099	\$1,758	\$2,417	\$3,078	\$4,174	\$4,834	\$879	\$985	\$1,099	\$2,280	\$68,840
7 Transmission System Retrofits & Valving	December-11		\$100,000	\$250,000	\$400,000	\$550,000	\$700,000	\$950,000	\$1,100,000	\$600,000	\$850,000	\$1,200,000	\$2,710	\$17,615
AFUDC - Debt			\$228	\$565	\$903	\$1,242	\$1,581	\$2,145	\$2,484	\$1,355	\$1,920	\$2,710	\$5,635	\$34,275
AFUDC - Equity			\$439	\$1,099	\$1,758	\$2,417	\$3,078	\$4,174	\$4,834	\$2,655	\$3,735	\$5,273	\$11,640	\$43,840
8 Water Crossing Replacements at Oldiman's Creek	September-11		\$50,000	\$100,000	\$300,000	\$500,000	\$500,000	\$500,000	\$500,000	\$0	\$0	\$0	\$0	\$0
AFUDC - Debt			\$113	\$226	\$678	\$1,129	\$1,129	\$1,129	\$1,129	\$0	\$0	\$0	\$0	\$0
AFUDC - Equity			\$220	\$439	\$1,318	\$2,197	\$2,197	\$2,197	\$2,197	\$0	\$0	\$0	\$0	\$0
9 Abscon Island Ventnor Ave Lateral Mains	September-11		\$0	\$846,000	\$1,692,000	\$2,538,000	\$3,384,000	\$4,230,000	\$5,080,000	\$850,000	\$850,000	\$850,000	\$1,920	\$45,889
AFUDC - Debt			\$0	\$1,911	\$3,821	\$5,732	\$7,642	\$9,553	\$11,472	\$1,920	\$1,920	\$1,920	\$4,500	\$110,715
AFUDC - Equity			\$0	\$3,777	\$7,435	\$11,152	\$14,870	\$18,587	\$22,322	\$3,735	\$3,735	\$3,735	\$9,000	\$24,874
AFUDC - Debt			\$8,289	\$23,478	\$41,761	\$52,719	\$62,985	\$71,042	\$86,914	\$22,019	\$30,883	\$37,714	\$87,714	\$440,813
AFUDC - Equity			\$16,149	\$45,882	\$81,257	\$102,577	\$122,553	\$144,067	\$169,114	\$42,843	\$56,990	\$71,383	\$173,383	\$857,715
TOTAL AFUDC			\$24,448	\$69,159	\$123,018	\$165,286	\$195,539	\$218,109	\$256,028	\$64,862	\$89,973	\$111,097	\$259,528	\$1,298,528

Cumulative AFUDC through 08/31/2011

\$775,568

**South Jersey Gas Company
Derivation of Revenue Factor**

<u>Line No.</u>			
1	Components:		
2			
3	Sales and Use Tax (SUT)	7.00%	
4			
5	Public Utility Assessment Tax (PUA)	0.2200%	
6			
7	Bad Debt Provision (Bad Debt)	0.5580%	
8			
9	Federal Income Tax (FIT)	0.0000%	
10			
11	CBT	0.0000%	
12			
13	Operating Revenue	1.0000	
14			
15			
16	Revenue Factor Calculation:	1.07834	
17			
18			
19		1.00558*1.0022*1.07=	1.07834
20			
21			
22			

South Jersey Gas Company

**Capital Investment Recovery Tracker
Revenue Requirement**

Investment as of October 31, 2012	\$27,464,000
AFUDC	2,010,884
Total Investment as of October 31, 2012	<u>29,474,884</u>
Less Depreciation ⁽¹⁾	<u>(867,244)</u>
Net Plant	28,607,641
Less Deferred Tax ⁽²⁾	<u>(255,105)</u>
Net Investment	28,352,535
Pre-Tax Rate of Return	<u>11.63%</u>
Pre-Tax Return on Investment	3,297,400
Add: Depreciation	<u>1,089,545</u>
Revenue Recovery	4,386,945
Revenue Factor	<u>1.07834</u>
Revenue Requirement	<u><u>\$4,730,610</u></u>

⁽¹⁾ Depreciation

Plant in Service at October 31, 2012	\$46,150,000
AFUDC	2,490,417
	<u>48,640,417</u>
Depreciation rate	<u>2.24%</u>
Depreciation Expense	<u>1,089,545</u>
1/2 Year Convention	<u><u>\$544,773</u></u>

