Agenda Date: 5/21/14
Agenda Item: 2H

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY AND SOUTH JERSEY GAS COMPANY FOR AUTHORITY TO CONTINUE THE CONSERVATION INCENTIVE PROGRAM	))))	ORDER DOCKET NO. GR13030185

Parties of Record:

Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel
Tracey Thayer, Esq., New Jersey Natural Gas Company for the Petitioner, New Jersey Natural Gas Company
Ira G. Megdal. Esq., Cozen O'Connor for the Petitioner, South Jersey Gas Company

BY THE BOARD:

BACKGROUND

On March 1, 2013, New Jersey Natural Gas Company ("NJNG") and South Jersey Gas Company ("SJG") (collectively, the "Companies") filed a petition (the "March 1 Petition") with the New Jersey Board of Public Utilities (the "Board" or "BPU") to continue the Conservation Incentive Program ("CIP") with certain modifications.

The CIP was originally approved by the Board in an Order dated December 12, 2006 in Docket Nos. GR05121019 and GR05121020 ("CIP Order"). The CIP provides a rate design and recovery mechanism for NJNG and SJG that separates margin recoveries from the overall amount of gas sold (throughput). The CIP includes an agreement by NJNG and SJG to provide the funding for and promote initiatives to encourage customer energy efficiency efforts and conservation. The CIP also includes a requirement that recovery of any non-weather related revenue shortfalls are limited to the level of Basic Gas Supply Service ("BGSS") savings realized as a result of, for example, contract restructurings and other gas procurement strategies designed to benefit customers as provided for in Paragraph 33(b) of the Stipulation approved in the CIP Order. As noted in the March 1 Petition, since the inception of the program in 2006 through December 31, 2012, NJNG and SJG assert that their customers have reduced their natural gas consumption, enabling customer savings of $279 million and $331 million, respectively. Further, during the past seven years NJNG has provided $78 million and SJG has provided $85 million of BGSS Savings to their customers in conjunction with the CIP mechanism.

Prior to the implementation of the CIP, both NJNG and SJG had Board-approved weather normalization clauses in effect and the original filings sought an expansion of those clauses. Pursuant to the CIP Order, the weather normalization clause tariff pages were suspended for each Company during the effectiveness of the CIP.

In the March 1 Petition, the Companies proposed to continue the CIP with certain modifications. NJNG and SJG assert that doing so will preserve the essential components of the CIP and maintain the balance of interests that was achieved under the prior CIP Stipulation approved by the Board.

Public hearings for NJNG customers were held in Rockaway Township on September 10, 2013 at 4:30 and 5:30 p.m. and Freehold Borough on September 11, 2013 at 4:30 and 5:30 p.m. Public hearings for SJG customers were held in Voorhees Township on August 7, 2013 at 4:30 and 5:30 p.m. No members of the public appeared at any of the NJNG or SJG public hearings or communicated in writing to either the BPU or the New Jersey Division of Rate Counsel ("Rate Counsel") concerning this matter.

STIPULATION OF SETTLEMENT[1]

Representatives of the Companies, Board Staff and Rate Counsel, the only Parties to this proceeding (the "Parties"), have conducted discovery and held meetings to discuss the continuation of the CIP with certain modifications. As a result of those discussions, on May 12 2014, the Parties executed a stipulation of settlement ("Stipulation"). The Stipulation provides the following:

- NJNG and SJG will continue to offer information and conservation programs designed to aid customers in reducing their natural gas costs and to reduce each company's peak winter and design day system demand. The programs include customized customer communications and outreach, enhanced use of online tools, and will specifically not replicate existing programs offered through the BPU Office of Clean Energy.

- Beginning October 1, 2014, the Companies will contribute funds as listed below for the costs and expenses associated with the programs discussed in Paragraph 7 of the Stipulation. Neither Company will seek recovery from ratepayers for those contributed funds. Each Company will provide documentation of expenditures for these programs in its annual CIP filing.

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

i. Annually $700,000 will be made available for the NJNG CIP program costs and expenses.

ii. Annually $500,000 will be made available for the SJG CIP program costs and expenses.

- If either NJNG or SJG does not expend the entire annual amount in a year, the difference between the annual amount and the actual amount spent will be added to the amount to be spent in the following year (the "carry-over balance") by that company. Should CIP costs for the programs exceed the funding levels established for each company within this Stipulation in any given year, NJNG and SJG will still provide funding for 100 percent of such program costs in future years.

- The Companies will continue to make annual CIP rate filings based upon seven months of actual data and five months of projected data (June 1 filing date) in conjunction with the annual BGSS filing. The filings will document actual results, perform the required BGSS Savings test and CIP Revenue test described in Paragraph 13, and propose the CIP rate applicable to each CIP Group. Any variances from the annual filings will be trued up in the subsequent year.

- The CIP Tariff Pages for NJNG and SJG, as modified pursuant to the terms of this Stipulation, are set forth in Exhibits A and B, respectively, attached to the Stipulation.

- For purposes of determining recovery eligibility for CIP accruals, the margin impact of changes in customer usage will be segregated into weather-related and non-weather related components as set forth in paragraph 12 of the Stipulation. The non-weather related CIP Component shall be subject to a dual eligibility test comprised of the Modified BGSS Savings Test and the Margin Revenue Test as described in paragraph 13 of the Stipulation. The weather-related CIP Component shall not be so subject.

- For purposes of calculating the non-weather CIP value, the margin impact of weather will first be deducted from the total CIP margin impact. The impact of weather will be calculated in a manner consistent with the methodology of each of company's Weather Normalization Clause, excluding the impact of a dead band. The weather-related component of the CIP surcharge or credit will be reflected in the CIP Tariff rate in the subsequent period. The total CIP value, including both weather and non-weather factors, remains subject to the previously Board approved Return on Equity ("ROE") test.

