BEFORE THE STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE GAIL M. COOKSON, ALJ

I/M/O THE PETITION OF SOUTH	)	
JERSEY GAS COMPANY FOR	)	**BPU DKT. NO. GR10010035**
APPROVAL OF INCREASED BASE	)	**OAL DKT. NO. PUC-01598-2010N**
TARIFF RATES AND CHARGES FOR	)	
GAS SERVICE	)	

DIRECT TESTIMONY OF ROBERT J. HENKES ON BEHALF OF THE NEW JERSEY DEPARTMENT OF THE PUBLIC ADVOCATE DIVISION OF RATE COUNSEL

PUBLIC VERSION - REDACTED

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Filed: May 28, 2010

SOUTH JERSEY GAS COMPANY
BPU Docket No. GR10010035
OAL DOCKET NO. PUC 01598-2010N

Direct Testimony of Robert J. Henkes

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APPENDIX I: Prior Regulatory Experience of Robert J. Henkes

I. STATEMENT OF QUALIFICATIONS

Q. WOULD YOU STATE YOUR NAME AND ADDRESS?

A. My name is Robert J. Henkes and my business address is 7 Sunset Road, Old Greenwich, Connecticut 06870.

Q. WHAT IS YOUR PRESENT OCCUPATION?

A. I am Principal and founder of Henkes Consulting, a financial consulting firm that specializes in utility regulation.

Q. WHAT IS YOUR REGULATORY EXPERIENCE?

A. I have prepared and presented numerous testimonies in rate proceedings involving electric, gas, telephone, water and wastewater companies in jurisdictions nationwide including Arkansas, Delaware, District of Columbia, Georgia, Kentucky, Maryland, New Jersey, New Mexico, Pennsylvania, Vermont, the U.S. Virgin Islands and before the Federal Energy Regulatory Commission. A complete listing of jurisdictions and rate proceedings in which I have been involved is provided in Appendix I attached to this testimony.

Q. WHAT OTHER PROFESSIONAL EXPERIENCE HAVE YOU HAD?

A. Prior to founding Henkes Consulting in 1999, I was a Principal of The Georgetown Consulting Group, Inc. for over 20 years. At Georgetown Consulting I performed the same type of consulting services as I am currently rendering through Henkes Consulting. Prior to my association with Georgetown Consulting, I was employed by the American Can Company as Manager of Financial Controls. Before joining the American Can Company, I was employed by the management consulting division of Touche Ross & Company (now Deloitte & Touche) for over six years. At Touche Ross, my experience, in addition to regulatory work, included numerous projects in a wide variety of industries and financial disciplines such as cash flow projections, bonding feasibility, capital and profit forecasting, and the design and implementation of accounting and budgetary reporting and control systems.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I hold a Bachelor degree in Management Science received from the Netherlands School of Business, The Netherlands in 1966; a Bachelor of Arts degree received from the University of Puget Sound, Tacoma, Washington in 1971; and an MBA degree in Finance received from Michigan State University, East Lansing, Michigan in 1973. I have also completed the CPA program of the New York University Graduate School of Business.

II. SCOPE AND PURPOSE OF TESTIMONY

Q. WHAT IS THE SCOPE AND PURPOSE OF THIS TESTIMONY?

A. I was engaged by the New Jersey Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel") to conduct a review and analysis and present testimony in the matter of the petition of South Jersey Gas Company ("SJG" or "the Company") for increased base tariff rates and charges for gas service.

The purpose of this testimony is to present to Your Honor and the New Jersey Board of Public Utilities ("BPU" or "the Board") the appropriate rate base, pro forma operating income, revenue conversion factor and overall revenue requirement for SJG in this proceeding. In the determination of SJG's appropriate revenue requirement, I have relied on and incorporated the recommendations of the following Rate Counsel witnesses:

- Matthew Kahal, concerning the appropriate capital structure, capital cost rates and overall rate of return of ETG in this proceeding;
- David Peterson, concerning SJG's appropriate cash working capital requirement;
- Michael Majoros, concerning SJG's appropriate depreciation rates and rate treatment of the Regulatory Liability for non-legal Asset Retirement Obligations; and
- Brian Kalcic, concerning the appropriate rate treatment of new miscellaneous revenue charges proposed by SJG in this proceeding.

In developing this testimony, I have reviewed and analyzed SJG's original January 22, 2010 "3&9" filing and supporting testimonies, exhibits and workpapers; SJG's March 25, 2010 “6&6” and April 30, 2010 “9&3” update filings; SJG’s responses to initial and follow-up data requests submitted by Rate Counsel and BPU Staff; and other relevant documents and data, including prior Board Orders involving SJG.

III. CASE OVERVIEW AND SUMMARY OF FINDINGS AND CONCLUSIONS

Q. PLEASE PROVIDE AN OVERVIEW OF THIS RATE CASE.

A. In its original filing dated January 22, 2010, the Company requested a total base rate increase of $63,748,400.[1] In determining this original rate request, SJG used as the test year the 12-month period ended June 30, 2010, containing 3 months of actual data and 9 months of projected data.[2] The filing also included proposed post-test period adjustments for projected changes in rate base and projected changes in certain revenues and most expenses through the end of calendar year 2010.

The total requested 3&9 base rate increase of $63,748,400 consists of the following base rate increase components:

- Base rate increase from proposed base rate roll-in of CIRT[3] rates:	$ 7,436,100
- Base rate increase from proposed base rate roll-in of CIP[4] rates:	16,271,000
- Base rate increase due to associated Sales and Use Taxes ("SUT"):	4,170,457
- Base rate increase incremental to SUT and CIRT/CIP roll-ins:	35,870,843
- Total base rate increase	$63,748,400

In addition to the proposed base rate increase, SJG is proposing the implementation of: (1) an Accelerated Main Replacement Program ("AMRP"); (2) Pipeline Integrity Management and Distribution Integrity Management ("PIM") programs; and (3) a Regulatory Asset to

[1] This total base rate increase number represents the total base rate increase inclusive of the associated Sales and Use Tax ("SUT").

[2] This original filing is referred to as the "3&9 filing."
[3] CIRT = Capital Investment Recovery Tracker
[4] CIP – Conservation Incentive Program

capture Rockford-Eclipse ("RE") valve replacement expenses and investments. In addition, SJG is proposing a Reliability Tracker ("RT") to earn a return on and a return of expenditures related to the AMRP and IM programs and the RE valve replacement Regulatory Asset.

Q. HAS THE COMPANY UPDATED ITS ORIGINAL 3&9 FILING DATED JANUARY 22, 2010?

A. Yes. On March 25, 2010, the Company updated its original 3&9 filing with its proposed 6&6 filing. This updated 6&6 filing indicated a revised total base rate increase request of $71,992,346,[5] or $8,243,946 higher than the Company's original 3&9 total base rate increase request of $63,748,400. Next, on April 30, 2010, the Company submitted its updated 9&3 filing, which indicated an updated base rate increase request of $70,008,883, or $1,983,463 lower than the Company's 6&6 total base rate increase request of $71,992,346.

Q. WILL THE COMPANY FURTHER UPDATE ITS RATE CASE FILING FOR 12&0 RESULTS?

A. Yes. In accordance to the procedural schedule of this proceeding, the Company is required to submit its 12&0 update filing on or before August 2, 2010.

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[5] This total base rate increase number, as well as the base rate increase numbers listed in the next 4 sentences, represents the total base rate increase inclusive of the associated Sales and Use Tax ("SUT").

The May 28 due date for this testimony necessarily required me to use the 9&3 update filing as the starting point of the revenue requirement presentations contained in this testimony and the attached Schedules RJH-1 through RJH-24. However, the revenue requirement positions currently contained in this testimony should be updated to reflect 12&0 filing data after appropriate reviews.

Q. COULD YOU NOW SUMMARIZE YOUR REVENUE REQUIREMENT FINDINGS AND CONCLUSIONS IN THIS CASE?

A. Yes. I have reached the following revenue requirement findings and conclusions in this docket:

1. The appropriate test year rate base amounts to $799,431,962 which is $69,133,383 lower than SJG's proposed 9&3 updated rate base of $868,565,345. *Schedules RJH-1, line 1 and RJH-3.*

2. The appropriate pro forma test year operating income amounts to $46,490,004, which is $7,357,052 higher than SJG's proposed 9&3 updated pro forma operating income of $39,132,952. *Schedules RJH-1, line 4 and RJH-9.*

3. The appropriate overall rate of return on rate base, as recommended by Rate Counsel witness Matthew Kahal, is 7.73%, incorporating a recommended return on equity of 10.10%. This compares to SJG's proposed 9&3 updated overall rate

of return on rate base of 8.91%, including a requested return on equity rate of 11.50%. *Schedules RJH-1, line 2 and RJH-2.*

4. The appropriate Revenue Conversion Factor to be used for ratemaking purposes in this case is 1.82861 as compared to SJG's proposed Revenue Conversion Factor of 1.83000. *Schedule RJH-1, line 6.*

5. The recommended ratemaking components outlined above indicate the need for a total base rate increase of $27,939,131. This total base rate increase, with includes the associated Sales and Use Taxes (SUT), is $42,069,752 lower than SJG's proposed 9&3 updated rate increase request (including SUT) of $70,008,883. *Schedule RJH-1, line 7.*

6. The recommended total base rate increase without the consideration of SUT amounts to $26,111,337, which is $39,317,525 lower than SJG's proposed 9&3 updated total base rate increase without SUT of $65,428,862. *Schedule RJH-1, line 8.*

7. Rate Counsel's recommended and SJG's proposed total base rate increase (w/o SUT) amounts of $26,111,337 and $65,428,862, respectively, include a total rate increase amount of $22,914,002 for the base rate roll-in of the current CIRT and CIP rider rates. *Schedule RJH-1, lines 9 and 10.*

8. The recommended base rate increase that is incremental to the base rate increase caused by the roll-in of the current CIRT and CIP rider rates amounts to $3,197,335, which is $39,317,525 lower than SJG's proposed base rate increase incremental to the base rate increase caused by the roll-in of the current CIRT and CIP rider rates of $42,514,860. *Schedule RJH-1, line 11.*

9. The recommendations contained in paragraphs 1 through 8 above must be updated to reflect the Company's final 12&0 filing scheduled to be submitted by SJG on or before August 2, 2010.

IV. REVENUE REQUIREMENT ISSUES

A. OVERALL RATE OF RETURN

Q. PLEASE DESCRIBE RATE COUNSEL'S RECOMMENDED OVERALL RATE OF RETURN.

A. Rate Counsel's rate of return expert witness, Matthew I. Kahal, has recommended a capital structure consisting of 43.08% long-term debt, 5.96% short-term debt, and 50.97% common equity as compared to SJG's proposed capital structure of 45.73% long-term debt and 54.27% common equity. For the long-term debt cost rate, Mr. Kahal used 5.83% which is the same as the long-term debt cost rate proposed by SJG; and for short-term debt, Mr. Kahal recommends a rate of 2.00%. The return on common equity recommended by Mr. Kahal in this case is 10.00% as compared to SJG's proposed return on equity rate of 11.50%.

As shown on Schedule RJH-2, the resulting recommended overall rate of return to be applied to the Company's rate base amounts to 7.73%. This is 118 basis points lower than SJG's proposed overall rate of return number of 8.91%.

B. RATE BASE

Q. PLEASE SUMMARIZE SJG'S PROPOSED PRO FORMA RATE BASE, THE METHOD EMPLOYED BY SJG TO DETERMINE ITS PRO FORMA RATE BASE, AND THE RECOMMENDED RATE BASE ADJUSTMENTS.

A. SJG's proposed 9&3 updated rate base amount is shown by rate base component on Schedule RJH-3. All of SJG's proposed pro forma rate base balances except those for materials & supplies, cash working capital, and gas inventory represent projected balances as of the post-test period date of December 31, 2010. The proposed 9&3 updated rate base balance for materials & supplies represents the actual 13-month average balance for the 12-month period ended March 31, 2010; the proposed rate base balances for natural gas and LNG gas inventories represent the 13-month average balance for the test year based on 9 months actual and 3 months projected data; and the claimed cash working capital requirement has been determined through a detailed lead/lag study approach.

For reasons that will be discussed subsequently in this testimony, I have made certain adjustments to the Company's proposed projected December 31, 2010 balances for utility plant in service; accumulated depreciation reserve; customer deposits and accumulated deferred income taxes – see Schedule RJH-3, lines 1, 2, 3, 8, and 10. I have also adjusted the Company's proposed materials & supplies balance by reflecting more updated information, and the Company's cash working capital requirement by incorporating the recommendations made by Rate Counsel witness David Peterson – see Schedule RJH-3, lines 5 and 6.

Finally, I have reflected two rate base components that SJG has failed to reflect. These concern my recommended rate base deductions for unclaimed customer deposits and consolidated income tax benefits – see Schedule RJH-3, lines 11 and 12.

As summarized on Schedule RJH-3 and shown in more detail in subsequent RJH schedules, the previously described recommended rate base adjustments have the overall effect of reducing SJG's proposed 9&3 updated rate base by $69,133,383. Each of these recommended rate base adjustments will be discussed in detail below.

- **Utility Plant in Service**

Q. PLEASE DESCRIBE THE DERIVATION OF SJG'S PROPOSED PRO FORMA UTILITY PLANT IN SERVICE ("UPIS") BALANCE.

A. As summarized on Schedule RJH-4, the starting point of SJG's proposed pro forma UPIS balance in this case is the 9&3 updated projected UPIS balance of $1,330,704,452 as of June 30, 2010, the end of the test year. The Company then added total net capital expenditures of $53,649,794 for projected UPIS additions during the 6-month post-test year period July 1, 2010 – December 31. 2010 in order to arrive at its proposed post-test year December 31, 2010 UPIS balance of $1,384,354,246. The proposed total projected post-test year UPIS additions of $53,649,794 consist of $20,288,582 for all of the Company's production and transmission investments and $33,361,212[6] for all of its net distribution investments included in SJG's Capital Expenditure Budget for the 6-month period July 1, 2010 – December 31, 2019. These proposed post-test year plant additions are described in the testimonies of Messrs. Fatzinger and Dippo who both claim that their proposed post-test year plant addition proposals are consistent with the Board's test year and post-test year ratemaking standards established *In Re Elizabethtown Water Company Rate Case*, BPU Docket No. WR8504330 (May 23, 1985).

Q. COULD YOU BRIEFLY DESCRIBE THESE BPU-ESTABLISHED TEST YEAR AND POST-TEST YEAR RATEMAKING STANDARDS?

A. Yes. In the previously referenced BPU Order, the Board established the general policy that the test year to be used in a base rate proceeding must be fully historical prior to the close of record in the proceeding, but that such historical test year data may be adjusted for "known and measurable" changes. The Board defined the "known and measurable" standard as follows:

> With regard to the second issue, that is the appropriate time period and standard to apply to out of period adjustments, the standard that shall be applied and shall govern petitioner's filing and proofs is that which the Board has consistently applied, the "known and measurable" standard. Known and measurable changes to the test year must be (1) prudent and major in nature and consequence, (2) carefully quantified through proofs which (3) manifest convincingly reliable data.

[6] See Schedule RJH-4, lines 3 and 4: distribution plant additions of $36,219,650 net of distribution plant retirements of $2,858,438.

Q. HAS THE BOARD PREVIOUSLY ISSUED RULINGS REGARDING THE ELIZABETHTOWN WATER COMPANY STANDARDS FOR POST-TEST YEAR PLANT ADDITIONS?

A. Yes. As discussed on pages 4 – 7 of the Board's Order in a prior fully litigated Middlesex Water Company rate case, Middlesex had proposed rate recognition for projected post-test year plant additions totaling $3,816,558. *I/M/O Middlesex Water Co. For Approval of An Increase in Its Rates For Water Service and Other Tariff Changes*, BPU Docket No. WR00060362, Order dated June 6, 2001. The BPU Staff determined in that case that $1,949,398 out of the total projected post-test year additions of $3,816,558 represented non-major *routine, ongoing* construction projects. The Board's Order stated in this respect:

> With respect to the proposed routine capital budget items, amounting to $1,949,398, Staff was not persuaded that such expenditures, which the Company classified as routine, met the "major in nature and consequence" standard as set by the Board.
> *Id.* at 7.

The Board's Order continues:

> The ALJ also agreed with Staff's recommendation to reject the inclusion of $1,949,398 of proposed capital budget items, contending that these items are in fact routine, ongoing plant additions, and do not meet the "major in nature and consequence" test set by the Board.
> *Id.*

The Board adopted the above-referenced ALJ recommendation with regard to this post-test year plant addition issue.

Additionally, in a prior fully litigated Parkway Water Company rate case, *I/M/O The Petition Of Parkway Water Company For An Increase In Rates And Charges For Water*

Service, BPU Docket No. WR05070634, Order dated September 13, 2006, Parkway had requested rate recognition of projected post-test year plant additions consisting of mains, service lines, meters and hydrants. In rejecting these proposed post-test year plant additions, the Board stated on page 12 of its Order in that case:

> The post-test year additions of the type and extent proposed by the Company are common and routine in nature and consequence. Furthermore, the Company has not provided any supporting credible documentation to ascertain or confirm the in-service dates or the costs for these plant additions, and absent such critical information these additions must be disallowed.

Q. GIVEN THE BOARD'S ELIZABETHTOWN WATER COMPANY TEST YEAR AND POST TEST YEAR RATEMAKING STANDARDS AND THE TWO BOARD RULINGS IN THE PREVIOUSLY DESCRIBED MIDDLESEX AND PARKWAY RATE CASES, WHAT ARE YOUR RECOMMENDED POSITIONS REGARDING SJG'S PROPOSED PRO FORMA UPIS BALANCE?

A. As shown on Schedule RJH-4, line 1, I have at this time accepted the Company's proposed projected June 30, 2010 starting point UPIS balance of $1,330,704,452 with the caveat that this projected balance be replaced by the actual June 30, 2010 test year-end balance once this actual balance has become available. This recommended position is consistent with the Board-established ratemaking standard that test year data to be used in a base rate proceeding must be fully historical prior to the close of record in the proceeding.

