Agenda Date: 9/23/16
Agenda Item: 2A

STATE OF NEW JERSEY

Board of Public Utilities
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Post Office Box 350
Trenton, New Jersey 08625-0350
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ENERGY

IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY FOR APPROVAL OF AN INCREASE IN GAS BASE RATES AND FOR CHANGES IN ITS TARIFF FOR GAS SERVICE, APPROVAL OF SAFE PROGRAM EXTENSION, AND APPROVAL OF SAFE EXTENSION AND NJ RISE RATE RECOVERY MECHANISMS PURSUANT TO N.J.S.A. 48:2-21, 48:2-21.1 AND FOR CHANGES TO DEPRECIATION RATES FOR GAS PROPERTY PURSUANT TO N.J.S.A. 48:2-18.	)	DECISION AND ORDER APPROVING STIPULATION BPU DOCKET NO. GR15111304

Parties of Record:

Andrew K. Dembia, Esq., New Jersey Natural Gas Company, Petitioner
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel
Steven S. Goldenberg, Esq., Fox Rothschild, LLP for TAQA GEN-X, LLC
George D. McGill, Esq., McGill & Hall, LLC for the Borough of Belmar

BY THE BOARD:

On November 13, 2015, pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:1-5.12, New Jersey Natural Gas Company ("Company" or "NJNG"), a public utility of the State of New Jersey subject to the jurisdiction of the New Jersey Board of Public Utilities ("Board"), filed a petition requesting authority to (1) increase its base tariff rates and charges for gas service by $147.6 million to be effective for gas service provided on or after December 17, 2015; (2) extend its Safety Acceleration and Facility Enhancement ("SAFE") Program; (3) implement its New Jersey Reinvestment in System Enhancements ("NJ RISE") and SAFE extension rate recovery mechanisms and (4) implement certain other rate and tariff revisions.

According to the petition, the requested increase was necessary to ensure the Company's continued ability to construct, operate and maintain its natural gas system in a safe, adequate and proper manner as required by N.J.S.A. 48:2-23. The Company also stated that the additional revenue was needed to provide it with the opportunity to recover operating revenues through base rates sufficient to meet operating expenses, taxes and fixed charges, and provide a reasonable rate of return on the fair value of the Company's property devoted to the provision of service to its customers, i.e. rate base investments.

NJNG proposed a test-year ending June 30, 2016. The Company filed direct, supplemental and revised testimony. The petition as originally filed was based upon three (3) months of actual and nine (9) months of estimated data. As the case progressed, the estimated data was replaced by actual data, and on July 20, 2016, the Company filed its update consisting of twelve (12) months of actual data ("12+0 filing"). The revenue increase as shown in the Company's 12+0 filing was $112.853 million.

On January 12, 2016, the Board transmitted this matter to the Office of Administrative Law ("OAL") for hearings as a contested case. The matter was assigned to the Honorable Gail M. Cookson, Administrative Law Judge ("ALJ"). On January 27, 2016, the Board issued an Order suspending the proposed rates until April 17, 2016.

On February 17, 2016, a prehearing conference was conducted by ALJ Cookson, and on February 25, 2016, ALJ Cookson issued a prehearing order establishing procedures and hearing dates for the conduct of this case. TAQA GEN-X, LLC ("TAQA") and the Borough of Belmar ("Belmar") were granted intervenor status, while Public Service Electric and Gas Company ("PSE&G"), AARP and New Jersey Utility Shareholders Association ("NJUSA") were granted participant status. By Order dated March 18, 2016, the proposed rates were further suspended by the Board until August 17, 2016.

After appropriate notice in newspapers of general circulation within NJNG's service territory and the serving of notice upon effected municipalities and counties within the Company's service territory, two (2) public hearings were held in Rockaway Township, New Jersey on April 19, 2016 and two (2) public hearings were held in Freehold Township, New Jersey on April 24, 2016. Members of the public appeared at each of the hearings and made statements. The Board also received numerous written comments from members of the public.

THE STIPULATION[1]

After engaging in discovery and settlement negotiations, on August 12, 2016, the Company, Rate Counsel, TAQA, AARP, NJUSA and Board Staff ("Staff") (collectively, the "Signatory Parties") executed a stipulation of settlement ("Stipulation") resolving all of the issues in this proceeding. On August 15, 2016, PSE&G filed a letter with the Board indicating that it had no objection to the Stipulation. Belmar did not execute the Stipulation.[2] In pertinent part, the Stipulation provides for the following:

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[1] Although described at some length in this Order, should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusions in this Order.

[2] The Borough of Belmar was granted Intervener status on August 2, 2016. On September 8, 2016, the Company submitted a letter advising that since Belmar became an Intervener the Company has spoken with or attempted to speak with Belmar's counsel on numerous occasions both before and after the execution of the Stipulation. Belmar was also copied on the submission of the Stipulation to the OAL and was included on the service list of the Initial Decision. To date the Board has not received any correspondence or objections from Belmar regarding the proposed Stipulation nor has it received any exceptions to the Initial Decision.

1. For the calculation of the revenue requirement in this case, the Signatory Parties agree to a rate base of $1.374 billion, a rate of return of 6.90 percent, and an increase in revenue requirement of $45.00 million, exclusive of SUT. The 6.90 percent rate of return is obtained based on a capital structure of 52.50 percent, common equity with a cost rate of 9.75 percent, 45.07 percent long term debt with a cost rate of 3.89 percent, and 2.43 percent short term debt with a cost rate of 1.00 percent. The $45.00 million increase in revenue requirement can be derived from the following calculation:

Rate Base	$1,374 million
Rate of Return	x 6.90%
Operating Income Requirement	$94.81million
Pro-Forma Operating Income	-$68.31million
Operating Income Deficiency	$26.50 million
Revenue Factor	x 1.6981
Revenue Requirements	$45.00 million

2. The short term debt balance underlying the 2.43 percent of the capital structure is $40.50 million.[3] For the purposes of calculating NJNG's monthly Allowance for Funds used During Construction ("AFUDC") rate on a going forward basis, utilizing the Federal Energy Regulatory Commission ("FERC") method, the Signatory Parties further agree that when the Company has a short term debt balance, the Company in that month shall exclude an amount equal to the lesser of the Company's actual short term debt balance or $40.50 million. That is, only short-term debt in excess of a balance of $40.50 million shall be included in the FERC formula calculation method of the AFUDC rate.

3. As a result of the Stipulation, the typical residential sales heating customer, using 100 therms of gas during a month, will receive an increase of $7.11 or 7.4 percent on their monthly bill from $95.44 to $102.55. The typical residential heating customer using 1000 therms annually will receive an increase of $72.30 or 7.4 percent in their annual costs.

4. The base rate revenue increase agreed to in the Stipulation includes recovery of and recovery on SAFE investments through September 30, 2016. This concludes the capital investments associated with NJNG's initial SAFE Program. NJ RISE investments after June 30, 2016 are not reflected in the $45.00 million revenue increase. These NJ RISE investments will be recovered through the annual rate return mechanism set forth in the Stipulation.

5. The base rate revenue increase agreed to in the Stipulation reflects a seven (7) year amortization of the following items:

    - Rate Case Expenses and Management/Affiliated Standards Audit - These items represent a normalized level of expense incurred for rate case expense and management and affiliate standards audit fees. The Rate Case Expense

[3] This amount approximates the average short-term debt balance during the Company's test year.

component is reduced by 50 percent which is not recoverable through customer rate charges. The amount to be amortized for these items is $0.856 million.

- Storm Costs – Pursuant to the Board's Order dated October 22, 2014 in Docket Nos. AX13030196 and GO13070610 the Board recognized that $15.20 million of Superstorm Sandy expenditures were reasonably and prudently incurred and may be recovered from ratepayers in a future rate case. The amount to be amortized for this item is $15.201 million.

- Red Oak Power Plant – Pursuant to the Board's Order dated December 13, 2013 in Docket No. GO13010059 the delivery margin received above an average amount was to be shared between the Company and ratepayers on an equal basis, i.e., 50/50 basis. The sharing was applicable to the period between the commencement of service to Red Oak and ending with the first month prior to the first month of the test year. The amount to be amortized for this item is a credit of $0.047 million.

- Pipeline Integrity Management Costs - Pursuant to the Board's Order dated October 3, 2008 in Docket No. GR07110889, NJNG was permitted to defer Pipeline Integrity Management costs actually incurred in excess of $1.40 million up to $700,000 on an annual basis. The amount to be amortized for this item is $4.446 million.

- Compressed Natural Gas – Pursuant to the Board's Order in Docket No. GR11060361 dated June 18, 2012, NJNG agreed that customers utilizing the Compressed Natural Gas ("CNG") stations built under the CNG Pilot Program will be charged $0.20 per therm to offset the programs revenue requirement. The amount to be amortized for this item is a credit of $0.127 million.

- Patient Protection and Affordable Care Act - As a result of the Patient Protection and Affordable Care Act the tax deduction available to the Company was reduced to the extent its drug expenses are reimbursed under the Medicare Part D retiree drug subsidy program. The amount to be amortized for this item is $4.00 million.

The total amount to be amortized is $24.329 million over the seven (7) year period.

6. The base rate revenue increase agreed to in the Stipulation reflects an adjustment for consolidated federal income taxes.

7. No incentive compensation, with the exception of the Company's represented employees, has been considered in the determination of the agreed upon base rate revenue increase.

8. The Signatory Parties agree to allow NJNG to fund its investment portfolio for its annual Other Post-Employment Benefits ("OPEB") obligations to the maximum extent available under the Internal Revenue Code ("IRC") up to a limit that will represent full funding of its obligations and to the maximum tax deduction allowed.

9. The Signatory Parties recognize that the Margin Revenue Factors and the monthly Baseline Usage per Customer ("BUC") set forth in NJNG's current Conservation Incentive

Program ("CIP") tariff must be updated in order to align these aspects of the CIP tariff with the Board's approval of new base rates in this proceeding. These factors and rates are included in Rider "I" of the Company's Tariff attached to the Stipulation as Attachment A.

10. The Signatory Parties agree the Company's composite depreciation rate shall be increased from the currently approved rate of 2.34 percent to 2.40 percent. The overall composite rate of 2.40 percent consists of an investment rate of 1.90 percent and the net salvage rate of 0.50 percent. The agreed depreciation rates by functional plant category are:

Storage and Processing	0.77%
Transmission	2.65%
Distribution	1.92%
General Plant	11.72%

The agreed depreciation rates by account are set forth in Attachment B to the Stipulation.

11. In the Board-approved stipulation in the Company's 2007 base rate proceeding, Docket No. GR07110889, the parties in that proceeding agreed that the Company's depreciation reserve included a non-legal asset retirement obligation ("non-legal ARO") of approximately $79.00 million, representing amounts previously collected for Cost of Removal ("COR") but not yet expended for that purpose. In that Stipulation the Company agreed to reflect the non-legal ARO as a regulatory liability, and amortize to income $1.649 million per year. As of June 30, 2016 the Company's accounting records reflected a non-legal ARO Liability actual balance of $38.18 million. The Signatory Parties agree that the Company shall continue the $1.649 million amortization to income per year until the non-legal ARO Liability actual balance reaches $0.00. The Company represents that its depreciation expense is solely based on the depreciable utility plant investments as of June 30, 2016 using a composite rate of 2.40 percent. In addition, no utility investments have been recovered through operations and maintenance ("O&M") expenses for the test period utility operating income.

12. In addition, an amount to be transferred each year to the Depreciation Reserve - Account 108, from the non-legal ARO liability balance shall be equal to the amount by which the actual net COR incurred in that year (cash amount expended for COR) exceeds the net salvage allowance of 0.50 percent reflected in the stipulated depreciation rates.

13. After the non-legal ARO Liability actual balance reaches $0.00 there will be no further special accounting treatment for the non-legal COR. The annual recovery for COR will be charged to depreciation expense and credited to the depreciation reserve. Actual cost of removal will continue to be debited to the depreciation reserve. The Company shall not be entitled to recover any amounts claimed to be overpaid to ratepayers in the event the rates resulting from this proceeding remain in effect after the non-legal ARO Liabilities actual balance reaches $0.00. The Company will not record a regulatory asset for any excess actual net COR over the stipulated net salvage allowance of 0.50 percent that may occur after the non-legal ARO Liabilities actual balance reaches $0.00.

14. The Signatory Parties stipulate and agree that, under the methodology set forth above, the Company will be made whole for actual future COR , in as much as any over or under recovery of actual COR will be reflected in the depreciation reserve. The Signatory Parties reserve their rights to argue their respective positions as to the proper regulatory net salvage amount charged to the depreciation reserve and as to the net salvage rates required to provide for full recovery in subsequent rate cases.