- The Parties agree that recovery of non-weather related CIP impacts shall continue to be subject to the application of an eligibility test. However, the existing BGSS Savings Test shall be replaced with a dual recovery test comprised of a Modified BGSS Savings Test and a Margin Revenue Test. In order to be eligible for recovery, non-weather related CIP impacts must pass both cost recovery tests. Amounts that do not pass one or both tests may be recoverable in future years as described below.

a) A Modified BGSS Savings Test shall reflect changes to the existing BGSS Savings Test originally approved in the CIP Order. Specifically, the non-weather margin impact shall be multiplied by a factor of 75 percent prior to application of the BGSS Savings test. Further, the Parties agree to recognize three categories of savings when calculating the total savings used in the Modified BGSS Savings Test. Currently, the permanent capacity releases and contract terminations for each Company are $ 12.044 million and $2.588 million for NJNG and SJG, respectively. Also, the Parties agree to permit each Company to recognize BGSS savings associated with avoided capacity costs to meet residential customer growth on a prospective basis beginning with the first annual CIP filing following implementation of these terms[2].

i. Category One includes each Company's permanent savings realized from their respective permanent capacity releases or contract terminations on an ongoing basis. Currently, the permanent capacity releases and contract terminations for each Company are $12.044 million and $2.588 million for NJNG and SJG, respectively, based on the specific permanent releases and contract terminations listed in Exhibits C and D, attached hereto. These amounts will remain after the re-setting of each Company's CIP benchmarks in future base rate cases. SJG agrees not to seek current or future BGSS Savings Test treatment for $6.6 million of annual BGSS savings associated with permanent capacity releases listed as "released without CIP Offset (2007)" in Schedule A to in the Stipulation approved by the Board December 31, 2008 in Docket No. GR08050367 and GR07060354 ("2008 SJG CIP Stipulation") and listed in Exhibit D attached hereto. In addition, in paragraphs 9(a), (b) and (c) of the 2008 SJG CIP Stipulation SJG agreed that certain other savings would not be eligible to offset CIP surcharges. To the extent that the limitations included in paragraphs 9(a), (b) and (c) have applied to BGSS savings as of May 1, 2014, they will continue to apply under the terms of the current BGSS savings test consistent with sub-paragraph e. below, and under the Modified BGSS Savings Test. These limitations will not, however, apply presumptively to future savings sought to be used to offset CIP surcharges under the Modified BGSS Savings test. The parties reserve their rights to argue whether any such future savings, in whole or in part, should be eligible to offset CIP surcharges.

ii. Category Two includes BGSS gas cost savings from reductions of capacity on a long-term basis, i.e. for periods of at least one-year. This category of savings will include, but not be limited to: 1) additional contract terminations not included in Exhibits C and D, 2) release of capacity to an affiliate or non-affiliate, 3) contract restructuring, and 4)

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[2] Avoided capacity costs shall be calculated on a monthly basis and equal the net change in residential customers for CIP Group 1 and Group 2 multiplied by the corresponding Benchmark Use per Customer and by the average fixed capacity cost reflected in the concurrent BGSS filing of each respective Company.

reductions in the commodity cost of gas supply effectuated through purchasing strategies.

iii. Category Three are each Company's savings associated with avoided capacity costs to meet residential customer growth on a prospective basis beginning with the first annual CIP filing following implementation of these terms. Avoided capacity costs shall be calculated on a monthly basis and equal the net change in residential customers for CIP Group 1 and Group 2 multiplied by the corresponding Benchmark Use per Customer (defined in Paragraph 13(b) herein) and by the average fixed capacity cost reflected in the concurrent BGSS filing of each respective Company. Exhibit E provides an example of the avoided cost BGSS savings calculation.

iv. Additional savings pursuant to Paragraphs 13(a) (ii) and (iii) will only be counted within the Modified BGSS Savings Test after agreement is reached with Rate Counsel and BPU Staff about BGSS savings transactions.

a. The Parties further agree to adopt an additional recovery limitation to non-weather-related CIP margins equal to 6.5 percent of variable margins for the CIP accrual year. Specifically, variable margins will be calculated upon: (i) the basis of the number of customers, (ii) the applicable baseline use per customer ("BUC") and (iii) the associated margin per therm. The margin revenues for each month for each CIP Group shall equal the actual number of customers multiplied by the BUC and multiplied by the margin revenue factor. The resulting monthly values shall be summed for all twelve months for all CIP Groups in order to yield the total Variable Margins for the year. Recoverable non-weather CIP amounts shall not exceed 6.5% of the aggregate variable margin revenues under this test.

b. The dual cost recovery tests set forth in this paragraph shall operate in conjunction with each other in such a manner so that the total non-weather recoverable amount is limited to the smaller of the two recoverable amounts allowed under the separate Modified BGSS Savings Test and the Variable Margin Revenue Test.

c. The Parties agree that any amounts, as set forth in paragraphs 13a and 13b, that exceed the Modified BGSS savings test and/or the Margin Revenue recovery limitation, may be deferred for future recovery and are subject to either or both of the recovery tests in a future year consistent with the amount(s) by which either or both of the non-weather margin impacts exceeded the recovery tests agreed to herein, and subject to the ROE test for the total weather and non-weather related recoveries sought in any years.. However, any amount by which either the BGSS savings or the recovery limitation cap exceeds the non-weather-related impact in a given year may not be carried forward. The Companies agree not to seek recovery of any interest associated with any deferred carry-forward amount.

d. The terms of the BGSS savings test of the currently-approved CIP shall continue in effect for the current accrual year through September 30, 2014 and associated CIP recovery year of October 1, 2014 through September 30, 2015. The modifications to the BGSS savings test and the initiation of the Margin Revenue Test set forth in this stipulation shall apply for the CIP recovery year beginning October 1, 2015, which reflects CIP accruals for the previous 12 months ending September 30, 2015.

- The Parties may propose a change(s) to their respective CIP in a subsequent base rate case proceeding. Specifically, that could be during the next base rate proceeding filed after the issuance of a Board Order in SJG's currently pending base rate case (Docket No. GR13111137) and the next base rate proceeding filed after the issuance of a Board Order in NJNG's upcoming November 2015 base rate case.

DISCUSSION AND FINDING

The Board, having carefully reviewed the record in this proceeding and the attached Stipulation, **HEREBY FINDS** that there has been a full review of the Companies' CIP filing and, therefore, given the proposed modifications to the program, the Stipulation is reasonable, in the public interest and in accordance with the law.

