



March 1, 2013

VIA FEDEX

Ms. Kristi Izzo
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
Trenton, New Jersey 08625-0350

Re: **IN THE MATTER OF THE PETITION
OF NEW JERSEY NATURAL GAS COMPANY
AND SOUTH JERSEY GAS COMPANY FOR
AUTHORITY TO CONTINUE THE
CONSERVATION INCENTIVE PROGRAM
DOCKET NO. _____**

Dear Secretary Izzo:

Enclosed herewith for filing on behalf of New Jersey Natural Gas Company and South Jersey Gas Company please find an original and ten (10) copies of a Petition with supporting Testimony and Exhibits in the referenced matter. Included in this filing is the testimony of Daniel P. Yardley in support of this petition.

Copies of the petition, including the supporting exhibits and testimony, are also being served upon the New Jersey Division of Rate Counsel.

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

Respectfully submitted,

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

Tracey Thayer, Esq.

New Jersey Natural Gas Company

c: Service List (electronically and regular mail)

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

BPU DOCKET NO. GR1302_____

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

BPU DOCKET NO. GR1302_____

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

IN THE MATTER OF THE PETITION)
OF NEW JERSEY NATURAL GAS)
COMPANY AND) BPU DOCKET NO. GR1302____
SOUTH JERSEY GAS COMPANY FOR)
AUTHORITY TO CONTINUE THE)
CONSERVATION INCENTIVE PROGRAM)

PETITION OF

**NEW JERSEY NATURAL GAS COMPANY AND
SOUTH JERSEY GAS COMPANY
FOR AUTHORITY TO CONTINUE THE
CONSERVATION INCENTIVE PROGRAM**

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

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

**BPU DOCKET NO.
GR1302_____**

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

This Petition is being submitted on behalf of New Jersey Natural Gas Company (“NJNG”) and South Jersey Gas Company (“SJG”), hereinafter referred to collectively as the “Companies,” requesting approval from the New Jersey Board of Public Utilities (the “BPU” or the “Board”) to continue the Conservation Incentive Program (“CIP”) with certain modifications. The CIP was originally approved in a Board Order dated December 12, 2006 in Docket Nos. GR05121019 and GR05121020 that adopted the terms of a Stipulation unanimously executed among the Board Staff, the New Jersey Division of Rate Counsel (“Rate Counsel”)¹ and the Companies (collectively the “Parties”).

1. NJNG is a corporation duly organized under the laws of the State of New Jersey and is a public utility subject to the jurisdiction of the Board. NJNG is engaged in the distribution and transportation of natural gas to approximately 500,000 customers. The Company’s principal business office is located at 1415 Wyckoff Road, Wall Township, New Jersey 07719.

¹ Formerly known as the Department of the Public Advocate, Division of Rate Counsel.

2. SJG is engaged in the transmission, distribution, transportation, and sale of natural gas within its defined service territory within the State of New Jersey. Said service territory includes all or portions of the following Counties: Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester and Salem. Within its service territory South Jersey serves approximately 360,000 customers. The Company's principal business office is located at 1 South Jersey Plaza, Folsom, New Jersey 08037.

3. This Petition is supported by the schedules and exhibits attached hereto and made a part of this Petition:

Exhibit P-1 Joint Testimony and Exhibits of Daniel P. Yardley

Exhibit P-2 Proposed Form of Notice for NJNG

Exhibit P-3 Proposed Form of Notice for SJG

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

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5. On December 5, 2005, NJNG and SJG each submitted a petition with the Board seeking approval to implement what was then referred to as the Conservation Usage Adjustment, a rate design mechanism that proposed to separate each of the Companies' margin recoveries from the overall volumes of gas sold. In using this rate design mechanism, the Companies could encourage customer energy-efficiency and conservation efforts without incurring financial harm. The issues in those proceedings were resolved through the execution of a Stipulation that was approved by the Board in an Order dated December 12, 2006 (the "December 2006 Order"), instituting the CIP for a three-year period.

6. Included within the CIP was an agreement that each company will provide funds to promote the development and implementation of initiatives that encourage customer energy-efficiency and conservation efforts. To further support the reduction of customer consumption, both NJNG and SJG agreed to refocus internal marketing strategies from the promotion of additional burner tips at customer locations to the encouragement of energy efficiency and conservation. Additionally, the CIP encompasses unique attributes that serve to protect customers, including a cap on CIP recoveries based on the level of company earnings and incentives to reduce Basic Gas Supply Service ("BGSS") costs.

7. Also, the Parties agreed that the Companies would arrange for an independent evaluation of the CIP operations and report back to BPU Staff and Rate Counsel with those results and findings. As such, the CIP was evaluated by Christensen Associates Energy Consulting, LLC and a report was submitted on March 16, 2009² (the

² The independent evaluation was to start by November 1, 2008, with the report due to the Parties by January 15, 2009. During the process of the evaluation, it was agreed by the Parties that additional time was needed to review the voluminous materials provided for the evaluation, conduct interviews of various stakeholders and complete the report. Accordingly, that process was extended and the report was submitted 60 days later, on March 16, 2009.

"Christensen Report") with the results of that work. Among other things, the results and findings of the Christensen Report supported continuation of the CIP programs.

8. On December 4, 2009, the Companies filed a petition ("December 2009 Petition") to extend the CIP with no material changes to the program or to the terms and conditions previously approved by the Board. The Companies proposed to maintain the ongoing monitoring requirements and to continue to fund programs adopted pursuant to the December 2006 Order.

9. The December 2009 Petition was settled through a Stipulation executed among the Parties on January 14, 2010 ("January 2010 Stipulation") and approved by the Board in an Order dated January 21, 2010 (the "January 2010 Order"). Pursuant to the terms of that Order, the CIP continues through September 30, 2013 and the Companies are to file a CIP petition by March 1, 2013 seeking Board approval to continue or modify the CIP.

10. At this time, and pursuant to the January 2010 Order, the Companies are filing this Petition seeking Board approval to continue the CIP with certain modifications.

11. The Companies request that the Board retain this matter for resolution at the agency in an expedited manner.

12. As discussed in greater detail in the Pre-filed Testimony of Daniel P. Yardley (Exhibit P-1), the Companies are proposing certain modifications to the CIP. The Companies are proposing that the BGSS savings test should be applied on a therm basis, rather than the current dollar basis, and that unused BGSS savings be carried forward to be eligible for offsetting future non-weather related CIP amounts. In addition, the Companies seek to define a previously agreed upon BGSS savings category of avoided capacity savings to include each Company's net growth in residential customers.

13. The previously agreed upon return-on-equity ("ROE") limitations will remain in effect such that the CIP will not permit the Companies to earn in excess of their allowed rate of return on common equity of 10.3 percent.

14. The Companies will continue to submit an annual CIP filing by June 1 of each year, in conjunction with the annual BGSS filing, and seeking Board review and approval of the respective CIP rates that account for variations in usage in accordance with each Company's CIP Tariff. The CIP currently includes a financial commitment from the Companies, not to be recovered through rate charges, related to the establishment of

customer programs providing educational and informational services on energy efficiency and conservation. In this filing, NJNG and SJG agree to continue the development and promotion of customer programs and expanded outreach/education efforts directed toward energy efficiency and conservation for both residential and commercial customers. Through a variety of initiatives, such as personalized mail pieces, direct customer contact, offers of financial incentives, promotion through media channels and upgraded and enhanced websites, the Companies will continue to promote energy efficiency and conservation. For these programs, NJNG will continue to provide \$575,000 annually in funding not to be recovered through customer rates and SJG will provide \$400,000 annually in funding not to be recovered through customer rates.