As shown on Schedule RJH-4, lines 3 and 4, I recommend that the Company's proposed projected post-test year net distribution UPIS additions of $33,361,212 be rejected by the

Board. Consistent with this recommendation, I have also removed the Company's proposed post-test year revenues for incremental sales associated with the post-test year distribution plant additions. I have shown this revenue adjustment on Schedule RJH-8, line 5.

Q. WHY DO YOU MAKE THIS RECOMMENDATION?

A. It is clear that the Board-established Elizabethtown Water post-test year ratemaking standards do not grant a utility the unfettered discretion to include any and all capital expenditures for a 6-month period beyond the end of the test year chosen in a rate case. As previously discussed, the Elizabethtown Water standards do not allow rate recognition for plant projects that are of an ongoing, routine nature rather than being "major in nature and consequence." In this regard, a review of RFF-2 9&3 clearly indicates that virtually all of SJG's proposed post-test year net distribution plant consists of ongoing, routine plant additions that are usually referred to as "blanket" investments, such as mains; services; meters; regulators; automotive and office furniture equipment; and small building improvements. The Board has previously found that (1) these types of plant investments represent common and routine investments that are incurred by any utility on an ongoing basis, and (2) that such routine investments do not meet the post-test year "major in nature and consequence" standard. In accordance with these Board findings, I recommend that the Company's proposed post-test year net distribution plant additions of $33,361,212 be disallowed for ratemaking purposes in this case.

Q. PLEASE EXPLAIN YOUR RECOMMENDATIONS WITH REGARD TO SJG'S PROPOSED POST-TEST YEAR PRODUCTION AND TRANSMISSION UPIS ADDITIONS?

A. As shown on Schedule RJH-4A, the Company's proposed 9&3 updated balance of $20,288,582 for post-test year production and transmission plant essentially consists of 4 plant addition categories.

The first plant addition category concerns projected CIRT projects totaling $1,865,000 that are not projected to come on line until November 1, 2011 and that have not been approved by the Board as eligible CIRT projects. I recommend that these proposed post-test year plant additions be rejected by the Board as they are not scheduled to come on line until 16 months after the end of the test year in this case.

The second plant addition category concerns projected BPU-approved CIRT projects totaling $13,787,993 that are not projected to be completed until the very last day of the post-test year period, December 31, 2010. Since the final completion dates and associated costs for these CIRT projects will not become known and measurable prior to the close of record in this case, I believe it would be inappropriate and contrary to the Board's intent to roll the projected costs for these post-test year investments into base rates in this case. Instead, these projected investments should continue to be recovered through the CIRT rates once the actual completion dates and actual costs for these projects have become known. Actually, the Company agrees that this recommended ratemaking approach represents the most accurate one, as evidenced by its response to RCR-RR-25:

> **REQUEST:**
>
> As shown on CFD-1, in this case, the Company is proposing base rate treatment for a number of CIRT-related plant additions that are not projected to be completed until 11/1/10, 12/31/10 and the end of 2011 with the likelihood that the final costs of these CIRT projects will not be known and certain as of the close of record in this case. Assuming that the final costs of these projects will not be known and certain at the close of record of this case, would the Company agree that a more accurate accounting for these costs would be to recover them through the CIRT rate mechanism rather than rolling these costs into the base rates on a projected basis? If you don't agree, explain your disagreement in detail.
>
> **RESPONSE:**
>
> Yes.

In summary, my recommendation simply replaces SJG's proposed base rate recovery with CIRT rate recovery for this plant addition category.

The third plant addition category concerns projected non-BPU approved CIRT projects totaling $3,672,131 with schedule completion dates between September 30 and December 31, 2010. Since the Company will not receive rate recovery for these projects through the CIRT rate and since the lion's share of the $3.7 million investment does not appear to be of a common, routine nature, I have not taken exception to the Company's proposed base rate recognition for these post-test year plant investments.

Finally, the fourth plant investment category concerns projected non-CIRT projects of

$963,448 with projected completion dates at December 31, 2010. Since these investments represent non-blanket Special Authorization projects[7] expected to come on line within the 6-month post-test year period, I have accepted the Company's proposed base rate recognition for these post-test year plant investments.

Q. IS THERE ANOTHER REASON WHY YOUR RECOMMENDATION TO DISALLOW MOST OF THE COMPANY'S PROPOSED POST-TEST YEAR PLANT ADDITIONS IS REASONABLE AND APPROPRIATE?

A. Yes. While the Company has proposed rate recognition for its entire UPIS balance as of the post-test year-end, December 31, 2010, it has not properly "matched" this proposal by doing the same thing for the offsetting depreciation reserve and accumulated deferred income tax ("ADIT") rate base balances. Specifically, rather than bringing its entire embedded depreciation reserve and ADIT balances forward to December 31, 2010 (as SJG has done for its UPIS balance), the Company essentially reflected its June 30, 2010 reserve and ADIT balances with some minor pro forma adjustments. This will be discussed in more detail in the Accumulated Depreciation Reserve and Accumulated Deferred Income Tax sections of this testimony. SJG's proposed position represents an inappropriate violation of the important ratemaking principle that all components of the ratemaking formula be properly matched at the same point in time in the chosen test year.

- **<u>Accumulated Depreciation Reserve</u>**

[7] See response to RCR-RR-23.

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED 9&3 UPDATED ACCUMULATED DEPRECIATION RESERVE BALANCE OF $373.549.986.

A. The Company started out with its projected accumulated depreciation reserve balance of $372,418,073 as of the end of the test year, June 30, 2010. It then increased this test year-end balance by $1,131,913 for the proposed growth in its depreciation reserve balance during the 6-month post-test year period ending December 31, 2010 in order to arrive at its proposed post-test year depreciation reserve balance of $373,549,986 at December 31, 2010.

Q. DOES THE COMPANY'S PROPOSED POST-TEST YEAR DEPRECIATION RESERVE GROWTH AMOUNT OF $1,131,913 REPRESENT THE TOTAL DEPRECIATION RESERVE GROWTH DURING THE 6-MONTH POST-TEST YEAR PERIOD?

A. No. As shown on TSK-8 9&3, the proposed post-test year reserve growth of $1,131,913 merely represents the depreciation expense accruals associated with the proposed post-test year plant additions, net of reserve retirements, plus the difference between the annualized and unadjusted test year depreciation expenses. The reserve growth amount of $1,131,913 does not include the depreciation expense accruals during the 6-month post-test year period that are associated with the total plant in service balance in the test year. In other words, the Company is not proposing to bring its entire embedded deprecation reserve balance forward to December 31, 2010.

Q. COULD YOU ELABORATE ON THIS LATTER POINT WITH AN EXAMPLE?

A. Yes. As shown on Schedule RJH-22, line 6, the Company's proposed annualized test year depreciation expenses amount to approximately $29.6 million. This means that the Company's current annual growth in its depreciation reserve will be around $29.6 million which, on a 6-month basis, would be around $14.8 million. Assuming depreciation reserve retirements of about $2.8 million[8] during the 6-month post-test year period, this means that the Company's total depreciation reserve balance as of December 31, 2010 should be at least $12 million[9] higher than its reserve balance at June 30, 2010, the end of the test year. Yet, the Company is only proposing a depreciation reserve growth for the 6-month post-test year period of about $1.2 million.

Q. BASED ON THE AFOREMENTIONED FACTS, DO YOU BELIEVE THAT THE COMPANY'S PROPOSED POSITION WITH REGARD TO ITS POST-TEST YEAR DEPRECIATION RESERVE IS CONSISTENT WITH ITS PROPOSED POSITION REGARDING POST-TEST YEAR PLANT IN SERVICE?

A. I believe the Company's proposed post-test year depreciation reserve position is inconsistent with its proposed post-test year plant in service position. Whereas the Company has proposed to reflect all of its production, transmission and distribution plant in service additions as of December 31, 2010, it has not similarly proposed to reflect its entire depreciation reserve associated with its embedded production, transmission and distributions plant as of December 31, 2010.

---

[8] Similar to what SJG has assumed – see TSK-8 9&3.
[9] Calculation: $14.8 million for reserve accruals less $2.8 million for reserve retirements.

Q. COULD YOU NOW EXPLAIN THE RECOMMENDED DEPRECIATION RESERVE TO BE USED FOR RATEMAKING PURPOSES IN THIS CASE, AS SHOWN ON SCHEDULE RJH-3, LINE 2?

A. Yes. Consistent with my previously discussed plant in service rate base position, I recommend that the depreciation reserve balance to be reflected for ratemaking purposes in this case be set at the June 30, 2010 test year-end level. At this time, I have accepted the Company's projected June 30, 2010 balance of $372,418,073; however, this projected balance should eventually be replaced by the actual June 30, 2010 reserve balance. For the reasons explained in the next section of this testimony, I have removed from the recommended depreciation reserve balance the reserve portion representing the regulatory liability for Non-Legal Asset Retirement Obligations ("AROs"). This is shown on Schedule RJH-3, footnote (2).

- **<u>Regulatory Liability for Non-Legal Asset Retirement Obligations ("AROs")</u>**

Q. PLEASE EXPLAIN YOUR RECOMMENDED RATE BASE BALANCE FOR THE REGULATORY LIABILITY ASSOCIATED WITH NON-LEGAL AROs SHOWN ON SCHEDULE RJH-3, LINE 3.

A. Both SJG's proposed and Rate Counsel's recommended rate bases include rate base deductions for the regulatory liability for Non-Legal AROs. However, while SJG's test year Non-Legal ARO regulatory liability balance is embedded in its proposed accumulated depreciation reserve balance, I have removed this regulatory liability balance from Rate Counsel's recommended test year accumulated depreciation reserve balance and, instead, have reflected the regulatory liability balance as a separate rate base line item.[10] I have done so based on the recommendations contained in the testimony of Rate Counsel witness Michael Majoros. In addition, as I will discuss later in this testimony, Mr. Majoros has recommended a 20-year amortization of the test year regulatory liability balance. Consistent with that recommendation, I have removed one-year's worth of this amortization from the test year regulatory liability balance. My calculations for that are shown in Schedule RJH-3, footnote (3).

- **<u>Materials & Supplies</u>**

Q. PLEASE EXPLAIN THE RECOMMENDED MATERIAL AND SUPPLIES ("M&S") ADJUSTMENT SHOWN ON SCHEDULE RJH-3, LINE 5.

A. Whereas the Company's proposed 9&3 updated M&S balance of $2,534,111 represents the 13-month average balance for the annual period ended 3/31/2010, my recommended M&S balance of $1,705,734 represents the 13-month average balance for the annual period ended 4/30/2010. The reason for the relatively large adjustment amount of $828,377 is that the Company's proposed average balance still includes an abnormally high M&S balance of almost $12 million in March 2009, whereas my recommended 13-month average M&S no longer includes such abnormally high monthly M&S balances. The March 2009 M&S balance of approximately $12 million that is included in the determination of the

[10] For the underlying calculations, see Schedule RJH-3, footnote (2).

Company's proposed 13-month average M&S balance includes an approximate $10 million balance for a large diameter 24" pipe that should have been recorded in Utility Plant in Service rather than in M&S.[11] The recommended 13-month average M&S balance should eventually be updated to reflect the actual 13-month average balance for the test year ended 6/30/10.

- **Cash Working Capital**

Q. PLEASE EXPLAIN THE RECOMMENDED CASH WORKING CAPITAL ADJUSTMENT SHOWN ON SCHEDULE RJH-3, LINE 6.

A. The cash working capital adjustment shown on Schedule RJH-3, line 6 reflects my adoption of SJG's cash working capital requirement recommended by Rate Counsel witness David Peterson.

- **Customer Deposits**

Q. PLEASE EXPLAIN THE RECOMMENDED CUSTOMER DEPOSIT ADJUSTMENT SHOWN ON SCHEDULE RJH-3, LINE 8.

A. Whereas the Company has proposed to reflect a projected customer deposit balance as of December 31, 2010, the end of the proposed post-test year period, I recommend a customer deposit balance as of June 30, 2010, the end of the test year. The June 30, 2010 balance currently reflected by me represents a projected balance which must be replaced by the

[11] See the response to RCR-RR-124.

actual June 20, 2010 balance to be included in the Company's scheduled 12&0 update filing.

It should be noted that my recommended customer deposit balance adjustment also results in a small customer deposit interest adjustment. This interest expense adjustment and the underlying calculations for the adjustment are shown on Schedule RJH-7, line 6 and footnote (2).

- **<u>Accumulated Deferred Income Taxes ("ADIT")</u>**

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED 9&3 UPDATED ADIT BALANCE OF $194,131,220.

A. The Company started out with its projected ADIT balance of $194,668,542 as of the end of the test year, June 30, 2010. It then decreased this test year-end balance by $537,322 for the proposed reduction in its ADIT balance during the 6-month post-test year period ending December 31, 2010 in order to arrive at its proposed post-test year ADIT balance of $194,131,220 at December 31, 2010.

Q. DOES THE COMPANY'S PROPOSED POST-TEST YEAR ADIT REDUCTION AMOUNT OF $537,322 REPRESENT THE TOTAL ADIT GROWTH DURING THE 6-MONTH POST-TEST YEAR PERIOD?

A. No. As shown on TSK-7A and 7B 9&3, the proposed post-test year ADIT reduction of $537,322 only represents the estimated ADIT impact of the proposed post-test year plant additions. The proposed ADIT balance as of December 31, 2010 does not include the growth in ADIT associated with the total plant in service balance in the test year. In other words, the Company is not proposing to bring its entire embedded ADIT balance forward to December 31, 2010.

Q. COULD YOU ELABORATE ON THIS LATTER POINT WITH AN EXAMPLE?

A. Yes. The response to RCR-RR-134 shows that the Company carried on its books the following total combined[12] ADIT balances at December 31 of each of the most recent 5 years:

12/31/05	$124,266,128
12/31/06	133,836,551
12/31/07	145,828,490
12/31/08	163,515,212
12/31/09	190,738,842

The data in the above table show that the Company has experienced an average annual growth in its ADIT balances during the most recent 5-year period through 12/31/09 of approximately $16.6 million. This would indicate an average half-year's ADIT balance growth of around $8.3 million and would suggest that the Company's total ADIT balance as of December 31, 2010 should be at least $8 million higher than its ADIT balance at June 30, 2010, the end of the test year. Yet, the Company is actually proposing an ADIT *decrease* during the 6-month post-test year period of about $537,322.

[12] Including both the ADFIT and ADSIT balances.

Q. BASED ON THE AFOREMENTIONED FACTS, DO YOU BELIEVE THAT THE COMPANY'S PROPOSED POSITION WITH REGARD TO ITS POST-TEST YEAR ADIT BALANCE IS CONSISTENT WITH ITS PROPOSED POSITION REGARDING POST-TEST YEAR PLANT IN SERVICE?

A. I believe the Company's proposed post-test year ADIT balance position is inconsistent with its proposed post-test year plant in service position. Whereas the Company has proposed to reflect all of its production, transmission and distribution plant in service additions as of December 31, 2010, it has not similarly proposed to reflect its entire ADIT balance associated with its embedded production, transmission and distributions plant as of December 31, 2010.

Q. COULD YOU NOW EXPLAIN THE RECOMMENDED ADIT BALANCE TO BE USED FOR RATEMAKING PURPOSES IN THIS CASE, AS SHOWN ON SCHEDULE RJH-3, LINE 10?

A. As shown in more detail on Schedule RJH-5, my recommended ADIT balance used for ratemaking purposes at this time consists of SJG's proposed projected ADIT balance as of the end of the test year, June 30, 2010, plus the projected June 30, 2010 balance for Excess Protected ADIT. The resulting recommended total June 30, 2010 ADIT balance of $196,818,057 is $2,686,837 larger than SJG's proposed 9&3 updated post-test year ADIT rate base deduction balance of $194,131,220, as shown on Schedule RJH-3, line 10. The projected June 30, 2010 ADIT balance currently reflected by me must be replaced by the actual June 20, 2010 ADIT balance to be included in the Company's scheduled 12&0 update filing.

Q. WHY HAVE YOU INCLUDED THE BALANCE FOR EXCESS PROTECTED ADIT IN YOUR RECOMMENDED ADIT RATE BASE DEDUCTION BALANCE?

A. As described in the response to RCR-RR-153, the Excess Protected ADIT balance represents the portion of ADIT that was on the Company's balance sheet as of 12/31/86 that was rendered "excess" by the reduction in the tax rate from 46% to 34% as a result of the Tax Reform Act of 1986. In this same data response, the Company agrees that this Excess Protected ADIT balance should be used as a rate base deduction in this case.

Q. WHY HAVE YOU NOT REFLECTED THE PROJECTED ADIT BALANCE AS OF DECEMBER 31, 2010, THE END OF THE POST-TEST YEAR PERIOD?

A. For the reasons previously discussed in this testimony, I have recommended that most of the Company's proposed post-test year plant in service additions be disallowed in this case. Consistent with this recommended plant in service position, I recommend that the ADIT rate base deduction balance be stated as of June 30, 2010, the end of the test year.

- **Unclaimed Customer Deposits**

Q. PLEASE EXPLAIN YOUR RECOMMENDED RATE BASE DEDUCTION FOR UNCLAIMED CUSTOMER DEPOSITS SHOWN ON SCHEDULE RJH-3, LINE 11.

A. As described in the Company's response to RCR-RR-147, unclaimed customer deposits represent customer deposit refund checks that have not been cashed by the customer after 1 year and have become available to escheat to the state of New Jersey. The Company carries such unclaimed customer deposit balances on its books on a continuous basis for each year and for each month within the year. For example, the response to RCR-RR-147 indicates that the Company's unclaimed customer deposit balances were $210,240 in 2005, $224,362 in 2006, $204,215 in 2007, $302,199 in 2008, $333,701 in 2009, and $341,961 in 2010 through March. Thus, while existing unclaimed customer deposits eventually become available to escheat to the state, at that same time the Company will have accumulated new unclaimed customer deposits with the end result that the Company will always have a certain level of unclaimed deposits on its books. In fact, the same is true for the Company's regular customer deposits. These deposits eventually get refunded to the customers but at that same time new customer deposits will have been collected so that, on a continuous basis, the Company will have a certain level of customer deposit balances on its books. Similar to regular customer deposits, unclaimed customer deposits represent customer provided, non-investor supplied capital available to the Company for general working capital or other operating purposes and, for that reason, should be treated as a rate base deduction.