There is no immediate rate impact. The earliest there could be a potential rate impact on customers of NJNG and SJG is October 2015. The impact of the CIP is limited by the cap and by the requirement that there must be a supply cost reduction equal to at least 75% of the level of any margin revenue increase(s).

The CIP provides a rate design and recovery mechanism for NJNG and SJG that separates margin recoveries from the overall amount of gas sold. Based on the program results, the Board is persuaded that the CIP has effectively changed the culture of the Companies to no longer promote the increased use of natural gas. Through this CIP mechanism, both NJNG and SJG have refocused internal marketing strategies from the promotion of additional burner tips at customer locations to the encouragement of energy efficiency and conservation. This CIP mechanism operates in conjunction with and is supportive of the current state and federal focus on energy efficiency and conservation as directed by the 2011 Energy Master Plan.

Accordingly, the Board **HEREBY ADOPTS** the Stipulation as its own as if fully set forth herein.

The Board **HEREBY APPROVES** the tariff sheets of NJNG and SJG attached to the Stipulation as conforming to the terms and conditions of this Order.

This Order shall become effective on May 30, 2014.

DATED: 5/21/14

BOARD OF PUBLIC UTILITIES
BY:

DIANNE SOLOMON
PRESIDENT

JEANNE M. FOX
COMMISSIONER

JOSEPH L. FIORDALISO
COMMISSIONER

MARY-ANNA HOLDEN
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 PETITION OF NEW JERSEY NATURAL GAS COMPANY AND SOUTH JERSEY GAS COMPANY FOR AUTHORITY TO CONTINUE THE CONSERVATION INCENTIVE PROGRAM

BPU DOCKET NO. GR13030185

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BPU DOCKET NO. GR13030185

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RIDER "I"

CONSERVATION INCENTIVE PROGRAM – CIP

Applicable to the following service classifications:

RS	Residential Service
GSS	General Service - Small
GSL	General Service - Large
ED	Economic Development

I. DEFINITION OF TERMS AS USED HEREIN

1. ***Actual Number of Customers*** – The Actual Number of Customers ("ANC") shall be determined on a monthly basis for each of the Customer Class Groups to which the Conservation Incentive Program ("CIP") Clause applies. The ANC shall equal the aggregate actual booked number of customers for the month as recorded on the Company's books, plus any Incremental Large Customer Count Adjustment.

2. ***Actual Usage per Customer*** – the Actual Usage per Customer ("AUC") shall be determined in therms on a monthly basis for each of the Customer Class Groups to which the CIP applies. The AUC shall equal the aggregate actual booked sales for the month as recorded on the Company's books divided by the Actual Number of Customers for the corresponding month.

3. ***Adjustment Period*** - shall be the year beginning immediately following the conclusion of the Annual Period.

4. ***Annual Period*** – shall be the twelve consecutive months from October 1 of one calendar year through September 30 of the following calendar year.

5. ***Average 13 Month Common Equity Balance*** - shall be the common equity balance at the beginning of the Annual Period (i.e., October 1) and the month ending balances for each of the twelve months in the Annual Period divided by thirteen (13).

6. ***Baseline Usage per Customer*** – the Baseline Usage per Customer ("BUC") shall be stated in therms on a monthly basis for each of the Customer Class Groups to which the CIP applies. The BUC shall be rounded to the nearest one tenth of one therm.

RIDER "I"

CONSERVATION INCENTIVE PROGRAM – CIP (Continued)

7. ***Customer Class Group*** – For purposes of determining and applying the CIP, customers shall be aggregated into four separate recovery class groups. The Customer Class Groups shall be as follows:

   Group I: RS (non-heating customers only)
   Group II: RS (heating customers only)
   Group III:GSS, ED using less than 5,000 therms annually
   Group IV:GSL, ED using 5,000 therms or greater annually

8. ***Forecast Annual Usage*** – the Forecast Annual Usage ("FAU") shall be the projected total annual throughput for all customers within the applicable Customer Class Group. The FAU shall be estimated based on normal weather.

9. ***Incremental Large Customer Count Adjustment*** – the Company shall maintain a list of incremental commercial and industrial customers added to its system on or after May 1, 2008 whose connected load is greater than that typical for the Company's average commercial and industrial customer. For purposes of the CIP, large incremental customers shall be those customers whose connected load exceeds 2,000 cubic feet per hour ("CFH"). A new customer at an existing location previously connected to NJNG's facilities shall not be considered an incremental customer. The Actual Number of Customers for the Customer Class Group shall be adjusted to reflect the impact of all such incremental commercial or industrial customers. Specifically, the Incremental Large Customer Count Adjustment for the applicable month shall equal the aggregate connected load for all active customers that exceed the 2,000 CFH threshold divided by 1,000 CFH, rounded to the nearest whole number.

10. ***Margin Revenue Factor*** – the Margin Revenue Factor ("MRF") shall be the weighted-average margin rate as quoted in the individual service classes to which the CIP applies. The MRFs by Customer Class Group are as follows:

Group I (RS non-heating):	\$0.3163
Group II (RS heating):	\$0.3163
Group III (GSS, ED using less than 5,000 therms annually)	\$0.2778
Group IV (GSL, ED using 5,000 therms or greater annually)	\$0.2179

The MRF shall be reset each time new base rates are placed into effect.

RIDER "I"

CONSERVATION INCENTIVE PROGRAM – CIP (Continued)

II. BASELINE USAGE PER CUSTOMER

The BUC for each Customer Class Group by month are as follows:

Month	**Group I: RS Non-Heating**	**Group II: RS Heating**	**Group III: GSS, ED using less than 5,000 therms annually**	**Group IV: GSL, ED using 5,000 therms or greater annually**
Oct.	19.6	51.0	79.6	1,059.1
Nov.	24.4	97.4	99.9	2,026.2
Dec.	21.1	168.3	214.1	2,591.6
Jan.	22.0	190.4	254.6	3,012.6
Feb.	17.5	166.3	235.2	2,687.9
Mar.	17.3	136.9	187.6	2,090.8
Apr.	7.6	77.6	96.8	1,251.1
May	8.3	41.2	47.2	803.7
Jun.	12.7	25.4	24.9	564.1
Jul.	19.4	24.1	27.4	541.0
Aug.	17.6	23.6	38.0	485.2
Sep.	19.4	26.1	14.7	631.3
Total Annual	206.9	1,028.3	1,320.0	17,744.6

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The BUC shall be reset each time new base rates are placed into effect.

