

# South Jersey Industries

Where we put all of our energy®

**David A. Kindlick**

*Vice President and  
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July 25, 2008

New Jersey Energy Master Plan  
New Jersey Board of Public Utilities  
Two Gateway Center  
Newark, NJ 07102

**Re: New Jersey Energy Master Plan Comments**

On behalf of South Jersey Industries (“SJI”), an energy services holding company comprised of several subsidiaries including South Jersey Gas, Marina Energy and South Jersey Energy Solutions, among others, thank you for the opportunity to submit comments on the draft Energy Master Plan (“EMP”).

South Jersey Industries is fully supportive of comments submitted by the New Jersey Utilities Association (“NJUA”) on behalf of its members. We also offer the following comments to supplement those provided by the NJUA.

As an active participant in the Energy Master Plan process since its inception, SJI remains grateful for the opportunity to contribute to the development of New Jersey’s long term energy policy. We share your proactive commitment to securing our energy future, protecting our environment and stimulating the state’s economy and look forward to continued participation and partnership with all stakeholders throughout the development and implementation of this critically important plan.

SJI commends the Governor and his administration for their presentation of a plan which establishes comprehensible policy priorities and strategies to achieve these goals. SJI further commends the methodology presented in the EMP to assess present energy usage with comprehensive explanations of the future approaches of business as usual, as well as the alternative, implementation of viable alternative energy plans. This approach provides a clear description of the critical issues confronting New Jersey while also emphasizing the actions required to address these issues.

SJI also applauds the continuing open and transparent process established to permit and encourage participation from all interested stakeholders. We hope to remain active in this open and collaborative approach to align the interests of all involved through a process that provides for the valuable exchange of information which will ultimately result in a superior Energy Master Plan for the state.

The state is well aware of its obligations to the citizens of New Jersey in meeting energy needs while addressing significant issues such as global warming, carbon abatement, and greenhouse gases that affect us and our neighbors, near and far. The plan reflects the leadership and vision of Governor Corzine and his staff, the Board of Public Utilities (“BPU”), the Department of Environmental Protection (“DEP”), and other state departments and agencies involved in promoting energy efficiency and renewable energy to meet the goals set for 2020 and beyond.

SJI supports the current plan’s fundamental recognition that a variety of energy decisions must be made and employed in tandem with one another. Conservation and energy efficiency will demonstrate the quickest returns on investment to reduce carbon emissions and other greenhouse gases. In this regard, utilities are in a special position to understand the existing and emerging technologies that will promote efficiencies and are uniquely able to communicate energy savings messages to our customers. We are extremely pleased that the draft plan recognizes direct utility involvement as essential, during the development and implementation stages and SJI reaffirms our continued support and participation.

South Jersey Gas Company, a subsidiary of South Jersey Industries, since October 2006 has participated in an innovative pilot program designed with members of the BPU Staff and the Division of Rate Counsel, known as the Conservation Incentive Plan (“CIP”). The CIP is a tremendous example

of the valuable role utilities can play to assist the state in reducing energy consumption and green house gas emissions. The CIP provides SJG the ability to shift from traditional gas distribution incentives based on volume output to instead concentrate on promoting and developing conservation and energy efficiency programs that reward our customers for their conservation efforts. The CIP plan is in its second successful year and SJG continues to aggressively work with our customers to reduce their energy consumption. This BPU approved plan demonstrates progressive regulatory policy in recognizing CIP as a harbinger of other future plans.

An example of our CIP conservation messaging, is the Living Wise Program® which was introduced in 2007. This program is an education and outreach plan presented within selected 6<sup>th</sup> grade classrooms in our service territory. We are actively educating and encouraging energy savings practices in a manner that provides students the opportunity to take this message home. Feedback received from the participating school districts has been extremely favorable and we plan to continue this endeavor in the next school year as part of the CIP. We encourage the state to develop additional education and outreach programs which promote the concepts of conservation and energy efficiency within the curriculum of all New Jersey schools.

SJI is also exploring other avenues which provide opportunities to promote energy efficient measures and reduce greenhouse gas emissions. The recently enacted Regional Greenhouse Gas Initiative (“RGGI”) and Global Warming Response Act encourage utility participation in offering energy efficiency and conservation programs and investing in renewable resources and renewable energy programs. South Jersey Gas is currently assessing a number of possible programs and will likely introduce a RGGI-related proposal to the BPU shortly. SJI believes that utilities must play a vital role to assist the State in achieving its goals. We commend the state’s recognition that our unique relationship with customers provides an excellent opportunity to foster a model of prudent energy usage.