15. The Company has recorded $17.46 million associated with its legal ARO for gas plant as of June 30, 2016 for financial accounting purposes. The Company's current depreciation expense, based on a composite rate of 2.40 percent, includes the recognition of the accretion expense of the legal ARO. The Company represents that it intends to record the annual accretion of the ARO legal obligation as a regulatory asset and an offsetting regulatory liability for financial accounting purposes. The regulatory asset will be credited upon the retirement of utility property in each respective reporting period against the ARO legal liability. As long as the Board continues its current policy that provides for full recovery of actual COR expenditures through a reasonable net salvage allowance, the Company will not seek recovery of such regulatory asset, since that asset is extinguished as COR is incurred and debited to the depreciation reserve, as described above.

16. Customer Service Standards - NJNG will submit to Rate Counsel and the Director of the Division of Customer Assistance at the Board quarterly and annual reports, as specified, concerning activity at its walk-in and payment centers and concerning the Company's performance in relation to certain service measures, as detailed in Attachment C to the Stipulation.

With regard to the Company's request to extend the SAFE Program, the Signatory Parties further agree as follows:

17. The Signatory Parties agree that NJNG may implement an extension of its SAFE Program ("SAFE Extension") under the terms and conditions described in the Stipulation. The SAFE Extension will include capital investments in NJNG's gas distribution system for the replacement of existing unprotected steel mains and services, a cost recovery mechanism ("SAFE Rate Mechanism") including scheduled rate adjustments for capital investments included in the SAFE Extension, required base investments that are not recoverable through the SAFE Rate Mechanism ("Stipulated Base"), and other provisions as described in the Stipulation. The SAFE Extension Program is estimated to cost approximately $200.0 million, excluding AFUDC, over the duration of the Program. Inclusive in this amount is $42.50 million of Stipulated Base spending that is not recoverable through the SAFE Rate Mechanism. The remaining $157.5 million will be recovered through the SAFE Rate Mechanism as described below.

18. NJNG has represented to the parties that it expects to have replaced all of its unprotected steel mains and services, on or before September 30, 2021, and that no further SAFE extensions will be required after that date. Based on these unique circumstances, and in light of the Company's agreement to file a base rate case in accordance with paragraph twenty-one (21) of the Stipulation, and the other terms and conditions contained in the Stipulation, the Signatory Parties agree that the SAFE Extension will have a five (5) year term beginning on and after October 1, 2016, or on

such other date as the Board deems appropriate and ending five (5) years after its commencement.

19. The Company will be required to maintain a Stipulated Base level of capital spending of \$8.50 million per year which will not be recoverable through the SAFE Rate Mechanism provided in this Stipulation for the replacement of unprotected steel mains and services during the course of the SAFE Extension. During the five (5) years 2016–2021, NJNG will install and place in service no less than 58.7 miles of main and associated services under this Stipulated Base. If the Company fails to install and place in service 58.7 miles of main and associated services by September 30, 2021 or the end date of the program as determined by its commencement date, the Company will complete this work without seeking cost recovery from ratepayers through this Rate Mechanism for any such capital investments.

20. <u>SAFE Rate Mechanism</u> - cost recovery for the SAFE Extension capital investments will occur on an annual basis, with schedules, procedures, and filings as detailed below. Costs to be recovered will include the rate of return on net plant in service investments as of the end of the specified period. Net plant in service will be calculated as gross plant in service less accumulated depreciation less accumulated deferred income taxes. The revenue requirement will also include depreciation expense, income taxes, and a revenue factor as more fully described in the Stipulation. In addition, the SAFE Extension revenue requirement will be reduced by an O&M savings credit of \$100,000.00 or pro-rated amount where applicable, and any depreciation expense related to the unprotected mains retired during the specified period. The revenue requirement will not include an expense for the recovery of the Cost of Removal (unless embedded in the depreciation rates); however, the revenue requirement will include the rate of return on the COR investment. Depreciation will be calculated at the asset class multiplied by the depreciation rate applied to each respective account. When SAFE projects are transferred from Construction Work in Progress ("CWIP") to Utility Plant in Service, the booking of AFUDC shall cease and the booking of depreciation expense shall commence. The O&M expenses associated with the SAFE Extension will not be included in the revenue requirement filings nor will such costs be deferred for future recovery.

21. The Signatory Parties agree that the review of the prudence of all projects undertaken in the SAFE Extension will not take place prior to or in connection with the base rate adjustments established in the Stipulation. NJNG therefore agrees that the rate adjustments established in the rate filing proceedings, established in the Stipulation, shall be provisional and subject to refund based upon a Board finding that NJNG imprudently incurred capital expenditures under the SAFE Extension. Such prudence review shall take place in a base rate case which shall be filed no later than November 2019 ("Base Case"). The Base Case filing will be filed with no fewer than three (3) months of actual data and nine (9) months of estimated data for the test year which test year will be updated throughout the course of the proceeding for twelve (12) months of actual data.

22. To effectuate the cost recovery process for the SAFE Extension investments, NJNG shall proceed on the following schedule following public notice and public hearings, recognizing that the prudence of the investments will be determined in the next appropriate base rate case proceeding. The schedule below anticipates annual notice,

public hearings, and rate adjustments to cover all rate changes for the SAFE Extension investments.

a. Revenue Requirements associated with the SAFE Extension investments that are placed into service from the commencement date through and including June 30, 2017 shall go into base rates effective October 1, 2017. NJNG shall make its initial filing for such rates in March 2017, and update such filing for actual data through June 30, 2017 by July 31, 2017, including actual data on the "Stipulated Base" expenditures. The required Stipulated Base level of capital spending through June 30, 2017 will reflect the pro-rata portion of the annual \$8.50 million dollars based upon the commencement date of the SAFE Extension. Assuming an October 1, 2016 effective date, the pro-rata portion would be \$6.375 million based on a nine (9) month proration.

b. Revenue Requirements associated with the SAFE Extension investments that are placed into service through and including June 30, 2018 shall go into base rates effective October 1, 2018. NJNG shall make its initial filing for such rates in March 2018, and update such filing for actual data through June 30, 2018 by July 31, 2018, including actual data on the "Stipulated Base" expenditures.

c. Revenue Requirements associated with the SAFE Extension investments that are placed into service through and including June 30, 2019 shall go into base rates effective October 1, 2019. NJNG shall make its initial filing for such rates in March 2019, and update such filing for actual data through June 30, 2019 by July 31, 2019, including actual data on the "Stipulated Base" expenditures.

d. Revenue Requirements associated with the SAFE Extension investments that are placed into service through and including June 30, 2020 shall go into base rates effective October 1, 2020. NJNG shall make its initial filing for such rates in March 2020, and update such filing for actual data through June 30, 2020 by July 31, 2020, including actual data on the "Stipulated Base" expenditures.

e. Revenue Requirements associated with the SAFE Extension investments that are placed into service through and including September 30, 2021 or such date that occurs five (5) years after the commencement of the SAFE Extension, shall go into base rates effective January 1, 2022. NJNG shall make its initial filing for such rates in June 2021, and update such filing for actual data through September 30, 2021 by October 31, 2021, including actual data on the "Stipulated Base" expenditures. The required Stipulated Base level of capital spending for this recovery period will be the remaining portion of the \$42.50 million in total required Stipulated Base spending for the SAFE Extension program. Assuming an October 1, 2016 effective date, remaining portion would be \$10.625 million, representing a fifteen (15) month proration.

23. The Signatory Parties acknowledge that as the result of the base rate case requirement as described above in paragraph twenty one (21), that proceeding shall be kept open beyond an order addressing base rates, as necessary, for the purpose of addressing the rate adjustments as contemplated above and determining the prudence of investments placed in service after the end of the Base Case test year.

24. In the rate adjustment proceedings provided for above, the revenue requirement associated with the SAFE Extension investments shall be calculated as summarized in the Stipulation.

25. <u>SAFE Extension Investment Costs</u> - all qualifying SAFE Extension capital investments, including actual costs of engineering, design and construction, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects ("SAFE Extension Costs"), will be recovered through a base rate roll-in for each of the time periods described above. The SAFE Extension Costs will be recorded, during construction, in an associated CWIP account or in a Plant in Service account upon the respective project being deemed used and useful. The Company will follow its current policies and practices with regard to capitalizing costs, including overheads.

26. <u>Net Investment</u> - the SAFE Extension Investment Costs that have been placed into service less the associated accumulated depreciation and less accumulated deferred income taxes.

27. <u>Weighted Average Cost of Capital ("WACC")</u> - The rate of return on the incremental capital investments undertaken in the SAFE Extension shall be recognized at a WACC including a 9.75 percent return on common equity reflecting an equity level of 52.5 percent. The Signatory Parties agree that any WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent SAFE Extension revenue requirement calculations.

28. The base rate adjustments will be calculated using the following formula:

Revenue Requirement = (Program Rate Base * After Tax WACC) + Depreciation Expense (net of tax) + Tax Adjustments) * Revenue Factor

a. <u>Program Rate Base</u> - the Program Rate Base will be calculated as Plant in Service, including CWIP transferred into service and associated AFUDC, less accumulated depreciation and less associated accumulated deferred income taxes. AFUDC will be calculated using the same methodology for current distribution assets, consistent with the Company's AFUDC policy, and as permitted by FERC Order 561, which includes compounding AFUDC on a semi-annual basis. Any rate of return authorized by the Board in a subsequent base rate case will be reflected in the subsequent AFUDC calculations as addressed by FERC Order 561.

b. <u>Depreciation Expense</u> - depreciation expense will be calculated as the SAFE Extension Investment Costs by asset class multiplied by the associated depreciation rate applied to the same asset in current base rates and then calculated net of tax. The Signatory Parties agree that any depreciation rate authorized by the Board in a subsequent base rate case will be reflected in the subsequent SAFE Extension revenue requirement calculations.

c. Tax Adjustments - includes the effects of any flow through items and any tax law changes codified by the Internal Revenue Service, the State of New Jersey or any other taxing authority.

d. Revenue Factor - the Revenue Factor adjusts the Revenue Requirement net of tax for federal and state income taxes and the costs associated with the Board ("BPU") and Rate Counsel ("RC") Annual Assessments and Gas Revenue Uncollectibles. The then-current statutory state and federal income tax rates and the then-current BPU/RC Assessment rates will be utilized. The percentage used to calculate the uncollectible expense is based upon the percentage determined in the Company's current base rate case.

29. A sample revenue requirement calculation based on the estimated revenue requirement for the first rate adjustment is included as Attachment D to the Stipulation.

30. SAFE Extension Rate Design – Until the next base rate case, the rate design for the SAFE Extension annual rate adjustments will be structured to reflect the same rate design methodology used to set rates in this base rate case.

31. Minimum Filing Requirements ("MFRs") - Each SAFE Extension base rate change filing will be accompanied by the MFRs that are set forth in Attachment E to the Stipulation.

32. Leaks - During the time period from October 1, 2016 through September 30, 2021, the Company shall eliminate its inventory of pending leaks on its unprotected steel facilities. This metric is irrespective of incremental, new, post-September 30, 2016 leaks which will not be counted in such metric. If the Company fails to reduce this September 30, 2016 leak inventory by 20 percent in the first year, or 40 percent after the first two (2) years, it will notify Board Staff and Rate Counsel and schedule a conference to discuss within 30 days. If the Company fails to reduce this September 30, 2016 leak inventory by 60 percent over the first three (3) years, the Company shall achieve compliance with this obligation without seeking cost recovery from ratepayers for any expenditures incurred for this purpose after September 30, 2019. If the Company fails to eliminate its September 30, 2016 leak inventory over the term of the program, the Company shall achieve compliance with this obligation without seeking cost recovery from ratepayers for any expenditures incurred for this purpose after September 30, 2021. NJNG may request and the Board may grant an exception from the requirements of this paragraph based on extraordinary circumstances, such as extreme weather, acts of war or terrorism, or other force majeure circumstances.

33. SAFE Extension Quarterly Report - NJNG will provide quarterly reports on the SAFE Extension to Board Staff and Rate Counsel setting forth the information for the SAFE Extension and the Stipulated Base as set forth in Attachment F to the Stipulation. This reporting will begin with the quarter ending December 31, 2016 and be filed by February 28, 2017, and continue quarterly with reports due 60 days after the end of the respective quarter that is reflected in the report, until Program and Stipulated Base expenditures are complete.

The Stipulation further provides for the following:

34. NJ RISE - the Signatory Parties agree that the NJ RISE incremental capital investments as authorized by Board Order in Docket Nos. AX13030197 and GR13090828 will be recovered in base rates in the same manner as the SAFE Extension Cost Recovery mechanism set forth above. The NJ RISE and SAFE Extension annual rate filings shall be combined for administrative ease.

35. Southern Reliability Link ("SRL") - NJNG withdraws its request for quarterly rate treatment of SRL costs incurred during construction as proposed in the supplemental direct testimony of James M. Corcoran dated May 3, 2016.

36. Tariff and Rate Design - attached to the Stipulation as Attachment G is a schedule entitled "New Jersey Natural Gas Company, Base Rates and Revenues at Present and Proposed Rates". The Signatory Parties stipulate that this schedule represents the rate design methodology and billing determinants to be utilized in this case.