III. DETERMINATION OF THE CONSERVATION INCENTIVE PROGRAM RATE

A. At the end of the Annual Period, a calculation shall be made that determines for each Customer Class Group the deficiency or excess to be surcharged or credited to customers pursuant to the CIP mechanism. The deficiency or excess shall be calculated each month by multiplying the result obtained from subtracting the Baseline Usage per Customer from the Actual Usage per Customer by the Actual Number of Customers and then multiplying the resulting therms by the Margin Revenue Factor.

Date of Issue: ***October 6, 2008***
Issued by: ***Mark R. Sperduto, Vice President***
Wall, NJ 07719

Effective for service rendered on and after October 3, 2008

Filed pursuant to Order of the Board of Public Utilities entered in Docket No. GR07110889

RIDER "I"

CONSERVATION INCENTIVE PROGRAM – CIP (Continued)

B. Recovery of margin deficiency associated with non-weather related changes in customer usage will be subject to a BGSS savings test and a Margin Revenue recovery limitation ("recovery tests"). Recovery of non-weather related margin deficiency will be limited to the smaller of (1) the level of BGSS savings achieved when such savings are less than 75 percent of the non-weather related margin deficiency, i.e. BGSS savings test, and (2) 6.5 percent of variable margins for the CIP Annual Period, i.e., Margin Revenue recovery limitation. Any amount that exceeds the above limitations may be deferred for future recovery and is subject to either or both of the recovery tests in a future year consistent with the amount by which either or both of the non-weather related margin deficiency exceeded the recovery tests. For the purposes of this calculation, the value of the weather related portion shall be calculated as set forth in Section IV of Rider D of this Tariff.

Deleted: as provided for in the Stipulation of the parties which was authorized by the 2006 Board Order in Docket No. GR05121020

C. In addition, the CIP shall not operate to permit the Company to recover any portion of a deficiency that will cause the Company to earn in excess of a 10.3% return on common equity for the Annual Period; any portion which is not recovered shall not be deferred. For purposes of this section, the Company's rate of return on common equity shall be calculated by dividing the Company's regulated jurisdictional net income for the Annual Period by the Company's average 13-month common equity balance for such Annual Period, all as reflected in the Company's monthly reports to the Board of Public Utilities. The Company's regulated jurisdictional net income shall be calculated by subtracting from total net income (1) margins retained by the Company from non-firm sales and transportation services, net of associated taxes, (2) net income derived from unregulated activities by New Jersey Natural Gas Company and (3) margins retained from the FRM Program and Storage Incentive Program, net of associated taxes. The Company's average thirteen-month common equity balance for any Annual Period shall be the Company's average total common equity less the Company's average common equity investment in unregulated subsidiaries.

D. The amount to be surcharged or credited shall equal the eligible aggregate deficiency or excess for all months during the Annual Period determined in accordance with the provisions herein, divided by the Forecast Annual Usage for the Customer Class Group.

IV. TRACKING THE OPERATION OF THE CONSERVATION INCENTIVE PROGRAM

The revenues billed, or credits applied, net of taxes and assessments, through the application of the Conservation Incentive Program Rate shall be accumulated for each month of the Adjustment Period and applied against the CIP excess or deficiency from the Annual Period and any cumulative balances remaining from prior periods.

In accordance with P.L. 1997, c. 192, as amended by P.L. 2006, c. 44, the charges applicable under this Rider include provision for the New Jersey Sales and Use Tax ("SUT") and when billed to customers exempt from this tax, as set forth in Rider "B", shall be reduced by the amount of such tax included therein.

Deleted: The annual filing for the adjustment to the CIP rate shall be concurrent with the annual filing for BGSS. The CIP factor shall be credited/collected on a basis within the Delivery Charge for all service classifications stated above.¶

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RIDER "I"

CONSERVATION INCENTIVE PROGRAM – CIP (Continued)

The annual filing for the adjustment to the CIP rate shall be concurrent with the annual filing for BGSS. The CIP factor shall be credited/collected on a basis within the Delivery Charge for all service classifications stated above.

The currently effective CIP factor by Customer Class Group are as follows:

Group I (RS non-heating):	\$0.0049
Group II (RS heating):	\$0.0240
Group III (GSS, ED using less than 5,000 therms annually):	\$0.0581
Group IV (GSL, ED using 5,000 therms or greater annually):	\$0.0568

For the recovery of the October 2012 through September 2013 CIP margin deficiency, the recovery of the margin deficiency associated with non-weather related change in customer usage included in the above factors are offset by the BGSS savings component, as set forth in Rider A. The BGSS savings component is embedded within the Periodic BGSS Charge and the Monthly BGSS Charge.

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RIDER "M"

CONSERVATION INCENTIVE PROGRAM ("CIP")

APPLICABLE TO:

Rate Schedule RSG	-	Residential Service
Rate Schedule GSG	-	General Service
Rate Schedule GSG-LV	-	General Service – Large Volume

(a) This Rider "M" shall be known as the Conservation Incentive Program ("CIP"). It shall be utilized to adjust the Company's revenues in cases wherein Actual Usage per Customer experienced during an Annual Period varies from the Baseline Usage per Customer ("BUC"). This adjustment will be effectuated through a credit or surcharge applied to customers' bills during the Adjustment Period. The credit or surcharge will also be adjusted to reflect prior year under recoveries or over recoveries pursuant to this CIP.