⁽²⁾ Deferred Taxes

Plant in Service at October 31, 2012	\$46,150,000
AFUDC	620,615
	<u>46,770,615</u>
Tax Depreciation	1,169,265
Book Dep	<u>(544,773)</u>
Net	624,493
Deferred Taxes - 40.85%	<u><u>\$255,105</u></u>

**SOUTH JERSEY GAS COMPANY
 CIPT II INVESTMENTS**

	In-Service Date	Projected Jan-12	Projected Feb-12	Projected Mar-12	Projected Apr-12	Projected May-12	Projected Jun-12	Projected Jul-12	Projected Aug-12	Projected Sep-12	Projected Oct-12	2012 TOTAL
1 Accelerated Bare Steel/Cast Iron Main & Service Line Replacements	Various	\$500,000	\$500,000	\$1,000,000	\$1,000,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,000,000	\$384,000	\$10,364,000
2 12" Atlantic City Pipeline	August-11	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3 24" Black Horse Pike to DeJillah Road	December-11	\$0	\$0	\$0	\$400,000	\$0	\$0	\$0	\$0	\$0	\$0	\$400,000
4 Abscon Island Ventnor Ave Feeder Main	September-11	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6 Distribution District Regulator Upgrades	December-11	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
LNG Tank Foundation, Impoundment Dike, Security & Vapor Fence Safety Upgrades	November-11	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7 Transmission System Retrofits & Valving	December-11	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8 Water Crossing Replacements at Oldmar's Creek	September-11	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
9 Abscon Island Ventnor Ave Lateral Mains	September-11	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cumulative Expenditures		\$500,000	\$500,000	\$1,000,000	\$1,400,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,000,000	\$384,000	\$10,764,000
		\$17,200,000	\$17,700,000	\$18,700,000	\$20,100,000	\$21,600,000	\$23,100,000	\$24,600,000	\$26,100,000	\$27,100,000	\$27,484,000	
CMIP		\$500,000	\$500,000	\$1,000,000	\$1,400,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,000,000	\$384,000	
UPIS		\$16,700,000	\$17,200,000	\$17,700,000	\$18,700,000	\$20,100,000	\$21,600,000	\$23,100,000	\$24,600,000	\$26,100,000	\$27,100,000	
Total		\$17,200,000	\$17,700,000	\$18,700,000	\$20,100,000	\$21,600,000	\$23,100,000	\$24,600,000	\$26,100,000	\$27,100,000	\$27,484,000	