37. The Signatory Parties agree that the tariff modifications described in Attachment H to the Stipulation are reasonable, appropriate and shall be implemented upon Board approval.

38. The Company agrees to submit as part of its next base rate case the Staff average and peak cost of service study ("Staff COSS") referenced in the Board's Order (at p. 9) in Docket No. GR07110889, along with all associated work papers. Submission of the Staff COSS in the next base rate case does not imply endorsement of the Staff methodology by the Company. The Company, as well as any other party to that future proceeding, is free to submit its preferred cost of service study and supporting work papers.

39. Margin From Interruptible Customers and Certain Electric Generation Customers - the Signatory Parties agree that as of the effective date of the rates approved in the Final Board Order in this case, the delivery margins for Interruptible Service ("IS") customers, the Forked River Plant, the Sayreville Plant, and Ocean Peaking Power will cease to be credited to the Basic Gas Supply Service ("BGSS") and will be recorded as utility revenue.

40. Balancing Charges - the Signatory Parties agree that in addition to transportation customers, the Company will apply balancing charges to sales customers in Rate Schedules Residential Service ("RS"), General Service Small ("GSS"), General Service Large ("GSL"), Distributed Generation Residential ("DGR"), Distributed Generation Commercial ("DGC") and Economic Development ("ED") customers ("Balancing Rate Classes"). The BGSS rates in the tariff for the Balancing Rate Classes will be the current BGSS price less the balancing charge. This modification has no effect on customer rates.

41. The balancing charge related to inventory has been updated through this rate case to $0.0025 per therm based on the pre-tax rate of return of 10.43 percent agreed to in the Stipulation and shall be incorporated into the BGSS filing in Docket No. GR16060482. The balancing charge related to inventory will remain fixed until new rates become effective in the Company's next base rate case.

42. The balancing charge will continue to be adjusted in the Company's annual BGSS filings to reflect only updated pipeline demand charges, credit adjustments and the percentage of peak day volume related to balancing associated with the pipeline demand portion of the

balancing charge. The firm volumes from which the pipeline demand portion of the balancing charge is determined will also be updated. The Company's recalculation will be subject to review as part of the annual BGSS proceedings. The Company will credit all balancing revenues from customers in the Balancing Rate Classes to its BGSS.

43. Compressed Natural Gas Credit ("CNGC") - the Signatory Parties agree that the Company will eliminate Rider "G" CNGC and defer the CNG charge revenue credit as of the end of the test year, June 30, 2016. The resulting deferral will be addressed in a future base rate case.

On August 17, 2016, ALJ Cookson issued an Initial Decision approving the Stipulation pursuant to N.J.S.A. 1:1-19.1, finding that the settlement is voluntary, consistent with the law and fully disposes of all issues in controversy. No Exceptions or other objections to the Stipulation or Initial Decision have been filed with the Board.

DISCUSSION

In evaluating a proposed settlement, the Board must review the record, balance the interests of the ratepayers and shareholders, and determine whether the settlement represents a reasonable disposition of the issues that will enable the Company to provide its customers in this State with safe, adequate and proper service at just and reasonable rates. In re Petition of Pub. Serv. Elec. & Gas, 304 N.J. Super. 247 (App. Div.), cert. denied, 152 N.J. 12 (1997). The Board recognizes that the Signatory Parties worked diligently to negotiate a compromise that attempts to meet the needs of as many stakeholders as possible. The Board further recognizes that the Stipulation represents a balanced solution considering the many complex issues that were addressed during the proceeding. The Board notes that it may consider a Stipulation not executed by all parties. See In re Public Service Elec. and Gas Company's Rate Unbundling, supra, 330 N.J. Super. at 111 (finding "[a]gencies are well within their authority to adopt stipulations as fact-finding tools, as long as they evaluate the stipulations and the parties have had an opportunity to argue against them.").

Based on the Board's review and consideration of the record in this proceeding, including the Stipulation and Initial Decision, petition and testimony, the Board **HEREBY FINDS** the Stipulation and Initial Decision to be reasonable, in the public interest and in accordance with the law.

In addition, the Board **HEREBY FINDS** that the revenue requirement increases are fair and reasonable and reflect the increases in capital investments for infrastructure and increases in other costs and expenses that NJNG is incurring to provide safe, adequate and reliable service. The Board notes that the stipulated increase in distribution revenues of $45.00 million, exclusive of SUT, is substantially less than the approximate $112.853 million sought in the Company's 12+0 filing. Accordingly, the Board **FINDS** that the $45.00 million revenue requirement increase is fair and reasonable.

Accordingly, the Board **HEREBY ADOPTS** the attached Stipulation and Initial Decision in their entirety and **HEREBY INCORPORATES** their terms and conditions as though fully set forth herein.

The rates approved by this Order will become effective for service rendered on or after October 1, 2016. As a result of these changes, the typical residential sales service customer, using 100 therms of gas during a winter month, will receive an increase of $7.11 or 7.4% on their monthly bill form $95.44 to $102.55. The average residential heating customer using 1,000 therms annually will receive an increase of $72.30 or 7.4% in their annual energy costs.

The Board **HEREBY DIRECTS** NJNG to file the appropriate tariff pages that conform to the terms and conditions in this order by October 1, 2016.

The Company's costs will remain subject to audit by the Board. This Decision and Order shall not preclude nor prohibit the Board from taking any actions determined to be appropriate as a result of any such audit.

The effective date of this Order and the rate adjustments is October 1, 2016.

DATED: 9\23\16

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BY:

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PRESIDENT

JOSEPH L. FIORDALISO
COMMISSIONER

MARY-ANNA HOLDEN
COMMISSIONER

DIANNE SOLOMON
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UPENDRA J. CHIVUKULA
COMMISSIONER

ATTEST:

KENNETH J. SHEEHAN
ACTING SECRETARY

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

IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY FOR APPROVAL OF AN INCREASE IN GAS BASE RATES AND FOR CHANGES IN ITS TARIFF FOR GAS SERVICE, APPROVAL OF SAFE PROGRAM EXTENSION, AND APPROVAL OF SAFE EXTENSION AND NJ RISE RATE RECOVERY MECHANISMS PURSUANT TO N.J.S.A. 48:2-21, 48:2-21.1 AND FOR CHANGES TO DEPRECIATION RATES FOR GAS PROPERTY PURSUANT TO N.J.S.A. 48:2-18

BPU DOCKET NO. GR15111304

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PSEG
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August 15, 2016

In The Matter Of The Petition Of
New Jersey Natural Gas Company For Approval Of An
Increase In Gas Base Rates And For Changes In Its
Tariff For Gas Service; Approval Of Safe Program Extension;
And Approval Of Safe Extension And NJ Rise Rate Recovery
Mechanisms Pursuant To N.J.S.A. 48:2-21, 48:2-21.1,
And For Changes To Depreciation Rates For Gas Property
Pursuant To N.J.S.A. 48:2-18

BPU Docket No. GR15111304
OAL Docket No. PUC 00738-2016N

VIA ELECTRONIC & REGULAR MAIL

The Honorable Gail M. Cookson, ALJ
Office of Administrative Law
33 Washington Street
Newark, New Jersey 07102

Dear Judge Cookson:

This letter, of which 3 additional copies are enclosed, is to advise that Public Service Electric and Gas Company ("PSE&G"), a participant in this proceeding, has no objection to the Stipulation Of Settlement between the Parties which was provided to PSE&G via e-mail by New Jersey Natural Gas counsel on August 15, 2016, dated on that date, and which we anticipate will be filed on or about August 16, 2016.

Copies of this letter are being forwarded this date via electronic mail to all persons whose name appear on the attached distribution list.

Respectfully submitted,

Martin C Rothfelder

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GR15111304 - PUC 00738-2016N

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State of New Jersey
OFFICE OF ADMINISTRATIVE LAW

INITIAL DECISION SETTLEMENT

OAL DKT. NO. PUC 00738-16

AGENCY DKT. NO. GR15111304

I/M/O PETITION OF NEW JERSEY NATURAL GAS COMPANY FOR APPROVAL OF AN INCREASE IN GAS BASE RATES AND FOR CHANGES IN ITS TARIFF FOR GAS SERVICE, APPROVAL OF SAFE PROGRAM EXTENSION, AND APPROVAL OF SAFE EXTENSION AND NJ RISE RATE RECOVERY MECHANISMS PURSUANT TO N.J.S.A. 48:2-21, 48:2-21.1 AND FOR CHANGES TO DEPRECIATION RATES FOR GAS PROPERTY PURSUANT TO N.J.S.A. 48:2-18.

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Janine G. Bauer, Esq., for participant AARP (Szaferman Lakind, attorneys)

James H. Laskey, Esq., for participant New Jersey Utility Shareholders Association (Norris McLaughlin & Marcus, attorneys)

George D. McGill, Esq., for intervenor Borough of Belmar (McGill & Hall, attorneys)

Record Closed: August 16, 2016 Decided: August 17, 2016

BEFORE **GAIL M. COOKSON,** ALJ:

On or about November 13, 2015, New Jersey Natural Gas Company (NJN or Company) filed with the New Jersey Board of Public Utilities (BPU or Board) a Petition for Approval of an Increase in Gas Base Rates and For Changes in its Tariff for Gas Service, Approval of the SAFE Program Extension, and Approval of the SAFE Program Extension and NJ RISE Rate Recovery Mechanisms, and for Changes to Depreciation Rates for Gas Property, and other related relief. On or about January 16, 2016, the Board transmitted the matter to the Office of Administrative Law (OAL) for hearing as a contested case pursuant to N.J.S.A. 52:14B-1 to-15 and N.J.S.A. 52:14F-1 to- 13. The matter was assigned to the undersigned.

On February 17, 2016, I convened a telephonic case management conference during which discovery procedures were discusses and the public and plenary hearing dates were scheduled. Evidentiary hearings were scheduled to commence on August 8,

2016. On April 19, 2016, two public hearings were held in Rockaway Township, New Jersey. On April 24, 2016, two public hearings were held in Freehold Township, New Jersey. Members of the public appeared at all four hearings and were permitted to make statements. Several case management conferences were convened in the intervening period of the ongoing discovery. In addition, I entered Orders on Motions to Intervene and/or Participate by several additional entities, which are incorporated herein by reference. TAQA GEN-X, LLC and the Borough of Belmar were granted intervenor status; PSE&G, AARP, and New Jersey Utility Shareholders Association were granted participant status.

Prior to the scheduled hearing dates, the parties advised that they had reached a tentative resolution of the issues in dispute. Accordingly, the plenary hearing dates were released. In fulfillment of the agreement, the parties submitted under cover of August 15, 2016, a fully-executed Stipulation of Settlement, which is attached hereto and made part hereof. It resolves this rate proceeding to the full satisfaction of the parties. Intervenors and participants have either executed the Stipulation or submitted letters setting forth that each of them has no objection to entry of the Stipulation. Accordingly, and on that basis, I have reviewed the record and terms of the Consent Order and **FIND**:

1. The parties have voluntarily agreed to the settlement as evidenced by the signatures of the parties or their representatives.

2. The settlement fully disposes of all issues in controversy and is consistent with law.

I **CONCLUDE** that the agreement meets the requirements of N.J.A.C. 1:1-19.1 and therefore, it is **ORDERED** that the matter be deemed dismissed with prejudice and that these proceedings be and are hereby concluded.

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

This recommended decision may be adopted, modified or rejected by the **BOARD OF PUBLIC UTILITIES,** which by law is authorized to make a final decision in this matter. If the Board of Public Utilities does not adopt, modify or reject this decision within forty-five (45) days and unless such time limit is otherwise extended, this recommended decision shall become a final decision in accordance with N.J.S.A. 52:14B-10.

August 17, 2016
DATE

Gail M. Cookson

GAIL M. COOKSON, ALJ

Date Received at Agency: ____________________

Date Mailed to Parties: ____________________
id

Dhabliwala, Ila

From: Microsoft Outlook
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Sent: Wednesday, August 17, 2016 1:44 PM
Subject: Relayed: PUC 738-16 NJN Base I.D. Settlement (From: Judge Cookson)

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Subject: PUC 738-16 NJN Base I.D. Settlement (From: Judge Cookson)

New Jersey
Natural Gas

August 15, 2016

Via Electronic Mail and Federal Express Overnight Delivery
Honorable Gail M. Cookson
Administrative Law Judge
Office of Administrative Law
33 Washington Street
Newark, New Jersey 07102

Re: In the Matter of the Petition of New Jersey Natural Gas Company For Approval of an Increase in Gas Base Rates and for Changes in its Tariff for Gas Service, Approval of the SAFE Program Extension, and Approval of SAFE Extension and NJ RISE Rate Recovery Mechanisms Pursuant to N.J.S.A. 48:2-21, 48:2-21.1 and for Changes to Depreciation Rates for Gas Property Pursuant to N.J.S.A. 48:2-18
BPU Docket No. GR15111304
OAL PUC 00738-16

Dear Judge Cookson:

Enclosed is an executed Stipulation of Settlement ("Stipulation") with the parties who actively participated in the above captioned matter for your consideration. Participant, Public Service Electric and Gas Company has stated that in lieu of executing this Stipulation, they will be submitting a letter stating they do not oppose the settlement reached among the parties. Intervenor Borough of Belmar has taken no position to date.