(b) The BUC in therms for each Customer Class Group by month is as follows:

Month	Group I: RSG Non-Heating	Group II: RSG Heating	Group III: GSG	Group IV: GSG-LV
Oct.	10.6	36.7	239.1	11,848.3
Nov.	14.8	79.6	302.9	19,672.2
Dec.	16.8	129.6	706.6	26,311.9
Jan.	18.4	162.7	740.1	30,164.5
Feb.	15.7	135.3	630	27,515.6
Mar	19.7	104.8	481.2	23,359.75
Apr.	10.9	50.5	229.4	15,855.1
May	15.1	30.7	145.8	8,605.6
Jun.	11.2	14.7	120.6	6,753.3
Jul.	13.6	17.9	142.2	5,684.7
Aug.	16.6	23.2	182.0	8,448.2
Sep.	8.7	17.9	143.2	5,991.8
Total Annual	172.1	803.6	4,063.1	190,210.9

The BUC shall be reset each time new base rates are placed into effect as the result of a base rate case proceeding.

(c) At the end of the Annual Period, a calculation shall be made that determines for each Customer Class Group the deficiency ("Deficiency") or excess ("Excess") to be surcharged or credited to customers pursuant to the CIP

CONSERVATION INCENTIVE PROGRAM
(Continued)

mechanism. The Deficiency or Excess shall be calculated each month by multiplying the result obtained from subtracting the Baseline Usage per Customer from the Actual Usage per Customer by the actual number of customers, and then multiplying the resulting therms by the Margin Revenue Factor.

(d) Recovery of any Deficiency in accordance with Paragraph (c), above, associated with non-weather related changes in customer usage will be subject to a BGSS savings test and a margin revenue recovery limitation as provided for in the 2014 Order of the Board of Public Utilities in Docket No. GR13030185. The value of the weather-related changes in customer usage shall be calculated in accordance with Rider F to this tariff.

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(e) Except as limited by Paragraph (d), above, the amount to be surcharged or credited to the Customer Class Group shall equal the aggregate Deficiency or Excess for all months during the Annual Period determined in accordance with the provisions herein, divided by the FAU for the Customer Class Group.

(f) The currently effective CIP Factor by Customer Class Group are as follows:

	Group I: RSG Non-Heating	Group II: RSG Heating	Group III: GSG	Group IV: GSG-LV
CIP Factors Per Therm	($0.0303)	$0.0365	$0.0364	$0.0347
Applicable Revenue Tax Factor	1.0022	1.0022	1.0022	1.0022
CIP Factors Per Therm	($0.0304)	$0.0366	$0.0365	$0.0348
Applicable NJ Sales Tax Factor	1.07	1.07	1.07	1.07
CIP Factors Per Therm with NJ Sales Tax	**($0.0325)**	**$0.0392**	**$0.0391**	**$0.0372**

(g) The CIP shall not operate to cause the Company to earn in excess of its allowed rate of return on common equity of 10.30% for any twelve month period ending September 30; any revenue which is not recovered will not be deferred. For purposes of this paragraph (f), the Company's rate of return on common equity shall be calculated by dividing the Company's net income for such annual period by the Company's average 13 month common equity balance for such annual period, all data as reflected in the Company's monthly reports to the Board of Public Utilities. The Company's net income shall be calculated by subtracting from total net income the Company's share of margins from: (1) Interruptible Sales; (2) Interruptible Transportation; (3) On-System Capacity Release; (4) Off-System Sales and Capacity Release; (5) the Storage Incentive Mechanism, (6) the Energy Efficiency Tracker, and (7) the Capital Investment Recovery Tracker.

(h) As used in this Rider "M", the following terms shall have the meanings ascribed to them herein:

CONSERVATION INCENTIVE PROGRAM (CIP)
(Continued)

(i) **Actual Number of Customers** – the Actual Number of Customers ("ANC") shall be determined on a monthly basis for each of the Customer Class Groups to which the CIP Clause applies. The ANC shall equal the aggregate actual booked number of customers for the month as recorded on the Company's books, plus any Incremental Large Customer Count Adjustment for the Customer Class Group.

(ii) **Actual Usage per Customer** – the Actual Usage per Customer ("AUC") shall be determined in therms on a monthly basis for each of the Customer Class Groups to which the CIP applies. The AUC shall equal the aggregate actual booked sales for the month as recorded on the Company's books divided by the Actual Number of Customers for the corresponding month.

(iii) **Adjustment Period – shall** be the calendar year beginning immediately following the conclusion of the Annual Period

(iv) **Annual Period** – shall be the twelve consecutive months from October 1 of one calendar year through September 30 of the following calendar year.

(v) **Baseline Usage per Customer** – the Baseline Usage per Customer ("BUC") shall be the average normalized consumption per customer by month derived from the Company's most recent base rate case, and stated in therms on a monthly basis for each Customer Class Group to which the CIP applies. The BUC shall be rounded to the nearest one tenth of one therm

(vi) **Customer Class Group** – For purposes of determining and applying the CIP, customers shall be aggregated into four separate recovery class groups. The Customer Class Groups shall be as follows:

Group I:	RSG (non-heating customers only)
Group II:	RSG (heating customers only)
Group III:	GSG customers
Group IV:	GSG-LV customers

(vii) **Forecast Annual Usage** – the Forecast Annual Usage ("FAU") shall be the projected total annual throughput for all customers within the applicable Customer Class Group. The FAU shall be estimated based on normal weather.

(viii) **Incremental Large Customer Count Adjustment** – the Company shall maintain a list of incremental commercial and industrial customers added to its system on or after October 1, 2005 whose connected load is greater than that typical for the Company's average commercial and industrial customer in the GSG or GSG-LV rate schedules. For purposes of the CIP, large incremental customers shall be those GSG customers whose connected load exceeds 1,200 cubic feet per hour ("CFH") and those GSG-LV customers whose connected load exceeds 50,000 CFH. A new customer at an existing location previously connected to the Company's facilities shall not be considered an incremental customer. The Actual Number of Customers for the Customer Class Group shall be adjusted to reflect the impact of all such incremental commercial or industrial customers. Specifically, the Incremental Large Customer Count Adjustment for the GSG customer class for the applicable month shall equal the aggregate connected load for all new active customers that exceed the 1,200 CFH threshold divided by 600 CFH,

CONSERVATION INCENTIVE PROGRAM (CIP)
(Continued)

Adjustment for all the

rounded to the nearest whole number. Similarly, the Incremental Large Customer Count for the GSG-LV customer class for the applicable month shall equal the aggregate connected load new active customers that exceed the 50,000 CFH threshold divided by 25,000 CFH, rounded to nearest whole number.