**SOUTH JERSEY GAS COMPANY
CIRT II INVESTMENTS**

		2.71%	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	2012	
AFUDC - Debt		5.27%	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	TOTAL
AFUDC - Equity	In-Service Date												
Accelerated Bare Steel/Cast Iron Main & Service Line													
1 Replacements	Various		\$5,500,000	\$6,000,000	\$7,000,000	\$8,000,000	\$9,500,000	\$11,000,000	\$12,500,000	\$14,000,000	\$15,000,000	\$15,364,000	
AFUDC - Debt			\$12,421	\$13,550	\$15,808	\$18,087	\$21,454	\$24,842	\$28,229	\$31,617	\$33,875	\$34,697	\$234,560
AFUDC - Equity			\$24,168	\$26,365	\$30,759	\$35,153	\$41,745	\$48,336	\$54,927	\$61,518	\$65,913	\$67,512	\$456,396
2 12" Atlantic City Pipeline	August-11		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
AFUDC - Debt			\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
AFUDC - Equity			\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3 24" Black Horse Pike to Delilah Road	December-11		\$7,200,000	\$7,200,000	\$7,200,000	\$7,600,000	\$7,600,000	\$7,600,000	\$7,600,000	\$7,600,000	\$7,600,000	\$7,600,000	
AFUDC - Debt			\$16,260	\$16,260	\$16,260	\$17,163	\$17,163	\$17,163	\$17,163	\$17,163	\$17,163	\$17,163	\$168,923
AFUDC - Equity			\$31,638	\$31,638	\$31,638	\$33,396	\$33,396	\$33,396	\$33,396	\$33,396	\$33,396	\$33,396	\$328,684
4 Absecon Island Ventnor Ave Feeder Main	September-11		\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	
AFUDC - Debt			\$3,388	\$3,388	\$3,388	\$3,388	\$3,388	\$3,388	\$3,388	\$3,388	\$3,388	\$3,388	\$33,875
AFUDC - Equity			\$6,591	\$6,591	\$6,591	\$6,591	\$6,591	\$6,591	\$6,591	\$6,591	\$6,591	\$6,591	\$65,913
5 Distribution District Regulator Upgrades	December-11		\$700,000	\$700,000	\$700,000	\$700,000	\$700,000	\$700,000	\$700,000	\$700,000	\$700,000	\$700,000	
AFUDC - Debt			\$1,581	\$1,581	\$1,581	\$1,581	\$1,581	\$1,581	\$1,581	\$1,581	\$1,581	\$1,581	\$15,808
AFUDC - Equity			\$3,076	\$3,076	\$3,076	\$3,076	\$3,076	\$3,076	\$3,076	\$3,076	\$3,076	\$3,076	\$30,759
LNG Tank Foundation, Impoundment Dike, Security & Vapor													
6 Fence Safety Upgrades	November-11		\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	
AFUDC - Debt			\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$5,846
AFUDC - Equity			\$1,099	\$1,099	\$1,099	\$1,099	\$1,099	\$1,099	\$1,099	\$1,099	\$1,099	\$1,099	\$10,985
7 Transmission System Retrofits & Valving	December-11		\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	
AFUDC - Debt			\$2,710	\$2,710	\$2,710	\$2,710	\$2,710	\$2,710	\$2,710	\$2,710	\$2,710	\$2,710	\$27,100
AFUDC - Equity			\$5,273	\$5,273	\$5,273	\$5,273	\$5,273	\$5,273	\$5,273	\$5,273	\$5,273	\$5,273	\$52,730
8 Water Crossing Replacements at Oldman's Creek	September-11		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
AFUDC - Debt			\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
AFUDC - Equity			\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
9 Absecon Island Ventnor Ave Lateral Mains	September-11		\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	\$850,000	
AFUDC - Debt			\$1,920	\$1,920	\$1,920	\$1,920	\$1,920	\$1,920	\$1,920	\$1,920	\$1,920	\$1,920	\$19,196
AFUDC - Equity			\$3,735	\$3,735	\$3,735	\$3,735	\$3,735	\$3,735	\$3,735	\$3,735	\$3,735	\$3,735	\$37,350
AFUDC - Debt			\$38,843	\$39,973	\$42,231	\$45,393	\$48,780	\$52,168	\$55,555	\$58,943	\$61,201	\$62,023	\$505,108
AFUDC - Equity			\$75,580	\$77,777	\$82,171	\$88,323	\$94,914	\$101,505	\$108,097	\$114,688	\$119,082	\$120,681	\$962,817
TOTAL AFUDC			\$114,423	\$117,748	\$124,402	\$133,715	\$143,894	\$153,673	\$163,652	\$173,630	\$180,283	\$182,704	\$1,487,925

Cumulative AFUDC through 10/31/2012

\$2,010,884

**South Jersey Gas Company
Derivation of Revenue Factor**

<u>Line No.</u>			
1	Components:		
2			
3	Sales and Use Tax (SUT)	7.00%	
4			
5	Public Utility Assessment Tax (PUA)	0.2200%	
6			
7	Bad Debt Provision (Bad Debt)	0.5580%	
8			
9	Federal Income Tax (FIT)	0.0000%	
10			
11	CBT	0.0000%	
12			
13	Operating Revenue	1.0000	
14			
15			
16	Revenue Factor Calculation:	1.07834	
17			
18			
19			
20			
21			
22			

		$1.00558 * 1.0022 * 1.07 =$	1.07834
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South Jersey Gas
CIRT II Minimum Filing Requirements

1. The Company's income statement for the most recent 12 month period as filed with the BPU.
2. The Company's balance sheet for the most recent 12 month period, as filed with the BPU.
3. The Company's overall capital budget broken down by major categories, including distribution and incremental capital expenditures for the Qualifying Projects, both budgeted and actual amounts.
4. For each Qualifying Project or proposed new project:
 - a) The original project summary for each Qualifying Project;
 - b) Capital expenditures incurred to date;
 - c) Appropriate metric (e.g., linear feet of installed pipe).
5. Anticipated project timeline with updates and expected changes.
6. A schedule detailing the Qualifying Projects and Non-Qualifying Projects to date as compared to the Company's original approved capital spending plans.
7. A summary of expenditures for each of the Qualifying Projects that identifies expenditures related to labor and material from project inception through the end of the current quarter.
8. A calculation of the proposed rate adjustment based on details related to Qualifying Projects in Plant in Service.
 - a) A calculation of the associated depreciation expense, based on those projects closed to Plant in Service during the period.
9. A count of FTE jobs created and their duration associated with each Qualifying Project.