The Company is hopeful that the Board of Public Utilities ("Board") will consider this matter at its September 23, 2016 Agenda meeting. As a result of internal deadlines, the Board would need your Initial Decision no later than August 31, 2016 for this matter to be considered in September. Therefore, it is respectfully requested that you issue your Initial Decision as soon as you can in order that this deadline be met.

By copy of this letter, copies of the Stipulation are being forwarded this date via electronic mail to all persons whose name appear on the attached Service list.

Please do not hesitate to contact me (732) 938-1073 if you have any questions.

Respectfully submitted,

NEW JERSEY NATURAL GAS COMPANY

Andrew K. Dembia

Regulatory Affairs Counsel

C: Service list –electronic service only

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

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

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In the Matter of the Petition of
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BPU Docket No. GR15111304

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

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

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
OFFICE OF ADMINISTRATIVE LAW

IN THE MATTER OF THE PETITION OF) NEW JERSEY NATURAL GAS COMPANY) FOR APPROVAL OF AN INCREASE IN) GAS BASE RATES AND FOR CHANGES) IN ITS TARIFF FOR GAS SERVICE;) APPROVAL OF SAFE PROGRAM) EXTENSION; AND APPROVAL OF SAFE) EXTENSION AND NJ RISE RATE) RECOVERY MECHANISMS PURSUANT TO) N.J.S.A. 48:2-21, 48:2-21.1 AND FOR) CHANGES TO DEPRECIATION RATES FOR) GAS PROPERTY PURSUANT TO N.J.S.A.) 48:2-18)	**STIPULATION OF SETTLEMENT** BPU DOCKET NO. GR15111304 OAL DOCKET NO. PUC 00738-16

APPEARANCES:

Andrew K. Dembia, Esq., and Frederick W. Peters, Esq. (Law Offices of Frederick W. Peters) *pro hac vice,* for petitioner New Jersey Natural Gas Company, (Mariellen Dugan, Senior Vice President and General Counsel, attorneys).

Alex Moreau and Christopher Psihoules, Deputy Attorneys General, for Staff of the Board of Public Utilities (Christopher S. Porrino, Attorney General of New Jersey).

Felicia Thomas-Friel, Deputy Rate Counsel, Sarah H. Steindel, Henry M. Ogden, Kurt S. Lewandowski, and Maura Caroselli, Assistant Deputy Rate Counsels for the New Jersey Division of Rate Counsel (Stefanie A. Brand, Director).

Joseph F. Accardo, Jr., Deputy General Counsel and Martin C. Rothfelder, Assistant General Regulatory Counsel for Participant Public Service Electric and Gas Company.

Steven S. Goldenberg, Esq., (Fox Rothschild) and Paul Forshay, Esq., (Sutherland, Asbill & Brennan) *pro hac vice,* for Intervenor TAQA GEN-X, LLC.

Janine G. Bauer, Esq., Szaferman, Lakind, Blumstein, & Blader, P.C. for Participant AARP.

James A. Laskey, Esq., Norris, McLaughlin & Marcus, P.A. for Participant New Jersey Utility Shareholders Association.

George D. McGill, Esq., McGill & Hall, L.L.C. for Intervenor Borough of Belmar.

TO: THE HONORABLE GAIL M. COOKSON, ADMINISTRATIVE LAW JUDGE:

BACKGROUND

On November 13, 2015, New Jersey Natural Gas Company ("NJNG," the "Company," or "Petitioner"), filed a Petition with the New Jersey Board of Public Utilities ("BPU" or "Board") for authority pursuant to N.J.S.A. 48:2-21 and N.J.S.A. 48:2-21.1 and N.J.A.C. 14:1-5.12 to (i) increase its base rates and charges for gas service by $147.6 million, (ii) extend its Board approved Safety Acceleration and Facility Enhancement ("SAFE") Program[1], (iii) approve its NJ Reinvestment in System Enhancement ("RISE") Program[2] and its SAFE Extension rate recovery mechanisms and (iv) implement certain other rate and tariff revisions. NJNG also requested to change its existing depreciation rates pursuant to N.J.S.A. 48:2-18.

In the Petition, NJNG proposed a test-year ending June 30, 2016. The petition as originally filed was based upon three (3) months of actual and nine months of estimated data. As the case progressed, the estimated data was replaced by actual data, and on July 20, 2016,

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[1] See, In the Matter of The Petition of New Jersey Natural Gas Company For Approval of the Safety Acceleration And Facility Enhancement Program Pursuant To N.J.S.A. 48:2-23, And For Approval of The Associated Recovery Mechanism Pursuant To N.J.S.A. 48:2-21 and 2-21.1, BPU Docket No. GO12030255 (October 23, 2012) ("SAFE Order").

[2] See, In the Matter of The Petition of New Jersey Natural Gas Company For Approval of the NJ RISE Program And Associated Rate Recovery Mechanism, BPU Docket No.GR13090828 (July 23, 2014).("NJ RISE Order").

the Company filed its update consisting of twelve (12) months of actual data. The revenue increase as shown in the Company's update was $ 112.853 million.

On January 16, 2016, this proceeding was transmitted by the Board to the Office of Administrative Law ("OAL") as a contested case. The matter was assigned to the Honorable Gail M. Cookson, Administrative Law Judge ("ALJ"). On February 17, 2016, a prehearing conference was conducted by ALJ Cookson and on February 25, 2016, ALJ Cookson issued a prehearing order establishing procedures and hearing dates for the conduct of this case. A subsequent case management conference was held by ALJ Cookson on June 24, 2016.

The parties to this case are Petitioner, the Staff of the Board ("Staff"), the Division of Rate Counsel ("Rate Counsel"), and Intervenors, TAQA GEN-X, LLC and the Borough of Belmar. Participants are Public Service Electric and Gas Company, AARP and the New Jersey Utility Shareholders Association (hereinafter collectively referred to as the "Parties").

Pursuant to appropriate notice in newspapers of general circulation within NJNG's service territory, and the serving of notice upon affected municipalities and counties within the Company's service area, two (2) public hearings were held in Rockaway Township, New Jersey on April 19, 2016 and two public hearings were held in Freehold Township, New Jersey on April 24, 2016. Members of the public appeared at each of the hearings and made statements.

Discovery involving over 800 requests, many with multiple parts, were responded to in writing by the Company. In addition, discovery and settlement conferences were held by the Parties, with the Company responding to numerous informal discovery questions, both orally and in writing.

The Company filed direct, supplemental and revised testimony. This settlement was made before any other Parties filed testimony.

Evidentiary hearings were scheduled for the week of August 8, 2016. Prior to the commencement of such hearings, the Parties conducted meetings to discuss settlement, and as a result, this stipulation of settlement ("Stipulation") was agreed to by the Parties.

The Parties hereto agree and stipulate as follows:

STIPULATED MATTERS

Revenue Increase

1. For the calculation of the revenue requirement in this case, the Parties agree to a rate base of $1.374 billion, a rate of return of 6.90%, and an increase in revenue requirement of $45.00 million, exclusive of New Jersey Sales and Use Tax ("SUT"). The 6.90% rate of return is obtained based on a capital structure of 52.50% common equity with a cost rate of 9.75%, 45.07% long term debt with a cost rate of 3.89%, and 2.43% short term debt with a cost rate of 1.00%. The $45 million increase in revenue requirement can be derived from the following calculation:

Rate Base	$1,374 million
Rate of Return	x 6.90%
Operating Income Requirement	$94.81million
Pro-Forma Operating Income	-$68.31million
Operating Income Deficiency	$26.50 million

Revenue Factor	x 1.6981
Revenue Requirements	$45.00 million

2. The short term debt balance underlying the 2.43% of the capital structure is $40.5 million.[3] For the purposes of calculating NJNG's monthly Allowance for Funds used During Construction ("AFUDC") rate on a going forward basis, utilizing the Federal Energy Regulatory Commission ("FERC") method, the Parties further agree that when the Company has a short term debt balance, the Company in that month shall exclude an amount equal to the lesser of the Company's actual short term debt balance or $40.5 million. That is, only short-term debt in excess of a balance of $40.5 million shall be included in the FERC formula calculation method of the AFUDC rate.

3. As a result of this Stipulation the typical residential sales heating customer, using 100 therms of gas during a month, will receive an increase of $7.11 or 7.4% on their monthly bill from $95.44 to $102.55. The typical residential heating customers using 1000 therms annually will receive an increase of $72.30 or 7.4% in their annual costs.

4. The base rate revenue increase agreed to in this Stipulation includes recovery of and return on SAFE investments through September 30, 2016. This concludes the capital investments associated with NJNG's initial SAFE Program. NJ RISE investments after June 30, 2016 are not reflected in the $45 million revenue increase. These NJ

[3] This amount approximates the average short-term debt balance during the Company's test year.

RISE investments will be recovered through the annual rate recovery mechanism set forth herein.

5. The base rate revenue increase agreed to in this Stipulation reflects a seven (7) year amortization of the following items:

- Rate Case Expenses and Management/Affiliated Standards Audit - These items represent a normalized level of expense incurred for rate case expense and management and affiliate standards audit fees. The Rate Case Expense component is reduced by 50 percent which is not recoverable through customer rate charges. The amount to be amortized for these items is $0.856 million.
- Storm Costs – Pursuant to the Board's Order dated October 22, 2014 in Docket Nos. AX13030196 and GO13070610 the Board recognized that $15.20 million of Superstorm Sand expenditures were reasonably and prudently incurred and may be recovered from ratepayers in a future rate case. The amount to be amortized for this item is $15.201 million.
- Red Oak Power Plant – Pursuant to the Board's Order dated December 13, 2013 in Docket No. GO13010059 the delivery margin received above an average amount was to be shared between the Company and ratepayers on an equal basis, i.e., 50/50 basis. The sharing was applicable to the period between the commencement of service to Red Oak and ending with the first month prior to the first month of the test year. The amount to be amortized for this item is a credit of $0.047 million.
- Pipeline Integrity Management Costs - Pursuant to the Board's Order dated October 3, 2008 in Docket No. GR07110889, NJNG was permitted to defer Pipeline Integrity Management costs actually incurred in excess of $1.4 million up to $700,000 on an annual basis. The amount to be amortized for this item is $4.446 million.
- Compressed Natural Gas – Pursuant to the Board's Order in Docket No. GR11060361 dated June 18, 2012, NJNG agreed that customers utilizing the CNG stations built under the CNG Pilot Program will be charged $0.20 per therm to offset the programs revenue requirement. The amount to be amortized for this item is a credit of $0.127 million.
- Patient Protection & Affordable Care Act - As a result of the Patient Protection and Affordable Care Act the tax deduction available to the Company was

reduced to the extent its drug expenses are reimbursed under the Medicare Part D retiree drug subsidy program. The amount to be amortized for this item is $4.0 million.

The total amount to be amortized is $24.329 million over the seven (7) year period.

6. The base rate revenue increase agreed to in this Stipulation reflects an adjustment for consolidated federal income taxes.

7. No incentive compensation, with the exception of the Company's represented employees, has been considered in the determination of the agreed upon base rate revenue increase.

8. The Parties agree to allow NJNG to fund its investment portfolio for its annual Other Post-Employment Benefits ("OPEB") obligations to the maximum extent available under the Internal Revenue Code ("IRC") up to a limit that will represent full funding of its obligations and to the maximum tax deduction allowed.

9. The Parties recognize that the Margin Revenue Factors and the monthly Baseline Usage per Customer ("BUC") set forth in NJNG's current CIP tariff must be updated in order to align these aspects of the CIP tariff with the Board's approval of new base rates in this proceeding. These factors and rates are included in Rider "I" of the Company's Tariff attached herein as Attachment A.

10. The Parties agree the Company's composite depreciation rate shall be increased from the currently approved rate of 2.34 percent to 2.40 percent. The overall composite rate of 2.40 percent consists of an investment rate of 1.90 percent and the

net salvage rate of 0.50 percent. The agreed depreciation rates by functional plant category are:

Storage and Processing	0.77%
Transmission	2.65%
Distribution	1.92%
General Plant	11.72%

The agreed depreciation rates by account are set forth in Attachment B to the Stipulation.

