



October 20, 2010

VIA HAND DELIVERY

Ms. Kristi Izzo, Secretary
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Re: IN THE MATTER OF THE PETITION OF
NEW JERSEY NATURAL GAS COMPANY
FOR APPROVAL OF AN EXTENSION OF THE
ACCELERATED ENERGY INFRASTRUCTURE INVESTMENT
PROGRAM PURSUANT TO N.J.S.A. 48:2-23 AND
FOR APPROVAL OF NECESSARY
CHANGES TO GAS RATES AND CHANGES IN
THE COMPANY'S TARIFF FOR GAS SERVICE
PURSUANT TO N.J.S.A. 48:2-21 ET SEQ.
BPU DOCKET NOS. GR07110889 and GR1010 _____

Dear Secretary Izzo:

Enclosed herewith for filing please find an original and ten (10) copies of the petition of New Jersey Natural Gas Company for approval of the extension of the Accelerated Energy Infrastructure Investment Program pursuant to N.J.S.A. 48:2-23, and for approval of necessary changes to gas rates and changes in the Company's tariff for gas service pursuant to N.J.S.A. 48:2-21 and 48:2-21.1.

Copies of the petition, including the supporting exhibits, are also being served electronically upon the Staff of the New Jersey Board of Public Utilities, the New Jersey Division of Rate Counsel and the Division of Law.

Kindly acknowledge receipt of this filing by date stamping the enclosed copy of this letter and returning same in the self-addressed, stamped envelope.

Very truly yours,

A handwritten signature in blue ink that reads 'Tracey Thayer'.

Tracey Thayer
Director, Regulatory Affairs Counsel

Enclosures

C: Service List

**IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY
FOR APPROVAL OF AN EXTENSION TO THE ACCELERATED ENERGY
INFRASTRUCTURE INVESTMENT PROGRAM AND
FOR APPROVAL OF NECESSARY CHANGES TO GAS RATES AND CHANGES IN
THE COMPANY'S TARIFF FOR GAS SERVICE
DOCKET NOS. GR07110889 and GR1010_____**

SERVICE LIST

NJNG

Mark R. Sperduto
New Jersey Natural Gas Company
1415 Wyckoff Road
P.O. Box 1464
Wall, NJ 07719

Tracey Thayer
New Jersey Natural Gas Company
1415 Wyckoff Road
P.O. Box 1464
Wall, NJ 07719

Tina Sinks
New Jersey Natural Gas Company
1415 Wyckoff Road
P.O. Box 1464
Wall, NJ 07719

Michael Moscufo
New Jersey Natural Gas Company
1415 Wyckoff Road
P.O. Box 1464
Wall, NJ 07719

France Karras
New Jersey Natural Gas Company
1415 Wyckoff Road
P.O. Box 1464
Wall, NJ 07719

NJ BOARD OF PUBLIC UTILITIES

James Giuliano
N.J. Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Mark Beyer, Chief Economist
N.J. Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Jerome May
N.J. Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Michael Stonack
N.J. Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Sheila DeLucia
N.J. Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Kenneth Sheehan
Chief Counsel
N.J. Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

**IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY
FOR APPROVAL OF AN EXTENSION TO THE ACCELERATED ENERGY
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FOR APPROVAL OF NECESSARY CHANGES TO GAS RATES AND CHANGES IN
THE COMPANY'S TARIFF FOR GAS SERVICE
DOCKET NOS. GR07110889 and GR1010_____**

SERVICE LIST

DIVISION OF RATE COUNSEL

Stefanie A. Brand, Director
Department of Public Advocate
Division of Rate Counsel
31 Clinton Street – 11th Floor
P.O. Box 46005
Newark, NJ 07101

Felicia Thomas-Friel, Esq.
Department of Public Advocate
Division of Rate Counsel
31 Clinton Street – 11th Floor
P.O. Box 46005
Newark, NJ 07101

Paul Flannagan, Esq.
Department of Public Advocate
Division of Rate Counsel
31 Clinton Street – 11th Floor
P.O. Box 46005
Newark, NJ 07101

DEPT. OF LAW & PUBLIC SAFETY –
DIVISION OF LAW

Caroline Vachier, Section Chief
Dept. of Law & Public Safety – Div of Law
124 Halsey Street
P.O. Box 45029
Newark, NJ 07101