15. The current agreement that any Company-provided funds that have not been expended for customer programs as discussed in Paragraph 14 above that are available at the end of one program year will carry-over to the next. Further, should either company incur customer program costs in excess of the above amounts, respectively, those costs will be funded by the Company.

16. This request for a continuation of the CIP with certain modifications will be subject to Notice and a Public Hearing. Attached to this Petition and made a part hereof as Exhibits P-2 and P-3 are proposed forms of Public Notice for NJNG and SJG, respectively.

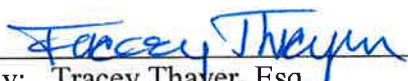
17. The proposal for which NJNG and SJG seek approval through this Petition is not only pursuant to the terms of the CIP Order, but also in conjunction with and supportive of the current state and federal focus on energy efficiency and conservation, incorporating the many initiatives that are currently or planned to be underway.

WHEREFORE, NJNG and SJG respectfully request that the Board issue an Order: .

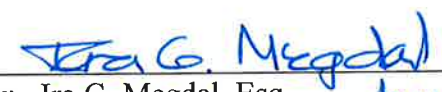
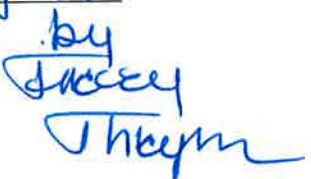
1. Approving the request of NJNG and SJG that the Conservation Incentive Program be continued, as modified herein, effective October 1, 2013;
2. Approving the modification of the BGSS Savings test such that the calculation of therm reductions associated with each portfolio modification be the basis for calculating BGSS Savings;
3. Approving the request that the BGSS Savings based on avoided BGSS capacity should be established reflecting each Company's net growth in residential customers;
4. Allowing the Companies to carry-forward unused BGSS Savings for offsetting future non-weather-related CIP amounts;
5. Approving the continued applicability of the CIP Tariff pages for NJNG and SJG effective October 1, 2013; and
6. Granting such other relief as the Board deems just, reasonable and necessary.

Respectfully Submitted,

NEW JERSEY NATURAL GAS
COMPANY


By: Tracey Thayer, Esq.
Director, Regulatory Affairs Counsel

SOUTH JERSEY GAS COMPANY


By: Ira G. Megdal, Esq.
Cozen O'Connor, PC 

VERIFICATION

STATE OF NEW JERSEY)
COUNTY OF MONMOUTH)

I, MARK R. SPERDUTO, of full age, being duly sworn according to law upon my oath, depose and says:

1. I am the Senior Vice President, Regulatory Affairs for Petitioner New Jersey Natural Gas and am authorized to make this verification on behalf of the Company.

2. I have reviewed the foregoing petition and the information contained therein is true according to the best of my knowledge, information and belief.

Mark R. Spurduto
Mark R. Spurduto
Senior Vice President, Regulatory Affairs

Sworn and subscribed to before me
this 28th day of February, 2013

Lisa Hamilton
Notary Public

Lisa Hamilton

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




VERIFICATION

STATE OF NEW JERSEY)
COUNTY OF ATLANTIC)

I, Steven R. Cocchi, of full age, being duly sworn according to law upon my oath,
depose and say:

1. I am Director, Rates and Revenue Requirements, of South Jersey Gas Company and am authorized to make this verification on behalf of the Company.
2. I have reviewed the foregoing petition and the information contained therein is true according to the best of my knowledge, information and belief.


Steven R. Cocchi
Director, Rates and Revenue
Requirements

Sworn and subscribed to before me
this 1 day of March, 2013


Notary Public
CAROLYN JACOBS
NOTARY PUBLIC OF NEW JERSEY
My Commission Expires October 28, 2013

EXHIBIT P-1

JOINT TESTIMONY OF

DANIEL P. YARDELY

PRINCIPAL

YARDLEY ASSOCIATES

**BEFORE THE
NEW JERSEY BOARD OF PUBLIC UTILITIES**

**NEW JERSEY NATURAL GAS COMPANY AND
SOUTH JERSEY GAS COMPANY**

**PREPARED DIRECT TESTIMONY OF
DANIEL P. YARDLEY**

1 **Q. Please state your name, affiliation and business address.**

2 A. My name is Daniel P. Yardley. I am Principal, Yardley Associates and my
3 business address is 2409 Providence Hills Drive, Matthews, North Carolina 28105.

4 **Q. On whose behalf are you testifying?**

5 A. I am testifying on behalf of New Jersey Natural Gas Company (“NJNG”) and
6 South Jersey Gas Company (“South Jersey Gas”), jointly referred to as “the Companies”
7 or individually as “the Company.”

8 **Q. Please provide a brief outline of your professional and educational background.**

9 A. I have been employed as a consultant to the natural gas industry for the past 25
10 years. During this period, I have directed or participated in numerous consulting
11 assignments on behalf of local distribution companies (“LDCs”). A number of these
12 assignments involved the development of gas distribution company cost allocation,
13 pricing, service unbundling, revenue decoupling and other tariff analyses. In addition to
14 this work, I have performed interstate pipeline cost of service and rate design analyses,
15 gas supply planning analyses, and financial evaluation analyses. I received a Bachelor of
16 Science Degree in Electrical Engineering from the Massachusetts Institute of Technology
17 in 1988.

1 **Q. Have you previously testified before the New Jersey Board of Public Utilities and**
2 **other regulatory bodies concerning rate and regulatory matters?**

3 A. Yes. Over the last ten years, I have testified before the New Jersey Board of
4 Public Utilities (the "BPU") on various ratemaking and regulatory matters including rate
5 unbundling, cost allocation, rate design, revenue decoupling, cost recovery mechanisms
6 and tariff design. My testimony in various proceedings has been presented on behalf of
7 NJNG, South Jersey Gas, and also Elizabethtown Gas Company. I have also testified in
8 proceedings before the Florida Public Service Commission, the Massachusetts
9 Department of Public Utilities, the New Hampshire Public Utilities Commission, the
10 Rhode Island Public Utilities Commission, the Tennessee Regulatory Authority, the
11 Wisconsin Public Service Commission, the Federal Energy Regulatory Commission and
12 the National Energy Board of Canada on a variety of rate and regulatory topics. A
13 summary of my previous expert testimony is provided as Attachment A to my direct
14 testimony.