11. In the Board-approved Stipulation in the Company's 2007 base rate proceeding, BPU Docket No. GR07110889, the Parties agreed that the Company's depreciation reserve included a non-legal asset retirement obligation ("non-legal ARO") of approximately $79 million, representing amounts previously collected for Cost of Removal ("COR") but not yet expended for that purpose. In that Stipulation the Company agreed to reflect the non-legal ARO as a regulatory liability, and amortize to income $1.649 million per year. As of June 30, 2016 the Company's accounting records reflected a non-legal ARO Liability actual balance of $38.18 million. The Parties agree that the Company shall continue the $1.649 million amortization to income per year until the non-legal ARO Liability actual balance reaches $0. The Company represents that its depreciation expense is solely based on the depreciable utility plant investments as of June 30, 2016 using a composite rate of 2.40 percent. In addition, no utility investments have been recovered through operations and maintenance ("O&M") expenses for the test period utility operating income.

12. In addition, an amount to be transferred each year to the Depreciation Reserve - Account 108, from the non-legal ARO liability balance shall be equal to the amount by which the actual net COR incurred in that year (cash amount expended for COR) exceeds the net salvage allowance of 0.50% reflected in the stipulated depreciation rates.

13. After the non-legal ARO Liability actual balance reaches $0 there will be no further special accounting treatment for the non-legal COR. The annual recovery for COR will be charged to depreciation expense and credited to the depreciation reserve. Actual cost of removal will continue to be debited to the depreciation reserve. The Company shall not be entitled to recover any amounts claimed to be overpaid to ratepayers in the event the rates resulting from this proceeding remain in effect after the non-legal ARO Liabilities actual balance reaches $0. The Company will not record a regulatory asset for any excess actual net COR over the stipulated net salvage allowance of 0.50% that may occur after the non-legal ARO Liabilities actual balance reaches $0.

14. The Parties stipulate and agree that, under the methodology set forth above, the Company will be made whole for actual future COR , in as much as any over or under recovery of actual COR will be reflected in the depreciation reserve. The Parties reserve their rights to argue their respective positions as to the proper regulatory net salvage amount charged to the depreciation reserve and as to the net salvage rates required to provide for full recovery in subsequent rate cases.

15. The Company has recorded $17.46 million associated with its legal ARO for gas plant as of June 30, 2016 for financial accounting purposes. The Company's current depreciation expense, based on a composite rate of 2.40 percent, includes the recognition of the accretion expense of the legal ARO. The Company represents that it intends to record the annual accretion of the ARO legal obligation as a regulatory asset and an offsetting regulatory liability for financial accounting purposes. The regulatory asset will be credited upon the retirement of utility property in each respective reporting period against the ARO legal liability. As long as the Board continues its current policy that provides for full recovery of actual COR expenditures through a reasonable net salvage allowance, the Company will not seek recovery of such regulatory asset, since that asset is extinguished as COR is incurred and debited to the depreciation reserve, as described above.

Customer Service Standards

16. NJNG will submit to Rate Counsel and the Director of the Division of Customer Assistance at the Board quarterly and annual reports, as specified, concerning activity at its Walk-in and payment centers and concerning the Company's performance in relation to certain service measures, as detailed in Attachment C.

SAFE Extension

17. The Parties agree that NJNG may implement an extension of its SAFE Program ("SAFE Extension") under the terms and conditions described herein. The SAFE Extension will include capital investments in NJNG's gas distribution system for

the replacement of existing unprotected steel mains and services, a cost recovery mechanism ("SAFE Rate Mechanism") including scheduled rate adjustments for capital investments included in the SAFE Extension, required base investments that are not recoverable through the SAFE Rate Mechanism ("Stipulated Base"), and other provisions as described herein. The SAFE Extension Program is estimated to cost approximately $200 million, excluding AFUDC, over the duration of the Program. Inclusive in this amount is $42.5 million of Stipulated Base spending that is not recoverable through the SAFE Rate Mechanism. The remaining $157.5 million will be recovered through the SAFE Rate Mechanism as described below.

18. NJNG has represented to the Parties that it expects to have replaced all of its unprotected steel mains and services, on or before September 30, 2021, and that no further SAFE extensions will be required after that date. Based on these unique circumstances, and in light of the Company's agreement to file a base rate case in accordance with paragraph 21 below, and the other terms and conditions contained in this Stipulation, the Parties agree that the SAFE Extension will have a five (5) year term beginning on and after October 1, 2016, or on such other date as the Board deems appropriate and ending five (5) years after its commencement.

19. The Company will be required to maintain a Stipulated Base level of capital spending of $8.5 million per year which will not be recoverable through the SAFE Rate Mechanism provided in this Stipulation for the replacement of unprotected steel mains and services during the course of the SAFE Extension. During the five

(5) years 2016–2021, NJNG will install and place in service no less than 58.7 miles of main and associated services under this Stipulated Base. If the Company fails to install and place in service 58.7 miles of main and associated services by September 30, 2021 or the end date of the program as determined by its commencement date, the Company will complete this work without seeking cost recovery from ratepayers through this Rate Mechanism for any such capital investments.

20. SAFE Rate Mechanism - Cost recovery for the SAFE Extension capital investments will occur on an annual basis, with schedules, procedures, and filings as detailed below. Costs to be recovered will include the rate of return on net plant in service investments as of the end of the specified period. Net plant in service will be calculated as gross plant in service less accumulated depreciation less accumulated deferred income taxes. The revenue requirement will also include depreciation expense, income taxes, and a revenue factor as more fully described below. In addition, the SAFE Extension revenue requirement will be reduced by an Operations and Maintenance ("O&M") savings credit of $100,000, or pro-rated amount where applicable, and any depreciation expense related to the unprotected mains retired during the specified period. The revenue requirement will not include an expense for the recovery of the Cost of Removal (unless embedded in the depreciation rates); however, the revenue requirement will include the rate of return on the Cost of Removal investment. Depreciation will be calculated at the asset class multiplied by the depreciation rate applied to each respective account. When

SAFE projects are transferred from CWIP to Utility Plant in Service, the booking of AFUDC shall cease and the booking of depreciation expense shall commence. The O&M expenses associated with the SAFE Extension will not be included in the revenue requirement filings nor will such costs be deferred for future recovery.

21. The Parties agree that the review of the prudence of all projects undertaken in the SAFE Extension will not take place prior to or in connection with the base rate adjustments established herein. NJNG therefore agrees that the rate adjustments established in the rate filing proceedings, established herein, shall be provisional and subject to refund based upon a Board finding that NJNG imprudently incurred capital expenditures under the SAFE Extension. Such prudence review shall take place in a base rate case which shall be filed no later than November 2019 ("Base Case"). The Base Case filing will be filed with no fewer than three (3) months of actual data and nine (9) months of estimated data for the test year which test year will be updated throughout the course of the proceeding for twelve (12) months of actual data.

22. To effectuate the cost recovery process for the SAFE Extension investments, NJNG shall proceed on the following schedule following public notice and public hearings, recognizing that the prudence of the investments will be determined in the next appropriate base rate case proceeding. The schedule below anticipates annual notice, public hearings, and rate adjustments to cover all rate changes for the SAFE Extension investments.

a. Revenue Requirements associated with the SAFE Extension investments that are placed into service from the commencement date through and including June 30, 2017 shall go into base rates effective October 1, 2017. NJNG shall make its initial filing for such rates in March 2017, and update such filing for actual data through June 30, 2017 by July 31, 2017, including actual data on the "Stipulated Base" expenditures. The required Stipulated Base level of capital spending through June 30, 2017 will reflect the pro-rata portion of the annual $8.5 million dollars based upon the commencement date of the SAFE Extension. Assuming an October 1, 2016 effective date, the pro-rata portion would be $6.375 million based on a 9 month proration.

b. Revenue Requirements associated with the SAFE Extension investments that are placed into service through and including June 30, 2018 shall go into base rates effective October 1, 2018. NJNG shall make its initial filing for such rates in March 2018, and update such filing for actual data through June 30, 2018 by July 31, 2018, including actual data on the "Stipulated Base" expenditures.

c. Revenue Requirements associated with the SAFE Extension investments that are placed into service through and including June 30, 2019 shall go into base rates effective October 1, 2019. NJNG shall make its initial filing for such rates in March 2019, and update such filing for actual data through June 30, 2019 by July 31, 2019, including actual data on the "Stipulated Base" expenditures.

d. Revenue Requirements associated with the SAFE Extension investments that are placed into service through and including June 30, 2020 shall go into base rates effective October 1, 2020. NJNG shall make its initial filing for such rates in March 2020, and update such filing for actual data through June 30, 2020 by July 31, 2020, including actual data on the "Stipulated Base" expenditures.

e. Revenue Requirements associated with the SAFE Extension investments that are placed into service through and including September 30, 2021 or such date that occurs five (5) years after the commencement of the SAFE Extension, shall go into base rates effective January 1, 2022. NJNG shall make its initial filing for such rates in June 2021, and update such filing for actual data through September 30, 2021 by October 31, 2021, including actual data on the "Stipulated Base" expenditures. The required Stipulated Base level of capital spending for this recovery period will be the remaining portion of the $42.5 million in total required Stipulated Base spending for the SAFE Extension program. Assuming an October 1, 2016 effective date, remaining portion would be $10.625 million, representing a 15 month proration.

23. The Parties acknowledge that as the result of the base rate case requirement as described above in paragraph twenty one (21), that proceeding shall be kept open beyond an order addressing base rates, as necessary, for the purpose of addressing the rate adjustments as contemplated above and determining the prudence of investments placed in service after the end of the Base Case test year.

24. In the rate adjustment proceedings provided for above, the revenue requirement associated with the SAFE Extension investments shall be calculated as summarized below.

25. SAFE Extension Investment Costs - All qualifying SAFE Extension capital investments, including actual costs of engineering, design and construction, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects ("SAFE Extension Costs"), will be recovered through a base rate roll-in for each of the time periods described above. The SAFE Extension Costs will be recorded, during construction, in an associated Construction Work In Progress ("CWIP") account or in a Plant in Service account upon the respective project being deemed used and useful. The Company will follow its current policies and practices with regard to capitalizing costs, including overheads.

26. Net Investment - The SAFE Extension Investment Costs that have been placed into service less the associated accumulated depreciation and less accumulated deferred income taxes.

27. Weighted Average Cost of Capital ("WACC"): The rate of return on the incremental capital investments undertaken in the SAFE Extension shall be recognized at a WACC including a 9.75% return on common equity reflecting an equity level of 52.50%. The Parties agree that any WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent SAFE Extension revenue requirement calculations.

28. The base rate adjustments will be calculated using the following formula:

Revenue Requirement = ((Program Rate Base * After Tax WACC) + Depreciation Expense (net of tax) + Tax Adjustments) * Revenue Factor

i. Program Rate Base: The Program Rate Base will be calculated as Plant in Service, including CWIP transferred into service and associated AFUDC, less accumulated depreciation and less associated accumulated deferred income taxes. AFUDC will be calculated using the same methodology for current distribution assets, consistent with the Company's AFUDC policy, and as permitted by FERC Order 561, which includes compounding AFUDC on a semi-annual basis. Any rate of return authorized by the Board in a subsequent base rate case will be reflected in the subsequent AFUDC calculations as addressed by FERC Order 561.

ii. Depreciation Expense: Depreciation expense will be calculated as the SAFE Extension Investment Costs by asset class multiplied by the associated depreciation rate applied to the same asset in current base rates and then calculated net of tax. The Parties agree that any depreciation rate authorized by the Board in a subsequent base rate case will be reflected in the subsequent SAFE Extension revenue requirement calculations.

iii. Tax Adjustments: Includes the effects of any flow through items and any tax law changes codified by the Internal Revenue Service, the State of New Jersey or any other taxing authority.

iv. Revenue Factor: The Revenue Factor adjusts the Revenue Requirement net of tax for federal and state income taxes and the costs associated with the BPU and Rate Counsel ("RC") Annual Assessments and Gas Revenue Uncollectibles. The then-current statutory state and federal income tax rates and the then-current BPU/RC Assessment rates will be utilized. The percentage used to calculate the uncollectible expense is based upon the percentage determined in the Company's current base rate case.

29. A sample revenue requirement calculation based on the estimated revenue requirement for the first rate adjustment is included as Attachment D.

30. SAFE Extension Rate Design – Until the next base rate case, the rate design for the SAFE Extension annual rate adjustments will be structured to reflect the same rate design methodology used to set rates in this base rate case.

31. Minimum Filing Requirements ("MFRs") - Each SAFE Extension base rate change filing will be accompanied by the MFRs that are set forth in Attachment E hereto.

32. Leaks - During the time period from October 1, 2016 through September 30, 2021, the Company shall eliminate its inventory of pending leaks on its unprotected steel facilities. This metric is irrespective of incremental, new, post-September 30, 2016 leaks which will not be counted in such metric. If the Company fails to reduce this September 30, 2016 leak inventory by twenty percent (20%) in the first year, or 40% after the first two (2) years, it will notify Board Staff and Rate Counsel and schedule a conference to discuss within 30 days. If the Company fails to reduce this September 30, 2016 leak inventory by 60% over the first three (3) years, the Company shall achieve compliance with this obligation without seeking cost recovery from ratepayers for any expenditures incurred for this purpose after September 30, 2019. If the Company fails to eliminate its September 30, 2016 leak inventory over the term of the program, the Company shall achieve shall achieve compliance with this obligation without seeking cost recovery from ratepayers for any expenditures incurred for this purpose after September 30, 2021. NJNG may request and the Board may grant an exception from the requirements of this paragraph based on extraordinary circumstances, such as extreme weather, acts of war or terrorism, or other force majeure circumstances.