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

| | | |
|--|---|-----------------------|
| IN THE MATTER OF THE PETITION OF |) | |
| NEW JERSEY NATURAL GAS COMPANY |) | |
| FOR APPROVAL OF AN EXTENSION |) | |
| OF THE ACCELERATED ENERGY |) | |
| INFRASTRUCTURE INVESTMENT |) | PETITION |
| PROGRAM PURSUANT TO N.J.S.A. 48:2-23, AND |) | |
| FOR APPROVAL OF NECESSARY CHANGES TO |) | |
| GAS RATES AND CHANGES IN THE |) | DOCKET NOS. |
| COMPANY’S TARIFF FOR GAS SERVICE |) | GR07110889 and |
| PURSUANT TO N.J.S.A 48:2-21 ET SEQ. |) | GR1010_____ |

**To: THE HONORABLE COMMISSIONERS OF
THE NEW JERSEY BOARD OF PUBLIC UTILITIES:**

New Jersey Natural Gas Company (“NJNG” or the “Company”) respectfully petitions the New Jersey Board of Public Utilities (the “Board” or “BPU”) pursuant to N.J.S.A. 48:2-23, 48:2-21 and 48:2-21.1 as follows:

1. NJNG is a corporation duly organized under the laws of the State of New Jersey and is a public utility engaged in the distribution and transportation of natural gas subject to the jurisdiction of the Board with the principal business office located at 1415 Wyckoff Road, Wall, New Jersey 07719. The Company is a local natural gas distribution company providing regulated retail natural gas service to nearly 500,000 customers within Monmouth and Ocean counties, as well as portions of Burlington, Middlesex and Morris counties.

2. Communications and correspondence relating to this filing should be sent to:

Mark R. Sperduto, Vice President Regulatory and External Affairs
and
Tracey Thayer, Esq., Director, Regulatory Affairs Counsel
New Jersey Natural Gas Company
1415 Wyckoff Road
P. O. Box 1464
Wall, New Jersey 07719
Phone: (732) 938-1214 (Sperduto)
Phone: (732) 919-8025 (Thayer)
Fax: (732) 938-2620

3. This Petition is accompanied by supporting schedules, program information and Exhibits that are attached hereto and made part of this Petition:

Exhibit 1: NJNG AIP II Capital Investment Projects
Exhibit 2: Draft Public Notice

Background

4. NJNG is subject to regulation by the Board for the purposes of assuring that safe, adequate and proper natural gas service pursuant to N.J.S.A. 48:2-23 is provided to its customers. As such, the Company is obligated to and does maintain its public utility infrastructure in such condition as to enable it to meet its regulated obligations to provide the requisite service. That infrastructure is comprised of the property, plant, facilities and equipment within the Company's natural gas distribution and transmission system throughout its service territory.

5. NJNG is also subject to regulation by the Board for the purposes of setting its retail rates to assure safe, adequate and proper natural gas service, pursuant to N.J.S.A. 48:2-21 et seq.

6. Consistent with industry practice, NJNG is continuously engaged in the construction, operation and maintenance of its public utility infrastructure, including the property, plant, facilities and equipment that comprise the natural gas distribution and transmission system utilized to serve almost 500,000 customers throughout the NJNG service territory. Moreover, as part of its ordinary capital spending planning cycle, the Company continuously plans for the replacement, reinforcement and expansion of its infrastructure, including its property, plant, facilities and equipment, to maintain the reliability of its distribution and transmission system and to ensure the continuation of safe, adequate and proper service.

7. In furtherance of its commitment to maintain the reliability and safety of its delivery system and in an effort to address the economic downturns of recent years by providing immediate stimulus to New Jersey's economy, including the creation of jobs while also addressing long-term economic growth for the state, NJNG submitted a filing to the BPU on January 20, 2009 for approval to accelerate certain infrastructure projects, BPU Docket Nos. EO09010049 and GO09010052. Thus, through the Accelerated Energy Infrastructure Investment Program ("AIP"), NJNG proposed to expedite the planning and all construction work related to fourteen (14) capital projects that had been in the development stages for future implementation. These projects were incremental to the Company's fiscal¹ 2009, 2010 and 2011 capital investment programs. It was determined that expediting the work on these projects, representing an investment of approximately \$70.8 million, would assist in mitigating the negative impacts from poor economic conditions by creating additional work opportunities in the state. Furthermore, the AIP proposed projects were designed to enhance service and reliability throughout the NJNG service territory. In that filing,

¹ NJNG's fiscal year runs between October 1 and September 30.

NJNG also requested approval of a proposed method for recovering the investment costs associated with the AIP projects.

8. In October 2008, prior to the NJNG AIP filing, the state had issued the Energy Master Plan (“EMP”), a document intended to provide New Jersey with guidance toward ensuring the availability of adequate and reliable energy supplies in an environmentally responsible and competitively priced manner. Upgrades to energy infrastructure were viewed as one of the necessary elements to meeting the EMP goals of reliability and adequacy of supply.