- **<u>Consolidated Income Tax Benefits</u>**

Q. HAS SJG REFLECTED ANY CONSOLIDATED INCOME TAX BENEFITS FOR

RATEMAKING PURPOSES IN THIS CASE?

A. No. In this case, the Company has assumed that it pays income taxes on the so-called stand-alone basis. However, in reality, the Company does not calculate and pay income taxes on a stand-alone basis; rather it participates in consolidated income tax filings made by its parent company, South Jersey Industries, Inc.

Q. WHY DOES A CONSOLIDATED INCOME TAX FILING GENERATE TAX SAVINGS?

A. The primary purpose of consolidated income tax filings is to minimize the federal income tax liabilities of the participating members. Certain members of the consolidated income tax filing generate tax losses. These tax losses are used to offset a portion of the taxable income generated by other affiliates, including SJG, to reduce income taxes payable for the entire consolidated entity. Without a consolidated tax filing, it could take several years under the IRS's carry-forward and carry-back restrictions, if ever, before the recurring loss companies would be able to fully realize tax savings. By filing a consolidated return, however, the consolidated entity as a whole is able to realize, in the current tax year, the tax benefits generated by the loss companies.

Q. SHOULD SJG'S RATEPAYERS SHARE IN THE TAX SAVINGS REALIZED FROM THE CONSOLIDATED INCOME TAX FILINGS?

A. Yes. SJG's ratepayers should only reimburse the Company for actual income taxes paid. If the tax savings from the consolidated income tax filings are not flowed through to the

SJG ratepayers on an appropriate, proportionate basis, the ratepayers will pay rates that are higher than necessary to compensate SJG for its actual costs. I therefore recommend that an appropriate consolidated income tax benefit be calculated for SJG and reflected for ratemaking purposes in this case.

Q. DOES THE BOARD HAVE A RATE MAKING POLICY WITH REGARD TO THE RATE MAKING TREATMENT OF TAX BENEFITS TO BE ASSIGNED TO REGULATED UTILITIES UNDER ITS JURISDICTION AS A RESULT OF THESE UTILITIES' FILING OF CONSOLIDATED INCOME TAX RETURNS?

A. Yes. The Board has an established policy requiring that any tax savings allocable to a utility as a result of the filing of consolidated income tax returns be reflected as a rate base deduction in the utility's base rate filings. The BPU first established this policy in its Decision and Order ("D&O") in the Atlantic City Electric Company rate proceeding, BPU Docket No. ER90091090J, dated October 20, 1992. In this D&O, the Board also ruled that the calculation starting point for the consolidated income tax related rate base deduction must be July 1, 1990:

> ...it is our judgment that the appropriate consolidated tax adjustment in this proceeding is to reflect as a rate base deduction the total of the 1991 consolidated tax savings benefits, and one-half of the tax benefits realized from AEI's 1990 consolidated tax filing...This finding reflects a balancing of the interests to reflect the unique period of uncertainty during the period 1987-1991. We hereby reaffirm and emphasize that the Board's policy is to reflect an equitable and appropriate sharing of consolidated tax benefits for ratepayers in future rate proceedings....[13]

[13] *I/M/O the Petition of Atlantic City Electric Company for Approval of Amendments to its Tariff to Provide for and Increase in Rates and Charges for Electric Service, Phase II,* BPU Docket No. ER90091090J, Order Adopting in Part and Modifying in Part the Initial Decision at 8 (Oct. 20, 1992).

The Board reaffirmed its consolidated income tax policy in its D&O in the 1991 Jersey Central Power and Light Company ("JCP&L") base rate proceeding, BPU Docket No. ER91121820J, dated February 25, 1993. On pages 7 and 8 of its D&O in that docket the BPU stated:

> The Board believes that it is appropriate to reflect a consolidated tax savings adjustment where, as here, there has been a tax savings as a result of the filing of a consolidated tax return. Income from utility operations provide the ability to produce tax savings for the entire GPU system because utility income is offset by the annual losses of the other subsidiaries. Therefore, the ratepayers who produce the income that provides the tax benefits should share in those benefits. The Appellate Division has repeatedly affirmed the Board's policy of requiring utility rates to reflect consolidated tax savings and the IRS has acknowledged that consolidated tax adjustments can be made and there are no regulations which prohibit such an adjustment.
>
> The issue, in this case, is not whether such an adjustment should be made, but, rather, what methodology should be used to make such an adjustment. In this area, the courts have held that the Board has the power and discretion to choose any approach which rationally determines a subsidiary utility's effective tax rate. Toms River Water Company v. New Jersey Public Utilities Commissioners, 158 N.J. Super. 57 (1978). Based on our review of the record in this case, the Board REJECTS the ALJ's recommendation to accept the income tax expense adjustment proposed by Petitioner and, instead, ADOPTS the position of Staff that the rate base adjustment is a more appropriate methodology for the reflection of consolidated tax savings. The rate base approach properly compensates ratepayers for the time value of money that is essentially lent cost-free to the holding companies in the form of tax advantages used currently and is consistent with our recent Atlantic Electric decision (Docket No. ER90091090J). Moreover, in order to maintain consistency with the methodology applied in the Atlantic decision, we modify the Staff calculation and find that a rate base adjustment which reflects consolidated tax savings from 1990 forward, including one-half of the 1990 savings, is appropriate in this case. [14]

[14] *I/M/O the Petition of Jersey Central Power & Light Company for Approval of Increased Base Tariff Rates and Charges for Electric Service and Other Tariff Revisions,* BRC Docket No. ER91121820J, Final Decision and Order Accepting in Part and Modifying in Part the Initial Decision at 7-8 (June 15, 1993).

In addition, in a more recent 2002 JCP&L base rate case, Docket No. ER02080506, the Board ruled on page 45 of its Final Order:

> As a result of making a consolidated tax filing during the years 1991 – 1999, GPU, JCP&L's parent company during that time period as a whole paid less federal income taxes than it would have is each subsidiary filed separately, thus producing a tax savings. The law and Board policy are well-settled that consolidated tax savings are to be shared with customers.

Finally, in the most recent Rockland Electric Company ("RECO") base rate case, Docket No. ER02100724, the Board again affirmed its consolidated income tax benefit policy. In this regard, the Board stated on page 64 of its Final D&O:

> The Board agrees with Staff that RECO's argument that it would be improper to consider data from the period prior to the date of the merger between O&R and Con-Ed (i.e., July 1999) is not valid. RECO's positive net income during the years 1991-1999 clearly produced tax savings for its parent company in those years, and RECO's customers should not be denied their share of these savings simply because of a subsequent merger of its parent with Con-ED.
>
> … the Board **HEREBY ADOPTS** the position of Staff that the $1,329 million rate base adjustment, calculated in accordance with well-settled Board policy, appropriately reflects consolidated tax savings achieved by RECO through offsetting tax losses of affiliates with RECO's positive taxable income. Further the Board **ORDERS** RECO to submit a consolidated tax adjustment in every future base rate case filing. The future consolidated tax adjustments are to be made utilizing the methodology that Staff utilized to calculate its $11.329 million adjustment as shown on Exhibit 4 of this order.

Q. HOW DID YOU DETERMINE THE APPROPRIATE CONSOLIDATED INCOME TAX ADJUSTMENT TO BE APPLIED TO SJG FOR RATE MAKING PURPOSES IN THIS CASE?

A. My recommended consolidated income tax benefit adjustment in this case has been determined based upon the calculation methodology that was approved by the Board in its Order in the previously discussed RECO base rate proceeding, BPU Docket No. ER02100724.[15] In response to data request RCR-RR-046, SJG provided the following answer regarding consolidated income tax benefits:

> **REQUEST:**
>
> Please provide a calculation showing SJG's consolidated income tax savings for the years 1991 through 2009 using the methodology approved by the Board on page 64 of its April 20, 2004 Order and detailed on Exhibit 4 attached to this Order in Rockland Electric Company's rate case, Docket No. ER02100724.
>
> **RESPONSE:**
>
> The Company has not made the requested calculation. However, SJI's tax data has been provided in response to discovery request RCR-RR-042, and SJG asserts that the parties can make the requested calculations using that data.
>
> SJG does not believe a consolidated tax adjustment should be made in this base rate case and therefore, has not proposed one. Moreover, the Company believes that the Rockland Order did not dictate an ascertainable methodology. <u>Having said that, we have attached to this response, a calculation of a form of rate base deduction which might be made, were one to be made</u> [emphasis supplied].

The Company's consolidated income tax benefit calculation attached to this data response produced a consolidated income tax benefit rate base deduction balance of $4,086,758. I have summarized the derivation of this rate base deduction balance on Schedule RJH-6. My review of the Company's calculations indicates that, with one exception, the rate base deduction balance of $4,086,758 was calculated by SJG in accordance with the Board-ordered RECO method.

[15] This calculation methodology will be referred to as the "RECO" method.

Q. WHAT CALCULATION COMPONENT OF THE BOARD-AUTHORIZED RECO CALCULATION METHODOLOGY WAS NOT CONSIDERED BY SJG IN ITS DETERMINATION OF THE CONSOLIDATED INCOME TAX BENEFIT RATE BASE DEDUCTION BALANCE OF $4,086,758?

A. SJG did not consider the impact on the cumulative consolidated income tax benefit balance of any annual Alternative Minimum Tax ("AMT") payments or credits during the period 1991 – 2009. Exhibit 4 attached to the Board Order in the Rockland Electric rate case, Docket No. ER02100724, clearly shows that AMT considerations are part of the Board-approved RECO calculation method for consolidated income tax benefits.

Q. DID YOU CALCULATE THE IMPACT ON SJG'S CONSOLIDATED INCOME TAX BENEFIT CALCULATIONS OF THE CUMULATIVE AMT PAYMENTS/ (CREDITS) FROM 1991 THROUGH 2009?

A. Yes. The response to RCR-RR-042 provides the annual AMT tax payments or tax credits experienced by SJI as part of its consolidated income tax filings from 1991 through 2009. From this data response, I have calculated that SJI experienced a net cumulative AMT tax credit balance of $2,005,937, which, using a SJG allocation factor of 62.46035%, produces an additional SJG-allocated consolidated income tax benefit balance of $1,252,915.

In summary, as shown on Schedule RJH-6, SJG's consolidated income tax benefit rate base deduction balance, calculated in accordance with the RECO calculation methodology, amounts to $5,339,673.

Q. OTHER THAN ON SCHEDULE RJH-6, WHERE ELSE DID YOU REFLECT THIS RECOMMENDED CONSOLIDATED INCOME TAX BENEFIT AMOUNT?

A. This recommended consolidated income tax benefit balance is reflected as a rate base deduction on Schedule RJH-3, line 12.

C. OPERATING INCOME

Q. PLEASE SUMMARIZE SJG'S PROPOSED 9&3 UPDATED PRO FORMA TEST YEAR OPERATING INCOME, THE METHOD EMPLOYED BY SJG TO DETERMINE ITS PRO FORMA OPERATING INCOME, AND THE RECOMMENDED OPERATING INCOME ADJUSTMENTS.

A. SJG's proposed 9&3 updated pro forma test year net operating income amounts to $39,132,952, as shown on Schedule RJH-7, line 9. In deriving this pro forma income level, SJG projected its pro forma operating revenues based on projected billing determinants as of December 31, 2010, the end of the post-test period, and a twenty-year normal weather pattern. To be consistent with its proposal to reflect plant in service in rate base as of the post-test period date of December 31, 2010, SJG's proposed depreciation expenses were determined by applying its proposed composite depreciation rate to its projected depreciable plant levels as of December 31, 2010. The proposed pro forma O&M expenses were determined by taking the unadjusted historic/projected O&M expenses in the 9&3 updated test year ended June 30, 2010 as the starting point and then adjusting these test period expenses for actual and projected expense changes during the test year and the 6-month post-test year period ended December 31, 2010. Generally, the same approach was used by SJG to determine its pro forma test year taxes other than income taxes. SJG's proposed pro forma income taxes were determined by taking the proposed pro forma test year net operating income before income taxes as the starting point; then deducting pro forma interest expenses through the "interest synchronization" method; then applying the statutory NJ CBT and FIT rates of 9.36% and 35%, respectively; and, finally, adjusting the so-calculated income taxes for the investment tax credit amortization and certain taxable differences. As summarized on Schedule RJH-7 and shown in detail on subsequent RJH schedules, I have recommended a large number of operating income adjustments with the combined effect of increasing SJG's proposed 9&3 updated pro forma after-tax operating income by a total amount of $7,357,052. Each of the recommended operating income adjustments will be discussed in detail below.

- **<u>Operating Revenues</u>**

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED PRO FORMA 9&3 OPERATING REVENUES IN THIS CASE.

A. As shown on Schedule RJH-8, the Company has proposed total 9&3 updated pro forma operating revenues of $428,438,773, consisting of unadjusted test year operating revenues of $454,316,300 and pro forma net revenue adjustments of ($25,877,527).

Q. PLEASE EXPLAIN THE RECOMMENDED OPERATING REVENUE ADJUSTMENTS SHOWN ON SCHEDULE RJH-8.

A. The recommended operating revenue adjustment, shown on line 5 of Schedule RJH-9, has been made by me to be consistent with my previously described recommendation to reject the Company's proposed post-test year net distribution UPIS additions. In other words, since I have not recognized any post-test year distribution plant additions for ratemaking purposes in this case, it would be appropriate and consistent not to recognize any of the associated incremental post-test year revenues proposed by SJG.

The recommended operating revenue adjustment on line 6 is to correct for an error made in the Company's proposed revenue adjustment for contract changes. Specifically, the Company's 9&3 updated filing includes a revenue reduction of $1,659,296 based on the assumption that the actual contractual monthly contract demand and monthly contract consumption of Customer Q[16] would be substantially reduced during the months of December through March of the year. When questioned in RCR-RR-057 about the reasons for these assumed demand and consumption reductions, the Company conceded that these demand and consumption reductions were reflected in error and should not have been made. However, when the Company filed its 9&3 update, the Company failed to make this error correction in that filing. I have therefore reflected this required error correction. As shown on line 6, this recommended revenue adjustment increases the Company's proposed pro forma test year operating revenues by $1,659,296.

[16] To keep customer names confidential, SJG referred to its contract customers with letters rather than actual names.

The recommended operating revenue adjustment regarding the incremental miscellaneous service charge revenues on line 7 reflects my adoption of the recommendations regarding these revenues addressed in the testimony of Rate Counsel witness Brian Kalcic.

- **<u>Purchased Gas Expenses</u>**

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED PRO FORMA 9&3 PURCHASED GAS EXPENSES IN THIS CASE.

A. As shown on Schedule RJH-9, the Company has proposed total 9&3 updated pro forma purchased gas expenses of $258,080,602, consisting of unadjusted test year expenses of $257,634,100 and pro forma net expense adjustments of $446,502.

Q. PLEASE EXPLAIN THE RECOMMENDED PURCHASED GAS EXPENSE ADJUSTMENTS SHOWN ON SCHEDULE RJH-9.

A. The recommended expense adjustments, shown on lines 3 and 4 of Schedule RJH-9, represent the "flow-through" effect of the recommended adjustments made by me regarding the revenue adjustments for sales from post-test year plant additions and contract changes. These recommended revenue adjustments were discussed previously in this testimony.

- **<u>O&M Expenses – Summary</u>**

Q. PLEASE SUMMARIZE SJG'S PROPOSED AND YOUR RECOMMENDED TOTAL OPERATION AND MAINTENANCE (O&M) EXPENSES TO BE REFLECTED FOR RATEMAKING PURPOSES IN THIS CASE.

A. As shown on Schedule RJH-7, line 3 and Schedule RJH-10, SJG has proposed pro forma 9&3 updated O&M expenses[17] of $77,370,662, consisting of unadjusted test year O&M expenses of $74,243,200 and additional net O&M expenses of $3,127,462 for 7 proposed O&M expense adjustments.

As shown in the middle column of Schedule RJH-10, I have recommended a large number of O&M expense adjustments with the effect of reducing the Company's proposed pro forma 9&3 O&M expenses by a total amount of $8,451,856. Each of these recommended O&M expense adjustments will be discussed in detail in the subsequent sections of this testimony.

- **Rate Case Expenses**

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSED POSITION WITH REGARD TO THE PROJECTED RATE CASE EXPENSES FOR THIS PROCEEDING.

A. As shown on Schedule RJH-11, the Company at this time has reflected total 9&3 updated rate case expenses of $1,419,103. In accordance with well-established and long-standing BPU ratemaking policy, the Company has proposed a 50/50 ratepayer/stockholder sharing

[17] Exclusive of purchased gas expenses which are separately reflected on Schedule RJH-7, line 2.

of this rate case expense projection. Finally, the Company has proposed to amortize its allocated 50% expense portion over a 3-year amortization period. The resultant annual rate case expense amortization amounts to $236,517.

Q. IS THE COMPANY REQUESTING RATE RECOGNITION FOR 50% OF THE EXACT RATE CASE EXPENSE AMOUNT OF $1,419,103?

A. No. The Company is not requesting recovery of 50% of the currently projected total rate case expense amount of $1,419,103. Rather it is requesting rate recovery of 50% of the actual rate case expenses to be incurred for this case; the estimated expense of $1,419,103 is simply a placeholder for the actual rate case expenses that will eventually become known.[18]

Q. WHEN WERE THE COMPANY'S MOST RECENT TWO BASE PROCEEDINGS AND WHAT WERE THE ASSOCIATED TOTAL RATE CASE EXPENSES FOR THESE TWO CASES?

A. The most recent SJG base rate case was its 2003 case with associated total rate case expenses of $747,441. The base rate case before the 2003 case took place in 1996 with associated total rate case expenses of $493,434.