33. SAFE Extension Quarterly Report: - NJNG will provide quarterly reports on the SAFE Extension to the BPU Staff and Rate Counsel ("Quarterly Report") setting

forth the information for the SAFE Extension and the Stipulated Base as set forth in Attachment F. This reporting will begin with the quarter ending December 31, 2016 and be filed by February 28, 2017, and continue quarterly with reports due sixty (60) days after the end of the respective quarter that is reflected in the report, until Program and Stipulated Base expenditures are complete.

NJ RISE

34. The Parties agree that the NJ RISE incremental capital investments as authorized by Board Order in Docket Nos. AX13030197 and GR13090828 will be recovered in base rates in the same manner as the SAFE Extension Cost Recovery mechanism set forth above. The NJ RISE and SAFE Extension annual rate filings shall be combined for administrative ease.

Southern Reliability Link ("SRL")

35. NJNG withdraws its request for quarterly rate treatment of SRL costs incurred during construction as proposed in the Supplemental Direct Testimony of James M. Corcoran dated May 3, 2016.

Tariff and Rate Design

36. Attached to this Stipulation as Attachment G is a schedule entitled "New Jersey Natural Gas Company, Base Rates and Revenues at Present and Proposed Rates". The

Parties stipulate that this schedule represents the rate design methodology and billing determinants to be utilized in this case.

37. The Parties agree that the tariff modifications described in Attachment H to this Stipulation are reasonable, appropriate and shall be implemented upon Board approval.

38. The Company agrees to submit as part of its next base rate case the Staff average and peak cost of service study ("Staff COSS") referenced in the Board's Order (at p. 9) in Docket No. GR07110889, along with all associated workpapers. Submission of the Staff COSS in the next base rate case does not imply endorsement of the Staff methodology by the Company. The Company, as well as any other party to that future proceeding, is free to submit its preferred COSS and supporting workpapers.

Margin From Interruptible Customers and Certain Electric Generation Customers

39. The Parties agree that as of the effective date of the rates approved in the Final Board Order in this case, the delivery margins for Interruptible Service ("IS") customers, the Forked River Plant, the Sayreville Plant, and Ocean Peaking Power will cease to be credited to the Basic Gas Supply Service ("BGSS") and will be recorded as utility revenue.

Balancing Charges

40. The Parties agree that in addition to transportation customers, the Company will apply balancing charges to sales customers in Rate Schedules RS, GSS, GSL, Distributed

Generation Residential ("DGR"), Distributed Generation Commercial ("DGC") and Economic Development ("ED") customers ("Balancing Rate Classes"). The BGSS rates in the Tariff for the Balancing Rate Classes will be the current BGSS price less the Balancing Charge. This modification has no effect on customer rates.

41. The balancing charge related to inventory has been updated through this rate case to $0.0025 per therm based on the pre-tax rate of return of 10.43% agreed to herein and shall be incorporated into the BGSS filing in Docket No. GR16060482. The balancing charge related to inventory will remain fixed until new rates become effective in the Company's next base rate case.

42. The balancing charge will continue to be adjusted in the Company's annual BGSS filings to reflect only updated pipeline demand charges, credit adjustments and the percentage of peak day volume related to balancing associated with the pipeline demand portion of the balancing charge. The firm volumes from which the pipeline demand portion of the balancing charge is determined will also be updated. The Company's recalculation will be subject to review as part of the annual BGSS proceedings. The Company will credit all balancing revenues from customers in the Balancing Rate Classes to its BGSS.

<u>Compressed Natural Gas Credit ("CNGC")</u>

43. The Parties agree that the Company will eliminate Rider "G" CNGC and defer the CNG charge revenue credit as of the end of the test year, June 30, 2016. The resulting deferral will be addressed in a future base rate case.

MISCELLANEOUS

44. The undersigned Parties stipulate and agree that this Stipulation fully disposes of all issues in controversy in this proceeding, is consistent with law, and is in the public interest. 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 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 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.

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

46. It is specifically understood and agreed that this Stipulation represents a negotiated agreement and has been made exclusively for the purpose of these proceedings. Except as expressly provided herein, NJNG, Board Staff, Rate Counsel, Intervenor and the Participants shall not be deemed to have approved, agreed to, or consented

to any principle or methodology underlying or supposed to underlie any agreement provided herein. All rates are subject to audit by the Board. The Parties further acknowledge that a Board Order approving, rejecting, or modifying this Stipulation will become effective upon the service of said Board Order, or upon such date after the service thereof as the Board may specify, in accordance with N.J.S.A. 48:2-40.

47. The Parties agree to accept as service delivery by courier ("hand delivery") of the BPU Order ("Order") approving this Stipulation, in whole or in part. The Parties agree that such method of hand delivery shall be sufficient service of the Order.

WHEREFORE, the undersigned Parties hereto respectfully submit this Stipulation to Your Honor and the Board for its review and request (1) the issuance of an Initial Decision approving this Settlement in its entirety in accordance with the terms contained herein, and (2) the Board approve this Settlement, in its entirety with the terms contained herein through an Order on all rate and tariff issues.

NEW JERSEY NATURAL GAS COMPANY
PETITIONER

By: Andrew K. Dembia
ANDREW K. DEMBIA
REGULATORY AFFAIRS COUNSEL

DIVISION OF RATE COUNSEL
STEFANIE BRAND
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By: Sarah H. Steindel
SARAH H. STEINDEL
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Attorney for Staff of the Board of Public Utilities

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PUBLIC SERVICE ELECTRIC AND GAS COMPANY
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NEW JERSEY UTILITIES SHAREOWNERS ASSOCIATION
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By: ________________________________
GEORGE D. McGILL, Esq.
McGill & Hall, L.L.C.

Date: August 12, 2016

Attachment A

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 July 1, 2016 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 5,300 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 5,300 CFH threshold divided by 2,650 CFH less the number of active customers, 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):	\$0.3778
Group II (RS heating):	\$0.3778
Group III (GSS, ED using less than 5,000 therms annually)	\$0.3516
Group IV (GSL, ED using 5,000 therms or greater annually)	\$0.2729

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.	14.5	43.8	48.6	813.6
Nov.	13.8	98.1	111.6	1,578.2
Dec.	15.4	158.6	193.0	2,388.2
Jan.	25.9	198.9	249.5	2,884.5
Feb.	22.4	168.2	221.3	2,463.8
Mar.	17.4	135.2	163.1	2,039.5
Apr.	12.4	68.4	73.3	1,223.7
May	11.3	35.9	27.5	817.9
Jun.	16.6	26.2	21.0	593.8
Jul.	18.0	23.6	20.8	572.4
Aug.	14.8	20.7	21.3	472.7
Sep.	16.7	20.9	20.0	537.4
Total Annual	199.2	998.5	1,171.0	16,385.7

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

III. DETERMINATION OF THE CONSERVATION INCENTIVE PROGRAM RATE

1. 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.

RIDER "I"

CONSERVATION INCENTIVE PROGRAM – CIP (Continued)

2. The normal degree days and degree day consumption factors per customer to be used for the calculation of the weather related change in customer usage, are set forth below:

Month	Degree Days	Consumption Factors per customer (therms per customer per degree day)		
		Group II- Residential Heating	Group III- GSS	Group IV- GSL
October	256	0.1249	0.1754	1.4187
November	528	0.1655	0.2172	1.8554
December	805	0.1894	0.2577	2.1191
January	975	0.1994	0.2715	2.2362
February	844	0.1970	0.2658	2.1787
March	666	0.1904	0.2490	1.9739
April	356	0.1751	0.1824	1.5239
May	130	0.1442	0.1630	1.3233

These consumption factors per customer shall be multiplied by the actual number of customers to determine the consumption factors. The weather related change in customer usage shall be calculated as the difference between actual degree days and the above normal degree days multiplied by the consumption factors, and multiplying the result by the margin revenue factors as defined in Section I.10. of this Rider.

3. 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 III.2. of this Rider I.

RIDER "I"

CONSERVATION INCENTIVE PROGRAM – CIP (Continued)

4. 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 9.75% 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 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.

5. 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.

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):	($0.0403)
Group II (RS heating):	($0.0224)
Group III (GSS, ED using less than 5,000 therms annually):	$0.0128
Group IV (GSL, ED using 5,000 therms or greater annually):	$0.0339

For the recovery of the October 2014 through September 2015 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.

Attachment B

NEW JERSEY NATURAL GAS COMPANY
GAS BASE RATE CASE STIPULATION
DEPRECIATION RATES

Account	Account Description	Settlement Accrual Rates	
A	B	C	
STORAGE AND PROCESSING PLANT			
361.00	Structures and Improvements	1.63%	
362.00	Gas Holders	1.32%	
363.20	Vaporizing Equipment	1.11%	
363.30	Compressor Equipment	2.12%	
363.40	Measuring and Regulating Equipment	0.94%	
363.50	Other Equipment	-2.76%	
Total Storage and Processing Plant		0.77%	
TRANSMISSION PLANT			
366.00	Structures and Improvements	3.40%	
367.00	Mains	2.44%	
369.00	Measuring and Regulating Equipment	3.57%	
Total Transmission Plant		2.65%	
DISTRIBUTION PLANT			
375.01	Structures and Improvements	1.70%	
376.00	Mains - Steel	2.85%	
376.26	Mains - Plastic	1.39%	
378.00	Meas. and Reg. Station Equip. - General	5.09%	
380.01	Services - Steel	2.40%	
380.21	Services - Plastic	1.21%	
381.00	Meters	2.84%	
382.00	Meter Installations	4.08%	
383.00	House Regulators	0.00%	10-year amortization
384.00	House Regulator Installations	0.00%	10-year amortization
385.00	Meas. and Reg. Equipment - Industrial	2.69%	
387.00	Other Equipment	6.57%	
Total Distribution Plant		1.92%	
GENERAL PLANT			
Depreciable			
390.02	Leasehold Improvements	3.42%	
391.02	Information Systems	10.48%	
391.03	Data Handling Equipment	4.28%	
391.04	Computer Software	19.32%	
392.00	Transportation Equipment	10.67%	
396.00	Power Operated Equipment	4.60%	
397.00	Communication Equipment	5.55%	
Total Depreciable		13.52%	
Amortizable			
391.01	Furniture, Fixtures and Equipment	2.57%	
393.00	Stores Equipment	2.18%	
394.00	Tools, Shop and Garage Equipment	4.68%	
395.00	Laboratory Equipment	2.84%	
Total Amortizable		3.71%	
Total General Plant		11.72%	
TOTAL UTILITY		2.40%	

Attachment C

Attachment C

NJNG Base Rate Case GR15111305

WALK-IN CENTERS

The Company shall initiate efforts to educate customers regarding the availability of NJNG walk-in customer service centers as a place to pay bills, without a fee, and to educate customers about any other services offered at the walk-in center. NJNG will focus these efforts on the Asbury Park and Lakewood communities. Those efforts may include but are not limited to:

1. Providing customer education by partnering with community organizations, including organizations which primarily serve low-income populations, non-English speaking populations, and/or people with disabilities
2. Creating visual advertising or brochures about the availability of walk-in centers which may be displayed or distributed by or within community organizations
3. Developing bill messages and/or bill inserts in English, Spanish and other appropriate languages which detail the availability and purpose of the walk-in centers
4. Interacting with customers and provide written materials detailing the availability and services offered at walk-in centers at community tabling events with multi-lingual NJNG staff, where appropriate
5. Include Customer walk in center hours and location information in the Company's monthly customer newsletter

The Company agrees to report quarterly to the BPU Director of the Division of Customer Assistance and Rate Counsel the total number of payments made at each walk-in center. The Company will report annually the total number of payments made at Softgate locations separated by city or town in NJNG's service territory.

CUSTOMER SERVICE STANDARDS

The Company will submit to Rate Counsel and BPU Staff a quarterly report, or annual report as specified below, providing the results of the Company's monthly performance in relation to the following metrics. These Customer Service Standards for quarterly and/or annual Reporting will supersede and replace the quarterly report currently provided to Rate Counsel and Board Staff as agreed to in the Company's prior base rate case proceeding, BPU Docket Number GR07110889.

1. **Call Center**

(A) Percentage of Calls Answered within 30 seconds

Measure: Service Level
Benchmark: 80% of calls answered within 30 seconds
Definition: Measured in seconds from the time the call is placed in the call queue. Includes calls handled through the Interactive Voice Response ("IVR") automated system. Measured monthly, reported quarterly.