South Jersey Gas
CIRT II Minimum Filing Requirements

10. A list of any and all funds or credits received from the United States government, the State of New Jersey, a county or a municipality, for work related to any of the Qualifying Projects, such as relocation, reimbursement or stimulus money.
 - a) An explanation of the financial treatment associated with the receipt of the government funds or credits.

11. A revenue requirement calculation based upon UPIS and CWIP balance at August 31,2011 (June 2011 filing) and October 31, 2012, as well as supporting calculations, as well as actual revenues- by month - collected from ratepayers pursuant to tariff(s).

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

**IN THE MATTER OF THE ANNUAL
FILING OF SOUTH JERSEY GAS
COMPANY TO ADJUST ITS CAPITAL
INVESTMENT RECOVERY TRACKER
("CIRT") AND FOR APPROVAL OF AN
EXTENSION OF THE CIRT PURSUANT
TO N.J.S.A. 48:2-21 AND N.J.S.A. 48:2-21.1**

BPU DOCKET NO. GR10100765

**IN THE MATTER OF THE PETITION OF
SOUTH JERSEY GAS COMPANY FOR
APPROVAL OF INCREASED BASE
TARIFF RATES AND CHARGES FOR GAS
SERVICE AND OTHER TARIFF
REVISIONS**

**:
BPU DOCKET NO. GR10010035
:
STIPULATION
:
:
:
:**

APPEARANCES:

Ira G. Megdal, Esq. and Daniel J. Bitonti, Esq., Cozen O'Connor, Counsel for Petitioner South Jersey Gas Company

Paul Flanagan, Litigation Manager, Deputy Rate Counsel and Felicia Thomas-Friel, Esq., Deputy Rate Counsel, for the New Jersey Division of Rate Counsel (**Stefanie A. Brand, Esq.,** Director)

Alex Moreau and Anne Marie Shatto, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (**Paula T. Dow, Attorney General of New Jersey**)

TO: THE NEW JERSEY BOARD OF PUBLIC UTILITIES

1. On April 16, 2009 the Board of Public Utilities ("Board") issued a Decision and Order in Docket No. GO09010051 accepting a Stipulation of the parties implementing the Capital Investment Recovery Tracker ("CIRT") mechanism of South Jersey Gas Company ("South Jersey" or "Petitioner"). The Board's Order established an initial CIRT rate of \$0.0094 per therm, including taxes. It further provided that prior to the establishment of any annual CIRT

rate thereafter, there would be public notice and hearings, and the opportunity for discovery and comments.

2. On November 6, 2009, South Jersey made its first annual CIRT filing in Docket No. GR09110907. This filing sought an increase of the CIRT rate from \$0.0094 per therm to \$0.0224 per therm, including taxes.

3. By Decision and Order Approving Stipulation in Docket No. GR09110907, dated December 17, 2009, the Board approved, effective January 1, 2010, the stipulation for provisional CIRT rates which had been entered into by South Jersey, Rate Counsel and Board Staff.

4. In accordance with the Stipulation in Docket No. GR09110907, and as approved by Board Order dated September 17, 2010, in the Company's base rate case (Docket GR10010035) ("Rate Case"), certain CIRT Qualifying Projects were rolled into the Company's rate base.

5. Additionally, in the Rate Case, the Parties agreed that South Jersey would be permitted to continue the recovery of approximately \$23.1 million of Qualifying Projects. These Qualifying Projects remained in the CIRT, subject to a prudency review of costs associated with those projects in the forthcoming Phase II portion of the Rate Case. As a result of the Rate Case order, the current CIRT rate set forth in South Jersey's tariff is \$0.0044 per therm, including taxes.