SJI is pleased that a number of concepts submitted in our strategies have been included in the draft Energy Master Plan. Public outreach, inverted block pricing, and the implementation of new building codes are areas we previously addressed and supported. We urge the EMP Committee to explore opportunities to increase energy efficiency and implement new codes in existing buildings, acknowledging the tremendous potential energy

savings. SJI recognizes this is a difficult task but believes the state cannot allow this valuable opportunity go a stray. In addition to these areas, SJI would like to provide specific comments on the following issues:

### **Combined Heat and Power (“CHP”)**

The draft EMP addresses the importance of CHP as a clean and reliable approach to generating power and thermal energy from a single fuel source. CHP, when sited strategically, can be employed as an effective response to reduce transmission congestion on an electric grid. It can also be utilized in areas where it is difficult or impossible to build a transmission line.

The draft EMP acknowledges many of the current impediments and proposes strategies to remedy these problems, some of which were presented in a strategy previously filed by SJI, including providing incentives for customers choosing to construct CHP facilities.

SJI believes the EMP has provided a sound foundation for the increased construction of CHP facilities in the state. The goal of developing 1500 MW by the year 2020 and providing financial incentives through the Retail Margin Fund should assist in increasing construction interest. An additional strategy which provides a Sales and Use Tax exemption for natural gas used to generate CHP facilities is also beneficial.

A further strategy aimed at facilitating the citing of cogeneration projects is also a positive step to encourage the construction of CHP facilities. We do believe however that the draft EMP must address one important element that has been a significant impediment to the development of CHP facilities - the volatility of fuel prices.

A challenge for many businesses in New Jersey is not only the aggressive price of energy but also the volatility of the energy market. Potential developers of CHP facilities are currently confronted with uncertainty when performing a financial analysis to determine if the construction of a facility makes economic sense. Our experience has indicated that developers of these facilities need stability and price certainty for a period of at least five (5) years. The ability to lock in fuel prices can mitigate against the volatile energy markets. SJI therefore recommends that the final EMP include a strategy which would encourage natural gas utilities

be allowed to offer negotiated long term gas supply and distribution rates to CHP facilities for a period that would make the project economically feasible. SJI believes this treatment would provide critical assistance in the development of CHP facilities in the State. A rate structure or tariff will provide the long term sustainability sought by potential customers and the financial community.

SJI believes it is important to ensure a positive environment that will support new technology and innovative programs. In certain instances utility companies will need to make significant infrastructure investments over a period of time which is vital to the development and construction of clean and reliable energy sources such as CHP. Traditional regulatory treatment for these investments should be reviewed and addressed in the EMP plan to provide for timely cost recovery.

### **Ratemaking Practices**

The draft EMP briefly describes current ratemaking treatment which provides a disincentive for utilities to promote conservation and energy efficiency. This is because a majority of utilities' costs are fixed and recovered from customers through variable charges based on customer usage. Reduced consumption results in reduced revenue thereby creating the disincentive. The draft EMP also mentions the South Jersey Gas CIP pilot program as a way of eliminating the utility disincentive and mentions there are a number of ways to design rates to eliminate that disincentive. We also believe that the state should encourage all parties involved in the development of this successful pilot program to work strenuously toward CIP implementation on a permanent basis. SJI also suggests that the EMP provide strategies directed toward eliminating this disparity.

SJI agrees there are a number of ways to eliminate this disincentive. The state must recognize the need to change current pricing policy to align the interests of all. This becomes even more apparent when considering the goal of reducing energy usage by 20% and utilizing utility participation as a vital element to achieving the reduction.

SJI also contends that additional ratemaking practices which allow the utilities to aggressively promote energy efficiency and conservation without suffering financial penalties need to be developed and implemented; and the final EMP must adequately address this current disparity.

## Role of the Utility

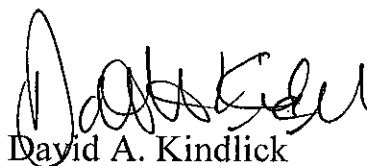
SJI takes seriously our utility's responsibility to ensure the availability and reliability of services to the state's residents, and we are pleased that the EMP envisions direct utility involvement. As such, utilities' best efforts should be recognized and rewarded so they are not held responsible for not achieving environmental and energy goals that are outside the scope of the utility.

For example, while SJI works aggressively to educate and offer services to its customers regarding the benefits of energy efficiency and conservation, some may choose not to, or may not have the ability to utilize the technologies and measures available to effectuate change. Since circumstances such as these are beyond a utility's control, we believe that disincentives or penalties to utilities based upon customer actions should not be developed within the EMP process.

On behalf of South Jersey Industries and its subsidiaries, thank you for your ongoing commitment to address the current and future energy and environmental issues facing the State of New Jersey and the opportunity to participate in the development of this important plan. We are committed to supporting these efforts and look forward to our continued participation in the EMP process.

Please call upon South Jersey Industries as a partner to help fulfill the promises of the Energy Master Plan.

Sincerely,



David A. Kindlick  
Vice President and  
Chief Financial Officer

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