(B) Abandoned Call Percentage (ACP)

Measure: ACP
Benchmark: 5% or less of calls abandoned
Definition: The number of calls to the IVR system that are terminated by the caller before reaching the selected destination. Measured monthly, reported quarterly.

(C) Average Speed of Answer (ASA)

Measure: ASA
Benchmark: Track and monitor only.
Definition: Measured in seconds from time when a customer indicates the desire to speak to a representative to when the representative picks up the phone. Measured monthly, reported quarterly.

2. **Meter Reading and Billing**

(A) Meter Reading

Measure: Percentage of all meters read
Benchmark: 95% of meters read
Definition: the percentage of all meters read on cycle within the company's territory. Measured monthly, reported quarterly.

(B) Meter Reading by Town

Measure: Percentage of all meters read listed by each town within the company's territory

Benchmark: Track and monitor only

Definition: the percentage of meters read on cycle within each town of the company's territory. Measured and reported annually.

(C) Billing Accuracy

Benchmark: 20 or fewer rebills per 1,000 customers

Definition: The number of rebills per 1,000 customers measured as all bills mailed to customers that are later adjusted, cancelled or re-issued. Measured monthly, reported quarterly.

3. Safety and Reliability

(A) Safety

Measure: Leak Response Time

Benchmark: 95% of calls responded to within 60 minutes

Definition: Leak, odor and emergency call response measured from the initial customer call to the time qualified personnel arrive at the location to either assess or implement a "make safe" condition.

Measured monthly, reported quarterly.

Exception reporting: Provide a quarterly report to the BPU for all Leak, odor and emergency calls that are not responded to within 60 minutes, giving the reasons for the delay.

(B) Reliability

Measure: Percentage of service appointments met

Benchmark: 95% or greater of service appointments met

Definition: The percentage of appointments completed on the day scheduled. Includes appointments for meter installations, disconnects and reconnects, billing investigations, initial and final meter reads. Excludes regularly scheduled meter reads, gas leaks/emergencies/outages, and appointments missed by the customer. Measured monthly, reported quarterly.

4. Overall Customer Service and Satisfaction

(A) BPU Complaints

Measure: Customer complaints/contact to the BPU
Benchmark: Less than 1 complaint/contact per 1,000 customers annually
Definition: The number of verbal or written complaints/contacts made to the BPU, not including complaints to the Company, which are measured as an annual average number of complaints per 1,000 customers. The Company also shall report BPU complaints by root cause category, such as billing, collection, etc. Measured monthly, reported quarterly.

(B) Customer Satisfaction

Measure: Customer satisfaction based on Company's Transaction Survey
Benchmark: 94.5% (same as company's stated internal goal for FY 2015)
Definition: The weighted percentage of responses with a rating of six or greater, on a ten point scale, to the question "overall satisfaction with NJNG/NJRHS" on the transaction. The percentage is weighted based on the number of transactions that occur for each of the areas surveyed. Measured monthly, reported quarterly.

After receipt of the quarterly report and/or annual report where specified herein, if Board Staff or Rate Counsel request a meeting, the Company agrees to accommodate this request to discuss the contents of the report(s). The quarterly reporting will begin with the last quarter of 2016 and will include data from the quarter ending December 2016 and from the second and third quarters of 2016. The quarterly report will be filed within thirty days after the end of each quarter. The annual report will be filed within thirty days after the end of each fiscal year commencing in 2017.

Attachment D

NEW JERSEY NATURAL GAS COMPANY

DETERMINATION OF SAFE EXTENSION REVENUE REQUIREMENT
SAMPLE CALCULATION
($000)

	Year 1
Gross Plant	$23,625
AFUDC - Debt	$0
AFUDC - Equity	$0
Accumulated Depreciation	$5,765
Net Plant	$29,390
Accumulated Deferred Taxes	($3,941)
Rate Base	$25,449
Rate of Return - After-Tax	6.17%
Return Requirement	$1,570
Depreciation Exp, net	$309
O&M Credit - Leak Repair	($75)
	$1,804
Revenue Factor	1.6981
Total Revenue Requirement	**$3,063**

SUPPORT

Gross Plant

Gross Plant	$23,625
AFUDC - Debt	$0
AFUDC - Equity	$0
Total Gross Plant	**$23,625**

Accumulated Depreciation

Accumulated Depreciation	(142)
Cost of Removal	5,906
Net Accumulated Depreciation	5,765

Depreciation Expense (Net of Tax)

Depreciable Plant (xAFUDC-Equity)	$23,625
AFUDC-E	$0
Depreciation Rate	2.40%
Depreciation Expense	$567
Depreciation Expense Retirements	(45)
Tax @40.85%	$213
Depreciation Expense (Net of Tax)	**$309**

Attachment E

ATTACHMENT E

MINIMUM FILING REQUIREMENTS

1) NJNG's income statement for the most recent 12 month period.
2) NJNG's balance sheet for the most recent 12 month period.
3) A calculation of the proposed rate adjustment based on details related to Program projects included in Plant in Service.
   a. A calculation of the associated depreciation expense, based on those projects closed to Plant in Service during the period.
4) A revenue requirement calculation showing the actual capital expenditures for the period for which the filing is made, as well as supporting calculations, as provided in Attachment D.
5) Copies of the current and all previously filed Quarterly Reports referenced in Attachment F.

Attachment F

ATTACHMENT F

QUARTERLY REPORTING REQUIREMENTS

1) NJNG's overall approved Program and Stipulated Base capital budget broken down by major categories, both budgeted and actual amounts.

2) The data and information analogous to that provided in the Quarterly Report, Appendix C on Capital Expenditures and Job Creation in Connection with AIP Program. This report will be entitled Quarterly Report on Capital Expenditures and Job Creation in Connection with SAFE Program.

3) For the Program and for the Stipulated Base:

   a. Descriptions of projects (main replacement and service replacement) funded through the Program and through Stipulated Base spending.
   b. Expenditures incurred to date and amounts transferred to plant in service.
   c. Projected miles of mains installed and actual miles of mains installed and placed in service, broken down by size and type of material being installed.
   d. Projected number of services installed and actual number of services installed and placed in service, broken down by size and type of material being installed.
   e. Remaining number of services inventory by material type and diameter on a quarterly basis.
   f. Remaining miles of mains inventory by material type and diameter, if available.
   g. Historic replacement cost per services replaced by material type and diameter (past five years), if available.
   h. Historic replacement cost per mile for mains by material type on a semi-annual basis (past five years), if available.
   i. Explanation of the prioritization of each SAFE replacement project on a semi-annual basis.
   j. Leak rates from prior year by County for unprotected steel and cast iron mains on a semi-annual basis.
   k. Leaks repaired or cleared by County on a semi-annual basis.
   l. Any other documents containing information not provided in SAFE Reporting Requirements which are submitted to upper management in connection with the SAFE program, such as change orders for example.

4) Anticipated Program and Stipulated Base timeline with updates and expected changes.

5) 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 Program projects, as well as an explanation of the financial treatment associated with the receipt of the government funds or credits.

6) Explanations of differences of over 5% between budgeted and actual amounts in Program Costs as reflected in data provided in response to 1 above (fiscal year end quarterly report only), including a detailed explanation of each cause and a breakdown of the amount of the deviation by cause.

7) An explanation for deviations from budgeted (estimated) miles of mains and number services in excess of 10 percent from actual on a semi-annual basis.

Attachment G

New Jersey Natural Gas Company
Base Rates and Revenues at Present and Proposed Rates

Component	Amount	Units	Present Rates Rate	Present Rates Revenue	Stipulated Rates Excluding CNG Program Revenue Requirement Rate	Stipulated Rates Excluding CNG Program Revenue Requirement Revenue	Stipulated Rates Excluding CNG Program Revenue Requirement Increase	CNG Program Revenue Requirement	Stipulated Rates Rate	Stipulated Rates Revenue	Stipulated Rates Increase
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h) 1/	(i)	(j)	(k)	(l) 1/
			RS		RS			RS	RS		
Residential Service											
Customer Charge	5,750,102	Bills	$ 7.71	$ 44,333,287	$ 8.27	$ 47,553,344			$ 8.27	$ 47,553,344	
Volumetric Charge	466,821,658	Therms	0.3169	147,935,784	0.3767	175,851,719		0.0011	0.3778	176,365,223	
Volumetric Charge - A/C	4,683	Therms	0.0563	264	0.3767	1,764		0.0011	0.3778	1,769	
Total Base Revenues				$ 192,269,334		$ 223,406,827	16.2%			$ 223,920,336	16.5%
		Other Revenues		$ 162,628,279		$ 162,628,279				$ 162,628,279	
		Total Class Revenues		$ 354,897,612		$ 386,035,105	8.8%			$ 386,548,614	8.9%

Component	Amount	Units	Present Rates Rate	Present Rates Revenue	Stipulated Rates Excluding CNG Program Revenue Requirement Rate	Stipulated Rates Excluding CNG Program Revenue Requirement Revenue	Stipulated Rates Excluding CNG Program Revenue Requirement Increase	CNG Program Revenue Requirement	Stipulated Rates Rate	Stipulated Rates Revenue	Stipulated Rates Increase
			GSS		GSS			GSS	GSS		
General Service Small (0-5,000 Annual Therms)											
Customer Charge	340,463	Bills	$ 23.36	$ 7,953,225	$ 25.06	$ 8,532,013			$ 25.06	$ 8,532,013	
Volumetric Charge	33,725,664	Therms	0.2785	9,392,597	0.3448	11,628,609		0.0068	0.3516	11,857,944	
Volumetric Charge - A/C	48,981	Therms	0.0563	2,758	0.0676	3,311		0.0068	0.0744	3,644	
Volumetric Charge - A/C Transpc	2,473	Therms	0.2785	689	0.0676	167		0.0068	0.0744	184	
Total Base Revenues				$ 17,349,269		$ 20,164,100	16.2%			$ 20,393,785	17.5%
		Other Revenues		$ 10,360,863		$ 10,360,863				$ 10,360,863	
		Total Class Revenues		$ 27,710,132		$ 30,524,963	10.2%			$ 30,754,647	11.0%

Notes: 1/ Total Class Revenues exclude commodity revenues paid by transportation customers to third-party suppliers. Therefore, the total bill percentage increase to the average customer will be less than the percentage increase in Total Class Revenues shown above.

Attachment C
Page 1 of 4

New Jersey Natural Gas Company
Base Rates and Revenues at Present and Proposed Rates

Component	Amount	Units	Present Rates		Stipulated Rates Excluding CNG Program Revenue Requirement			CNG Program Revenue	Stipulated Rates		
			Rate	Revenue	Rate	Revenue	Increase	Requirement	Rate	Revenue	Increase
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h) 1/	(i)	(j)	(k)	(l) 1/
			GSL		GSL			GSL	GSL		
General Service Large (5,000 + Annual Therms)											
Customer Charge	100,875	Bills	$ 37.38	$ 3,770,694	$ 51.40	$ 5,184,956			$ 51.40	$ 5,184,956	
Demand Charge	13,000,054	Therms	1.4019	18,224,776	-	-			-	-	
Demand Charge	10,683,173	Therms	-	-	1.7290	18,471,206			1.7290	18,471,206	
Volumetric Charge	138,509,123	Therms	0.2185	30,264,243	0.2679	37,106,594		0.0050	0.2729	37,799,140	
Volumetric Charge - A/C	192,510	Therms	0.0563	10,838	0.0694	13,360		0.0050	0.0744	14,323	
Volumetric Charge - A/C Transpc	101,016	Therms	0.2185	22,072	0.0694	7,011		0.0050	0.0744	7,516	
Total Base Revenues				$ 52,292,623		$ 60,783,127	16.2%			$ 61,477,140	17.6%
		Other Revenues		$ 46,618,747		$ 46,618,747				$ 46,618,747	
		Total Class Revenues		$ 98,911,370		$ 107,401,874	8.6%			$ 108,095,887	9.3%
			FT		FT			FT	FT		
Firm Transportation Service											
Customer Charge	2,478	Bills	$ 46.73	$ 115,789	$ 233.64	$ 578,918			$ 233.64	$ 578,918	
Demand Charge	1,987,516	Therms	1.2776	2,539,250	1.8692	3,715,064			1.8692	3,715,064	
Volumetric Charge - HLF	17,367,390	Therms	0.1028	1,785,368	0.0717	1,246,045		0.0031	0.0748	1,299,884	
Volumetric Charge - LLF	4,625,312	Therms	0.1325	612,854	0.0717	331,849		0.0031	0.0748	346,187	
Total Base Revenues				$ 5,053,260		$ 5,871,876	16.2%			$ 5,940,053	17.5%
		Other Revenues		$ 2,228,503		$ 2,228,503				$ 2,228,503	
		Total Class Revenues		$ 7,281,763		$ 8,100,379	11.2%			$ 8,168,556	12.2%

New Jersey Natural Gas Company
Base Rates and Revenues at Present and Proposed Rates