Q. WHAT ARE THE ACTUAL EXPENSES BOOKED BY SJG FOR THIS RATE CASE THROUGH MARCH 31, 2010?

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[18] See the Company's response to RCR-RR-72.

A. As indicated in the response to RCR-RR-181, the actual rate case expenses for this case booked through March 2010 amounted to $535,136.

Q. DO YOU RECOMMEND ADJUSTMENTS TO SJG'S CURRENT RATE CASE EXPENSE PROPOSAL?

A. Yes. I recommend that two adjustments be made to the Company's current rate case expense proposal. First, I have reduced the Company's currently projected rate case expense amount of $1,419,103 to a total rate case expense amount of $1,100,000. Second, I recommend the use of a 5-year amortization period as opposed to SJG's proposed 3-year amortization period. As shown on Schedule RJH-11, these two adjustments result in a currently recommended normalized annual rate case expense amount of $110,000, which is $126,517 lower than SJG's proposed normalized annual rate case expense amount of $236,517. The currently recommended rate case expense position must be updated to reflect the actual rate case expenses to be incurred by the Company for this case.

Q. PLEASE EXPLAIN YOUR FIRST ADJUSTMENT, REDUCING THE COMPANY'S TOTAL RATE CASE EXPENSE PROJECTION.

A. The exact amount of the Company's rate case expenses cannot be determined at this time, nor is there a reasonable way to verify the accuracy of SJG's current rate case expense projection of $1,419,103. I believe the best way to deal with this issue is to reflect the actual rate case expenses that will have become known and measurable towards the end of this case, combined with a revised, updated estimate of any remaining outstanding expenses. Based on the actual rate case expenses incurred to date and the total expenses incurred in the most recent prior rate case, it is my opinion that SJG's current total rate case expense estimate of approximately $1.4 million may be excessive. I have therefore reduced the total expense estimate to $1.1 million[19] as a placeholder until actual costs have become known and measurable.

Q. PLEASE EXPLAIN YOUR SECOND ADJUSTMENT, CHANGING THE COMPANY'S PROPOSED 3-YEAR AMORTIZATION PERIOD TO A 5-YEAR AMORTIZATION PERIOD.

A. As previously discussed, the Company's most recent 2003 base rate case was about 7 years ago, and the time period expired between SJG's 2003 and its next recent 1996 base rate cases was similarly approximately 7 years. Based on this recent experience, I believe the use of a 5-year rate case expense amortization period is more reasonable than using 3 years for the assumed future base rate case frequency.

- **<u>Audit Expenses</u>**

Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED POSITION IN THIS CASE WITH REGARD TO THE AMORTIZATION OF CERTAIN DEFERRED AUDIT EXPENSES, AS WELL AS YOUR RECOMMENDED ADJUSTMENTS TO THE COMPANY'S PROPOSAL.

[19] Based on doubling the actual rate case expenses of $535,000 incurred through March 31, 2010.

A. As shown on Schedule RJH-12, the Company is proposing to charge to its ratepayers over a 3-year amortization period approximately $1.2 million of deferred costs associated with a Liberty Energy Competition Standards Audit ($956,772) and with a Gas Supply Hedging Program Audit ($248,974). The Company's proposal produces a normalized annual expense amount of $401,915.

I recommend that the Company's proposal be adjusted in three respects. First, I recommend that the going-forward rate recognition of the deferred Gas Supply Hedging Program Audit be denied by the Board. Second, I recommend that a normalized expense level of $500,000 be reflected for the Liberty Energy Competition Standards Audit. And third, I recommend that the recommended normalized Liberty Energy Competition Standards Audit costs of $500,000 be normalized over a 2-year period rather than over the 3-year period proposed by SJG. As shown on Schedule RJH-12, my recommended adjustments result in a normalized annual audit expense level of $250,000, which is $151,915 lower than SJG's proposed normalized annual audit expense level of $401,915.

Q. PLEASE EXPLAIN YOUR FIRST RECOMMENDED ADJUSTMENT, THE RATE RECOGNITION DENIAL OF THE GAS SUPPLY HEDGING PROGRAM AUDIT.

A. As acknowledged by SJG in its response to RCR-RR-74, the $248,974 Gas Supply Hedging Program Audit costs were incurred and deferred by the Company between July 2007 and September 2008. The response also confirms that SJG did not request authorization from the Board at that time to defer these costs on its books. Furthermore, the responses to RCR-RR-74 and RCR-RR-171 indicate that there have not been any other audits of SJG's gas supply hedging programs in the last 20 years and that the Company has not been ordered by the Board to conduct another, similar Gas Supply Hedging Program audit in the future. Given these facts, I believe the Company's proposal to charge its ratepayers for these deferred costs are unreasonable. In short, the Company is inappropriately proposing to charge its ratepayers for retroactive costs that were incurred between rate cases and were deferred absent explicit Board authorization to defer these costs. On top of this, the costs are to be considered non-recurring and out-of-period as they were incurred long before the test year used in this case. It is bad ratemaking policy to charge ratepayers on a going forward basis for costs that will not be incurred in the future, including the rate effective period of this case.

Q. PLEASE EXPLAIN YOUR SECOND AND THIRD RECOMMENDED ADJUSTMENTS REGARDING THE REDUCED NORMALIZED EXPENSE LEVEL AND 2-YEAR AMORTIZATION PERIOD FOR THE ENERGY COMPETITION STANDARDS AUDIT.

A. As explained on page 4 of the testimony of Ms. Barnes, pursuant to N.J.A.C. 14:4-3.7, New Jersey's gas and electric utilities, including SJG, must conduct an Energy Competition Standards Audit every 2 years to verify compliance with the energy competition standards. As confirmed in the Company's response to RCR-RR-75, the Liberty Energy Competition Standards Audit costs of $956,772 which SJG is claiming for rate recognition in this case were incurred and deferred from December 2004 through June 2005. The Company did not request authorization from the Board at that time to defer these costs on its books. The responses to RCR-RR-75 and RCR-RR-172 further indicate that the Company had similar Energy Competition Standards Audits in 2000 and 2002, but no audits were conducted in 2006 and 2008. While the 2004 audit cost was $956,772 (which SJG is claiming for rate recognition in this case), the audit costs for the 2000 and 2002 audits were $108,825 and $112,000, respectively.

Similar to the previously discussed Gas Supply Hedging Program audit costs, the 2004 Energy Competition Standards audit costs of $956,772 represent retroactive, out-of-period costs that were incurred and deferred without explicit Board approval between rate cases and long before the test year used in this case. There is, however, an important difference between the Energy Competition Standards audit and the Gas Supply Hedging Program audit, and that is that the Energy Competition Standards audit cost should be considered a recurring cost in the future. In fact, while the Company has not experienced these audits every two years in the last 10 years, I have assumed that it will have such audits every 2 years in the future. Based on that assumption, it would be appropriate to use a 2-year amortization period for the appropriate normalized audit cost that can be expected on an annual basis in the future.

Q. DO YOU THEREFORE RECOMMEND THAT THE COMPANY'S PROPOSED 2004 AUDIT COST OF $956,772 BE AMORTIZED OVER A 2-YEAR PERIOD?

A. No. Just because the Company incurred a cost of $956,772 for its 2004 audit does not mean that this would be an appropriate representative audit cost that can be expected in the future. When asked why its Energy Competition Standards audit costs of $956,772 in 2004 was so much higher than the Energy Competition Standards audit costs of approximately $109,000 and $112,000 in 2000 and 2002, the Company indicated that the higher costs for the 2004 audit was the result of an expanded scope that included an audit of (1) affiliate standards, (2) management practices, (3) cost allocation, and (4) gas supply. I find it unreasonable to assume that the Company will be subjected to a similar expanded audit scope every two years in the future. I therefore recommend the use of a normalized audit cost of $500,000, to be amortized over a 2-year period for a recommended normalized annual expense level of $250,000. As shown on Schedule RJH-12, footnote (2) the $500,000 cost number was derived by taking the $392,532 average cost associated with the Company's most recent three audits and increasing that average cost number to 2010 dollars.

- **Pipeline Integrity Management Expenses**

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSED POSITION WITH REGARD TO THE PIPELINE INTEGRITY MANAGEMENT ("PIM") EXPENSES IN THIS PROCEEDING.

A. As shown on Schedule RJH-13, the Company has proposed to reflect in this rate case total PIM expenses of $703,299, consisting of $378,699 for a 3-year amortization of deferred

PIM costs, and $324,600 for projected ongoing annual PIM expenses. In its response to RCR-RR-24, the Company confirms that if the Board were to approve SJG's proposed Reliability Tracker ("RT") in this case, the deferred costs shown on Schedule RJH-13, line 1 (as well as the associated amortization expense on line 3) would be moved to the RT and eliminated from the test year base rate expense claim. The ongoing annual PIM expense of $324,600 shown on Schedule RJH-13, line 4 would remain in the test year base rate expense claim, but the actual future annual PIM expenses in excess of $324,600 would be booked in the RT.

Q. WHAT IS YOUR UNDERSTANDING OF RATE COUNSEL'S POSITION REGARDING THE IMPLEMENTATION OF THE PROPOSED RT?

A. I understand that Rate Counsel is opposed to the implementation of the RT proposed by SJG. For that reason, Rate Counsel recommends that all PIM costs found to be appropriate in this case be treated as test year base rate expenses.

Q. HAVE YOUR REFLECTED ADJUSTMENTS TO THE COMPANY'S PROPOSED PIM EXPENSES IN THIS CASE?

A. Yes. As shown on Schedule RJH-13, I have reflected the recommendations made by Rate Counsel witness Richard Lelash who has recommended base rate treatment for $333,184 of PIM expenses in this case. Thus, I have reduced the Company's proposed total PIM expenses of $703,299 in this case by an adjustment amount of $370,115.

- <u>RE Valve Replacement Expenses</u>

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSED POSITION WITH REGARD TO THE ROCKFORD-ECLIPSE ("RE") EXPENSES IN THIS PROCEEDING.

A. As shown on Schedule RJH-14, the Company has proposed to reflect in this rate case total RE Valve Replacement expenses of $944,803, consisting of $212,803 for a 3-year amortization of deferred RE costs, and $732,000 for projected ongoing annual RE expenses. In its response to RCR-RR-138, the Company confirms that if the Board were to approve SJG's proposed Reliability Tracker ("RT") in this case, the entire RE expense amount of $944,803 would be moved to the RT and eliminated from the test year base rate expense claim.

Q. WHAT IS YOUR UNDERSTANDING OF RATE COUNSEL'S POSITION REGARDING THE IMPLEMENTATION OF THE PROPOSED RT?

A. I understand that Rate Counsel is opposed to the implementation of the RT proposed by SJG. For that reason, I have assumed that all RE related costs found to be appropriate in this case be treated as test year base rate expenses.

Q. HAVE YOU REFLECTED ANY RE VALVE REPLACEMENT EXPENSES IN THE TEST YEAR BASE RATE EXPENSES?

A. No, as shown on Schedule RJH-14, I have adopted the recommendations of Rate Counsel witnesses Michael McFadden and Richard Lelash which call for the removal of all of the Company's proposed RE Valve Replacement expenses in this case.

Q. IN ADDITION TO THE REASONS ADDRESSED IN THE TESTIMONIES OF MSSRS. MCFADDEN AND LELASH, ARE THERE ANY OTHER REASONS WHY THE COMPANY'S PROPOSED RATE RECOGNITION FOR THE DEFERRED RE VALVE REPLACEMENT SHOULD BE REJECTED?

A. Yes. In addition to the reasons outlined in the testimonies of Messrs. McFadden and Lelash, there are various other reasons why the Company's proposal for rate recognition of its deferred RE Valve Replacement costs should be rejected in this case. First, as indicated in the response to RCR-RR-80, the deferred RE Valve Replacement costs were incurred and deferred without having received explicit Board authorization to defer these costs. Second, most of these costs were incurred before the test year in this case and, therefore represent retroactive out-of-period costs. It would be inappropriate to charge the ratepayers for these costs in addition to charging the ratepayers for the ongoing annual RE Valve Replacement costs. Simply put, these deferred costs are non-recurring in that they were incurred in the past and will not be incurred in the future. Third, the Company has not proven that all of the deferred costs were in fact incremental to the costs for which it already received rate reimbursement during the period that these costs were incurred and deferred. For example, the deferred costs include deferred internal payroll costs. In this regard, it should be noted that the Company's current rates include payroll cost reimbursement for 521 SJG employees.[20] However, since the completion of the Company's last rate case (which reflected payroll costs for 521 employees), the actual SJG employee level has gradually gone down to a current level of approximately 400 employees. Thus, while the Company proposes to defer and charge to the ratepayers internal payroll costs incurred between 1/1/09 and 3/31/10, it conveniently disregards the fact that during the same time period its actual employee level (and the associated payroll costs) was substantially lower than the employee level and associated payroll costs for which it received rate reimbursement. This is exactly the danger of applying the single-issue ratemaking approach the Company is proposing for these deferred RE Valve Replacement costs, i.e., reflecting for ratemaking purposes retroactive cost changes experienced between rate cases for one selected ratemaking component (RE costs) without considering changes in all other ratemaking components during the same time period, when the changes in such other ratemaking components may fully, or more than, offset the impact of the deferred RE costs.

- **<u>Payroll and Benefit Expense Adjustments</u>**

Q. PLEASE EXPLAIN THE ADJUSTMENTS PROPOSED BY SJG IN THIS CASE WITH REGARD TO ITS PAYROLL EXPENSES AND ASSOCIATED PAYROLL TAXES AND EMPLOYEE BENEFITS.

A. As shown on Schedule RJH-15, SJG has proposed a total expense adjustment of $1,518,252 for its payroll expenses and associated payroll taxes and employee benefits.

[20] See the response to RCR-RR-84.

The total expense adjustment amount of $1,518,252 consists of: (1) $291,997 for proposed payroll rate increases and the associated impact on payroll taxes; (2) $846,552 for the incremental payroll and payroll taxes associated with proposed annualizations for actual and projected employee additions and separations; and (3) $379,703 for the incremental employee benefit expenses associated with proposed annualizations for actual and projected employee additions and separations.

Q. DO YOU RECOMMEND THAT ADJUSTMENTS BE MADE TO THE COMPANY'S PROPOSED PAYROLL, PAYROLL TAX AND EMPLOYEE BENEFIT EXPENSE ADJUSTMENTS?

A. Yes. As shown on Schedule RJH-15, while I have accepted the Company's proposed payroll and associated payroll tax adjustments for payroll rate increases, I am recommending reductions in the expense adjustments proposed by the Company for the annualizations of certain projected employee additions. These recommended expense reductions, shown on Schedule RJH-15, lines 2 and 3, reduce the Company's proposed test year expenses by $779,639.

Q. PLEASE EXPLAIN YOUR RECOMMENDED REDUCTIONS TO THE COMPANY'S PROPOSED EXPENSE ADJUSTMENTS FOR THE ANNUALIZATION OF PROJECTED EMPLOYEE ADDITIONS.

A. My recommended expense reductions concern the removal of SJG's proposed projected employee additions after April 1, 2010. In its 9&3 update filing, the Company has projected that 14 new employees will be coming on line after April 1, 2010. As confirmed in its response to RCR-RR-140(j) and (k), none of these 14 employees are currently on the Company's payroll. Since the addition of these 14 projected employee positions are not known and measurable at this time, I recommend that the annualized payroll, payroll tax and employee benefit costs associated with these 14 projected employee positions be removed from the case.

Q. DO YOU HAVE ANY OTHER RECOMMENDATIONS WITH REGARD TO THIS ISSUE?

A. Yes. I also recommend that the previously described expense adjustment be updated later in this proceeding to reflect the actual employee level as of the end of the test year, June 30, 2010.

- <u>Incentive Compensation Expense Removal</u>

Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE INCENTIVE COMPENSATION PROGRAMS AND ASSOCIATED COSTS THAT ARE INCLUDED BY THE COMPANY IN ITS PROPOSED TEST YEAR OPERATING EXPENSES.

A. As summarized on Schedule RJH-16, it is my understanding that the Company's proposed test year O&M expenses include "direct" SJG and SJI/SJIS-allocated incentive compensation expenses totaling $1,988,520 (line 15). Of this total expense amount,

$1,441,899 represents direct SJG and SJI/SJIS-allocated officers incentive compensation (line 6); and $546,533 represents direct SJG and SJI/SJIS-allocated non-officers incentive compensation (line 13). These expenses are for the following types of incentive compensation programs that were in effect during the test year:

- Officers – Annual Cash Awards
- Officers – Long Term Incentive Plan
- Staff Directors – Annual Cash Awards
- Staff Directors – Restricted Stock Awards
- Management Annual Cash Awards
- Off-System Sales Incentives
- Union Annual Cash Incentives.

My review of SJG's response to S-SREV-59 indicates that:

1) 100% of the awards paid out under the Long Term Incentive Plan and Restricted Stock Awards Plan is directly tied to South Jersey Industries' relative total shareholder return, measured against industry peer companies over 3-year cycles.
2) 75% of the incentive compensation paid out under the Annual Cash Awards programs for officers, Staff Directors and Management is tied to South Jersey Industries' earnings per share, with the balance based on other unspecified performance goals.
3) 100% of the awards paid out under the Off-System Sales Incentive Plan are based on achieving off-system sales in excess of budgeted target levels; and
4) the majority of the awards paid out under the Union Annual Cash Incentive Plan are based on the achievement of a pre-determined SJG net income level.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE RATE TREATMENT FOR THE INCENTIVE COMPENSATION EXPENSES INCLUDED IN SJG'S PROPOSED TEST YEAR O&M EXPENSES?

A. I recommend that SJG's proposed total incentive compensation O&M expenses of $1,988,520 be disallowed for rate making purposes in this case.

Q. WHAT ARE THE REASONS FOR THIS RECOMMENDATION?

First, as previously described, the criteria for determining the awards to be paid out under SJG's various incentive compensation programs are predominantly dependent on the achievement of financial performance measures that would increase SJI's profitability and would enhance SJI's shareholder value. Since the shareholders are the primary beneficiaries of such financial performance improvements, they should be made responsible for these discretionary incentive compensation costs.