6. On October 22, 2010, South Jersey filed with the Board, a Case Summary, Petition and Exhibits (the "Petition") for the authority to make its annual adjustment to its CIRT charge and to extend its CIRT for three (3) additional years ("CIRT II"). South Jersey proposed a rate of \$0.0059 per therm (including taxes), which would be an increase of \$0.15 or 0.1% for a typical residential customer using an average of 100 therms of gas during a month.

7. In its Petition, South Jersey stated that the current CIRT has significantly contributed to mitigating, and reducing the serious, deleterious impacts of the current economic

crisis. Nevertheless, that economic crisis continues, and further mitigation measures are necessary.

8. South Jersey further stated that the Company's CIRT mechanism has been demonstratively beneficial, and, as a result, South Jersey proposed in this Petition to implement a new CIRT rate commencing January 1, 2011, and to extend the CIRT program for 2011, 2012 and 2013.

9. South Jersey stated that the extension of the CIRT will have the beneficial effect of promoting jobs on a current basis. Moreover, South Jersey stated that the CIRT will have the further beneficial effect of providing an improved utility infrastructure, so as to permit long-term growth of employment and economic benefits for New Jersey for the foreseeable future.

10. The Board retained jurisdiction of this Petition and has not transferred the Petition to the Office of Administrative Law as a contested matter, to date.

11. Discovery has been propounded by the Staff of the Board ("Staff") and by the Division of Rate Counsel ("Rate Counsel") and has been answered by South Jersey.

12. After appropriate public notice, two public hearings on the Petition were held on January 13, 2011 in Voorhees, New Jersey. No members of the public appeared to present views.

13. The Parties have held several settlement discussions to address the resolution of various CIRT issues.

14. The Parties have agreed to settle various issues in accordance this Stipulation.

15. Specifically, in consideration of the terms, covenants and agreements contained herein, it is **HEREBY STIPULATED AND AGREED**, by representatives of the Company, Staff and Rate counsel as follows:

STIPULATED MATTERS

Definitions

The following terms shall have the defined meanings for purposes of this Stipulation.

- a.) CIRT I Projects shall be all projects listed on Schedule B to the Board-approved Stipulation dated September 17, 2010 in BPU Docket No. GR10010035.
- b.) CIRT II Projects shall be all projects listed on Appendix A to this Stipulation.
- c.) CIRT Rate Adjustment shall be an adjustment to the Company's base rates that recognizes the revenue requirements associated with CIRT II Projects to be recovered from customers in accordance with the provisions herein.

Projects

1. South Jersey represents that the nine projects identified in Appendix A ("Qualifying Projects" or "QP") are reasonable, in the public interest, and necessary to assist the Company in providing safe, adequate and proper service to its customers; are incremental in nature; and will continue to create jobs in New Jersey. 174 direct jobs were created in South Jersey's service area through December 2010 in support of the CIRT. Based on these representations, the parties agree that the CIRT II Qualifying Projects appear to be prudent and that the costs associated with the Qualifying Projects are to be recovered through the implementation of a base rate adjustment ("CIRT Rate Adjustment"), subject to review, as set forth below.

2. Appendix A contains a description of each CIRT II Qualifying Project, the estimated cost of each Qualifying Project, totaling \$60.3 million, the estimated number of direct jobs created as a result of each Qualifying Project, and the projected timeline and completion date for each Qualifying Project.

3. The Company estimates that the design and construction work associated with the CIRT II Qualifying Projects will generate approximately 269 direct jobs in its service territory. The Company agrees that it will endeavor to employ contractors and engineering

firms located in New Jersey. The Company's estimate of the workforce necessary for the Qualifying Projects does not include any ancillary job impacts that will increase the overall benefits generated from the Qualifying Projects.

4. The work associated with the CIRT II Qualifying Projects will commence upon receipt of a Final Board Order in this proceeding and continue in accordance with the estimated construction start of no later than December 31, 2011 and completion dates not to exceed October 31, 2012 as set forth in Appendix A. The parties recognize that to expedite the commencement of the Qualifying Projects, preliminary expenditures related to design, permits, right-of-way acquisition, materials, etc. have already been made on the Qualifying Projects. These expenditures are part of the Qualifying Projects cost included in Appendix A. The parties understand that the CIRT II project identified in Appendix A as "Accelerated Bare Steel/Cast Iron Main & Service Line Replacements" (Project #1) is composed of many replacement jobs generally small in nature and short in duration. For this reason the parties agree that these jobs may commence anytime after the Final Board Order, but must be completed prior to October 31, 2012.