9. NJNG, the New Jersey Division of Rate Counsel², and BPU Staff (the “Signatory Parties”) entered into a Stipulation resolving the AIP case which was approved and adopted by the Board in an Order dated April 28, 2009 (“April 28 Order”). Pursuant to that Order, the Board approved the preliminary design and eventual construction of fourteen approved projects (“Qualifying Projects”). Work on those projects was to begin no later than December 31, 2010 and be completed no later than August 31, 2011. Prior to beginning the actual construction work, NJNG was to finalize engineering plans and obtain the necessary permits for the Qualifying Projects. In the April 28 Order, the Board also established the methodology through which NJNG will recover the AIP costs by re-opening the Company’s most recent base rate case, approved by the Board in an Order dated October 3, 2008 (“October 3 Order”) in BPU Docket No. GR07110889.

10. As agreed in the Stipulation approved by the Board’s April 28 Order, NJNG is to make Annual AIP Filings in June 2010 and June 2011, coincident with but separate from the annual Basic Gas Supply Service (“BGSS”) filings, through which the Company requests recovery in base rates of the prudently incurred AIP costs (“Capital Investment Costs”) associated with the

² This agency was formerly designated as the Department of the Public Advocate, Division of Rate Counsel.

Qualifying Projects. Capital Investment Costs comprise all prudently incurred capital expenditures associated with the Qualifying Projects, including actual costs of engineering, design and construction, cost of removal (net of salvage) and property acquisition, including actual labor, materials, overheads and capitalized AFUDC associated with each of the Qualifying Projects. NJNG submitted its first request to recover AIP costs on June 1, 2010 (“2010 Fling”).

11. In the 2010 Filing, the Company sought to increase base rates by \$5.24 million based on actual capital investments made by NJNG through April 30, 2010 and estimated investments through August 31, 2010. On September 16, 2010, the Board approved on a provisional basis an increase of \$4.17 million in revenues, based on updated information on Qualifying Projects submitted by NJNG on August 27, 2010, resulting in an increase in rates of \$0.0072 per therm, or 0.5 percent increase for the average residential heating customer. As agreed to in the Stipulation and approved in the April 28 Order, these investments are to be recovered through an across the board adjustment to customer class rates that impact natural gas revenues for each class of service by the same percentage, using the methodology approved in the October 2008 Order for base rate increases.

Proposal for a limited extension of AIP (“AIP II”)

12. At this time, NJNG has determined that it is both reasonable and prudent to continue the acceleration of incremental capital spending for an additional number of projects, to maintain the support of economic development and job growth in New Jersey. The capital investments in infrastructure projects proposed herein are directly associated with providing reliability, safety, system integrity and the conservation and preservation of the environment.

13. Accordingly, NJNG requests that the Board approve the projects and investments for the limited extension of the Accelerated Energy Infrastructure Investment Program (“AIP II”), and also approve the recovery of known and measurable Capital Investment Costs for the projects included within AIP II through the current mechanism approved by the Board in the April 28 Order. The details of the proposed projects are provided in Exhibit 1, attached hereto and made a part of this Petition, representing an investment of approximately \$52.2 million. In order to provide the most benefits to customers and to ensure an effective implementation, NJNG is proposing that this program be applicable for those projects initiated within the AIP II, for work commencing as soon as practical after the date of the Board Order approving this request with a completion date of no later than August 31, 2012.

Approval of the AIP II Is In the Public Interest

14. The activities and costs associated with the replacement, reinforcement and expansion of NJNG’s utility infrastructure are a seminal element in NJNG’s overarching responsibility to serve as a public utility in the State of New Jersey. Accordingly, NJNG continuously engages in the construction and maintenance of its public utility infrastructure, including the distribution and transmission property, plant, facilities and equipment that comprise the natural gas system used to serve customers throughout its service territory. The construction projects included herein as elements of AIP II are part of NJNG’s ordinary capital investments related to ongoing planning and construction to replace, reinforce and expand the NJNG infrastructure in order to maintain reliability to best serve customers and to ensure the continuation of safe, adequate and proper service to customers. Additionally, NJNG is also proposing the limited

extension of infrastructure work through AIP II to allow for the continued employment of individuals in the jobs that are necessary for the construction and implementation of the original

Qualifying Projects³. It is anticipated that the AIP II projects will create 50 -75 direct jobs.