(ix) **Margin Revenue Factor** – the Margin Revenue Factor ("MRF") shall be the base rate, as reflected in Appendix A to this Tariff, applicable to the Customer Class Groups to which the CIP applies, net of any applicable Riders, including taxes. The MRFs by Customer Class Group are as follows:

Group I (RSG non-heating):	$0.4322 per therm
Group II (RSG heating):	$0.4322 per therm
Group III (GSG):	$0.3483 per therm
Group IV (GSG-LV):	$0.1990 per therm

(g) The annual filing for the adjustment to the CIP rate shall be concurrent with the annual filing for BGSS. The CIP factor shall be credited/collected on a per therm basis within the Delivery Charge for all service classifications stated above. The level of BGSS savings referenced in Special Provision (d) to this Rider "M" shall be identified in the annual CIP filing, and serve as an offset to the non-weather related portion of the CIP charge provided in Special Provision (g) to this Rider "M". The Periodic and Monthly BGSS rates identified in Rider "A" to this tariff shall include the BGSS savings, as applicable.

New Jersey Natural Gas Company
CIP BGSS Savings Annual Therms

Pipeline	Contract No.	Type of Transaction	Quantity Dth	Annual $
Iroquois	570.01	Permanent release	15,000	$ 1,996,185
Tennessee	64306	Contract termination	11,000	803,614
TETCO	897960	Contract termination	30,000	7,993,500
Dominion	700045	Contract termination	10,000	217,305
Dominion	200447	Reduced contract volume	20,000	1,032,957
Total Permanent Reductions				**$ 12,043,561**

South Jersey Gas Company
Permanent BGSS Savings

Pipeline	Contract No.	Type of Transaction	Quantity Dth		Annual $
Transco WSS	N/A	Permanent release	51,837	$	883,210
Transco SS-1	N/A	Contract termination	17,433		1,704,738
Total Permanent Reductions With CIP Recognition				**$**	**2,587,948**
Other Permanent Savings Without CIP Recognition:					
Texas Gas	T9373	Contract termination	26,046	$	2,987,033
Dominion	200096	Contract Termination	24,874		1,909,427
Columbia Gulf	38019	Contract Termination	45,985		1,672,759
Total Permanent Reductions Without CIP Recognition				**$**	**6,569,219**

Modified CIP
Example Calculations
Avoided Cost BGSS Savings

Month (a)	Base Year Customer Count (b)	Current Year Customer Count (c)	Net Increase Customer Count (d) = (b) / (c)	Baseline Use / Cust (e)	Avoided Capacity (f) = (d) * (e)
Group 1 RSG Non-Heating					
October	11000	10400	-600	12	-7200
November	10950	10350	-600	15	-9000
December	10900	10300	-600	18	-10800
January	10850	10250	-600	19	-11400
February	10800	10200	-600	17	-10200
March	10750	10150	-600	16	-9600
April	10700	10100	-600	14	-8400
May	10650	10050	-600	13	-7800
June	10600	10000	-600	12	-7200
July	10550	9950	-600	10	-6000
August	10500	9900	-600	10	-6000
September	10450	9850	-600	11	-6600
Subtotal				167	-100200
				Average Per Unit BGSS Cap	0.15
Total Group 1 Avoided Capacity Cost BGSS Savings					-15030
Group 2. RSG Heating					
October	400000	404800	4800	35	168000
November	400400	405200	4800	70	336000
December	400800	405600	4800	125	600000
January	401200	406000	4800	175	840000
February	401600	406400	4800	140	672000
March	402000	406800	4800	120	576000
April	402400	407200	4800	60	288000
May	402800	407600	4800	40	192000
June	403200	408000	4800	20	96000
July	403600	408400	4800	15	72000
August	404000	408800	4800	15	72000
September	404400	409200	4800	20	96000
Subtotal				835	4008000
				Average Per Unit BGSS Cap	0.15
Total Group 2 Avoided Capacity Cost BGSS Savings					601200
				Total Avoided Capacity Cost	586170

Notes:

(1) Base Year Customer Count is equal to the test year customer count used to set base rates in a base rate case

(2) Until a base rate case is implemented, the Base Year Customer Count shall be the actual customer count for the period October 2013 - September 2014

(3) Current Year Customer Count is equal to the customer count in the CIP accrual year

(4) The average per unit BGSS Capacity Cost represents the average of all capacity costs in the BGSS portfolio included in the annual BGSS filing for the prospective BGSS year. This value is used as a proxy for the avoided cost of incremental capacity.

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY AND SOUTH JERSEY GAS COMPANY FOR AUTHORITY TO CONTINUE THE CONSERVATION INCENTIVE PROGRAM

BPU DOCKET NO. GR13030185

STIPULATION OF SETTLEMENT

APPEARANCES:

Tracey Thayer, Esq., New Jersey Natural Gas Company for the Petitioner, New Jersey Natural Gas Company

Ira G. Megdal. Esq., Cozen O'Connor for the Petitioner, South Jersey Gas Company

Felicia Thomas-Friel, Esq., Deputy Rate Counsel, **James W. Glassen, Esq.** and **Sarah H. Steindel, Esq.,** Assistant Deputy Rate Counsels, New Jersey Division of Rate Counsel (**Stefanie Brand, Esq.,** Director)

Alex Moreau, Deputy Attorney General, for the Staff of the Board of Public Utilities (John J. Hoffman, Jr., Acting Attorney General of New Jersey)

TO: THE NEW JERSEY BOARD OF PUBLIC UTILITIES

1. On March 1, 2013, New Jersey Natural Gas Company ("NJNG") and South Jersey Gas Company ("SJG") (collectively, the "Companies") filed a petition (the "March 1 Petition") with the New Jersey Board of Public Utilities (the "Board" or "BPU") to continue the Conservation Incentive Program ("CIP") with certain modifications.