Second, the Company's proposed incentive compensation expenses of $1,988,520 are not known and certain. They are dependent on the achievement of certain goals and in determining its proposed pro forma incentive compensation awards; the Company has assumed that all of these goals will be achieved. However, if these goals are not reached, the incentive compensation could be substantially different from what the Company has assumed in this case.

Third, given the healthy base salary and wage increases that have already been received by the employees eligible for incentive compensation in the last 5 years through 2009,[21] and given that the current rate case includes an additional projected 3.0% salary increase for 2010, I do not believe it reasonable and appropriate to saddle the ratepayers with an additional amount of almost $2 million for bonus awards to be paid out under the Company's incentive compensation programs.

Fourth, the Company has not presented any evidence in this case showing the specific benefits that are accruing to the ratepayers as opposed to SJG's shareholders as a result of the incentive compensation plans for which these same ratepayers are asked to pay 100% of the costs. Neither has SJG presented any evidence in this case showing that there is any appreciable difference in the productivity level of SJG's and SJI's employees or that the ratepayers are receiving more efficient service at reduced overall costs as a direct result of the Company's incentive compensation programs:

REQUEST:[22]

With regard to the Company's incentive compensation programs, please provide the following information:

a. Provide all studies and analyses that SJG has performed or commissioned that quantify the dollar benefits that the Company's incentive programs provide to the ratepayers.
b. Provide all studies and analyses that SJG has performed or commissioned that quantify the productivity gains achieved as a direct result of the Company's incentive compensation programs.
c. Provide all studies and analyses that SJG has performed or commissioned that the ratepayers are receiving more efficient service at significant cost

[21] See the response to RCR-RR-101.
[22] RCR-RR-86.

> reductions as a direct result of the Company's incentive compensation programs.
>
> **RESPONSE:**
>
> a, b, c
> A portion of SJG's incentive compensation program is predicated on the results of achieving pre-defined objectives during the year. In addition to financial objectives, there are customer, safety and service related objectives. To the extent that these objectives are obtained, productivity gains and efficiencies result in better service to our customers. Conversely if the objectives are not attained the incentive is not paid.
>
> <u>SJG does not have the formal analyses requested</u>. Instead on an annual basis we evaluate the extent to which objectives have been accomplished and make incentive awards based upon whether or not the desired outcomes have been achieved [emphasis supplied].

Fifth, there is no incentive for management to control the level of the incentive compensation costs if 100% of these costs can be flowed through to the captive ratepayers. This would be particularly true given that the Company's management is the primary beneficiary of these incentive compensation plans.

Finally, I find the Company's request in this proposal for rate recovery of approximately $2 million in bonus compensation on top of regular compensation particularly objectionable because this proposal is being made in the aftermath of the worst economic downturn since the Great Depression, where ratepayers are faced with job losses, plunging home values, and 401(k)s that have turned into 201(k)s. It is especially during these very difficult economic conditions that ratepayers need relief from these discretionary costs.

Q. DOES THE BOARD HAVE A STATED RATE MAKING POLICY WITH REGARD TO THE RATE TREATMENT OF INCENTIVE COMPENSATION?

A. Yes. In its Final Decision and Order in the Jersey Central Power & Light Company rate case, the Board stated on page 4 of this Decision and Order:

> We are persuaded by the arguments of Staff and Rate Counsel that, at this time, the incentive compensation or "bonus" expenses should not be recovered from ratepayers. The current economic condition has impacted ratepayers' financial situation in numerous ways, and it is evident that many ratepayers, homeowners and businesses alike, are having difficulty paying their utility bills or otherwise remaining profitable. These circumstances as well as the fact that the bonuses are significantly impacted by the Company achieving financial performance goals, render it inappropriate for the Company to request recovery of such bonuses in rates at this time. Especially in the current economic climate, ratepayers should not be paying additional costs to reward a select group of Company employees for performing the job they were arguably hired to perform in the first place.[23]

As is noted before, this Board policy would be particularly applicable under the current economic circumstances.

Q. DID THE BOARD REITERATE THIS INCENTIVE COMPENSATION RATE MAKING POLICY IN A MORE RECENT LITIGATED BASE RATE CASE?

A. Yes. In the fully-litigated 2000 Middlesex Water Company base rate case, the BPU Staff stated on page 37 of its Initial Brief with regard to Middlesex's incentive compensation expenses:

> Staff is persuaded by the arguments of the RPA that, at this time, the incentive compensation expenses should not be recovered from ratepayers. According to the record, incentive compensation expenses have tripled since

[23] *I/M/O the Petition of Jersey Central Power & Light Company for Approval of Increased Base Tariff Rates and Charges for Electric Service and Other Tariff Revisions,* BRC Docket No. ER91121820J, Final Decision and Order Accepting in Part and Modifying in Part the Initial Decision at 4 (June 15, 1993).

> 1995. In addition, the record also indicated that the bonuses are significantly impacted by the Company achieving financial performance goals. These facts lend strength to the RPA's position that it is inappropriate for the Company to request recovery of bonuses in rates at this time.

While the ALJ in that case ruled that 50% of Middlesex's incentive compensation expenses could be recovered in rates, the Board overruled the ALJ and ordered that 100% of these incentive compensation expenses be removed from Middlesex's rates. [24]

Thus, my recommendation in the instant proceeding with regard to the Company's incentive compensation expenses is also consistent with well-established and long-standing Board ratemaking policy.

- **<u>SERP Expense Removal</u>**

Q. PLEASE DESCRIBE THE NATURE AND PURPOSE OF THE SERP EXPENSES THAT ARE INCLUDED IN THE COMPANY'S PROPOSED TEST YEAR OPERATING EXPENSE.

A. SERP stands for Supplemental Executive Retirement Program. The retirement benefits paid out under the SERP are only available to certain key executives of the Company and are provided in addition to the benefits received by these executives under the "regular" retirement program. The SERP generally exceeds various limits imposed on retirement programs by the IRs and is therefore referred to as a "non-qualified" plan.

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[24] *I/M/O the Petition of Middlesex Water Company for Approval of an Increase in Rates for Water Service and Other Tariff Changes,* BPU Docket No. WR00060362, Order Adopting in Part/Modifying in Part/Rejecting in Part/ Initial Decision at 25-26 (June 6, 2001).

Q. WHAT IS THE LEVEL OF SERP EXPENSES THAT IS INCLUDED IN THE COMPANY'S PROPOSED TEST YEAR OPERATING EXPENSES?

A. As shown in the Company's response to RCR-RR-91, SJG's proposed test year O&M expenses include $1,090,000 for direct SJG and SJI-allocated SERP expenses. This same response also shows that almost all of the executives that receive these SERP benefits are made up of the Company's Chairman of the Board, President, CEO, Executive Vice-President, Sr. Vice-Presidents and Vice-Presidents.

Q. DO YOU RECOMMEND THAT THESE SERP EXPENSES BE REMOVED FOR RATEMAKING PURPOSES IN THIS CASE?

A. Yes. I do not believe that the ratepayers should be required to fund these types of top officers compensation perks. The ratepayers are already 100% responsible for funding the "regular" retirement benefits of the Company's employees. It would be unreasonable to further burden the ratepayers with the costs of providing the Company's highest compensated employees with additional retirement benefits that are over and above the "regular" retirement benefits they are already receiving. This should be particularly true given that the ratepayers are currently already being buffeted from all sides with job losses and other consequences of today's still difficult economic conditions. In summary, if the Company wishes to provide its top officers with these additional compensation perks, the expenses associated with these perks should be picked up by the Company's shareholders, not the captive ratepayers.

Q. WHERE HAVE YOU REFLECTED THE RECOMMENDED SERP EXPENSE REMOVAL OF 1,090,000?

A. I have reflected this recommended expense removal on Schedule RJH-10, line 10.

- **Pension and OPEB Expenses**

Q. PLEASE EXPLAIN THE RECOMMENDED PENSION AND OPEB EXPENSE ADJUSTMENTS SHOWN ON SCHEDULE RJH-17.

A. The expense adjustments shown on Schedule RJH-17 represent my adoption of the recommendations made by Rate Counsel witness Mitch Serota regarding the Company's appropriate pro forma normalized pension and OPEB expenses.

- **Insurance Expense Adjustment**

Q. PLEASE EXPLAIN THE RECOMMENDED INSURANCE EXPENSE ADJUSTMENT SHOWN ON SCHEDULE RJH-18.

A. As shown on Schedule RJH-18, during the last 5 years, SJG has consistently received invoice adjustments in the form of insurance expense refunds, averaging approximately $69,000 for this 5-year period. However, for the projected test year, SJG has reflected insurance invoice adjustments in the form of additional *charges* of $1,102 rather than refunds. I recommend that the projected test year insurance invoice adjustments be normalized based on the 5-year historic average refund level of $68,866. As shown on Schedule RJH-19, this recommendation decreases the Company's proposed test year insurance expenses by $69,968.

- **SJI and SJIS Expense Adjustments**

Q. PLEASE EXPLAIN THE REDCOMMENDED ADJUSTMENTS TO SOUTH JERSEY INDUSTRIES ("SJI") AND SJI SERVICES ("SJIS") CHARGES TO SJG SHOWN ON SCHEDULE RJH-19.

A. Schedule RJH-19, lines 1 through 8 shows the recommended removal from this case of various expense items charged to SJG by SJI, whereas lines 9 through 11 reflects the recommended removal of certain expense items charged to SJG by SJIS. It should be noted that all incentive compensation expenses charged by SJI and SJIS to SJG have been separately removed from this case in Schedule RJH-16.

The expense adjustments on lines 1 through 3 remove charitable contributions, institutional advertising expenses[25] and fines/penalties charged by SJI to SJG. It is inappropriate to request that SJG's ratepayers fund these expense items. They should be removed from the test year in accordance with well-established and long-standing BPU ratemaking policy.

The expense adjustments on lines 4 and 5 remove from the test year community relations

[25] The institutional nature of the advertising expenses is evident from the advertisement copies contained in the response to RCR-RR-173.

and public relations expenses. As shown in the response to RCR-RR-173, almost all of these expenses consist of community event sponsorships. I believe these expenses have nothing to do with the provision of safe, adequate and proper gas service by SJG. Rather, they represent expenses for activities that have as their main purpose to create goodwill for, and build a favorable image of, South Jersey Industries. These expenses should be the responsibility of SJI's stockholders, not SJG's captive ratepayers, and should therefore be removed from the test year.

The expense adjustments on lines 6 and 10 represent employee relations expenses charged to SJG by SJI and SJIS. These expenses are for such activities as gifts, holiday parties, employee events and awards, cafeteria subsidies, *etc*. I have removed these expenses as I believe that SJI's stockholders rather then SJG's captive ratepayers should fund them.

Finally, as shown on lines 7 and 9, I have removed for ratemaking purposes in this case certain golf membership and lobbying expenses charged by SJI and SJIS to SJG. These recommended expense adjustments are in accordance with previously established BPU ratemaking policy.

Q, WHAT IS THE IMPACT OF YOUR RECOMMENDED SJI AND SJIS EXPENSE ADJUSTMENTS ON THE COMPANY'S PROPOSED PRO FORMA TEST YEAR EXPENSES?

A. As shown on Schedule RJH-19, my recommended SJI and SJIS expense adjustments decrease the Company's proposed pro forma test year operating expenses by a total amount of $520,208.

- **Miscellaneous Expense Adjustments**

Q. PLEASE EXPLAIN THE MISCELLANEOUS EXPENSE ADJUSTMENTS SHOWN ON SCHEDULE RJH-20.

A. On Schedule RJH-20, lines 1 and 2 I have removed the lobbying portions of the Company's test year American Gas Association ("AGA") dues and New Jersey Utility Association ("NJUA") dues. The lobbying portion of the NJUA dues was provided by SJG in its response to RCR-RR-108. The lobbing portion of the AGA dues is based on the 23.68% of AGA activities dedicated to Public Affairs, as shown in the response to RCR-RR-107. These 2 recommended adjustments are consistent with BPU ratemaking policy to exclude lobbying expenses for ratemaking purposes.

The adjustment on line 3 removes from the test year a number of SJG employee relations expenses that should not be funded by the ratepayers but, rather, should be the responsibility of the Company's stockholders. As shown in footnote (3) of Schedule RJH-20, these expense removals concern expenses for Christmas hams, holiday parties, picnics, employee awards, and cafeteria subsidies. These expenses are for items that have nothing to do with the provision of safe, adequate and proper gas service.

The adjustments on lines 4 and 5 remove from the test year certain institutional ($21,900) and promotional ($327,231) advertising expenses included in accounts 930100 and 913000.

Q. PLEASE ELABORATE ON THE RECOMMENDED PROMOTIONAL ADVERTISING EXPENSE REMOVAL OF $327,231 IN ACCOUNT 913000.

A. The response to RCR-RR-166 contains detailed descriptions and copies of campaign ads regarding the nature and purpose of the advertising campaign expenses included in account 913000. A review of this response clearly indicates that the main purpose of the advertising activities in account 913000 is the promotion and marketing of natural gas as an energy source and the encouragement of potential customers to switch from oil, propane or electric to natural gas usage:

> "Do you know that natural gas costs up to 30% less than oil, propane and electric? That's right! Your family can be saving 30% on utility bills by using natural gas, and right now, South Jersey Gas is offering 0% financing with no money down when you switch out your heating system to natural gas…"
>
> "Has your fuel provider lowered their rates? South Jersey Gas lowered theirs by 20%. That's right… Not currently a customer? I'll help you make the switch. Call me at 1-877-777-8550."
>
> "Are you *still* heating with propane, oil or electric? My family switched to natural gas and we're saving money and energy. Call today and your family can save up to 30% on your home's energy bills."

It is Board policy that expenses associated with promotional, institutional and public relations activities be excluded for ratemaking purposes.[26] Thus, these promotional

[26] See BPU's Final Decision and Order, page 9 in JCP&L's base rate proceeding, BRC Docket No. ER91121820J.

advertising expenses should be removed in accordance with this well-established and long-standing Board ratemaking policy.

Q, WHAT IS THE IMPACT OF YOUR RECOMMENDED MISCELLANEOUS EXPENSE ADJUSTMENTS ON THE COMPANY'S PROPOSED PRO FORMA TEST YEAR EXPENSES?

A. As shown on Schedule RJH-20, my recommended miscellaneous expense adjustments decrease the Company's proposed pro forma test year operating expenses by a total amount of $533,464.

- <u>Millenium Expense Adjustment</u>

[* BEGIN CONFIDENTIAL***]**

[* END CONFIDENTIAL***]**

- **<u>Depreciation Expenses</u>**

Q. PLEASE DESCRIBE SJG'S PROPOSED 9&3 PRO FORMA DEPRECIATION EXPENSES.

A. As shown on Schedule RJH-22, the Company's pro forma depreciation expense calculations start out with its application of a composite depreciation rate of 2.24%[30] to the Company's proposed depreciable utility plant in service (UPIS) balance projected for the end of the test year, 6/30/10. The depreciation rate of 2.24% represents the composite rate that was stipulated by the parties in the Company's prior rate case, BPU Docket No. GR03080603. Next, the Company added the annualized depreciation expenses for its proposed post-test year net distribution and transmission/production UPIS additions. Finally, the Company added the fixed annual provision for negative salvage of $1,416,815 which was also stipulated by the parties in the Company's prior rate case. The resulting total 9&3 pro forma depreciation expense amounts to $32,098,651.

Q. HAVE YOU MADE ADJUSTMENTS TO THE COMPANY'S PROPOSED 9&3 PRO FORMA DEPRECIATION EXPENSES?

A. Yes, as shown on Schedule RJH-22, I recommend that 4 adjustments be made to the Company's proposed 9&3 pro forma depreciation expenses. The recommended 2 adjustments shown on Schedule RJH-22, lines 7 and 8 represent the "flow-through" effect of the recommended adjustments made by me regarding the Company's proposed post-test

[30] This rate excludes the impact of the fixed annual provision for negative salvage of $1,416,815 which does not change in relation to changes in depreciable plant.

year additions for net distribution and transmission/production plant that were discussed previously in this testimony. The recommended 2 adjustments shown on lines 5 and 10 represent my adoption of the recommendations made regarding these adjustment items by Rate Counsel witness Michael Majoros.

- **Taxes Other Than Income Taxes**

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED PRO FORMA 9&3 TAXES OTHER THAN INCOME TAXES IN THIS CASE.

A. As shown on Schedule RJH-23, the Company has proposed total 9&3 updated taxes other than income taxes of $10,533,794, consisting of unadjusted test year taxes of $10,544,300 and pro forma net tax adjustments of ($10,506).

Q. PLEASE EXPLAIN THE RECOMMENDED TAX ADJUSTMENTS SHOWN ON SCHEDULE RJH-23.

A. The recommended tax adjustments, shown on lines 5 and 6 of Schedule RJH-23, represent the "flow-through" effect of the recommended adjustments made by me regarding the revenue adjustments for sales from post-test year plant additions and contract changes. These recommended revenue adjustments were discussed previously in this testimony.

- **Income Taxes**

Q. WHAT ARE THE DIFFERENCES BETWEEN YOUR RECOMMENDED PRO FORMA INCOME TAXES AND THE COMPANY'S PROPOSED PRO FORMA INCOME TAXES TO BE USED FOR RATE MAKING PURPOSES IN THIS CASE?

A. As shown on Schedule RJH-24, I have essentially used the same methodology and calculation components as those used by the Company to derive the recommended pro forma income taxes. The reasons for the difference between the recommended pro forma income taxes and the Company's proposed pro forma income taxes are: (1) the "flow-through" effect of the recommended adjustments made by me to the Company proposed operating income before income taxes; (2) the different levels of tax-deductible pro forma interest expenses as a result of differences in rate base and weighted cost of debt; and (3) the correction for a calculation error made by SJG in the determination of its proposed pro forma income taxes.