5. Any costs incurred after October 31, 2012, will be deemed outside of the CIRT II program and considered for rate treatment in a SJG base rate case.

6. The Parties agree that, based on current cost levels and available estimates, the estimated overall construction costs related to the CIRT II Qualifying Projects will be approximately \$60.3 million.

7. South Jersey's current capital budgets contemplate the following levels of capital expenditures for non-Qualifying projects: \$63,474,000 in fiscal year 2011, \$57,543,000 in fiscal year 2012, and \$56,485,000 in fiscal year 2013. Those budgeted levels of capital

expenditures for non-Qualifying projects include the following levels of expenditures for the replacement of unprotected steel and cast iron mains: \$5,100,000 in fiscal year 2011, \$9,900,000 in fiscal year 2012 and \$5,000,000 in fiscal year 2013. It also anticipates similar amounts will be spent in future years. SJG represents that the expenditure related to the Qualifying Projects will be incremental to such planned levels of expenditures for 2011, 2012 and 2013 and incremental to expenditures on the CIRT I Qualifying Projects approved in the April 28, 2009 Order.

8. The Parties stipulate that the Company should recover costs related to the CIRT II Qualifying Projects listed on Appendix A through the CIRT Rate Adjustment, subject to a prudence review and Board Order.

9. The Company agrees that it will exclude any incremental Operation and Maintenance expenses in the CIRT II filings.

Substitution of Projects

10. If it is necessary for the Company to eliminate, modify the scope, or substitute another project for any of the Qualifying Projects, notice of any such changes and an opportunity for review and comment shall be provided to the Parties, and any substitutions shall only be made with Board approval, given signatory parties consent.

Accounting Method for Qualifying Project Investments

11. While the individual Qualifying Projects are under construction they will be separately tracked in a construction work in progress ("CWIP") account. Each Qualifying Project will accrue an allowance for funds used during construction ("AFUDC") on a monthly basis. The AFUDC shall be capitalized and included in the CWIP balance in order

to be recovered through the CIRT Rate Adjustment. The AFUDC shall be determined on a monthly basis as follows:

- (a.) For purposes of determining the AFUDC, the outstanding CWIP balance for the month associated with the Qualifying Project shall be multiplied by an AFUDC carrying cost rate.
- (b.) The AFUDC carrying cost rate for Qualifying Projects shall be 7.98%.
- (c.) At the time a CIRT Rate Adjustment occurs, the CWIP balance will be reduced by any Qualifying Project CWIP balance that is included in the CIRT Rate Adjustment.
- (d.) AFUDC for Qualifying Projects shall continue to accrue in accordance with this accounting method when a Qualifying Project is placed into service up until the revenue requirements associated with the Qualifying Project and all associated AFUDC are reflected in the CIRT Rate Adjustment.
- (e.) AFUDC discussed in this section will apply only to investments associated with Qualifying Projects that are reflected in the CIRT Rate Adjustment. All AFUDC on non-CIRT II related CWIP, including any Qualifying Projects that are not in service as of October 31, 2012, shall accrue AFUDC at the Company's weighted cost of capital of 8.21% as determined in the Rate Case.

12. Depreciation expense shall not be accrued on an in service Qualifying Project prior to effective date of cost recovery for the associated investment through the CIRT Rate Adjustment.

CIRT II Cost Recovery Filing

13. The Company shall make two filings in order to recover the revenue requirements associated with CIRT II investments in base rates through the CIRT Rate Adjustment. The first CIRT Rate Adjustment shall be filed with the Board on or before June 30, 2011 to be effective October 1, 2011. This filing will be made coincident with but separate from its annual BGSS filing. The June 2011 filing will include the remaining CIRT I investment costs and CIRT II investment costs incurred prior to the resolution of that case. The second CIRT Rate Adjustment shall be filed with the Board on or before October 31, 2012 to be effective January 1, 2013. If South Jersey submits a base rate case filing with the BPU prior to the resolution of either upcoming Annual Filing, any pending request for rate relief associated with the CIRT I and CIRT II Qualifying Projects will be withdrawn.