15 **Q. What is the purpose of your direct testimony?**

16 A. The BPU approved the Conservation Incentive Programs ("CIP") for NJNG and
17 South Jersey Gas consisting of a base revenue normalization tariff and customer-oriented
18 conservation programs. I have been asked by the Companies to evaluate the effectiveness
19 of the CIP in achieving its goals and to make recommendations for the continuation of
20 the CIP that reflect current circumstances and policy objectives. In this regard, my
21 testimony addresses three topics. First, I will describe the operation of the CIP and
22 highlight the elements of the performance of the program since its inception in 2006.
23 Second, I will explain concerns with aspects of the current structure of the CIP that will

1 diminish its effectiveness going forward. These concerns relate to secondary effects
2 associated with the revenue normalization tariff computations and not the CIP itself.
3 Third, I will present and discuss modifications to the revenue normalization tariff that
4 remedy those concerns in a manner consistent with the overall intent and goals of the CIP
5 at the time it was implemented. The proposed changes would allow the CIP to continue to
6 provide important benefits to customers of NJNG and South Jersey Gas, the Companies
7 and to other stakeholders.

8 **Q. Please discuss your familiarity with revenue stabilization mechanisms in general,**
9 **and with the NJNG and South Jersey Gas CIP mechanisms in particular.**

10 A. I have worked directly with a number of LDCs and their stakeholders over the last
11 decade to address challenges associated with usage-based rate design approaches. From a
12 policy perspective, I have examined the impacts of changes in the natural gas industry as
13 it has matured and the implications for local utility ratemaking. Additionally, I developed
14 a number of rate design and revenue stability mechanisms designed to maximize the
15 benefits of aligning LDC and customer interests with respect to reducing energy
16 consumption. In conjunction with these matters, I worked closely with personnel
17 responsible for rate and tariff administration, financial reporting, and sales and revenue
18 accounting to ensure that the approaches would be implemented consistent with the
19 intended outcomes and in alignment with pertinent regulatory policies.

20 My involvement with NJNG and South Jersey Gas on these issues began with the
21 development of the initial proposals in BPU Docket Nos. GR05121019 and GR05121020
22 and has continued with participation in discussions and negotiations among the
23 Companies, the New Jersey Division of Rate Counsel (“Rate Counsel”) and BPU Staff

1 regarding the proposals. These parties entered into a Stipulation approved by the BPU in
2 an Order dated December 12, 2006 establishing the CIP on a pilot basis. Since that time, I
3 have continued to work on CIP-related matters including implementation considerations,
4 annual CIP adjustment filings and the periodic review and evaluation of the CIP.
5 Subsequently, a filing submitted on behalf of NJNG and South Jersey Gas on December
6 4, 2009 was approved by the BPU in an Order dated January 21, 2010, continuing the
7 CIP through September 30, 2013 and requiring this filing.

8 Based on my close involvement with NJNG and South Jersey Gas on CIP-related
9 matters, I am recommending changes to the mechanisms that are necessary to maintain
10 their effectiveness. The specific proposals I support through this testimony are based on
11 broad rate design policy objectives and stakeholder interests, as well as the specific goals
12 and attributes of the CIP and its operation since its initial development and approval by
13 the BPU.

14 **Q. Please summarize your findings.**

15 A. The four principal conclusions of my testimony are as follows:

- 16 (1) **The CIP contributed important benefits for NJNG and South Jersey Gas**
17 **customers and is an effective regulatory approach:** A review of the
18 performance of the CIP since its inception reveals the substantial benefits that
19 have been realized by customers and other stakeholders.
- 20 (2) **Since the implementation of the CIP, the interest in relying on rate design as**
21 **a tool to promote economic and energy efficiency policy goals has received**
22 **considerable attention:** Public utility commissions across the United States are
23 placing increasing emphasis on the role that utilities provide in promoting the
24 most efficient use of natural gas and electricity by consumers. A broad
25 reevaluation of rate design led to the widespread adoption of new rate design
26 approaches since the time that the BPU first approved the CIP.
- 27 (3) **Elements of the CIP revenue normalization mechanism must be modified in**
28 **order to preserve the benefits of the program:** Aspects of the Basic Gas
29 Supply Service (“BGSS”) Savings test are contributing to a growing concern that

1 legitimate CIP deferrals associated with customer reductions in usage may be
2 excluded from recovery. Left unchecked, these impacts would lead to a
3 reestablishment of the link between utility earnings and customer consumption,
4 undermining the fundamental goal of the ratemaking approach.

- 5 (4) **The proposed changes to the CIP, which focus on the BGSS Savings test,**
6 **preserve the agreed-upon underlying framework of the CIP and establish a**
7 **stable foundation for a continued effective regulatory approach:** The
8 modifications to the BGSS Savings test that I recommend support the guiding
9 principle of the BGSS Savings test. The changes include updates to the way
10 BGSS Savings are generated and modification of the manner they are applied to
11 offset CIP revenue deferrals.

12 **Q. Are you sponsoring any exhibits that accompany your prepared direct testimony?**

13 A. Yes. I am sponsoring the following eight exhibits, which will be explained later
14 in my testimony:

15 Exhibit DPY-1: Average Annual Residential Heating Therm Savings;

16 Exhibit DPY-2: Annual Weather-Related and Non-Weather-Related
17 CIP Deferrals;

18 Exhibit DPY-3: Results of Annual Application of BGSS Savings Cost
19 Recovery Test;

20 Exhibit DPY-4 Comparative Value of BGSS Capacity Costs and
21 Residential Margin;

22 Exhibit DPY-5: BGSS Savings Calculated on a Therm Basis;

23 Exhibit DPY-6: Unused BGSS Savings Available for Future Years;

24 Exhibit DPY-7: Derivation of Annual BGSS Savings Associated with
25 Customer Growth; and

26 Exhibit DPY-8: Sample CIP Calculations Reflecting BGSS Savings
27 Test Revisions.

28 ***HISTORICAL BACKGROUND RELATED TO THE CIP***

29 **Q. Please describe the traditional utility rate design approaches utilized through the**
30 **second half of the twentieth century and into the beginning of the twenty-first**
31 **century.**

1 A. The form of rate design determines how a utility's costs of providing service are
2 recovered from customers through approved rates. Typically, different rate forms apply
3 to various categories of costs reflecting differences in the nature of costs. In New Jersey,
4 as is the case elsewhere across the United States, distribution costs are recovered through
5 base rates, while the costs of gas supply and transportation capacity are recovered
6 through purchased gas supply rates, i.e. BGSS rates.

7 The majority of an LDC's distribution costs are fixed in nature and include fixed
8 plant-related costs and fixed operating costs. However, the traditional rate design
9 approach recovers a substantial portion of LDC fixed-cost revenue requirements through
10 volumetric therm-based charges applied to the amount of natural gas consumed by
11 customers. This form of rate design is referred to as a usage-based rate design and results
12 in a throughput incentive. Specifically, the inherent operating incentives under this form
13 of rate structure are for the LDC to both add new customers and promote increased
14 consumption by existing customers in order to grow earnings and lower unit costs.

15 **Q. How did usage-based rate designs reflect the prevailing public policy objectives**
16 **during this time period?**

17 A. While energy efficiency has always been an important element of regulated
18 energy delivery services, the public policy objectives were different in years past,
19 particularly in the natural gas distribution sector. The traditional approach to rate design
20 emphasized historical industry drivers and market conditions that are now changing.
21 The U.S. natural gas delivery system underwent a period of broad expansion that lasted
22 for decades following World War II. This expansion, enabled by advances in
23 metallurgical technologies and welding techniques, brought the benefits of reliable,

1 affordable and clean-burning natural gas to millions of households and businesses
2 throughout the United States, including in New Jersey. Public policy promoted the
3 expansion of natural gas infrastructure and additional penetration of natural gas into more
4 homes and for additional end-uses. This public policy was reflected in usage-based rate
5 designs as expanding systems and growing loads allowed an LDC's fixed costs to be
6 spread over greater levels of billing units, lowering average costs to consumers.