2. The CIP was originally approved by the Board in an Order dated December 12, 2006 in Docket Nos. GR05121019 and GR05121020 ("Initial CIP Order") and was extended by the Board in an Order in those same dockets dated January 21, 2010 ("CIP Extension

Order"). The CIP provides a rate design and recovery mechanism for NJNG and SJG that separates margin recoveries from the overall amount of gas sold (throughput). The CIP mechanism is structured as modifications to the Companies' former Weather Normalization Clauses, allowing the Companies to normalize their margin revenues for variations in usage due to weather and, in addition, other factors including customer energy efficiency measures and conservation. The CIP includes an agreement by NJNG and SJG to provide the funding for and promote initiatives to encourage customer energy efficiency efforts and conservation. The CIP also includes a requirement that recovery of any non-weather related revenue shortfalls are limited to the level of BGSS savings realized as a result of, for example, contract restructurings and other gas procurement strategies designed to benefit customers as provided for in Paragraph 33(b) of the Stipulation approved in the Initial CIP Order ("BGSS Savings Test"). As noted in the March 1 Petition, since the inception of the program in 2006 through December 31, 2012, NJNG and SJG assert that their customers have reduced their natural gas consumption, enabling customer savings of $279 million and $331 million, respectively. Further, during the past seven years NJNG has provided $78 million and SJG has provided $85 million of BGSS Savings to their customers in conjunction with the CIP mechanism.

3. Pursuant to the Initial CIP Order, the Weather Normalization Clause Tariff pages then in effect were suspended for each Company during the effectiveness of the CIP.

4. In the March 1 Petition, the Companies proposed to continue the CIP with certain modifications. NJNG and SJG assert that doing so will preserve the essential components

of the CIP and maintain the balance of interests that was achieved under the prior CIP Stipulations approved by the Board.

5. Public hearings for NJNG customers were held in Rockaway Township on September 10, 2013 at 4:30 and 5:30 p.m. and Freehold Borough on September 11, 2013 at 4:30 and 5:30 p.m. Public hearings for SJG customers were held in Voorhees Township on August 7, 2013 at 4:30 and 5:30 p.m. No members of the public appeared at any of the NJNG or SJG public hearings or communicated in writing to either the BPU or the New Jersey Division of Rate Counsel ("Rate Counsel") concerning this matter.

6. Representatives of the Companies, Board Staff and Rate Counsel, the only Parties to this proceeding (the "Parties"), have conducted discovery and held meetings to discuss certain modifications to the CIP. As a result of those discussions, the Parties have reached this Stipulation of Settlement ("Stipulation").

Specifically, the Parties **STIPULATE AND AGREE** that the CIP shall be modified with the following agreed upon changes:

7. NJNG and SJG will continue to offer information and conservation programs designed to aid customers in reducing their natural gas costs and to reduce each company's peak winter and design day system demand. The programs include customized customer communications and outreach, enhanced use of online tools, and will specifically not replicate existing programs offered through the BPU Office of Clean Energy.

8. Beginning October 1, 2014, the Companies will contribute funds as listed below for the costs and expenses associated with the programs discussed in Paragraph 7. Neither Company will seek recovery from ratepayers for those contributed funds. Each Company

will provide documentation of expenditures for these programs in its annual CIP filing made in conjunction with the annual Basic Gas Supply Service ("BGSS") filings.

i. Annually $700,000 will be made available for the NJNG CIP program costs and expenses.

ii. Annually $500,000 will be made available for the SJG CIP program costs and expenses.

If either NJNG or SJG does not expend the entire annual amount in a year, the difference between the annual amount and the actual amount spent will be added to the amount to be spent in the following year (the "carry-over balance") by that company. Should CIP costs for the programs exceed the funding levels established for either company within this Stipulation in any given year, NJNG and SJG will still provide funding for 100 percent of such program costs in future years.

9. The Companies will continue to make annual CIP rate filings as noted in Paragraph 8 herein based upon seven months of actual data and five months of projected data (June 1 filing date) in conjunction with the annual BGSS filing. The filings will document actual results, perform the required Modified BGSS Savings test and Margin Revenue test both described in Paragraph 13 herein, and propose the CIP rate applicable to each CIP Group as defined in each Company's approved CIP Tariffs. Any variances from the annual filings will be trued up in the subsequent year.

10. The CIP Tariff Pages for NJNG and SJG, as modified pursuant to the terms of this Stipulation, are set forth in Exhibits A and B, respectively, attached hereto and incorporated herein by reference.

11. For purposes of determining recovery eligibility for CIP accruals, the margin impact of changes in customer usage will be segregated into weather-related and non-weather related components as set forth herein in paragraph 12. The non-weather related CIP Component shall be subject to a dual eligibility test comprised of the Modified BGSS Savings Test and the Margin Revenue Test as described herein in paragraph 13. The weather-related CIP Component shall not be so subject.

12. For purposes of calculating the non-weather CIP value, the margin impact of weather will first be deducted from the total CIP margin impact. The impact of weather will be calculated in a manner consistent with the methodology of each company's former Weather Normalization Clause, as set out in each Company's BPU-approved Tariffs and excluding the impact of a dead band. The weather-related component of the CIP surcharge or credit will be reflected in the CIP Tariff rate in the subsequent period. The total CIP value, including both weather and non-weather factors, remains subject to the previously Board approved Return on Equity ("ROE") test as included in Rider I, paragraph C of the NJNG Tariff (Exhibit A hereto) and Rider M, paragraph (g) of the SJG Tariff (Exhibit B hereto).