Q. PLEASE EXPLAIN THE LAST REASON IN MORE DETAIL.

A. As shown in the first column of Schedule RJH-24, lines 1 through 8, SJG's correct 9&3 pro forma income tax amount should have been $10,964,399. This was confirmed by the Company in an email dated 5/7/10 from Mr. Pignatelli to me. However, due to an inadvertent calculation error, the Company showed its pro forma income tax to be $11,177,790 in its 9&3 update filing. Since my recommended pro forma income tax amount does not contain the same calculation error, this represents the third reason for the difference between the recommended 9&3 pro forma income taxes and the Company's proposed 9&3 pro forma income taxes.

D. REVENUE CONVERSION FACTOR

Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN THE COMPANY'S PROPOSED AND YOUR RECOMMENDED REVENUE CONVERSION FACTORS SHOWN ON SCHEDULE RJH-1, LINE 6.

A. As shown on SAP-4 9&3, the accurate revenue conversion factor to be used for ratemaking purposes in this case amounts to 1.82861. I recommend that this factor be used. The Company has used a rounded factor of 1.83 and, in so doing, unnecessarily created a revenue requirement of around $53,000. The Board should reject the use of this rounded factor and, instead, use the more accurate factor of 1.82861 used by me.

Q. MR. HENKES, DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes, it does.

SCHEDULES RJH-1 THROUGH RJH-24

SOUTH JERSEY GAS COMPANY
REVENUE REQUIREMENT

	SJG 9&3 (1)	Adjustments	RC	
1. Pro Forma Rate Base	$ 868,565,345	$ (69,133,383)	$ 799,431,962	RJH-3
2. Rate of Return	8.91%		7.73%	RJH-2
3. Income Requirement	77,389,172		61,768,894	
4. Pro Forma Income	39,132,952	7,357,052	46,490,004	RJH-7
5. Income Deficiency	38,256,220		15,278,890	
6. Revenue Conversion Factor	1.83000		1.82861	(2)
7. Total Base Rate Increase w. SUT	70,008,883	(42,069,752)	27,939,131	
8. Total Base Rate Increase w/o SUT	65,428,862	(39,317,525)	26,111,337	
9. Base Rate Increase Due to Roll-In of CIRT Rates	6,951,300		6,951,300	RJH-8, L2
10. Base Rate Increase Due to Roll-In of CIP Rates	15,962,702		15,962,702	RJH-8, L3
11. Base Rate Increase Incremental to CIRT and CIP Roll-Ins [L8-9-10]	$ 42,514,860	$ (39,317,525)	$ 3,197,335	

(1) SAP-1 9&3
(2) SAP-4 9&3

SOUTH JERSEY GAS COMPANY
OVERALL RATE OF RETURN

SJG 9&3 PROPOSAL:

	Ratios	Cost Rates	Weighted Cost Rates
	(1)	(1)	(1)
Long Term Debt	45.73%	5.83%	2.67%
Common Equity	54.27%	11.50%	6.24%
Total Cost of Capital	100.00%		8.91%

RC RECOMMENDATION:

	Ratios	Cost Rates	Weighted Cost Rates
	(2)	(2)	(2)
Long-Term Debt	43.06%	5.83%	2.51%
Short-Term Debt	5.96%	2.00%	0.12%
Common Equity	50.97%	10.00%	5.10%
Total Cost of Capital	100.00%		7.73%

(1) Exhibit PRM-1 9+3, page 1, Schedule 1
(2) Testimony of Matt Kahal, Schedule MIK-1, page 1

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Sch. RJH-3

SOUTH JERSEY GAS COMPANY
RATE BASE

	SJG 9&3 (1)	Adjustments	RC	
1. Utility Plant in Service	$ 1,384,354,246	$ (49,014,205)	$ 1,335,340,041	RJH-4
2. Accumulated Depreciation	(373,549,986)	49,862,721	(323,687,265)	(2)
3. Regulatory Liability - Non-Legal AROs	-	(46,294,268)	(46,294,268)	(3)
4. Net Utility Plant	1,010,804,260	(45,445,752)	965,358,508	
5. Materials & Supplies	2,534,111	(828,377)	1,705,734	(4)
6. Cash Working Capital	36,894,020	(14,621,338)	22,272,682	(5)
7. Gas Inventory:				
Natural Gas Stored	20,430,335		20,430,335	
LNG Stored	3,058,127		3,058,127	
8. Customer Deposits	(10,307,036)	130,557	(10,176,479)	(6)
9. Customer Advances	(717,252)		(717,252)	
10. Accumulated Deferred Income Taxes	(194,131,220)	(2,686,837)	(196,818,057)	RJH-5
11. Unclaimed Customer Deposits	-	(341,963)	(341,963)	(7)
12. Consolidated Income Tax Benefits	-	(5,339,673)	(5,339,673)	RJH-6
13. TOTAL NET RATE BASE	$ 868,565,345	$ (69,133,383)	$ 799,431,962	

(1) SAP-2 9&3

(2) Projected depreciation reserve balance at 6/30/10	$ 372,418,073	SAP--2 9&3
Reserve portion related to regulatory liability - non-legal AROs	48,730,808	RCR-RR-185
Net depreciation reserve balance (to be updated for 6/30/10 actuals)	$ 323,687,265	
(3) Actual 3/31/10 non-legal ARO regulatory liability balance	$ 48,730,808	RCR-RR-185
One-year's worth of amortization	(2,436,540)	RJH-22, L10
Net unamortized balance	$ 46,294,268	

(4) 13-Month average balance 4/30/09 - 4/30/10 - to be replaced by 13-month average balance for the test year ended 6/30/10
(5) Testimony of David Peterson
(6) Projected balance at 6/30/10 - to be replaced by actual 6/30/10 balance
(7) 13-Month average balance 3/09 - 3/10 (see response to RCR-RR-147)

SOUTH JERSEY GAS COMPANY
UTILITY PLANT IN SERVICE

		SJG 9&3 (1)	Adjustments	RC	
1.	Projected UPIS Balance at 6/30/10	$ 1,330,704,452		$ 1,330,704,452	(2)
3.	Post-Test Year Transmission and Production Plant Additions	20,288,582	(15,652,993)	4,635,589	RJH-4A
3.	Post-Test Year Distribution Plant Additions	36,219,650	(36,219,650)	-	
4.	Post-Test Year Distribution Plant Retirement	(2,858,438)	2,858,438	-	
5.	Total Projected UPIS Balance	$ 1,384,354,246	$ (49,014,205)	$ 1,335,340,041	

(1) SAP-2 9&3; TSK-8 9&3; RFF-1 9&3; RFF-2 9&3; CFD-1 9&3
(2) To be replaced by actual 6/30/10 UPIS balance

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Sch. RJH-4A

SOUTH JERSEY GAS COMPANY
POST-TEST YEAR TRANSMISSION/PRODUCTION PLANT ADDITIONS

	SJG 9&3 (1)	Adjustments	RC
1. Proposed Non-Approved CIRT Projects With Scheduled Completion @11/01/11	$ 1,865,000	$ (1,865,000)	$ -
2. Proposed BPU-Approved CIRT Projects With Scheduled Completion @12/31/10	13,787,993	(13,787,993)	-
3. Proposed Non-Approved CIRT Projects With Scheduled Completion @ 9/30/10; 11/30/10; and 12/31/10	3,672,141		3,672,141
4. Proposed Non-CIRT Projects With Scheduled Completion On or Before 12/31/10	963,448		963,448
5. Total Post-Test Year Plant Additions	$ 20,288,582	$ (15,652,993)	$ 4,635,589

(1) CFD-1 9&3

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Sch. RJH-5

SOUTH JERSEY GAS COMPANY
ACCUMULATED DEFERRED INCOME TAXES

	SJG 9&3	
1. Projected ADIT Balances at 6/30/10:		
- Federal Income Tax	$ 171,999,959	(1)
- NJ CBT	22,668,583	(1)
- Total ADIT	194,668,542	
2. Projected Excess Deferred Income Tax Balance at 6/30/10	2,149,515	(2)
3. Total Actual ADIT at 4/30/10 to be Used as Rate Base Deduction	$ 196,818,057	

(1) SAP-2 9&3. To be replaced by actual balance at 6/30/10
(2) Actual balance at 4/30/10 per DCR-012. To be replaced by actual balance at 6/30/10.

SOUTH JERSEY GAS COMPANY
CONSOLIDATED INCOME TAX RATE BASE ADJUSTMENT

	Allocable CIT Benefits (1)	SJG Alllocation		CIT Benefits Allocable to SJG
1991	$ (632,220)			
1992	(724,430)			
1993	(718,505)			
1994	(556,668)			
1995	(612,366)			
1996	(293,761)			
1997	(95,747)			
1998	(1,067,624)			
1999	(340,816)			
2000	(147,295)			
2001	237,960			
2002	(156,138)			
2003	(87,623)			
2004	(170,057)			
2005	(481,681)			
2006	(113,892)			
2007	(59,109)			
2008	(484,860)			
2009 (Est.)	(38,134)			
Total Cumulative	$ (6,542,966)	62.46035%	(2)	$ (4,086,758)
	AMT Pmt/(Credit) (3)			
Net Cum 1991-2009	(2,005,937)	62.46035%		(1,252,915)
				$ (5,339,673)

(1) Response to RCR-RR-046 - Calculated by SJG in accordance with the "RECO" calculation method
(2) Response to RCR-RR-046 - Calculated by SJG in accordance with the "RECO" calculation method: cumulative RECO positive taxable income 1991-2009 divided by cumulative total positive companies taxable income 1991-2009
(3) Response to RCR-RR-042: Calculated by Rate Counsel in accordance with the "RECO" calculation method

SOUTH JERSEY GAS COMPANY
OPERATING INCOME

		SJG 9&3 (1)	Adjustments	RC	
1.	Operating Revenues:	$ 428,438,773	$ (4,195,587)	$ 424,243,186	RJH-8
	Operating Expenses:				
2.	Purchased Gas Expense	258,080,602	(2,378,068)	255,702,534	RJH-9
3.	O&M Expenses	77,370,663	(8,451,857)	68,918,806	RJH-10
4.	Depreciation Expense	32,098,651	(6,897,742)	25,200,909	RJH-22
5.	Taxes o/t Income Taxes	10,533,794	(89,745)	10,444,049	RJH-23
6.	Interest on Customer Deposits	44,320	(561)	43,759	(2)
7.	Operating Income Before Income Tax	50,310,742	13,622,386	63,933,129	
8.	Income Taxes	11,177,790	6,265,335	17,443,125	RJH-24
9.	Net Operating Income	$ 39,132,952	$ 7,357,051	$ 46,490,004	

(1) SAP-3 9&3
(2) RC customer deposit balance on RJH-3, L8 x .43%

SOUTH JERSEY GAS COMPANY
OPERATING REVENUES

	SJG 9&3 (1)	Adjustments	RC	
1. Test Year Operating Revenues	$ 454,316,300		$ 454,316,300	
Revenue Adjustments:				
2. CIP Revenue Adjustment	(15,962,702)		(15,962,702)	
3. CIRT Revenue Adjustment	(6,951,300)		(6,951,300)	
4. Customer Annualization Adjustment	(151,651)		(151,651)	
5. Sales from Post-TY Plant Additions	5,270,082	(5,270,082)	-	
6. Contract Changes	(1,594,507)	1,659,296	64,789	(2)
7. Miscellaneous Service Charges	584,800	(584,800)	-	(3)
8. Temperature Adjustment	(1,258,880)		(1,258,880)	
9. EET Revenue Adjustment	(1,178,400)		(1,178,400)	
10. Interrupt./Off System/Storage Rev Adj	(4,634,970)		(4,634,970)	
11. Total Revenues Adjustments	(25,877,527)	(4,195,586)	(30,073,114)	
12. Pro Forma Adjusted Operating Revenues	$ 428,438,773	$ (4,195,586)	$ 424,243,186	

(1) SAP-3 9&3; SAP-5 9&3; SMB-11 9&3
(2) Per the response to RCR-RR-57, the proposed revenue adjustment for customer Q on RFF-5 9&3, line 21 was made in error and should be removed. This removes the Company's proposed revenue reduction adjustment of $1,659,296
(3) Testimony of Brian Kalcic

SOUTH JERSEY GAS COMPANY
PURCHASED GAS EXPENSES

	SJG 9&3 (1)	Adjustments	RC	
1. Test Year Cost of Gas	$ 257,634,100		$ 257,634,100	
Cost of Gas Adjustments:				
2. Customer Annualization Adjustment	(1,806)		(1,806)	
3. Sales from Post-TY Plant Additions	3,690,865	(3,690,865)	-	
4. Contract Changes	(1,250,648)	1,312,796	62,148	(2)
5. Interrupt./Off System/Storage COG Adj	(1,991,908)		(1,991,908)	
6. Total Cost of Gas Adjustments	446,502	(2,378,069)	(1,931,566)	
7. Pro Forma Adjusted Cost of Gas	$ 258,080,602	$ (2,378,069)	$ 255,702,534	

(1) SAP-3 9&3; SAP-5 9&3; SMB-11 9&3

(2) Per the response to RCR-RR-57, the proposed cost of gas adjustment for customer Q on RFF-5 9&3, line 21 was made in error and should be removed. This removes the Company's proposed COG reduction adjustment of $1,312,796

SOUTH JERSEY GAS COMPANY
OPERATION AND MAINTENANCE EXPENSE SUMMARY

	SJG 9&3 (1)	Adjustments	RC	
1. Unadjusted Test Year O&M Expenses	$ 74,243,200		$ 74,243,200	
O&M Expense Adjustments:				
2. Rate Case Expense Adjustment	236,517	(126,517)	110,000	RJH-11
3. Audit Expense Adjustment	401,915	(151,915)	250,000	RJH-12
4. Pipeline Integrity Management Exp. Adj.	703,299	(370,115)	333,184	RJH-13
5. RE Valve Replacement Exp. Adj.	944,803	(944,803)	-	RJH-14
6. Payroll and Benefit Expense Adj.	1,518,252	(779,639)	738,613	RJH-15
7. Employee Benefit Expense Adjustment	451,376		451,376	
8. EET O&M Expense Adjustment	(1,128,700)		(1,128,700)	
9. Remove Incentive Compensation Exp.	-	(1,988,520)	(1,988,520)	RJH-16
10. Remove SERP Expenses	-	(1,090,000)	(1,090,000)	(2)
11. Pension and OPEB Expense Adjustments	-	(1,278,053)	(1,278,053)	RJH-17
12. Insurance Expense Adjustment	-	(69,968)	(69,968)	RJH-18
13. SJI and SJIS Expense Allocation Adjs	-	(520,208)	(520,208)	RJH-19
14. Miscellaneous Expense Adjs	-	(533,464)	(533,464)	RJH-20
15. Millenium Adjustment	-	(598,654)	(598,654)	RJH-21
16. Total O&M Expense Adjustments	3,127,462	(8,451,856)	(5,324,394)	
17. Adjusted Test Year O&M Expenses	$ 77,370,662	$ (8,451,856)	$ 68,918,806	

(1) SAP-3 9&3; SMB-1, 2, 3, 4, 5, 7 9&3; SAP-7 9&3
(2) Response to RCR-RR-91(a)

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Sch. RJH-11

SOUTH JERSEY GAS COMPANY
RATE CASE EXPENSE ADJUSTMENT

	SJG 9&3 (1)	Adjustments	RC	
1. Projected Rate Case Expenses	$ 1,419,103	$ (319,103)	$ 1,100,000	(2)
2. Portion Allocable to Ratepayers @ 50%	709,552		550,000	
3. Amortization Period (Yrs)	3		5	
4. Normalized Annual Expense	$ 236,517	$ (126,517)	$ 110,000	

(1) SMB-1 9&3
(2) Testimony of Robert Henkes

SOUTH JERSEY GAS COMPANY
AUDIT EXPENSE ADJUSTMENT

	SJG 9&3 (1)	Adjustments	RC	
1. Gas Supply Hedging Program Audit Costs	248,974	(248,974)	-	(2)
2. Liberty Audit Costs	$ 956,772	$ (456,772)	$ 500,000	(3)
3. Total Deferred Audit Costs	1,205,746	(705,746)	500,000	
4. Amortization Period (Yrs)	3		2	
5. Normalized Annual Expense	$ 401,915	$ (151,915)	$ 250,000	

(1) SMB-2 9&3
(2) Testimony of Robert Henkes
(3) Per response to RCR-RR-172:

	Audit Costs
2000	$ 108,825
2002	112,000
2004	956,772
Average	392,532
Normalized exp. in 2010 dollars	$ 500,000

SOUTH JERSEY GAS COMPANY
PIPELINE INTEGRITY MANAGEMENT EXPENSE ADJUSTMENT

	SJG 9&3 (1)	Adjustments	RC (2)
1. PIM Costs Deferred From 1/1/06-6/30/09	$ 1,136,098	$ (136,545)	$ 999,553
2. Amortization Period (Yrs)	3		3
3. Amortization of Prior Deferred Costs	378,699	(45,515)	333,184
4. Projected Annual PIM Expenses	324,600	(324,600)	-
5. Total PIM Expenses Claimed in Case	$ 703,299	$ (370,115)	$ 333,184

(1) SMB-3 9&3
(2) Testimony of Richard Lelash

SOUTH JERSEY GAS COMPANY
ROCKFORD-ECLIPSE VALVE REPLACEMENT EXPENSE ADJUSTMENT

	SJG 9&3 (1)	Adjustments	RC (2)
1. RE Valve Repl. Costs Deferred From 1/1/09-3/31/10	$ 638,410	$ (638,410)	$ -
2. Amortization Period (Yrs)	3		3
3. Amortization of Prior Deferred Costs	212,803	(212,803)	-
4. Projected Annual RE Valve Replacement Expense	732,000	(732,000)	-
5. Total IM Expenses Claimed in Case	$ 944,803	$ (944,803)	$ -

(1) SMB-4 9&3
(2) Testimony of Michael McFadden

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Sch. RJH-15

SOUTH JERSEY GAS COMPANY
PAYROLL AND BENEFIT EXPENSE ADJUSTMENTS

	SJG 9&3 (1)	Adjustments	RC	
1. 2010 Payroll Increase and FICA Adjustment	$ 291,997		$ 291,997	SMB-5A
2. Employee Annualization Adj - Payroll/FICA Exp.	846,552	(545,395) (2)	301,157	
3. Employee Annualization Adj - Benefit Exp.	379,703	(234,244) (3)	145,459	
4. Total Payroll and Benefit Expense Adjustment	$ 1,518,252	$ (779,639)	$ 738,613	

(1) Per SMB-5B, p. 1: remove from SJG's payroll/FICA employee annualization adjustment all projected employees after 4/1/10 that are currently not on SJG's payroll: $(506,637) x 1.0765 = $(545,395). To be updated based on actual results as of 6/30/10

(2) Per SMB-5B, p. 2: remove from SJG's employee benefit annualization adjustment all projected employees after 4/1/10 that are currently not on SJG's payroll: $(234,244). To be updated based on actual results as of 6/30/10.