15. The above workforce development estimate does not include any potential employment increases related to indirect construction supply, services or material businesses that would result from this construction. However, NJNG received the results of a study conducted through the Rutgers University Bloustein School of Planning and Public Policy entitled “*Economic Impacts of Energy Infrastructure Investments.*” By relying on the Rutgers Economic Advisory Service (R/ECON™) Input-Output Model⁴, that study indicated that an infrastructure investment program could create, among other things, indirect and induced one-time job-years. Indirect jobs would be those related to the activity of suppliers necessary for the infrastructure work while induced jobs relate to changes in consumer spending based on changes in labor income within a region. Put more simply, every million dollars spent on infrastructure construction projects was found to create 10.2 jobs. Using an investment of \$28.6 million for this study, it was found that 293 jobs could be created – 183 direct jobs and 110 indirect and induced jobs. Based on the AIP II proposed \$52.2 level of spending and utilizing the results of the Rutgers study, the following statewide economic benefits are projected:

- 532 direct, indirect and induced one-time job years
- \$30 million income
- \$40 million gross state product
- \$1.8 million in business and household local tax revenue

³ Pursuant to the agreement approved in the April 28 Order, NJNG defines a full-time equivalent (“FTE”) job as 1,820 hours per year.

⁴ R/ECON uses several different measures, such as employment, industry output, income, gross state product and taxes, to demonstrate how economic activity impacts the total economy of a specific region. This model was used extensively in the 2008 development of the state’s Energy Master Plan (“EMP”) as well as in the ongoing review

- \$1.5 million in business and household state tax revenue

AIP II Projects

16. As with the original AIP, NJNG proposes to implement AIP II by planning, constructing, installing, and subsequently operating and maintaining a variety of capital infrastructure replacement, reinforcement and expansion projects (the “AIP II Projects”). Included in Exhibit 1 is a description of each AIP II project, along with the estimated cost and the projected timeline and completion date. Based on current cost levels and available estimates, NJNG estimates that the overall construction costs, prior to any capitalization of an Allowance for Funds Used During Construction (“AFUDC”) related to the AIP II Projects totals approximately \$52.2 million. Each of the AIP II Projects relates directly to the reliability, safety, and system integrity of NJNG’s distribution and transmission system and/or conservation and preservation of the environment.

17. As agreed to in the Stipulation approved by the Board in the April 28 Order establishing the AIP, the Company will provide notice to BPU Staff and Rate Counsel of any project elimination or substitution of another project for any of the proposed AIP II Projects, providing an opportunity for review and comment. Any substitutions will only be effectuated with Board approval and, before seeking such approval, NJNG will meet with the parties to this proceeding to seek consent for the necessary modifications. Such consents will be provided to the Board.

Duration/Term of the AIP II

18. NJNG proposes an extension of approximately one year to the current AIP schedule. As such, NJNG proposes that design and construction of AIP II projects may commence as of the

date of the Board Order approving AIP II and work on all projects will have begun no later than December 31, 2011. Accordingly, AIP II work will be completed no later than August 31, 2012.

Proposed Accounting Treatment for the AIP II

19. Through this Petition, NJNG proposes to continue the currently approved accounting treatment for all reasonable and prudently-incurred Capital Investment Costs (defined herein at Paragraph 10), including but not limited to the costs of engineering, design and construction or property acquisition, including labor, materials and other overheads, associated with each of the AIP Projects:

(a) Capital Investment Costs for each of the AIP II Projects will be separately tracked by an NJNG work order in a Construction Work In Progress (“CWIP”) account;

(b) NJNG will record a monthly accrual of Allowance for Funds Used During Construction (“AFUDC”) which will be capitalized and included in the CWIP balance as follows:

(i) when the NJNG total CWIP balance, including CWIP associated with AIP II Projects, is less than NJNG’s outstanding short-term debt (“S/T debt”) balance, the applicable AFUDC rate will be equal to the Company’s monthly cost of S/T debt; or

(ii) when NJNG’s total CWIP balance, including CWIP associated with AIP II Projects, is greater than NJNG’s outstanding S/T debt, the applicable AFUDC rate will be equal to the Company’s overall weighted-average cost of capital (“WACC”), as defined in subsection 19(d) herein; or

(iii) when an AIP II Project is placed into service, but not yet reflected in customer rates, the AFUDC rate will be equal to NJNG’s WACC.

(c) In determining the CWIP base upon which to apply the AFUDC rate, a deduction will be made for any CWIP amount currently approved for recovery and included in customer base rates; and

(d) The WACC to be used for purposes of calculating AFUDC accruals under the AIP II will be the rate of return most-recently approved for NJNG and authorized by the Board in the October 3 Order and in the April 28 Order. Accordingly, NJNG proposes to use the Board authorized WACC of 7.76 percent per annum.