13. The Parties agree that recovery of non-weather related CIP impacts shall continue to be subject to the application of an eligibility test. However, the existing BGSS Savings Test shall be replaced with a dual recovery test comprised of a Modified BGSS Savings Test and a Margin Revenue Test. In order to be eligible for recovery, non-weather related CIP impacts must pass both cost recovery tests. Amounts that do not pass one or both tests may be recoverable in future years as described below.

a. A Modified BGSS Savings Test shall reflect changes to the existing BGSS Savings Test originally approved in the Initial CIP Order and defined in Paragraph 2 herein. Specifically, the non-weather margin impact shall be multiplied by a factor of 75 percent prior to application of the BGSS Savings test. Further, the Parties agree to recognize three categories of savings when calculating the total savings used in the Modified BGSS Savings Test.

   i. Category One includes each Company's permanent savings realized from their respective permanent capacity releases or contract terminations on an ongoing basis. Currently, the permanent capacity releases and contract terminations for each Company are $12.044 million and $2.588 million for NJNG and SJG, respectively, based on the specific permanent releases and contract terminations listed in Exhibits C and D, attached hereto. These amounts will remain after the re-setting of each Company's CIP benchmarks in future base rate cases. SJG agrees not to seek current or future BGSS Savings Test treatment for $6.6 million of annual BGSS savings associated with permanent capacity releases listed as "released without CIP Offset (2007)" in Schedule A to in the Stipulation approved by the Board on December 31, 2008 in Docket No. GR08050367 and GR07060354 ("2008 SJG CIP Stipulation"), and listed in Exhibit D attached hereto. In addition, in paragraphs 9(a), (b) and (c) of the 2008 SJG CIP Stipulation SJG agreed that certain other savings would not be eligible to offset CIP surcharges. To the extent that the limitations included in paragraphs 9(a), (b) and (c) have applied to BGSS savings as of May 1, 2014, they will continue to apply under the terms of the current BGSS savings test consistent with sub-paragraph e. below, and under the Modified BGSS Savings Test. These limitations will not, however, apply presumptively to future savings sought to be used to offset CIP surcharges under the Modified BGSS Savings test. The parties reserve their rights to argue whether any such future savings, in whole or in part, should be eligible to offset CIP surcharges.

ii. Category Two includes BGSS gas cost savings from reductions of capacity on a long-term basis, i.e. for periods of at least one-year. This category of savings will include, but not be limited to: 1) additional contract terminations not included in Exhibits C and D, 2) release of capacity to an affiliate or non-affiliate, 3) contract restructuring, and 4) reductions in the commodity cost of gas supply effectuated through purchasing strategies.

iii. Category Three are each Company's savings associated with avoided capacity costs to meet residential customer growth on a prospective basis beginning with the first annual CIP filing following implementation of these terms. Avoided capacity costs shall be calculated on a monthly basis and equal the net change in residential customers for CIP Group 1 and Group 2 multiplied by the corresponding Benchmark Use per Customer (defined in Paragraph 13(b) herein) and by the average fixed capacity cost reflected in the concurrent BGSS filing of each respective Company. Exhibit E provides an example of the avoided cost BGSS savings calculation.

iv. Additional savings pursuant to Paragraphs 13(a)(ii) and (iii) will only be counted within the Modified BGSS Savings Test after agreement is reached with Rate Counsel and BPU Staff about BGSS savings transactions.

b. The Parties further agree to adopt an additional recovery limitation to non-weather-related aggregate CIP margins equal to 6.5 percent of aggregate variable margins for the CIP accrual year for all CIP Groups ("Variable Margin Revenue Test"). Specifically, variable margins will be calculated upon: (i) the basis of the number of customers, (ii) the applicable baseline use per customer ("BUC") as discussed in Rider I of the NJNG Tariff and Rider M of the SJG Tariff and (iii) the associated margin per therm. The margin revenues for each month for each CIP Group shall equal the actual number of customers multiplied by the BUC and multiplied by the margin revenue factor as defined in Rider I of the NJNG Tariff and Rider M of the SJG Tariff. The resulting monthly values shall be summed for all twelve months for all CIP Groups in order to yield the total Variable Margins for the year. Recoverable non-weather CIP amounts shall not exceed 6.5 percent of the aggregate variable margin revenues under this test.

c. The dual cost recovery tests set forth in this paragraph shall operate in conjunction with each other in such a manner so that the total non-weather recoverable amount is limited to the smaller of the two recoverable amounts allowed under the separate Modified BGSS Savings Test and the Variable Margin Revenue Test.

d. The Parties agree that any amounts, as set forth in Paragraphs 13a and 13b herein, that exceed the Modified BGSS savings test and/or the Variable Margin Revenue Test, may be deferred for future recovery and are subject to either or both of the recovery tests in a future year consistent with the amount(s) by which either or both of the non-weather margin impacts exceeded the recovery tests agreed to herein, and subject to the ROE test for the total weather and non-weather related recoveries sought in any year. However, any amount by which either the BGSS savings or the recovery limitation exceeds the non-weather-related impact in a given year may not be carried forward. The Companies agree not to seek recovery of any interest associated with any deferred carry-forward amount.

e. The terms of the BGSS savings test approved in the Initial CIP Order shall continue in effect for the current accrual year through September 30, 2014 and associated CIP recovery year of October 1, 2014 through September 30, 2015. The Modified BGSS Savings Test and the Variable Margin Revenue Test set forth in this Stipulation shall apply for the CIP recovery year beginning October 1, 2015, which reflects CIP accruals for the previous 12 months ending September 30, 2015.

14. The Parties agree that the CIP mechanism will be subject to review as part of each Company's respective BGSS/CIP filing submitted in 2017.

15. The Parties further agree that this Stipulation fully disposes of all issues in controversy in this proceeding. 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 provision of this Stipulation is not accepted and approved in its entirety by the Board, any Party aggrieved thereby will not be bound to proceed with this Stipulation and will have the right to litigate all issues addressed herein to a conclusion. More particularly, in the event the Board, in any applicable order(s), does not adopt this Stipulation in its entirety 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.

16. It is the intent of the Parties that the provisions hereof 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.

17. 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, neither NJNG, SJG, the Board, its Staff, nor Rate Counsel will be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein.

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.

NEW JERSEY NATURAL GAS
PETITIONER

By: ____________________________
TRACEY THAYER, ESQ.
New Jersey Natural Gas

SOUTH JERSEY GAS COMPANY
PETITIONER

By: Ira G. Megdal
IRA G. MEGDAL, ESQ.
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STAFF OF THE NEW JERSEY BOARD OF PUBLIC UTILITIES
JOHN J. HOFFMAN, JR.,
ACTING ATTORNEY GENERAL
OF NEW JERSEY

By: ____________________________
ALEX MOREAU
DEPUTY ATTORNEY GENERAL

Date: May ___, 2014