Component	Amount	Units	Present Rates: Rate	Present Rates: Revenue	Stipulated Rates Excluding CNG Program Revenue Requirement: Rate	Stipulated Rates Excluding CNG Program Revenue Requirement: Revenue	Stipulated Rates Excluding CNG Program Revenue Requirement: Increase	CNG Program Revenue Requirement	Stipulated Rates: Rate	Stipulated Rates: Revenue	Stipulated Rates: Increase
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h) 1/	(i)	(j)	(k)	(l) 1/
			DGC		DGC			DGC	DGC		
Distributed Generation - Commercial											
Customer Charge	113	Bills	$ 37.38	$ 4,236	$ 51.40	$ 5,825			$ 51.40	$ 5,825	
Demand Charge	263,337	Therms	0.5600	147,469	1.4019	369,172			1.4019	369,172	
Volumetric Charge - Winter	2,097,114	Therms	0.0953	199,855	0.0588	123,310		0.0016	0.0604	126,666	
Volumetric Charge - Summer	1,910,650	Therms	0.0647	123,619	0.0282	53,880		0.0016	0.0298	56,937	
Total Base Revenues				$ 475,179		$ 552,188	16.2%			$ 558,600	17.6%
		Other Revenues		$ 746,857		$ 746,857				$ 746,857	
		Total Class Revenues		$ 1,222,036		$ 1,299,045	6.3%			$ 1,305,457	6.8%
			NGV / CNG		NGV / CNG			NGV / CNG	NGV / CNG		
Natural Gas Vehicle / Compressed Natural Gas Service											
Customer Charge	29	Bills	$ 46.73	$ 1,355	$ 51.40	$ 1,491			$ 51.40	$ 1,491	
Volumetric Charge	567,272	Therms	0.1448	82,141	0.1683	95,472		0.0020	0.1703	96,606	
Total Base Revenues				$ 83,496		$ 96,963	16.1%			$ 98,097	17.5%
		Other Revenues		$ 230,007		$ 230,007				$ 230,007	
		Total Class Revenues		$ 313,503		$ 326,969	4.3%			$ 328,104	4.7%
TOTAL SYSTEM BASE DISTRIBUTION REVENUES				*$ 267,523,161*		*$ 310,875,080*	*16.2%*			*$ 312,388,011*	*16.8%*

New Jersey Natural Gas Company
Base Rates and Revenues at Present and Proposed Rates

Component	Amount	Units	Present Rates		Stipulated Rates Excluding CNG Program Revenue Requirement			CNG Program Revenue	Stipulated Rates		
			Rate	Revenue	Rate	Revenue	Increase	Requirement	Rate	Revenue	Increase
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h) 1/	(i)	(j)	(k)	(l) 1/
Other Revenues											
Service Charges				$ 2,186,252		$ 2,320,408				$ 2,320,408	
Special Contracts				5,610,197		5,610,197				5,610,197	
Total Other Revenues				$ 7,796,449		$ 7,930,605				$ 7,930,605	
TOTAL SYSTEM INCLUDING OTHER REVENUES				$ 498,132,864		$ 541,618,940	8.7%			$ 543,131,871	9.0%
					INCREASE	43,486,075		1,512,931		44,999,006	
					TARGET INCREASE	43,483,445		1,516,555		45,000,000	
					Difference	$2,630		($3,624)		($994)	

Attachment H

Attachment H

NJNG Base Rate Case GR15111305

NEW JERSEY NATURAL GAS COMPANY

New Jersey Natural Gas Company Tariff – BPU No. 8 Gas is being replaced by New Jersey Natural Gas Company Tariff – BPU No. 9 Gas which includes modification to various Tariff sheets. Many of these changes represent minor changes in language to provide clarifications and necessary updates. Descriptions of the significant changes to the Tariff are presented in the following sections:

I. Standard Terms and Conditions

II. Residential and Commercial Service Classifications

III. Service Classification Marketer and Broker Requirements ("MBR")

IV. Riders

I. Standard Terms and Conditions

- *Section 4 Gas Distribution Main Extensions (Sheet No. 17)*

  Modified language to distinguish the main extension evaluations for service classifications subject, and not subject, to CIP.

- *Section 6.12 Check-Metering (Sheet No. 23)*

  Revised language to comply with the Board's June 29, 2016 Order in Docket No. GW16040290.

- *Section 8.8 Payment Obligation (Sheet No. 29) and Section 8.10 Final Bill (Sheet No. 30)*

  Changed the due date in Section 8.8 in order to reflect the requirements of N.J.A.C. 14:3-3A.3 and deleted the due date from Section 8.10.

- *Section 8.9 Late Payment Charge (Sheet No. 30)*

  Revised language in accordance with N.J.A.C. 14:3-7.1(e).

- *Section 9.6 Reconnection Charge (Sheet No. 33)*

  Modified language to clarify that the Reconnection Charge applies only when service has been suspended for any of the reasons cited in Section 9.2.a, 9.2.b, 9.2.c, 9.2.e, 9.2.f, 9.2.g, 9.2.h, 9.2.i, 9.2.j, 9.2.k, 9.2.l, or 9.2.m of the Standard Terms and Conditions (*i.e.* Customer Acts or Omissions).

The Reconnection Charge for customers whose gas service has been suspended is changed to $45 for every reconnection occurrence.

II. Residential and Commercial Service Classifications

- The elimination of the special Tariff provisions for gas service to residential and commercial customers with electric heat pumps and geothermal systems.
- The elimination of the Firm Cogeneration service classification.
- The addition of Service Classification Electric Generation Service ("EGS") to serve firm electric generation loads (Sheet Nos. 69-75, 260).
- The elimination of the air conditioning pricing for residential customers.
- Modification of the commodity portion of the commercial air conditioning and pool heating rates to be consistent with the BGSS rates applicable to General Service – Small ("GSS") customers (Sheet No. 56) and General Service – Large ("GSL") customers (Sheet No. 60).
- Clarification that the delivery charge applicable to Street Lighting Service excludes the CIP charge set forth in Rider "I" (Sheet No. 57).
- Changes in the annual review of commercial accounts to review annual usage on a normalized basis for both GSS and GSL accounts to determine the appropriate rate classification for each customer (Sheet Nos. 56, 59). GSS customers will be switched to GSL if their annual normalized usage is greater than or equal to 5,500 therms and GSL customers will be switched to GSS if their annual normalized usage is less than or equal to 4,500 therms.
- Changes in the review of GSL customers' HMADs to adjust the HMADs, up or down, based on the most recent twenty-four (24) months of normalized customer usage (Sheet No. 59).
- Changes to the FT service classification: (1) the elimination of the load factor distinction for FT Service; (2) the addition of a provision allowing FT customers who may temporarily be without a Marketer or Broker (herein referred to as "Marketer") to receive BGSS service at the Monthly BGSS price until they enroll with another Marketer (Sheet No. 62) and if the Company does not receive enrollment information from a Marketer for a customer receiving temporary BGSS service within thirty (30) days of commencement of service for a new FT

customer or of loss of Marketer for an existing FT customer, the Customer will be switched to an appropriate sales service classification; and, (3) a change to allow for a decrease, if warranted, to a FT customer's Maximum Daily Quantity ("MDQ") (Sheet No. 62).

- Changes to the DGC service classification: (1) the elimination of the temporary supply service provision when a customer loses its Marketer and instead include Monthly BGSS pricing as an option for DGC customers (Sheet No. 64); (2) deleting language related to delivery volumes and balancing since these provisions are addressed in Service Classification MBR; and, (3) changing the main and service extension language for DGC customers to be consistent with the language in Section 4 of the Standard Terms and Conditions (Sheet No. 66).
- Modifications to the Economic Development Service Classification to clarify the eligibility for the service and provide for utilization of updated information pertaining to economic conditions of communities (Sheet Nos. 67-68).
- Deleted the requirement for Service Classification NGV transportation customers to be billed through Billing Option 1 where NJNG bills for both the Customer and the Marketer. Customers can also be billed by Marketers for the Marketer's supply or both the Marketer's and the Company's charges.
- The deletion of the Tariff provisions that provide for the margins associated with Interruptible Service ("IS") and Incremental Gas Service ("IGS") to be credited to BGSS.

III. Service Classification MBR

Residential Service ("RS"), GSS, GSL and DGC Balancing

- *Standby Service*

  Replace the Standby Service with an incremental credit requirement for Marketers who continue to fail to deliver their required volumes (Sheet No. 90).
- *Imbalances*

  Clarify that a Marketer's imbalance between aggregate deliveries and aggregate takes of its RS, GSS, GSL, and DGC-Balancing customers are carried into the next month and the Company selects the time period to net any imbalances with the Marketer's required daily delivery volume (Sheet No. 92).

Replace the provision that, upon 48 hours prior notice, the Company will require a Marketer whose account is out of balance by more than 30 percent to initiate corrective action within the following 10-day period with the provision that the Marketer may be required to modify their deliveries for the following month to address the imbalance (Sheet No. 92).

FT, DGC-FT, CNG, NGV and IS (Sheet No. 89)

- Modification to the language to require the Marketers to use their best efforts to achieve a balance between their deliveries and customer requirements on a daily basis to encourage a daily balance.
- Modify the provision regarding corrective action to a Marketer whose account is out of balance by more than 30 percent to state that the Company may require a Marketer whose account is out of balance by more than 30 percent to initiate corrective action to balance its account within the following 5-day period. Marketers who fail to take corrective action and have a positive imbalance (aggregate deliveries are greater than aggregate customer usage) will have their nominations rejected on days with no Operational Flow Orders ("OFO") or IS Daily Balancing ("IS-DB") restriction until their imbalance is at or below 10 percent. Marketers who fail to take corrective action and a negative imbalance (aggregate deliveries are less than aggregate customer usage) will be charged a penalty for their volume required to bring their imbalance to 10 percent.

FT and DGC-FT Service and IS Service (Sheet Nos. 92-93)

- Clarifying the language for deliveries on OFO and IS-DB days to reflect current operations where, the Marketer shall deliver at least the volume of gas their aggregate customers use on OFO and IS-DB days plus a volume for unaccounted for gas.
- The addition of language to clarify the treatment of imbalances created from over deliveries on OFO days and IS Daily Balancing (IS-DB) days and allow the Company, in its sole discretion, to waive, on a non-discriminatory basis, the tiering of the cashout prices for positive imbalances incurred on OFO and IS-DB days if the Company has issued additional OFOs or IS-DBs in that following month.

NGV Service

- Moved the recently approved Daily Balancing language applicable to Marketers from Service Classifications NGV and CNG to Service Classification MBR, Marketers and Brokers Requirements (Sheet Nos. 93).
- Language to clarify the Daily Balancing language to reference that the Company may issue an OFO for commercial customers served under Service Classifications NGV and CNG and to establish consistency with the Daily Balancing requirements language for Service Classification FT (Sheet No. 93).
- Modifications to the penalty charge if a Marketer does not deliver the required OFO volume from the highest price of daily ranges for delivery in Texas Eastern zone M-3 ("TETCO M3 High") to the higher of the TETCO M3 High and the Company's Replacement Cost of Gas (Sheet No. 93).
- Modifications to headings to distinguish the MBR requirements for NGV Commercial and NGV Residential customers (Sheet Nos. 89, 90, 91, 92).

Unauthorized Use and Delivery Shortfall Charges (Sheet No. 95)

- Modifications to continue the applicability of the Unauthorized Use Charge to interruptible customers who fail to discontinue service during an interruption period and establish a Delivery Shortfall Charge to replace the Unauthorized Use charge for Marketer delivery shortfalls.
- Additional provision to allow, in a period of interstate pipeline Force Majeure, the Company to waive, on a non-discriminatory basis, the Delivery Shortfall Charge with proper written notification and justification from the Marketer and bill the Marketer for the Company's replacement cost of gas.

IV. Riders

Rider "A" Basic Gas Supply Service - BGSS

- Removal of the annual review language as redundant since the annual review is addressed in the GSS and GSL Service Classifications (Sheet No. 152).

Rider "B" New Jersey Sales and Use Tax ("SUT")

- Language to clarify the SUT exemptions related to electric generation and cogeneration customers (Sheet No. 159).

Rider "C" Remediation Adjustment ("RA")

- Deletion of the filing requirement from the Tariff as filing requirements are typically addressed in the annual SBC filings and/or through Board Orders (Sheet No. 162).

Rider "D" Weather Normalization Clause ("WNC")

- Elimination of the WNC and reserve Rider "D" for future use.

Rider "G" Compressed Natural Gas Credit ("CNGC")

- Elimination of the CNGC and reserve Rider "G" for future use.

Rider "I" CIP

- Updated the baseline use per customer for each class based on test year billing determinants, the margin factors based on the proposed base rates, and the large customer adjustment based on the GSL baseline use per customer (Sheet Nos. 179-180) and the addition of weather consumption factors and the description of the calculation of the CIP weather component (Sheet Nos.181).