7 Traditional usage-based rate designs were appropriate under the circumstances in
8 which they were originally applied. However, the present imperative to promote
9 increased energy efficiency in order to lower customer bills and reduce carbon emissions
10 calls for a reordering of priorities. One of the outcomes of this process must be the
11 ongoing replacement of traditional rate designs with approaches that remove the financial
12 incentive for LDCs to promote increased consumption by their existing customers.

13 **Q. How have public policy objectives evolved recently?**

14 A. In broad terms, the current policy reflects the maturation of the industry. Less
15 emphasis is placed on growth and, instead, greater importance is focused on increased
16 utilization of infrastructure investments. The maturation of the industry is also reflected
17 in less frequent base rate cases and an increased focus on promoting energy efficiency
18 and conservation, which leads to benefits for both the consumers and the environment.
19 Policymakers are also addressing the increasing challenges associated with replacing
20 aging infrastructure, which presents unique needs as these investments are primarily non-
21 revenue producing.

22 **Q. Besides the policy objectives you have noted, are there additional market-related**
23 **factors that are influencing traditional views regarding rate design?**

1 A. Yes. Most LDCs have experienced a decline in customer growth, particularly
2 those companies located in the Northeast where housing growth is slower than in other
3 regions of the United States. When the rate of customer growth declines, an LDC that
4 operates under a traditional usage-based rate design is dependent upon stable firm
5 throughput in order to be afforded a reasonable opportunity to earn an authorized return
6 on investments made to provide service. This is particularly true in an environment
7 characterized by fewer base rate cases. However, customer consumption patterns have
8 become less predictable. Dramatic commodity price run-ups attributed to tightening
9 supply conditions experienced at different times since 2000 and difficult economic
10 conditions contributed to significant behavioral changes by customers. While natural gas
11 markets are now experiencing the effects of dramatic improvements in the supply
12 situation due to new drilling techniques that are extracting gas from shale formations,
13 including the Marcellus Shale producing area, consumption patterns remain in flux.

14 **Q. What is the impact of the changing public policy objectives on the approach to rate**
15 **design?**

16 A. The nexus between rate design and energy policy objectives is receiving increased
17 attention throughout the United States as policymakers and industry stakeholders closely
18 assess the implications of continued reliance on usage-based rate designs. While growing
19 natural gas loads through the addition of new customers is consistent with public policy
20 favoring the direct and most efficient use of clean-burning natural gas, the former focus
21 on increasing consumption by current customers is at odds with recent public policy
22 goals that favor energy conservation and reductions in customer energy bills. Even
23 though LDCs promote increased energy efficiency to their customers, they also have

1 fiduciary responsibilities to shareholders, regulators and customers alike that prevent
2 them from fully embracing the energy-efficiency imperative as long as they operate under
3 a usage-based rate design. Clearly, the outcomes under existing rate design are at odds
4 with the objective of reducing consumption. Recognition of this substantial concern
5 associated with traditional usage-based rate design is leading to the adoption of rate
6 designs that sever the direct links between customer consumption and utility base
7 revenues and earnings.

8 **Q. What steps has New Jersey taken to align its policies and rate design approaches**
9 **with new market realities?**

10 A. New Jersey is among the leading states in adopting policies and legislation
11 designed to reduce energy use, and the associated emissions and costs. In July 2007, the
12 Global Warming Response Act ("GWRA") was enacted by the State Legislature and
13 signed into law. The GWRA established aggressive statewide goals that would by the
14 year 2020 reduce greenhouse gas emissions to the 1990 level or below. Further, the
15 GWRA requires greater emission reductions by the year 2050 to levels that are 80% or
16 less of the greenhouse gas emissions for the year 2006.

17 The GWRA set in motion a series of coordinated efforts to plan how best to
18 achieve the near and longer-term emission reductions including the development of a
19 comprehensive New Jersey Energy Master Plan ("EMP"), recognizing the substantial
20 contribution of energy use to total greenhouse gas emissions. The development of the
21 EMP entailed broad stakeholder involvement that led to a series of policy and program
22 recommendations to achieve reductions in greenhouse gas emissions. The 2011 EMP
23 states:

1 “the specific recommendations in this 2011 EMP focus on both initiatives
2 and mechanisms which set forth energy policy to drive the State’s
3 economy forward, but do not lose sight of environmental protection
4 imperatives. Efforts to promote economic development will include
5 increasing in-state energy production, improving grid reliability, and
6 recognizing the economic, environmental, and social benefits of energy
7 efficiency, energy conservation, and the creation of jobs.” *New Jersey*
8 *EMP at p.1 December 2011.*

9 **Q. Please describe the growing focus on the policy aspects of alternative approaches to**
10 **rate design.**

11 A. Rate design is receiving increasing focus and attention for the reasons I noted
12 above. A number of agencies, industry and environmental associations, and ad hoc
13 groups recognize the growing need to move away from traditional usage-based rate
14 designs and are calling for changes to gas utility rate structures.

15 The American Gas Association ("AGA") and the Natural Resources Defense
16 Council ("NRDC") issued a joint statement in July 2004 on energy-efficiency issues. The
17 joint statement concluded:

18 When customers use less natural gas, utility profitability almost always
19 suffers, because recovery of fixed costs is reduced in proportion to the
20 reduction in sales. Thus, conservation may prevent the utility from
21 recovering its authorized fixed costs and earning its state-allowed rate of
22 return. In this important respect, traditional utility rate practices fail to
23 align the interests of utility shareholders with those of utility customers
24 and society as a whole. This need not be the case. Public utility
25 commissions should consider utility rate proposals and other innovative
26 programs that reward utilities for encouraging conservation and managing
27 customer bills to avoid certain negative impacts associated with colder-
28 than-normal weather. There are a number of ways to do this, and NRDC
29 and AGA join in supporting mechanisms that use modest automatic rate
30 true-ups to ensure that a utility’s opportunity to recover authorized fixed
31 costs is not held hostage to fluctuations in retail gas sales.

1 The AGA and NRDC issued a second joint statement in May 2008 further
2 emphasizing these recommendations based on experience gained since the first statement
3 was issued. In May 2008, the AGA and NRDC recommended the following:

4 Today, AGA and the NRDC again urge state public utility commissions
5 and officials responsible for publicly-owned natural gas distribution
6 systems to actively support natural gas utilities' energy efficiency
7 proposals that use automatic rate true-ups to ensure a utility's opportunity
8 to recover its authorized fixed costs. We also urge state public utility
9 commissions that have adopted such programs on a trial basis to make
10 longer term commitments.