14. The first CIRT Rate Adjustment shall establish an incremental adjustment to base rates based on the revenue requirements associated with the Company's investments in all CIRT Qualifying Projects as of August 31, 2011. Specifically, the revenue requirements shall reflect all CIRT II Qualifying Project investments that are reflected in plant in service and in CWIP for accounting purposes and all associated capitalized AFUDC determined in accordance with this Stipulation. The first CIRT Rate Adjustment shall provide the Company with the following revenue requirement recovery:

- (a.) Rate of return on all Qualifying Project Investments as adjusted for accumulated depreciation and accumulated deferred income taxes at the Pre-Tax Adjusted weighted-average cost of capital rate of 11.63%.
- (b.) Depreciation expense recovery at an annual composite depreciation rate of 2.24% for all CIRT investment that is in service as of August 31, 2011.

(c.) A revenue factor to reflect a gross-up for uncollectibles, PUA and New Jersey sales taxes of 1.07834.

(d.) The calculation of the revenue requirement shall be determined in the same manner as the example calculations set forth in Appendix B.

15. The second CIRT Rate Adjustment shall establish an incremental adjustment to base rates based on the revenue requirements associated with the Company's incremental investments in all CIRT II Qualifying Projects as of October 31, 2012. Specifically, the revenue requirements shall reflect CIRT II Qualifying Project investments that are reflected in plant in service and in CWIP for accounting purposes and all associated capitalized AFUDC determined in accordance with this Stipulation above the investment level reflected in the first CIRT Rate Adjustment. The second CIRT Rate Adjustment shall provide the Company with the following revenue requirement recovery:

(a.) Rate of return on all Qualifying Project Investments as adjusted for accumulated depreciation and accumulated deferred income taxes at the Pre-Tax Adjusted weighted-average cost of capital rate of 11.63%. Accumulated depreciation shall also be adjusted for an additional full year of depreciation expense associated with the Qualifying Project investments in service as of August 31, 2011.

(b.) Depreciation expense recovery at an annual composite depreciation rate of 2.24% for all CIRT investment that has been placed into service between August 31, 2011 and October 31, 2012.

(c.) A revenue factor to reflect a gross-up for uncollectibles, PUA and New Jersey sales taxes of 1.07834.

(d.) The calculation of the revenue requirement shall be determined in the same manner as the example calculations set forth in Appendix C.

16. The revenue requirements associated with the first and second CIRT Rate Adjustments will be recovered through an equal per-therm increase to the distribution charge of all firm rate classes. The increment to base rates shall be calculated on the basis of the billing determinants used to establish current base rates as set forth in Schedule B to the Board-approved Stipulation dated September 17, 2010 in the Rate Case. The margin revenue factors set forth in the Company's CIP and TAC tariffs will be updated to match the change to the base rates.

17. Any remaining CIRT II Qualifying Project investments that are not actually expended by October 31, 2012 will not receive recovery pursuant to the terms of this Stipulation. The Company may make a separate petition for recovery in a subsequent base rate case or other proceeding deemed appropriate by the Board. Each CIRT II Qualifying Project that is not in service by October 31, 2012, shall cease accruing AFUDC under the CIRT II cost recovery mechanism and shall commence accruing depreciation expense upon the date that the Qualifying Project is placed into service.

18. The Rate Case docket remains open for resolution of CIRT I issues in a Phase II proceeding in addition to CIRT Rate Adjustments related to CIRT II. In the Phase II, all remaining CIRT issues will be addressed and it is contemplated that CIRT I projects as defined in Schedule B of the Board-approved stipulation in the Rate Case will be rolled into rate base, effective October 1, 2011. In the Phase II, a prudency review of the costs associated with the CIRT I projects may be conducted. CIRT I Qualifying Projects will continue to be treated as provided in Board-approved stipulation in the Rate Case.

Minimum Filing Requirements ("MFR")

19. The Company will provide the information set forth in the MFR attached hereto as Appendix D and made a part of this Stipulation, in its Annual Filing and as part of its required base rate case filing. The Company will also provide in each filing a detailed description, along with corresponding plant accounts, of the expenditures that are reflected in each Qualifying Project in Appendix A, together with measurable parameters, such as linear feet or number of installations, associated with each Qualifying Project. Also, South Jersey agrees to provide in its Annual Filing the 5 prior years of capital expenditures for reference.