Proposed AIP II Cost Recovery Mechanism

20. The Company proposes to recover the AIP II Project costs and expenses of approximately \$52.2 million, including the Capital Investment Costs for the AIP II Projects, and associated depreciation, through the same method approved in the April 28 Order. As currently done for the recovery of AIP I Qualifying Project investments, NJNG will make AIP II cost recovery filings with the Board in June of 2011 and 2012 proposing a rate change to be effective in October of that year, coincident with but separate from the annual BGSS filings. Upon completion of construction, it is anticipated that the aggregate rate impact associated with AIP II investments will result in an overall rate increase of approximately one (1) percent to the average residential heating customer. As done now, a copy of the AIP II cost recovery filing will be provided to Rate Counsel. NJNG will also provide public notice of any proposed base rate adjustments under the AIP II cost recovery filing coincident with the requisite notice currently provided to customers for proposed BGSS changes. Following approval by the Board, the annual AIP II base rate adjustment will occur separately from, but at the same time as, any adjustments resulting NJNG's annual BGSS rate proceedings.

21. Pursuant to the methodology approved in the April 28 Order, NJNG will recover the AIP II revenue requirement by adjusting, on a volumetric basis, the then-current base rate for all customer classes, as prescribed in the October 3 Order. The AIP base rate adjustments will reflect an across-the-board adjustment to customer classes so that natural gas revenues for each class will be impacted by the same percentage. Furthermore, the volumes used in this calculation will be based on the weather-normalized forecast included in annual BGSS filing for the upcoming October-September BGSS period.

22. As currently included in the annual AIP rate filing, NJNG's AIP II rate adjustment filings will include a revenue requirement calculation that reflects the following elements:

(a) a rate of return on NJNG's investment calculated by multiplying NJNG's current CWIP balance, including previously-capitalized AFUDC and the Company's plant-in-service investment balance associated with AIP II Projects, by NJNG's WACC of 11.40 percent, as adjusted for income taxes; and

(b) annual depreciation expense for AIP II Projects placed into service, based upon NJNG's currently-effective composite depreciation rate of 2.34%, commencing with the Company's receipt of the AIP rate Order.

23. NJNG's filing for recovery of investments associated with AIP II projects will include the same Minimum Filing Requirements ("MFRs") applicable to current AIP recovery filings for the Qualifying Projects, as approved in the April 28 Order.

24. NJNG's annual AIP II base rate adjustment filing will be subject to review by the Board Staff and Rate Counsel, prior to the approval and issuance of an Order by the Board establishing that the proposed rates are just and reasonable. Such review will be conducted as a

contested case in accordance with the New Jersey Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq. At the conclusion of the filing to review the June 2012 filing, the reopened base rate case proceedings in Docket No. GR07110899 will close.

Public Notice

25. NJNG will provide notice of this filing to all of its customers through the publication of a notice in newspapers of general circulation. A copy of the draft Public Notice is provided in Exhibit 2. In addition, NJNG will give notice of any future increase in rates and modification of its Tariff related to this Petition to all of its customers through the publication of notice in the newspapers of general circulation, coincident with the notice related to the annual BGSS filing.

26. Notice and two copies of this filing will be served upon the Division of Law and upon the New Jersey Division of Rate Counsel. Moreover, copies of the Company's filing will be available at each of NJNG's Customer Service Centers.

Quarterly Reporting

27. NJNG will continue to provide quarterly reports ("Quarterly Report") to Board Staff and Rate Counsel. Included in the Quarterly Report will be the following information: capital expenditures and the related job growth for each of the AIP II projects, the status of each of the AIP II projects including tasks completed, percentage of projects completed, and the actual level of money spent as of the end date for the period covered. Additionally, NJNG will provide information on planned/budgeted capital expenditures by budget type for non-AIP II projects, other than new business. Finally, NJNG will track incremental contractor positions or other positions associated with the AIP II projects and include that information in the Quarterly Reports.

Government Funding

28. If NJNG receives any federal, state, county or municipal funds or credits directly applicable to the AIP II projects, the Company will use that funding as a benefit to customers by offsetting the costs for which recovery is sought through the Annual AIP II filing, to the extent permitted by law.

Miscellaneous

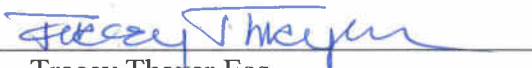
29. In light of the expeditious nature of this filing, NJNG respectfully requests a waiver of the informational filing requirements set forth in N.J.A.C. 14:1-5.12(a) (1) through (5), and a waiver of any and all other applicable Board filing requirements as may be necessary to enable the Board to grant the relief requested herein in the shortest practical time frame, within the law. Additionally, NJNG requests that the Board retain this filing for review on an expedited basis, to meet the goals for continued infrastructure development more expeditiously.