11 **Q. Please explain how the Public Utility Regulatory Policies Act ("PURPA")**
12 **amendments address these matters.**

13 A. In conjunction with the adoption of the Energy Independence Security Act of
14 2007, the United States Congress amended PURPA by requiring state regulatory
15 commissions to consider additional PURPA standards. One standard applied to the
16 impact of rate design on natural gas utilities as follows:

17 RATE DESIGN MODIFICATIONS TO PROMOTE ENERGY
18 EFFICIENCY INVESTMENTS –

- 19 (A) IN GENERAL- The rates allowed to be charged by a natural gas
20 utility shall align utility incentives with the deployment of cost-
21 effective energy efficiency.
- 22 (B) POLICY OPTIONS- In complying with subparagraph (A), each
23 State regulatory authority and each nonregulated utility shall
24 consider—
- 25 (i) separating fixed-cost revenue recovery from the volume of
26 transportation or sales service provided to the customer;
- 27 (ii) providing to utilities incentives for the successful
28 management of energy efficiency programs, such as
29 allowing utilities to retain a portion of the cost-reducing
30 benefits accruing from the programs;

1 (iii) promoting the impact on adoption of energy efficiency as 1
2 of the goals of retail rate design, recognizing that energy
3 efficiency must be balanced with other objectives; and

4 (iv) adopting rate designs that encourage energy efficiency for
5 each customer class.

6 **Q. Please describe any other important developments with respect to evaluation of rate**
7 **design approaches.**

8 A. Perhaps the most significant and influential activities are associated with the
9 National Action Plan for Energy Efficiency (the "National Action Plan"), an initiative
10 facilitated by the U.S. Department of Energy and the U.S. Environmental Protection
11 Agency. This effort is of particular importance given the broad array of industry
12 participants that endorsed its recommendations.

13 The National Action Plan is advancing public policy in two important respects.
14 First, broad input was sought in formulating a comprehensive strategy. Secondly, the
15 report's findings were structured to be actionable by stakeholders who are in a position to
16 influence the direction of investment and participation in energy efficiency in order to
17 meet the challenges at hand. The initial report released in July 2006 has been followed by
18 a series of regional implementation meetings and further studies of critical issues.

19 One of the five principal recommendations advocated by the National Action Plan
20 is the adoption of policies that modify rate design in a manner that aligns utility
21 incentives with the adoption of energy-efficiency measures. The July 2006 plan included
22 the following recommendation:

23 Modify policies to align utility incentives with the delivery of cost-
24 effective energy efficiency and modify ratemaking practices to promote
25 energy efficiency investments. Successful energy efficiency programs
26 would be promoted by aligning utility incentives in a manner that
27 encourages the delivery of energy efficiency as part of a balanced

1 portfolio of supply, demand, and transmission investments. Historically,
2 regulatory policies governing utilities have more commonly compensated
3 utilities for building infrastructure (e.g., power plants, transmission lines,
4 pipelines) and selling energy, while discouraging energy efficiency, even
5 when the energy-saving measures might cost less. Within the existing
6 regulatory processes, utilities, regulators, and stakeholders have a number
7 of opportunities to create the incentives for energy efficiency investments
8 by utilities and customers.

9 In addition, a follow-up report issued the following year entitled *Aligning Utility*
10 *Incentives with Energy Efficiency Investment* further examined the rate and recovery
11 issues associated with energy efficiency including comprehensive changes to utility rate
12 design.

13 More recently, the National Action Plan stakeholder process developed a vision
14 statement that establishes the goal of achieving all cost-effective energy efficiency by the
15 year 2025. The vision statement is supported by ten specific implementation goals for
16 states, utilities and other stakeholders to consider adopting. Among the implementation
17 goals are the following:

18 Goal Two: Developing Processes to Align Utility and Other Program
19 Administrator Incentives Such That Efficiency and Supply Resources Are
20 on a Level Playing Field

21 Applicable agencies are encouraged to:

- 22 ■ Explore establishing revenue mechanisms to promote utility and
23 other program administrator indifference to supplying energy
24 savings, as compared to energy generation options.
- 25 ■ Consider how to remove utility and other program administrator
26 disincentives to energy efficiency, such as by removing the utility
27 throughput disincentive and exploring other ratemaking ideas.
- 28 ■ Ensure timely cost recovery in place for parties that administer
29 energy efficiency programs.

30 **Q. What has been the response of regulators to these recommendations?**

1 A. The National Association of Regulatory Utility Commissioners ("NARUC") also
2 places significant importance on addressing the challenges of increasing energy
3 efficiency and reducing greenhouse gas emissions. Over the years, NARUC has sought to
4 promote increased understanding and emphasis on these important policy matters among
5 its constituents.

6 NARUC closely followed each of the significant initiatives described in my
7 testimony that addressed the need to reexamine rate design. Through resolutions adopted
8 in 2004, 2005, 2006 and 2008, NARUC specifically endorsed and recommended that
9 individual commissions consider the rate design recommendations set forth in the
10 AGA/NRDC joint statements and the National Action Plan.

11 **Q. Does the BPU-approved CIP represent a rate design approach that addresses the**
12 **throughput incentive associated with usage-based rate designs?**

13 A. Yes. A fundamental tenet of the CIP Tariff is the alignment of the financial
14 interests of NJNG and South Jersey Gas with those of its customers with respect to
15 reductions in total energy costs to customers. In particular, the base revenue impacts of
16 any customer savings from energy efficiency and conservation do not contribute
17 negatively to the Companies' financial performances. The CIP Tariff enables NJNG and
18 South Jersey Gas to recover fixed costs through a variable or usage-based rate structure
19 without negative consequences. Customers continue to realize substantial savings as gas
20 supply commodity costs are avoided altogether. The CIP and similar programs adopted in
21 other jurisdictions are recognized as supporting important local and national policy goals
22 to lower energy use and reduce the associated environmental impacts.

1 Elimination of the disincentives to promoting customer conservation enables the
2 Companies to embrace new initiatives, complementary to those of New Jersey’s Clean
3 Energy Program (“NJCEP”) and that capitalize on various channels for promoting
4 conservation by their customers. Energy efficiency and renewable energy resources are
5 two of the building blocks to ensuring a secure energy future for New Jersey. These
6 resources will play an increasingly important role in achieving the environmental policy
7 goals of reducing carbon emissions that pose substantial environmental risks, and helping
8 to relieve any upward pressure on natural gas commodity prices.

9 **Q. Since the BPU approved the CIP, have other jurisdictions adopted rate design**
10 **mechanisms with similar outcomes?**

11 A. Yes. Many jurisdictions have replaced usage-based rate design approaches with
12 ones that address the throughput incentive while preserving the underlying rate structure.
13 According the American Gas Association (“AGA”), 48 LDCs in 21 jurisdictions,
14 including New Jersey, have implemented a revenue adjustment mechanism or tariff that
15 decouples base revenue recovery from throughput. Over 80% of these mechanisms were
16 approved after the BPU approved the CIP in 2006. While the approaches adopted in these
17 other cases reflect circumstances specific to the corresponding states and utilities, the
18 level of activity demonstrates the nationwide attention that rate design is receiving.