SOUTH JERSEY GAS COMPANY
INCENTIVE COMPENSATION EXPENSE ADJUSTMENT

	O&M Expense	
Officer Incentive Compensation - SJG:		
1. Annual Cash Incentives	$ 153,193	RCR-RR-175
2. LTIP Restricted Stock Awards	87,504	RCR-RR-175
3. Amount Billed to Affiliates	(59,864)	RCR-RR-175
Officer Incentive Compensation - Allocated to SJG by Affiliates:		
4. Officer Incentive Compensation Charged by SJI to SJG	1,150,090	RCR-RR-175 and 106
5. Officer Incentive Compensation Charged by SJIS to SJG	110,976	RCR-RR-165
6. Total Officers Incentive Compensation	1,441,899	
Non-Officer Incentive Compensation - SJG:		
7. Staff Directors Restricted Stocks	46,134	RCR-RR-175
8. Staff Directors Annual Cash Incentives	69,737	RCR-RR-175
9. Management Annual Cash Incentives	216,245	RCR-RR-175
10. Union Annual Cash Incentives	18,099	RCR-RR-175
11. Off-System Sales Incentives	38,873	RCR-RR-175
Non-Officer Incentive Comp - Allocated to SJG by Affiliates:		
12. Non-Officer Incentive Compensation Charged by SJIS to SJG	157,533	RCR-RR-165
13. Total Non-Officers Incentive Compensation	546,621	
15. Total Officers and Non-Officers Incentive Compensation Exp.	$ 1,988,520	

SOUTH JERSEY GAS COMPANY
PENSION AND OPEB EXPENSES

	SJG 9&3		Adjustments		RC
1. Qualified Pension Plan - O&M Expense	$ 3,192,000	(1)	$ (1,003,000)	(3)	$ 2,189,000
2. Qualified OPEB Plan - O&M Expense	$ 1,745,000	(2)	$ (275,053)	(3)	$ 1,469,947

(1) Response to RCR-RR-90
(2) Response to RCR-RR-125
(3) Testimony of Mitch Serota

SOUTH JERSEY GAS COMPANY
INSURANCE EXPENSE ADJUSTMENT

	Actual Insurance (Refunds)/Invoice Adjustments
	(1)
7/1/04 - 6/30/05	$ (37,153)
7/1/05 - 6/30/06	(103,629)
7/1/06 - 6/30/07	(2,462)
7/1/07 - 6/30/08	(147,986)
7/1/08 - 6/30/09	(53,100)
5-Year Average	(68,866)
Projected Test Year Ended 6/30/10	1,102
Recommended Expense Adjustment	$ (69,968)

(1) Response to RCR-RR-176

SOUTH JERSEY GAS COMPANY
ADJUSTMENTS TO SJI AND SJIS EXPENSES CHARGED TO SJG

SJI Expenses Charged to SJG*:			
1. Charitable Contributions	$	160,721	(1)
2. Institutional Advertising Expenses		10,462	(1)
3. Fines and Penalties		35,359	(1)
4. Community Relations/Affairs Expenses		123,356	(1)
5. Public Relations Expenses		124,204	(1)
6. Employee Relations Expenses		18,722	(1)
7. Golf Club Memberships		6,095	(1)
8. Sub-Total		478,919	
SJIS Expenses Charged to SJG*:			
9. Lobbying Expenses		28,361	(2)
10. Employee Relations Expenses		12,928	(3)
11. Sub-Total		41,289	
12. Total SJI and SJIS Expense Adjustments [L8 + L11]	$	520,208	

* Incentive compensation expenses charged by SJI and SJIS to SJG have been separately adjusted for in Schedule RJH-16

(1) Response to RCR-RR-106
(2) Response to S-S-REV-44 Revised 4/13/10
(3) Response to RCR-RR-165

SOUTH JERSEY GAS COMPANY
MISCELLANEOUS EXPENSE ADJUSTMENTS

1. Lobbying Portion of AGA Dues	$	66,525	(1)
2. Lobbying Portion of NJUA Dues		2,706	(2)
3. SJG Employee Relations Expenses in Acct 926100		115,102	(3)
4. Account 930100 Institutional Advertising Expenses		21,900	(4)
5. Account 91300 Promotional Advertising Expenses		327,231	(5)
6. Total Miscellaneous Expense Adjustments	$	533,464	

(1) Test year AGA dues	$	280,934	RCR-RR-107
AGA activities dedicated to public affairs		23.68%	RCR-RR-107
Lobbying portion of AGA dues	$	66,525	
(2) Test year NJUA dues	$	54,110	RCR-RR-108
AGA activities dedicated to public affairs		5.00%	RCR-RR-108
Lobbying portion of NJUA dues	$	2,706	

(3) Response to RCR-RR-92: Christmas hams - $13,487; holiday party - $18,140; picnics - $8,198; service awards - $19,618; cafetaria subsidy - $55,659. Total = $115,102

(4) Response to RCR-RR-109

(5) Responses to RCR-RR-115 and 166

CONFIDENTIAL

SOUTH JERSEY GAS COMPANY
MILLENIUM ACCOUNT SERVICES (MAS) ADJUSTMENT

Docket No. GR10010035
Test Year Ending 6/30/10

Sch. RJH-22

SOUTH JERSEY GAS COMPANY
DEPRECIATION EXPENSE

	SJG 9&3	Adjustments	RC	
1. Total Projected UPIS at 6/30/10	$ 1,330,704,452		$ 1,330,704,452	RJH-4
3. Non-Depreciable UPIS	(10,644,218)		(10,644,218)	(1)
4. Depreciable UPIS	1,320,060,234		1,320,060,234	
5. Composite Depreciation Rate	2.24%		1.98%	(2)
6. Annualized Depreciation Exp.	29,569,349	(3,432,157)	26,137,193	
7. Plus: Depreciation for Post-TY Net Distribution UPIS	747,291	(747,291)	-	TSK-8 9&3
8. Plus: Depreciation for Post- TY Transmission/Production UPIS	365,194	(281,753)	83,441	(3)
9. Plus: Net Salvage Allowance	1,416,816		1,416,816	(2)
10. Less: Amortization of Regulatory Liability - Non-Legal AROs	-	(2,436,540)	(2,436,540)	(4)
11. Total Annualized Depreciation Per SAP-3 9&3, L18	$ 32,098,651	$ (6,897,741)	$ 25,200,909	

(1) Response to RCR-RR-31
(2) Testimony of Michael Majoros

(3) Recommended post-TY UPIS additions	$ 4,635,589	RJH-4, L3
Applicable depreciation rate	1.80%	TSK-8 0&3
Annualized depreciation expense	$ 83,441	

(4) Testimony of Mr.Majoros - 20 year amortization of $48.7 million non-legal ARO balance as of March 31, 2010 (RCR-RR-185)

Docket No. GR10010035 Sch. RJH-23
Test Year Ending 6/30/10

SOUTH JERSEY GAS COMPANY
TAXES OTHER THAN INCOME TAXES

	SJG 9&3 (1)	Adjustments	RC	
1. Test Year Taxes o/t Income Taxes	$ 10,544,300		$ 10,544,300	
PUA & TEFA Tax Adjustments:				
2. CIP PUA Adjustment	(35,118)		(35,118)	
3. CIRT PUA Adjustment	(15,293)		(15,293)	
4. Customer Annualization PUA/TEFA Adjs	(27,205)		(27,205)	
5. Sales from Post-TY Plant Additions	93,395	(93,395)	-	
6. Contract Changes PUA/TEFA Adjs	(12,019)	3,651	(8,368)	(2)
7. Temperature PUA Adjustment	(2,770)		(2,770)	
8. EET PUA Adjustment	(2,592)		(2,592)	
9. Interrupt./Off System/Storage Tax Adjs	(8,905)		(8,905)	
10. Total PUA & TEFA Adjustments	(10,506)	(89,744)	(100,251)	
11. Total Pro Forma Taxes o/t Income Taxes	$ 10,533,794	$ (89,744)	$ 10,444,049	

(1) SAP-3 9&3; SMB-12 9&3
(2) Calculation: (RJH-8, L6 x .0022) + ($8,511) shown on RFF-5 9&3, line 21

SOUTH JERSEY GAS COMPANY
INCOME TAXES

	SJG 9&3 (1)	Adjustments	RC	
1. Operating Income Before Income Tax	$ 50,310,742	$ 13,622,387	$ 63,933,129	RJH-7, L7
2. Pro Forma Interest Deduction	(23,168,923)	2,147,076	(21,021,847)	(2)
3. Federal Taxable Income	27,141,819	15,769,463	42,911,282	
4. Composite FIT/NJ CBT Income Tax Rate	41.084%		41.084%	
5. Federal and State Income Taxes	11,150,945	6,478,726	17,629,671	
6. Tax Effect of Taxable Differences	126,054		126,054	
7. Investment Tax Credit Amortization	(312,600)		(312,600)	
8. Correct Total Pro Forma Income Taxes	$ 10,964,399	$ 6,478,726	$ 17,443,125	
9. Erroneous Total Pro Forma Income Taxes Reflected By SJG in 9&3 Filing	$ 11,177,790 (3)	$ 6,265,335	$ 17,443,125	

(1) SAP-3 9&3 and TSK-9 9&3

	SJG 9&3	RC	
(2) Rate Base	$ 868,565,345	$ 799,431,962	RJH-3
Weighted Cost of Debt	2.67%	2.63%	RJH-2
Pro Forma Interest (TSK-9 9&3)	$ 23,168,923	$ 21,021,847	

(3) SAP-3 9&3, Lines 22 + 24. Should be corrected to amount on line 8 as conceded by SJG in 5/07/10 (3:42 PM) email from Samuel Pignatelli to Robert Henkes

APPENDIX I

PRIOR REGULATORY EXPERIENCE OF ROBERT J. HENKES

* = Testimonies prepared and submitted

ARKANSAS

Southwestern Bell Telephone Company Divestiture Base Rate Proceeding*	Docket 83-045-U	09/1983

DELAWARE

Delmarva Power and Light Company Electric Fuel Clause Proceeding	Docket 41-79	04/1980
Delmarva Power and Light Company Electric Fuel Clause Proceeding	Docket 80-39	02/1981
Delmarva Power and Light Company Sale of Power Station Generation	Complaint Docket 279-80	04/1981
Delmarva Power and Light Company Electric Base Rate Proceeding	Docket 81-12	06/1981
Delmarva Power and Light Company Gas Base Rate Proceeding*	Docket 81-13	08/1981
Delmarva Power and Light Company Electric Fuel Clause Proceeding*	Docket 82-45	04/1983
Delmarva Power and Light Company Electric Fuel Clause Proceeding*	Docket 83-26	04/1984
Delmarva Power and Light Company Electric Fuel Clause Proceeding*	Docket 84-30	04/1985
Delmarva Power and Light Company Electric Fuel Clause Proceeding*	Docket 85-26	03/1986
Delmarva Power and Light Company Report of DP&L Operating Earnings*	Docket 86-24	07/1986
Delmarva Power and Light Company Electric Base Rate Proceeding*	Docket 86-24	12/1986 01/1987
Delmarva Power and Light Company	Docket 85-26	10/1986

Report Re. PROMOD and Its Use in Fuel Clause Proceedings*		
Diamond State Telephone Company Base Rate Proceeding*	Docket 86-20	04/1987
Delmarva Power and Light Company Electric Fuel Clause Proceeding*	Docket 87-33	06/1988
Delmarva Power and Light Company Electric Fuel Clause Proceeding*	Docket 90-35F	05/1991
Delmarva Power and Light Company Electric Base Rate Proceeding*	Docket 91-20	10/1991
Delmarva Power and Light Company Gas Base Rate Proceeding*	Docket 91-24	04/1992
Artesian Water Company Water Base Rate Proceeding*	Docket 97-66	07/1997
Artesian Water Company Water Base Rate Proceeding*	Docket 97-340	02/1998
United Water Delaware Water Base Rate Proceeding*	Docket 98-98	08/1998
Delmarva Power and Light Company Revenue Requirement and Stranded Cost Reviews	Not Docketed	12/1998
Artesian Water Company Water Base Rate Proceeding*	Docket 99-197 (Direct Test.)	09/1999
Artesian Water Company Water Base Rate Proceeding*	Docket 99-197 (Supplement. Test)	10/1999
Tidewater Utilities/ Public Water Co. Water Base Rate Proceedings*	Docket No. 99-466	03/2000
Delmarva Power & Light Company Competitive Services Margin Sharing Proceeding*	Docket No. 00-314	03/2001
Artesian Water Company Water Base Rate Proceeding*	Docket No. 00-649	04/2001

Chesapeake Gas Company Gas Base Rate Proceeding*	Docket No. 01-307	12/2001
Tidewater Utilities Water Base Rate Proceeding*	Docket No. 02-28	07/2002
Artesian Water Company Water Base Rate Proceeding*	Docket No. 02-109	09/2002
Delmarva Power & Light Company Electric Cost of Service Proceeding	Docket No. 02-231	03/2003
Delmarva Power & Light Company Gas Base Rate Proceeding*	Docket No. 03-127	08/2003
Artesian Water Company Water Base Rate Proceeding*	Docket No. 04-42	08/2004
United Water Delaware Water Base Rate Proceeding*	Docket No. 06-174	10/2006
United Water Delaware Water Base Rate Proceeding*	Docket No. 09-60	06/2009

DISTRICT OF COLUMBIA

District of Columbia Natural Gas Co. Gas Base Rate Proceeding*	Formal Case 870	05/1988
District of Columbia Natural Gas Co. Gas Base Rate Proceeding*	Formal Case 890	02/1990
District of Columbia Natural Gas Co. Waiver of Certain GS Provisions	Formal Case 898	08/1990
Chesapeake and Potomac Telephone Co. Base Rate Proceeding*	Formal Case 850	07/1991
Chesapeake and Potomac Telephone Co. Base Rate Proceeding*	Formal Case 926	10/1993
Bell Atlantic - District of Columbia SPF Surcharge Proceeding	Formal Case 926	06/19/94
Bell Atlantic - District of Columbia	Formal Case 814 IV	07/1995

Price Cap Plan and Earnings Review

GEORGIA

Southern Bell Telephone Company Base Rate Proceeding	Docket 3465-U	08/1984
Southern Bell Telephone Company Base Rate Proceeding	Docket 3518-U	08/1985
Georgia Power Company Electric Base Rate and Nuclear Power Plant Phase-In Proceeding*	Docket 3673-U	08/1987
Georgia Power Company Electric Base Rate and Nuclear Power Plant Phase-In Proceeding*	Docket 3840-U	08/1989
Southern Bell Telephone Company Base Rate Proceeding	Docket 3905-U	08/1990
Southern Bell Telephone Company Implementation, Administration and Mechanics of Universal Service Fund*	Docket 3921-U	10/1990
Atlanta Gas Light Company Gas Base Rate Proceeding*	Docket 4177-U	08/1992
Southern Bell Telephone Company Report on Cash Working Capital*	Docket 3905-U	03/1993
Atlanta Gas Light Company Gas Base Rate Proceeding*	Docket No. 4451-U	08/1993
Atlanta Gas Light Company Gas Base Rate Proceeding	Docket No. 5116-U	08/1994
Georgia Independent Telephone Companies Earnings Review and Show Cause Proceedings	Various Dockets	1994
Georgia Power Company Earnings Review - Report to GPSC*	Non-Docketed	09/1995
Georgia Alltel Telecommunication Companies		

Earnings and Rate Reviews	Docket No. 6746-U	07/1996
Frontier Communications of Georgia Earnings and Rate Review	Docket No. 4997-U	07/1996
Georgia Power Company Electric Base Rate / Accounting Order Proceeding	Docket No. 9355-U	12/1998
Savannah Electric Power Company Electric Base Rate Case/Alternative Rate Plan*	Docket No. 14618-U	03/2002
Georgia Power Company Electric Base Rate / Alternative Rate Plan Proceeding*	Docket No. 18300-U	12/2004
Savannah Electric Power Company Electric Base Rate Case/Alternative Rate Plan*	Docket No. 19758-U	03/2005
Georgia Power Company Electric Base Rate Case/Alternative Rate Plan*	Docket No. 25060-U	10/2007

FERC

Philadelphia Electric/Conowingo Power Electric Base Rate Proceeding*	Docket ER 80-557/558	07/1981

KENTUCKY

Kentucky Power Company Electric Base Rate Proceeding*	Case 8429	04/1982
Kentucky Power Company Electric Base Rate Proceeding*	Case 8734	06/1983
Kentucky Power Company Electric Base Rate Proceeding*	Case 9061	09/1984
South Central Bell Telephone Company Base Rate Proceeding*	Case 9160	01/1985
Kentucky-American Water Company Base Rate Proceeding*	Case 97-034	06/1997
Delta Natural Gas Company Base Rate Proceeding*	Case 97-066	07/1997