WHEREFORE, New Jersey Natural Gas Company requests that the Board:

- (1) authorize and approve the proposed AIP II projects for construction and investment cost recovery;
- (2) extend the current capital investment cost recovery structure as described herein and approved in the April 28 Order as applicable to the AIP II projects;
- (3) retain this matter at the Board for review on an expedited basis;
- (4) waive the informational filing requirements of N.J.A.C. 14:1-5.12(a) (1) through (5), and any other applicable Board filing requirements as may be necessary to enable the Board to grant the relief requested herein in the shortest practical time frame, within the law; and
- (5) grant such other and further relief as may be required.

Respectfully submitted,

New Jersey Natural Gas Company

By 
Tracey Thayer Esq.
Director, Regulatory Affairs Counsel
New Jersey Natural Gas Company

STATE OF NEW JERSEY)
:
COUNTY OF MONMOUTH)

VERIFICATION

MARK R. SPERDUTO of full age, being duly sworn according to law, on his oath deposes and says:

1. I am Vice President, Regulatory and External Affairs for New Jersey Natural Gas Company, the Petitioner in the foregoing Petition.

2. I have read the annexed Petition, along with the Exhibits attached thereto, and the matters and things contained therein are true to the best of my knowledge and belief.



Mark R. Spurduto

Sworn and subscribed to)
before me this 20th day)
of October 2010)



LISA HAMILTON
NOTARY PUBLIC FOR NEW JERSEY
Commission Expires January 4, 2015



New Jersey Natural Gas
Proposed Accelerated Infrastructure Program II Projects

MONMOUTH COUNTY:

Project: Holmdel Line Replacement

Estimated Cost: \$16.0 million

Description: Replacement of 8 miles of 10” pre-1971 Electric Resistance Welded (ERW) steel transmission pipeline with 16” steel pipe, due to age and to increase supplier diversity while improving reliability to the Monmouth County system. This line replacement will also allow for the in-line inspection of this transmission line, as the current line cannot utilize smart pig technology in its current configuration. The replacement pipeline runs from Route 36, Hazlet Township, south primarily along Laurel Avenue, Holland Road, and Holmdel Road, ending at Route 520, Holmdel Township, Monmouth County.

Estimated Start Date: Fall 2011

Estimated Complete Date: Summer 2012

Project: Monmouth County Reinforcement Project

Estimated Cost: \$4.1 million

Description:

Route 34 Reinforcement - Replacement of approximately 1.5 miles of existing 8” steel trunk line with 12” steel to improve system pressure / reliability to the southeastern area of Monmouth County.

Seven Bridges Road Replacement - Replacement of approximately 1.4 miles of existing 6” & 8” steel distribution main and services with 12” steel to improve system pressure / reliability to the peninsula area of Little Silver, Fair Haven and Rumson. The main runs in segments on Seven Bridges Road, from Rumson Road to Little Silver Point Road, Little Silver Borough, and from Silverside Avenue, Little Silver to Monmouth Boulevard, Oceanport Borough; and on Myrtle Avenue, from Port-Au-Peck Avenue, through Monmouth Park, ending at McClellan Street, Oceanport Borough.

Shafto Road Reinforcement Loop - Installation of approximately 2 miles of 8” plastic distribution main along Shafto Road, Tinton Falls, from just south of Wardell Road south to Route 34, Wall Township, Monmouth County, to improve and reinforce the existing system.

Estimated Start Date: Summer 2011

Estimated Complete Date: Spring 2012

Project: Old Mill Road / 18th Avenue Area Replacement Project

Estimated Cost: \$2.35 million

Description: Replacement of approximately 3.0 miles of 12”, 8”, 6” & 3” bare steel distribution main and associated services with 12” steel and 8” & 4” plastic due to age and maintenance. The replacement mains and services will include Old Mill Road, from Route 138, Wall Township, to Allaire Road, Spring Lake Heights Borough; on 18th Avenue, from New Bedford Road to M Street, Wall Township; and Marconi Road from Route 138 to Belmar Boulevard, Wall Township, Monmouth County.

Estimated Start Date: Summer 2011

Estimated Complete Date: Spring 2012

MORRIS COUNTY:

Project: Morris County Reinforcement Project

Estimated Cost: \$10.45 million

Description:

Route 46 Replacement - Replacement of approximately 3.0 miles of 6" steel distribution main and services with 12" steel due to age and to improve pressure in the existing system. The existing line runs from our interstate supply line on Vail Road, west along Route 46 to just west of Parsippany Blvd, in Parsippany-Troy Hills Township, Morris County.