19 **Q. What other regulatory trends does the activity in other jurisdictions reveal**
20 **regarding the way that state regulators are approaching natural gas rate design?**

21 A. The CIP and similar approaches layer a revenue adjustment mechanism onto a
22 usage-based rate design in order to address the throughput incentive. This approach
23 preserves the underlying base rate design structure and requires annual or more frequent

1 adjustment filings. A number of states have adopted base rate designs that directly
2 eliminate the throughput incentive through the use of monthly fixed charges. Today,
3 AGA notes that 15 LDCs in nine jurisdictions have implemented fixed charge rate
4 designs that recover all or the majority of fixed costs through fixed charges.

5 **Q. What are some of the benefits of fixed charge rate designs?**

6 A. A primary benefit that fixed-charge rate designs achieve is that LDC and
7 customer economic interests are aligned since there is no throughput incentive. Another
8 benefit is the consistency between pricing and underlying costs, which supports the goal
9 of fairness in designing rates. Fixed charge rate designs also provide important benefits
10 for consumers including the stabilization of the distribution portion of gas bills as the
11 recovery of distribution costs is level over all months of the year allowing consumers to
12 plan better. Consumers are very accustomed to this pricing structure, which is reflective
13 of many services purchased today including cable television, phone, internet and home
14 security services. From a regulatory perspective, fixed charge rate designs are simple to
15 administer and reduce potential areas of customer confusion.

16 **Q. How many residential customers are served under these rate design approaches that
17 eliminate the throughput incentive associated with usage-based rate designs?**

18 A. Approximately 39 million residential customers in the United States are served
19 under rate design approaches such as the CIP Tariff revenue adjustment mechanism or a
20 fixed-charge rate design. This equates to 60 percent of all residential gas customers in the
21 United States.

CIP DESCRIPTION AND PERFORMANCE

1
2 **Q. Please summarize the timing associated with the initial development of the CIP as**
3 **well as subsequent CIP-related filings.**

4 A. NJNG and South Jersey Gas made filings with the BPU in December 2005 to
5 implement a tariff mechanism that separates base revenue recovery from usage and
6 allows the Companies to more aggressively promote energy efficiency and conservation
7 to their customers. The proposal was reviewed by BPU Staff and Rate Counsel and a
8 Stipulation (the “CIP Stipulation”) implementing the CIP was agreed to among these
9 parties and approved by the BPU on October 1, 2006. Initially, the CIP was established
10 on a pilot basis with a requirement that an independent review be performed after two full
11 years of operation. Following the independent review, the CIP was then continued by the
12 BPU in an order dated January 21, 2010.

13 Annual adjustment filings are made by each Company on or before June 1
14 covering the period beginning the previous October 1. Each annual CIP adjustment filing
15 includes seven months of actual data and five months of projections in order to
16 implement a rate change on the following October 1, which is consistent with the timing
17 and basis of annual BGSS filings. Differences between projections and actuals for the
18 forecast period and over and under-recoveries are addressed in filings for the subsequent
19 year. NJNG and South Jersey Gas have each made six annual CIP filings with the BPU
20 since the use of the CIP mechanism began.

21 **Q. What are the essential components of the CIP revenue adjustment mechanism?**

22 A. Details of the CIP mechanism are set forth as Rider I of the NJNG Tariff and
23 Rider M of the South Jersey Gas Tariff. The respective Tariff riders are applicable to all

1 residential and general service customers. The components of the CIP include the
2 baseline usage per customer (“BUC”), margin revenue factor (“MRF”), incremental large
3 customer adjustment, and the BGSS Savings and return on equity (“ROE”) cost recovery
4 eligibility tests.

5 The BUC represents a benchmark usage level for four different groups of
6 relatively homogenous customers. For NJNG, the four groups are: (i) residential non-
7 heating, (ii) residential heating, (iii) general service customers whose annual consumption
8 is less than 5,000 therms and (iv) general service customers whose annual consumption is
9 5,000 therms or greater. Similarly, for South Jersey Gas, the CIP benchmark is
10 established for four groups, which are: (i) residential non-heating, (ii) residential heating,
11 (iii) general service customers whose annual consumption is less than 100,000 therms,
12 and (iv) general service customers whose annual consumption is 100,000 therms or
13 greater. The BUC is equal to the test period monthly usage relied upon to set base rates in
14 each Company’s prior rate case.

15 The MRF represents the base revenue increase or reduction attributable to a per-
16 therm change in consumption. The MRF is stated separately for each customer group and
17 is equal to the test period average margin reflected in the most recent base rate case.
18 Multiplication of the BUC and the MRF yields a measure of the authorized base revenues
19 per customer established by the BPU in a base rate case.

20 The large customer adjustment addresses the potential disincentive a margin
21 normalization tariff has on adding large commercial customers to the distribution system.
22 Specifically, the large customer adjustment increases the customer count used in the CIP

1 Tariff calculations to reflect an equivalent number of general service customers at the
2 BUC level.

3 The ROE and BGSS Savings eligibility tests are applied to the CIP calculations
4 each year to determine the level of revenue adjustment that may be passed through to
5 customers. The ROE eligibility test allows revenue recoveries through the CIP
6 mechanism as long as the revenues would not lead to an ROE in excess of that authorized
7 by the BPU in each Company's most recent base rate case. The BGSS Savings test
8 requires that the CIP impacts that are not attributable to weather variances are
9 recoverable if they are offset by the established level of BGSS Savings, which are
10 specified reductions in BGSS costs.

11 **Q. Does the CIP mechanism address the impacts of weather on base revenue**
12 **recoveries?**

13 A. Yes. The BPU adopted Tariff mechanisms that adjust for the margin impacts of
14 variations in weather for both Companies in 1992. The CIP operates to identify the base
15 revenue impact of changes in customer usage compared with the baseline in total,
16 including both weather and non-weather effects. The weather-related and non-weather-
17 related components of the CIP are determined for the sole purpose of applying the BGSS
18 eligibility test to the non-weather component.

19 **Q. What steps are followed in order to calculate the annual CIP charge or credit**
20 **applicable to each customer group under the mechanism?**

21 A. The calculation of the CIP Tariff adjustment is performed for each of the four
22 customer groups, resulting in a single credit or charge applicable to all customers within
23 each grouping. The calculation begins by dividing the actual customers for each month

1 into the actual booked volumes to establish an actual average monthly use per customer.
2 An adjustment to the number of general service customers is made to reflect any large
3 customers that have been added to the system as noted previously.

4 Next, the actual monthly average use per customer values are compared to the
5 baseline usage per customer for the corresponding customer group. The difference
6 represents the average usage impact for all customers in the customer class group for the
7 month. In order to determine the total volume impact for the group, the monthly
8 differences are multiplied by the corresponding actual number of customers.

9 The margin impact is simply the usage impact multiplied by the margin revenue
10 factor for the customer group set forth in each Company's CIP Tariff. The per therm
11 charge or credit for the group is the total margin adjustment divided by the forecasted
12 throughput for the recovery period. Since the charge or credit is derived using projected
13 throughput amounts, any over or under-recovery from the prior recovery period is
14 included in the calculation of the charge or credit for the current period.