Kentucky Utilities and LG&E Company Environmental Surcharge Proceeding	97-SC-1091-DG	01/1999
Delta Natural Gas Company Experimental Alternative Regulation Plan*	Case No. 99-046	07/1999
Delta Natural Gas Company Base Rate Proceeding*	Case No. 99-176	09/1999
Louisville Gas & Electric Company Gas Base Rate Proceeding*	Case No. 2000-080	06/2000
Kentucky-American Water Company Base Rate Proceeding*	Case No. 2000-120	07/2000
Jackson Energy Cooperative Corporation Electric Base Rate Proceeding*	Case No. 2000-373	02/2001
Kentucky-American Water Company Base Rate Rehearing*	Case No. 2000-120	02/2001
Kentucky-American Water Company Rehearing Opposition Testimony*	Case No. 2000-120	03/2001
Union Light Heat and Power Company Gas Base Rate Proceeding*	Case No. 2001-092	09/2001
Louisville Gas & Electric Company and Kentucky Utilities Company Deferred Debits Accounting Order	Case No. 2001-169	10/2001
Fleming-Mason Energy Cooperative Electric Base Rate Proceeding	Case No. 2001-244	05/2002
Northern Kentucky Water District Water District Base Rate Proceeding	Case No. 2003-0224	02/2004
Louisville Gas & Electric Company Electric Base Rate Proceeding*	Case No. 2003-0433	03/2004
Louisville Gas & Electric Company Gas Base Rate Proceeding*	Case No. 2003-0433	03/2004
Delta Natural Gas Company Base Rate Proceeding*	Case No. 2004-00067	07/2004

Union Light Heat and Power Company Gas Base Rate Proceeding*	Case No. 2005-00042	06/2005
Big Sandy Rural Electric Cooperative Electric Base Rate Proceeding	Case No. 2005-00125	08/2005
Louisville Gas & Electric Company Value Delivery Surcredit Mechanism*	Case No. 2005-00352	12/2005
Kentucky Utilities Company Value Delivery Surcredit Mechanism*	Case No. 2005-00351	12/2005
Kentucky Power Company Electric Base Rate Proceeding*	Case No. 2005-00341	01/2006
Cumberland Valley Electric Cooperative Electric Base Rate Proceeding	Case No. 2005-00187	05/2006
South Kentucky Rural Electric Cooperative Electric Base Rate Proceeding	Case No. 2005-00450	07/2006
Duke Energy Kentucky Electric Base Rate Proceeding*	Case No. 2006-00172	09/2006
Atmos Energy Corporation Gas Show Cause Proceeding*	Case No. 2005-00057	09/2006
Inter County Electric Cooperative Electric Base Rate Proceeding	Case No. 2006-00415	04/2007
Atmos Energy Corporation Gas Base Rate Proceeding*	Case No. 2006-00464	04/2007
Columbia Gas of Kentucky Gas Base Rate Proceeding*	Case No. 2007-00008	06/2007
Delta Natural Gas Company Gas Base Rate Proceeding – Alternative Rate Mechanism*	Case No. 2007-00089	08/2007
Nolin Rural Electric Cooperative Corporation Electric Rate Proceeding	Case No. 2006-00466	09/2007
Fleming-Mason Energy Cooperative Electric Base Rate Proceeding	Case No. 2006-00022	10/2007

Jasckson Energy Cooperative Electric Base Rate Proceeding	Case No. 2007-00333	03/2008
Jackson Purchase Energy Corporation Electric Base Rate Proceeding	Case No. 2007-00116	04/2008
Blue Grass Energy Cooperative Electric Base Rate Proceeding	Case No. 2008-00011	7/2008
Louisville Gas & Electric Company Electric and Gas Base Rate Proceedings*	Case No. 2008-00252	10/2008
Kentucky Utilities Company Electric Base Rate Proceeding*	Case No. 2008-00251	10/2008
Owen Electric Cooperative Corporation Electric Base Rate Proceeding	Case No. 2008-00154	12/2008
Kenergy Corporation Electric Base Rate Proceeding	Case No. 2008-00323	12/2008
Kentucky-American Water Company Water Base Rate Proceeding*	Case No. 2008-00427	04/2009
Grayson Rural Electric Cooperative Electric Base Rate Proceeding	Case No. 2008-00254	04/2009
Farmers Rural Electric Cooperative Electric Base Rate Proceeding	Case No. 2008-00030	04/2009
Big Sandy Electric Cooperative Electric Base Rate Proceeding	Case No. 2008-oo401	04/2009
Columbia Gas Company Gas Base Rate Proceeding*	Case No. 2009-00141	09/2009
Duke Energy Kentucky Gas Base Rate Proceeding*	Case No. 2009-00202	10/2009
Licking Valley Rural Electric Cooperative Electric Base Rate Proceeding	Case No. 2009-00016	10/2009
Atmos Energy – Kentucky Electric Base Rate Proceeding	Case No. 2009-00354	03/2010

MAINE

Continental Telephone Company of Maine Base Rate Proceeding	Docket 90-040	12/1990
Central Maine Power Company Electric Base Rate Proceeding	Docket 90-076	03/1991
New England Telephone Corporation - Maine Chapter 120 Earnings Review	Docket 94-254	12/1994

MARYLAND

Potomac Electric Power Company Electric Base Rate Proceeding*	Case 7384	01/1980
Delmarva Power and Light Company Electric Base Rate Proceeding*	Case 7427	08/1980
Chesapeake and Potomac Telephone Company Western Electric and License Contract	Case 7467	10/1980
Chesapeake and Potomac Telephone Company Base Rate Proceeding*	Case 7467	10/1980
Washington Gas Light Company Gas Base Rate Proceeding	Case 7466	11/1980
Delmarva Power and Light Company Electric Base Rate Proceeding*	Case 7570	10/1981
Chesapeake and Potomac Telephone Company Base Rate Proceeding*	Case 7591	12/1981
Chesapeake and Potomac Telephone Company Base Rate Proceeding*	Case 7661	11/1982
Chesapeake and Potomac Telephone Company Computer Inquiry II*	Case 7661	12/1982
Chesapeake and Potomac Telephone Company Divestiture Base Rate Proceeding*	Case 7735	10/1983

AT&T Communications of Maryland Base Rate Proceeding	Case 7788	1984
Chesapeake and Potomac Telephone Company Base Rate Proceeding*	Case 7851	03/1985
Potomac Electric Power Company Electric Base Rate Proceeding	Case 7878	1985
Delmarva Power and Light Company Electric Base Rate Proceeding	Case 7829	1985

NEW HAMPSHIRE

Granite State Electric Company Electric Base Rate Proceeding	Docket DR 77-63	1977

NEW JERSEY

Elizabethtown Water Company Water Base Rate Proceeding	Docket 757-769	07/1975
Jersey Central Power and Light Company Electric Base Rate Proceeding	Docket 759-899	09/1975
Middlesex Water Company Water Base Rate Proceeding	Docket 761-37	01/1976
Jersey Central Power and Light Company Electric Base Rate Proceeding	Docket 769-965	09/1976
Public Service Electric and Gas Company Electric and Gas Base Rate Proceedings	Docket 761-8	10/1976
Atlantic City Electric Company Electric Base Rate Proceeding*	Docket 772-113	04/1977
Public Service Electric and Gas Company Electric and Gas Base Rate Proceedings*	Docket 7711-1107	05/1978
Public Service Electric and Gas Company Raw Materials Adjustment Clause	Docket 794-310	04/1979
Rockland Electric Company	Docket 795-413	09/1979

Electric Base Rate Proceeding*		
New Jersey Bell Telephone Company Base Rate Proceeding	Docket 802-135	02/1980
Rockland Electric Company Electric Fuel Clause Proceeding*	Docket 8011-836	02/1981
Rockland Electric Company Electric Base Rate Proceeding*	Docket 811-6	05/1981
Rockland Electric Company Electric Fuel Clause Proceeding*	Docket 8110-883	02/1982
Public Service Electric and Gas Company Electric Fuel Clause Proceeding*	Docket 812-76	08/1982
Public Service Electric and Gas Company Raw Materials Adjustment Clause	Docket 812-76	08/1982
New Jersey Bell Telephone Company Base Rate Proceeding	Docket 8211-1030	11/1982
Rockland Electric Company Electric Fuel Clause Proceeding*	Docket 829-777	12/1982
Public Service Electric and Gas Company Electric and Gas Base Rate Proceedings*	Docket 837-620	10/1983
New Jersey Bell Telephone Company Base Rate Proceeding	Docket 8311-954	11/1983
AT&T Communications of New Jersey Base Rate Proceeding*	Docket 8311-1035	02/1984
Rockland Electric Company Electric Fuel Clause Proceeding*	Docket 849-1014	11/1984
AT&T Communications of New Jersey Base Rate Proceeding*	Docket 8311-1064	05/1985
Public Service Electric and Gas Company Electric and Gas Base Rate Proceedings*	Docket ER8512-1163	05/1986
Public Service Electric and Gas Company Electric Fuel Clause Proceeding*	Docket ER8512-1163	07/1986

Rockland Electric Company Electric Fuel Clause Proceeding*	Docket ER8609-973	12/1986
Rockland Electric Company Electric Fuel Clause Proceeding*	Docket ER8710-1189	01/1988
Public Service Electric and Gas Company Electric Fuel Clause Proceeding*	Docket ER8512-1163	02/1988
United Telephone of New Jersey Base Rate Proceeding	Docket TR8810-1187	08/1989
Rockland Electric Company Electric Fuel Clause Proceeding*	Docket ER9009-10695	09/1990
United Telephone of New Jersey Base Rate Proceeding	Docket TR9007-0726J	02/1991
Elizabethtown Gas Company Gas Base Rate Proceeding*	Docket GR9012-1391J	05/1991
Rockland Electric Company Electric Fuel Clause Proceeding	Docket ER9109145J	11/1991
Jersey Central Power and Light Company Electric Fuel Clause Proceeding	Docket ER91121765J	03/1992
New Jersey Natural Gas Company Gas Base Rate Proceeding*	Docket GR9108-1393J	03/1992
Public Service Electric and Gas Company Electric and Gas Base Rate Proceedings*	Docket ER91111698J	07/1992
Rockland Electric Company Electric Fuel Clause Proceeding	Docket ER92090900J	12/1992
Middlesex Water Company Water Base Rate Proceeding*	Docket WR92090885J	01/1993
Elizabethtown Water Company Water Base Rate Proceeding*	Docket WR92070774J	02/1993
Public Service Electric and Gas Company Electric Fuel Clause Proceeding	Docket ER91111698J	03/1993

New Jersey Natural Gas Company Gas Base Rate Proceeding*	Docket GR93040114	08/1993
Atlantic City Electric Company Electric Fuel Clause Proceeding	Docket ER94020033	07/1994
Borough of Butler Electric Utility Various Electric Fuel Clause Proceedings	Docket ER94020025	1994
Elizabethtown Water Company Water Base Rate Proceeding	Non-Docketed	11/1994
Public Service Electric and Gas Company Electric Fuel Clause Proceeding	Docket ER 94070293	11/1994
Rockland Electric Company Electric Fuel Clause Proceeding and Purchased Power Contract By-Out	Docket Nos. 940200045 and ER 9409036	12/1994
Jersey Central Power & Light Company Electric Fuel Clause Proceeding	Docket ER94120577	05/1995
Elizabethtown Water Company Purchased Water Adjustment Clause Proceeding*	Docket WR95010010	05/1995
Middlesex Water Company Purchased Water Adjustment Clause Proceeding	Docket WR94020067	05/1995
New Jersey American Water Company* Base Rate Proceeding	Docket WR95040165	01/1996
Rockland Electric Company Electric Fuel Clause Proceeding	Docket ER95090425	01/1996
United Water of New Jersey Base Rate Proceeding*	Docket WR95070303	01/1996
Elizabethtown Water Company Base Rate Proceeding*	Docket WR95110557	03/1996
New Jersey Water and Sewer Adjustment Clauses Rulemaking Proceeding*	Non-Docketed	03/1996
United Water Vernon Sewage Company Base Rate Proceeding*	Docket WR96030204	07/1996

United Water Great Gorge Company Base Rate Proceeding*	Docket WR96030205	07/1996
South Jersey Gas Company Base Rate Proceeding	Docket GR960100932	08/1996
Middlesex Water Company Purchased Water Adjustment Clause Proceeding*	Docket WR96040307	08/1996
Atlantic City Electric Company Fuel Adjustment Clause Proceeding*	Docket No.ER96030257	08/1996
Public Service Electric & Gas Company and Atlantic City Electric Company Investigation into the continuing outage of the Salem Nuclear Generating Station*	Docket Nos. ES96039158 & ES96030159	10/1996
Rockland Electric Company Electric Fuel Clause Proceeding*	Docket No.EC96110784	01/1997
Consumers New Jersey Water Company Base Rate Proceeding*	Docket No.WR96100768	03/1997
Atlantic City Electric Company Fuel Adjustment Clause Proceeding*	Docket No.ER97020105	08/1997
Public Service Electric & Gas Company Electric Restructuring Proceedings*	Docket Nos. EX912058Y, EO97070461, EO97070462, EO97070463	11/1997
Atlantic City Electric Company Limited Issue Rate Proceeding*	Docket No.ER97080562	12/1997
Rockland Electric Company Limited Issue Rate Proceeding	Docket No.ER97080567	12/1997
South Jersey Gas Company Limited Issue Rate Proceeding	Docket No.GR97050349	12/1997
New Jersey American Water Company Limited Issue Rate Proceeding	Docket No.WR97070538	12/1997
Elizabethtown Water Company and Mount Holly Water Company Limited Issue Rate Proceedings	Docket Nos. WR97040288, WR97040289	12/1997

United Water of New Jersey, United Water Toms River and United Water Lambertville Limited Issue Rate Proceedings	Docket Nos.WR9700540, WR97070541, WR97070539	12/1997
Public Service Electric & Gas Company Electric Restructuring Proceedings*	Docket Nos. EX912058Y, EO97070461, EO97070462, EO97070463	01/1998
Consumers New Jersey Water Company Base Rate Proceeding*	Docket No. WR97080615	01/1998
New Jersey-American Water Company Base Rate Proceeding*	Docket No.WR98010015	07/1998
Consumers New Jersey Water Company Merger Proceeding	Docket No.WM98080706	12/1998
Atlantic City Electric Company Fuel Adjustment Clause Proceeding*	Docket No.ER98090789	02/1999
Middlesex Water Company Base Rate Proceeding*	Docket No.WR98090795	03/1999
Mount Holly Water Company Base Rate Proceeding - Phase I*	Docket No. WR99010032	07/1999
Mount Holly Water Company Base Rate Proceeding - Phase II*	Docket No. WR99010032	09/1999
New Jersey American Water Company Acquisitions of Water Systems	Docket Nos. WM9910018	09/1999
	WM9910019	09/1999
Mount Holly Water Company Merger with Homestead Water Utility	Docket No. WM99020091	10/1999
Applied Wastewater Management, Inc. Merger with Homestead Treatment Utility	Docket No.WM99020090	10/1999
Environmental Disposal Corporation (Sewer) Base Rate Proceeding*	Docket No.WR99040249	02/2000
Elizabethtown Gas Company		
Gas Cost Adjustment Clause Proceeding	Docket No.GR99070509	03/2000
DSM Adjustment Clause Proceeding	Docket No. GR99070510	03/2000
New Jersey American Water Company	Docket No. WM99090677	04/2000

Gain on Sale of Land		
Jersey Central Power & Light Company NUG Contract Buydown	Docket No. EM99120958	04/2000
Shore Water Company Base Rate Proceeding	Docket No. WR99090678	05/2000
Shorelands Water Company Water Diversion Rights Acquisition	Docket No. WO00030183	05/2000
Mount Holly and Elizabethtown Water Companies Computer and Billing Services Contracts	Docket Nos. WO99040259 WO9904260	06/2000 06/2000
United Water Resources, Inc. Merger with Suez-Lyonnaise	Docket No. WM99110853	06/2000
E'Town Corporation Merger with Thames, Ltd.	Docket No. WM99120923	08/2000
Consumers Water Company Water Base Rate Proceeding*	Docket No. WR00030174	09/2000
Atlantic City Electric Company Buydown of Purchased Power Contract	Docket No. EE00060388	09/2000
Applied Wastewater Management, Inc. Authorization for Accounting Changes	Docket No. WR00010055	10/2000
Elizabethtown Gas Company Gas Cost Adjustment Clause Proceeding DSM Adjustment Clause Proceeding	 Docket No. GR00070470 Docket No. GR00070471	 10/2000 10/2000
Trenton Water Works Water Base Rate Proceeding*	Docket No. WR00020096	10/2000
Middlesex Water Company Water Base Rate Proceeding*	Docket No. WR00060362	11/2000
New Jersey American Water Company Land Sale - Ocean City	Docket No. WM00060389	11/2000
Pineland Water Company Water Base Rate Proceeding*	Docket No. WR00070454	12/2000
Pineland Wastewater Company	Docket No. WR00070455	12/2000

Wastewater Base Rate Proceeding*		
Elizabethtown Gas Company Regulatory Treatment of Gain on Sale of Property*	Docket No. GR00070470	02/2001
Wildwood Water Utility Water Base Rate Proceeding*	Docket No. WR00100717	04/2001
Roxbury Water Company Water Base Rate Proceeding	Docket No. WR01010006	06/2001
SB Water Company Water Base Rate Proceeding	Docket No. WR01040232	06/2001
Pennsgrove Water Company Water Base Rate Proceeding*	Docket No. WR00120939	07/2001
Public Service Electric & Gas Company Gas Base Rate Proceeding* Direct Testimony	Docket No. GR01050328	08/2001
Public Service Electric & Gas Company Gas Base Rate Proceeding* Surrebuttal Testimony	Docket No. GR01050328	09/2001
Elizabethtown Water Company Water Base Rate Proceeding*	Docket No. WR01040205	10/2001
Middlesex Water Company Financing Proceeding	Docket No. WF01090574	12/2001
New Jersey American Water Company Financing Proceeding	Docket No. WF01050337	12/2001
Consumers New Jersey Water Company Stock Transfer/Change in Control Proceeding	Docket No. WF01080523	01/2002
Consumers New Jersey Water Company Water Base Rate Proceeding	Docket No. WR02030133	07/2002
New Jersey American Water Company Change of Control (Merger) Proceeding*	Docket No. WM01120833	07/2002
Borough of Haledon – Water Department Water Base Rate Proceeding*	Docket No. WR01080532	07/2002

New Jersey American Water Company Change of Control (Merger) Proceeding	Docket No. WM02020072	09/2002
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