Thatcher Line Extension - Extension of the 12" steel trunk system main for approximately 2.4 miles from the current end of the Thatcher Line at Washington Street & North Main Street, Wharton Borough, west along West Pine Street, West Central Avenue, and West Dewey Avenue to Berkshire Valley Road, ending at the Roxbury regulator station. This will allow for improved supplier diversity and pressure reinforcement to the existing 230 pound backbone system.

Lake Hiawatha Reinforcement Loop - Installation of approximately 2.5 miles of 6" & 4" plastic distribution main to loop and reinforce the Lake Hiawatha area of the Parsippany distribution system. Primary segment follows Lake Shore Drive from Vail Road north onto River Road, to Oneida Avenue, ending at North Beverwyck Road. A secondary segment is on Lake Shore Drive from Maple Lane southeast to Hiawatha Boulevard at Roosevelt Avenue.

Estimated Start Date: Summer 2011

Estimated Complete Date: Summer 2012

OCEAN COUNTY:

Project: Whiting System Loop / Extension Project

Estimated Cost: \$1.9 million

Description: Installation of 4.7 miles of 6" & 8" plastic pipe in the Whiting area of Manchester Township to ensure adequate gas supply. The 8" main runs along Wranglebrook Road from Manchester Boulevard east to Schoolhouse Road, then south ending at Route 530. The 6" main runs from Route 539 along Harry Wright Boulevard, Elizabeth Avenue, and Pershing Avenue to Lake Avenue.

Estimated Start Date: Spring 2011

Estimated Complete Date: Spring 2012

INTEGRITY SUPPORT PROJECTS:

Project: Inside High Pressure Meter Move-Outs

Estimated Cost: \$8.85 million

Description: Replacement of approximately 3,600 inside high pressure meter sets and their associated services with outside meter sets and services in order to eliminate high pressure gas inside buildings.

Estimated Start Date: Spring 2011

Estimated Complete Date: Summer 2012

Project: Regulator Station Replacement / Expansion Project

Estimated Cost: \$5.75 million

Description: Replacement of twelve distribution regulator stations due to age and to improve capacity throughout Monmouth, Ocean and Morris counties to ensure system reliability. The project also includes the replacement and relocation of the existing Marlboro regulator station due to age and capacity improvements, and to allow for the installation of gas heating and filtering equipment at that location and the expansion of the Roxbury Station to improve capacity, diversity of delivery options, and to replace the gas heating and filtering equipment that will accommodate additional volumes of product associated with the Thatcher Line Expansion project.

Estimated Start Date: Spring 2011

Estimated Complete Date: Summer 2012

Project: Remote Control Valve Installations / Telemetry System Improvements

Estimated Cost: \$2.0 million

Description: Installation of remote control valve actuators at multiple sites along the existing Jamesburg, Tennessee, Route 34 transmission systems and Englishtown station, including remote control / battery charging equipment and valve installations in order to improve the response and make-safe times should there be incidents within the system.

Estimated Start Date: Summer 2011

Estimated Complete Date: Summer 2012

Project: In-Line Inspection Equipment Installation

Estimated Cost: \$800 thousand

Description: Installation of transmission in-line inspection equipment on the 20" Lakewood, 20" Oyster Creek and 12" Lakehurst pipelines, as well as the Monmouth-Ocean Valve Site to allow for the future "smart pig" technology of those lines.

Estimated Start Date: Summer 2011

Estimated Complete Date: Summer 2012

**New Jersey Natural Gas Company
Proposed Accelerated Infrastructure Program II Projects**

| Infrastructure Project | Project Type | Estimated Quantity | Estimated Cost |
|---|-----------------------------|--------------------|----------------------|
| <u>MONMOUTH COUNTY</u> | | | |
| Holmdel Line Replacement | Transmission Main | 8 miles | \$ 16,000,000 |
| Monmouth County Reinforcement Project | Distribution Main & Service | 4.9 miles | \$ 4,100,000 |
| Old Mill Rd & 18th Av Area Replacement | Distribution Main & Service | 3 miles | \$ 2,350,000 |
| <u>MORRIS COUNTY</u> | | | |
| Morris County Reinforcement Project | Distribution Main & Service | 7.9 miles | \$ 10,450,000 |
| <u>OCEAN COUNTY</u> | | | |
| Whiting System Loop / Extension Project | Distribution Main | 4.7 miles | \$ 1,900,000 |
| <u>INTEGRITY SUPPORT</u> | | | |
| Inside HP Meter Move-Outs | Service/Meter Replacement | 3,600 | \$ 8,850,000 |
| Regulator Station Replacement / Expansion | Regulator Station | 14 | \$ 5,750,000 |
| Remote Valve Installations / Telemetry System | Transmission | 16 sites | \$ 2,000,000 |
| In-Line Inspection Equipment Installation | Transmission | Various | \$ 800,000 |
| | | TOTAL | \$ 52,200,000 |

NOTICE TO NEW JERSEY NATURAL GAS CUSTOMERS
Docket Nos. GO1010_____ and GR07110889

NOTICE OF FILING AND PUBLIC HEARING

TO OUR CUSTOMERS:

PLEASE TAKE NOTICE that on October 20, 2010, New Jersey Natural Gas (NJNG or the Company) submitted a filing with the New Jersey Board of Public Utilities (Board) seeking approval of a one-year extension of the currently approved Accelerated Infrastructure Investment Program (AIP) and approval of the continuation of the Board-approved accounting methodology and investment recovery mechanism.