15 **Q. Please describe the mechanics associated with the application of the ROE and BGSS**
16 **eligibility tests.**

17 A. The ROE test calculates regulatory income for the twelve-month period ending
18 September 30 of the current year. The regulatory income is adjusted to reflect the income
19 from any revenue associated with the calculated CIP deferral for the period, including
20 both weather and non-weather impacts. Any CIP revenues that would result in a
21 calculated ROE that exceeds the allowed level specified in the most recent rate case are
22 not recoverable. The ROE test is a one-way eligibility test in that ROE deficiencies are
23 not recoverable from customers.

1 BGSS savings result from gas supply contract restructurings, avoided costs or
2 other purchasing practices that benefit customers by lowering BGSS costs. In order to
3 determine the non-weather component of the CIP, the margin impact of weather is
4 subtracted from the total CIP margin impact. The weather-related component of the CIP
5 is not subject to any recovery limitation related to BGSS savings. The CIP Stipulation
6 specifies an initial level of verified BGSS savings as well as provisions for incremental
7 future savings. The initial verified BGSS Savings were \$10.6 million for NJNG and \$7.1
8 million for South Jersey Gas. Since the initial approval of the CIP, both NJNG and South
9 Jersey Gas have added additional BGSS Savings attributable to contract restructurings
10 and releases in order to offset the impacts of a continued decline in use per customer.
11 Any CIP margin impacts that exceed the total BGSS savings may be carried over to
12 subsequent years and reflected in future BGSS Savings tests.

13 **Q. What elements of the CIP Tariff are updated if either Company files a base rate**
14 **case?**

15 A. Aspects of the CIP Tariff that interrelate with base rate revenue recoveries must
16 be updated when new base rates are determined. Specifically, the MRF and the monthly
17 BUC set forth in the CIP Tariff must be updated when either Company files a base rate
18 case. This aligns these CIP aspects with the BPU's approval of new rates in a base rate
19 proceeding ensuring base revenue recoveries following a rate case occur as intended. In
20 conjunction with updating the BUC, the date for determining incremental large customers
21 begins on the first date immediately following the end of the test year. Lastly, the ROE
22 level associated with the ROE eligibility test is updated to reflect the level approved by
23 the BPU for base rate purposes.

1 **Q. Is it possible to estimate customer savings achieved since the implementation of the**
2 **CIP?**

3 A. Yes. The average residential heating therm savings by year for each Company are
4 presented in Exhibit DPY-1. These savings incorporate all factors that resulted in
5 reductions in customer use including those associated with customer-initiated energy
6 efficiency measures, behavioral modifications and programs offered by the respective
7 Companies. The Companies estimate the dollar savings associated with these therm
8 savings and those of other customers. The aggregate savings estimated by NJNG through
9 December 31, 2012 are \$279 million. Similarly, the aggregate savings estimated by South
10 Jersey Gas over that same time period are \$331 million.

11 **Q. Please summarize the weather and non-weather related base revenue impacts**
12 **addressed through the CIP for each Company.**

13 A. The weather and non-weather impacts are presented on an annual basis in Exhibit
14 DPY-2. Over the six-year period, the weather has been close to normal in two years and
15 considerably warmer-than-normal for the other four years. The most recent year was the
16 warmest on record, with temperatures 22 percent above normal in both NJNG's service
17 area and in South Jersey Gas' service area.

18 **Q. Please describe the results of the application of the two cost recovery eligibility tests**
19 **over this time period.**

20 A. The ROE test is applicable whenever the combined weather and non-weather CIP
21 deferrals are positive, indicating a charge would be applicable. Application of the ROE
22 test did not result in a reduction to CIP deferrals for either Company during the six-year
23 period that the CIP has been in effect.

1 The results of the BGSS Savings test are presented in Exhibit DPY-3, which
2 compares the calculated annual non-weather CIP amount to the corresponding level of
3 BGSS Savings. For NJNG, the non-weather-related CIP amount exceeded BGSS Savings
4 in two of the six years. For South Jersey Gas, the non-weather-related CIP amount
5 exceeded BGSS Savings in three of the six years, including two of the last three years.
6 For any year that BGSS Savings are insufficient to offset non-weather-related CIP
7 amounts, the amount above the level of BGSS Savings may be carried forward and
8 included in the BGSS Savings cost recovery test in the following year.

9 **Q. Based on your familiarity with the CIP mechanism and the results of its operation**
10 **since its 2006 inception, please describe in summary fashion conclusions that you**
11 **draw from its overall performance.**

12 A. Customers have achieved substantial economic savings since the implementation
13 of the CIP. These savings continue to accumulate today even though commodity prices
14 have subsided from the peak levels experienced during the initial years of the program.
15 Since the adoption of the CIP, both NJNG and South Jersey Gas have developed and
16 implemented various energy-efficiency and conservation programs that reflect the
17 benefits of eliminating the throughput incentive associated with their underlying base rate
18 designs, which maintain significant fixed cost recovery through usage-based charges.
19 These programs include both customer-focused informational programs and innovative
20 grant and on-bill financing incentives for customers to invest in energy-efficient
21 appliances and align with the offers from NJCEP.

22 While substantial benefits have been achieved under the CIP for customers of
23 each Company, the performance of the programs over the six-year period indicates some

1 areas of concern. The concerns relate, in one form or another, to the potential
2 reintroduction of the throughput incentive due to recovery limitations associated with the
3 operation of the BGSS Savings cost recovery test. Even though this aspect of the CIP has
4 continued to be beneficial up to this point in time, factors associated with the eligibility
5 test are likely to increase the potential for unintended and undesirable impacts in the
6 future. The remaining sections of my testimony explore the root causes of these concerns
7 and offer important remedies that should be implemented in conjunction with
8 continuation of the CIP Tariff.

9 ***CONCERNS ASSOCIATED WITH EXISTING CIP MECHANISM***

10 **Q. How does the BGSS Savings test affect the throughput incentive?**

11 A. The BGSS Savings test operates in a manner that may prevent NJNG and South
12 Jersey Gas from recovering reductions in base revenues associated with declining
13 customer use. Since this is the case, the Companies would be negatively impacted by
14 continuing reductions in average customer use and their interests would no longer be
15 aligned with those of their customers. For a number of reasons, the likelihood that this
16 will occur is increasing. As I will explain later in my testimony, I expect that the BGSS
17 Savings test will eventually operate in practice as a form of recovery cap that causes the
18 Companies to no longer be indifferent to further reductions in customer use.

19 **Q. Have issues inherent in the BGSS Savings test been identified previously?**

20 A. Yes. Notably, concerns associated with the BGSS Savings test were described by
21 the independent evaluator of the CIP in 2009. In particular, the evaluator described the
22 potential concerns with respect to the BGSS Savings test as follows:

1 The utility disincentive to promote conservation and energy efficiency
2 returns if there are no opportunities for the utilities to reduce gas costs
3 under the BGSS savings test. The current method of using capacity cost
4 savings to offset CIP surcharges cannot be used indefinitely. Consider a
5 simple case in which CIP-induced conservation reduces usage by 1 therm,
6 allowing the capacity associated with that therm to be released. The CIP
7 surcharge that must be offset by the BGSS savings test is equal to the full
8 amount of the non-gas cost. However, the capacity cost savings only
9 amount to a portion of the CIP surcharge (perhaps 40 percent of the
10 variable non-gas costs). Therefore, even if additional conservation frees
11 up additional capacity for sale, the cost savings are not enough to offset
12 the resulting CIP surcharge. One of two outcomes will occur in this
13 situation: the utility must find other verifiable sources of reductions in gas
14 costs, or the disincentive for the utility to promote additional conservation
15 will return. *An Evaluation of the Conservation Incentive Program*
16 *Implemented for New Jersey Natural Gas and South Jersey Gas*, p. 42,
17 Christensen Associates Energy Consulting, March 2009.