Rate Impact

20. There will be no rate change at this time. The Company estimates that the increase in customer rates resulting from the CIRT II will be approximately 1.35% in the aggregate to the bills of an average residential heating customer based on the Company's current rates and anticipated sales volumes.

Quarterly Reporting

21. The Parties stipulate that the Company will provide the Board and Rate Counsel with a quarterly report ("Quarterly Report"), reflecting capital expenditures and the job growth resulting from the implementation of each Qualifying Project on a quarterly basis, in the format required by the Board and currently being used for CIRT I reporting. The Quarterly Report will also reflect actual construction expenditures not related to the Qualifying Projects. New business budget and actual expenditures will be provided in the Quarterly Report, but not used for spending comparison purposes. The Quarterly Report should also include a narrative, describing the status of each project, tasks completed, percentage of projects completed, the actual money spent to date, etc. This information,

related to the bare steel main replacement Qualifying Project, will be provided on a consolidated basis for all sub-projects covered under the capital blanket authorization. Additionally, the Company will include in the Quarterly Report planned/budgeted capital expenditures by budget type for similar non-Qualifying Projects for comparison to the actual costs incurred for the Qualifying Projects. This reporting will begin 30 (thirty) days after the end of the first full calendar quarter (*i.e.* June 30, 2011) following the issuance of a Final Board Order in this proceeding. The Quarterly Reports shall be made available to other parties to this Stipulation, as well as any other interested members of the public, through the prompt posting of all non-confidential portions of those filings on the Company's web site.

22. The Company agrees to track the number of incremental contractor or other positions associated with the Qualifying Projects and will include that information in the format required by the Board and currently being used for CIRT I reporting with each CIRT II Quarterly Report, the June 2011 filing, and the October 2012 filing.

Calculation of Jobs Created

23. The Parties agree that job creation is an integral part of the State's objectives underlying the Qualified Projects. For the purposes of reporting jobs associated with the Qualifying projects, the Company will define a Full-Time Equivalent ("FTE") job as 1,820 man hours.

Government Funding

24. On February 17, 2009, the Federal American Recovery and Reinvestment Act of 2009 ("ARRA") (Pub. L. No. 111-5) was signed into law by President Barack Obama. Subject to any restrictions set forth in the ARRA and other applicable law, if the Company gets federal funds or credits directly related to the Qualifying Projects through the ARRA,

the Company agrees to utilize that money to offset the Qualifying Projects' costs. If funding or credits from the ARRA or any subsequent state or federal action become available to the Company through the State of New Jersey, a County or Municipality for project reimbursement, the Company agrees that any such funds or credits directly applicable to work related to the Qualifying Projects will be used to benefit customers by offsetting the costs for which recovery will be sought to the extent permitted by law.

Further Provisions

25. 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, 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.

26. It is the intent of the Parties that the provisions hereto be approved by the Board as being in the public interest. The Parties further agree that they consider the Stipulation to be binding on them for all purposes herein.

27. The Parties specifically recognize that the "Accounting Method for Qualifying Project Investment" and "CIRT II Cost Recovery" sections of this Stipulation represent compromises of contested issues. They do not reflect the specific positions of any one Party to this Stipulation. As a result, they are not to be deemed precedential for any purpose, except

for the enforcement of this Stipulation. They are not intended to bind any party in any proceeding not directly related to this Stipulation.

28. 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, the Company, Board Staff, or 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 and, in total or by specific item. This Stipulation is in no way binding upon them in any other proceeding, except to enforce the terms of this Stipulation.

WHEREFORE, the Parties hereto do respectfully submit this Stipulation and request that the Board issue a Decision and Order approving it in its entirety, in accordance with the terms hereof, as soon as reasonably possible.

SOUTH JERSEY GAS COMPANY

By: _____

Ira G. Megdal
Ira G. Megdal, Esq.
Cozen O'Connor

PAULA T. DOW
ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the New Jersey Board of Public Utilities

By: _____

Alex Moreau
Deputy Attorney General

STEFANIE A. BRAND
DIRECTOR, DIVISION OF RATE COUNSEL

By: _____

Felicia Thomas-Friel, Esq.


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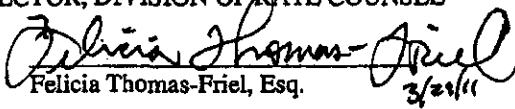
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3/29/11

Assistant Deputy Rate Counsel

Dated: 3/29/11