On April 28, 2009, the Board approved the preliminary design and eventual construction of fourteen (14) accelerated infrastructure projects for NJNG. These AIP projects were in the planning stages as part of the Company's ongoing construction, operation and maintenance of the utility infrastructure used in the provision of safe, adequate and proper natural gas service. In an effort to provide economic stimulus to New Jersey and create jobs, NJNG had determined that the final planning, design and construction of these projects should be accelerated by several years. The Board also approved an accounting methodology and the recovery of NJNG's investment costs associated with these projects through filings to change base rates in June of 2010 and 2011.

In this filing, NJNG is requesting a one-year extension of the current AIP schedule to allow for the planning and construction of nine additional projects, to be designated as AIP II. As proposed by the Company, approval of the AIP II projects will permit the Company to expedite additional capital infrastructure projects in order to continue the jobs created through AIP while enhancing NJNG's infrastructure system. These projects will, among other things, maintain the safety and reliability of NJNG's distribution and transmission system. The proposed recovery covers anticipated, ordinary capital expenditures incurred during the time period necessary for completing the relevant projects. The following type of work is proposed for AIP II: the replacement of approximately 8 miles of transmission line; the replacement or reinforcement of approximately 20.5 miles of distribution main; the installation of new meters; regulator station replacement and expansions; and, the installation of remote valve and telemetry systems and in-line inspection equipment. The work on these projects will commence as soon as possible following the date of the Board Order approving this request and is contingent on many factors, including permitting, staffing, training and other project-related investments. The work will be completed no later than August 31, 2012.

The capital expenditures over the anticipated installation period will total approximately \$52.2 million. The Company seeks to recover a return on that investment, including taxes, through the current Board-approved accounting method for recovering AIP costs. The Company will recover its investments over a 42-year period based on its currently authorized depreciation rate.

At this time, the Company is requesting Board approval to initiate the AIP II program and, if approved, there is no immediate impact on customers' rates. Following approval and the commencement of infrastructure construction, the Company will make a filing in June 2011 and 2012 seeking Board approval to include in base rates the costs of the AIP II infrastructure investments. The magnitude of any increase depends on the actual costs of those projects. However, it is anticipated that the increase could be approximately 1 percent in the aggregate to the average residential heating customer's overall natural gas bill based on the Company's current rates and anticipated sales volumes.

Any future impact on customers will be determined at a later date by the Board after a subsequent filing by NJNG and the final disposition of this matter found by the Board to be just and reasonable may result in an upward or downward impact on a customer's bill from the proposal filed by NJNG.

The Board has the statutory authority to approve the AIP II and may establish the related changes to base rates at levels it finds just and reasonable. Therefore, the Board may establish the new rates at levels other than those proposed by NJNG.

PLEASE TAKE NOTICE that the Board has scheduled public hearings on this petition, although there is no change in NJNG rates proposed at this time, at the following dates, times and places:

????, 2010, at 3:30 and 5:30 p.m.
Rockaway Township Municipal Building
Conference Room
65 Mt. Hope Road
Rockaway Township, NJ 07866-1698

????, 2010 at 3:30 and 5:30 p.m.
Freehold Borough Municipal Building
51 W. Main Street
Freehold, New Jersey 07728-2195

The public is invited to attend, and interested persons will be permitted to testify and/or make a statement of their views on the proposed program. In order to encourage full participation in this opportunity for public comment, please submit any requests for needed accommodations, including interpreter, listening devices or mobility assistance, 48 hours prior to these hearings to the Board Secretary at the address below. Regardless of whether they attend the hearing, members of the public may submit written comments concerning the Petition to the Board by addressing them to: Kristi Izzo, Secretary, New Jersey Board of Public Utilities, Two Gateway Center, Newark, New Jersey 07102. Copies of the Petition and supporting documents can be reviewed at the NJNG Customer Service Centers or at the New Jersey Board of Public Utilities, Two Gateway Center, Newark, New Jersey 07102.

Tracey Thayer, Esq.
New Jersey Natural Gas

DRAFT