18 The independent evaluator went on to conclude the following regarding the BGSS

19 Savings test:

20 The BGSS savings test appears to have functioned as intended during the
21 pilot period, in that it produced gas cost savings that more than offset the
22 CIP surcharges. However, we are concerned that its presence beyond the
23 pilot period could jeopardize the ability of CIP to remove the utilities'
24 disincentive to promote conservation and energy efficiency. *Ibid.*, p.43.

25 In testimony regarding South Jersey Gas' annual CIP adjustment filings, I have
26 raised similar concerns.

27 **Q. What specific issues relate to the BGSS Savings test will you explain in this section**
28 **of your testimony?**

29 A. I will discuss the following four distinct issues pertaining to the operation of the
30 BGSS Savings test: (i) value differences between margin per therm and the cost of BGSS
31 capacity savings, (ii) limitations on the ability to reduce peak day deliverability in order
32 to generate BGSS Savings, (iii) difficulties distinguishing non-weather effects from

1 weather-related effects in order to apply the BGSS Savings test, and (iv) restrictions on
2 the ability to fully utilize BGSS Savings that are generated.

3 **Q. Please describe why value differences between the margin per therm and the**
4 **underlying cost of BGSS capacity savings is of concern.**

5 A. One of the premises for the concept of the BGSS Savings limitation on CIP
6 recoveries is that reductions in average customer use should be accompanied by
7 reductions in gas supply portfolio commitments. While there are factual reasons why this
8 premise is not true in the main, the application of the BGSS Savings test departs from the
9 basic theory in a fundamental way. Specifically, the BGSS Savings test is applied on a
10 dollar-for-dollar basis which establishes a different, and much more difficult, hurdle to
11 achieve than requiring therm-for-therm offsets. The problem arises from the fact that
12 there is no nexus between the base revenue loss associated with a therm saved by a
13 customer and the cost per therm of capacity. Exhibit DPY-4 compares the relative value
14 of a therm reduction in residential base revenues and the cost of an equivalent therm of
15 capacity. The value of NJNG BGSS capacity is only 60% of the equivalent residential
16 margin for NJNG. Similarly, the value of South Jersey Gas' capacity is only 45% of its
17 equivalent residential margin.

18 The differences are directly attributable to the proportion of each Company's
19 fixed costs that are recovered through the respective delivery charges for each Company.
20 The proportion of residential margin recovery through fixed charges for New Jersey
21 utilities is low compared to utilities elsewhere in the United States. Higher fixed charges
22 would be one means of addressing the value dichotomy.

1 In the absence of higher fixed charges, the Companies must offset customer
2 reductions in use with far greater levels of reduction in BGSS capacity. It is unreasonable
3 to expect that either Company could continue to offset each therm of reduction in use
4 with excessive levels of capacity reductions without jeopardizing service reliability. The
5 potential impact on reliability transforms the eligibility test into a recovery cap. This
6 dichotomy did not present a material issue during the initial years of the CIP since the
7 original CIP Stipulation incorporated pre-established BGSS Savings to start the program,
8 irrespective of any customer reductions in use.

9 **Q. Turning to your second concern, what factors limit the ability to reduce citygate**
10 **deliverability?**

11 A. LDCs undertake rigorous planning associated with capacity resources in order to
12 maintain reliable service for customers. Due to the long approval and construction cycle
13 for incremental capacity resources, citygate deliverability is highly valuable for
14 maintaining reliability and is not readily relinquished, particularly in the Northeast United
15 States. Even though customers may reduce consumption on average, factors prevent
16 NJNG and South Jersey Gas from relinquishing capacity on an equivalent basis. One
17 such factor is that conservation by customers does not translate into lower design day use
18 in all instances. Another factor is that the Companies are faced with meeting the
19 incremental demands of new customers.

20 **Q. What levels of customer growth have NJNG and South Jersey Gas experienced?**

21 A. The customer base of these two LDCs has experienced net customer growth in
22 each year since the implementation of the CIP in 2006. In aggregate, NJNG has added
23 approximately 41,000 customers and South Jersey Gas has added approximately 27,000

1 customers. These levels of new customers, which are equivalent to the size of many small
2 LDCs, place substantial incremental requirements upon the BGSS portfolios of each
3 Company. This past customer growth directly affected the degree of BGSS Savings that
4 the Companies were able to generate since capacity resources no longer needed to meet
5 existing customer requirements are being utilized to meet growth.

6 **Q. Does the CIP contemplate how customer growth might impact BGSS Savings?**

7 A. Yes. The CIP includes as one category of potential BGSS Savings, “fixed cost
8 savings associated with avoided increases to citygate deliverability;” however, there are
9 no protocols for how this type of BGSS Savings would be calculated. The lack of clear
10 protocols limits the ability of either Company to rely on this category of BGSS Savings.
11 As a result, the incremental portfolio demands of continued customer growth will limit
12 the ability for either Company to modify its portfolios in response to reduced
13 consumption by existing customers, which undermines the reasonableness of the BGSS
14 Savings test as a whole.

15 **Q. Please explain further your concern related to the separation of weather and non-
16 weather impacts on changes in customer usage.**

17 A. The reasonableness of the BGSS Savings test depends on the accuracy of the
18 separation of weather-related CIP impacts from the total CIP impacts. However, fully
19 eliminating the impact of weather from the application of the BGSS Savings test is
20 imprecise, particularly when weather varies significantly from normal. A concern during
21 recent periods is that a portion of the weather-related impacts spills over into the non-
22 weather impacts and results in BGSS Savings requirements higher than would otherwise
23 be necessary.

1 **Q. Please describe your last concern related to the distinction between the treatment of**
2 **margin deficiencies and BGSS Savings across annual calculation periods.**

3 The inability to carry-forward unused BGSS Savings is inconsistent with the
4 treatment of margin deficiencies, which may be carried forward to future periods. This
5 approach leads to different results if a year with excess BGSS Savings is followed by a
6 year with a shortfall of BGSS Savings compared to if the opposite sequence occurs. In
7 the first example, the excess BGSS Savings may not be used, while in the second
8 example they may be used to offset a margin deficiency from the prior year. This
9 distinction is contrary to the intended objective of the BGSS Savings test and has the
10 potential to require the Companies to produce greater levels of BGSS Savings than
11 necessary simply to offset the margin impacts of the non-weather component of the CIP.

12 **Q. The CIP does not restrict either Company from filing a base rate case; why is this**
13 **not an effective remedy for these concerns?**

14 A. A base rate case re-establishes base revenue recoveries on a prospective basis
15 from the time that the new base rates are implemented. A base rate case provides no
16 remedy for deficiencies in the BGSS Savings test that limit recoverable CIP amounts
17 during the period prior to the establishment of new rates. To the extent that the level of
18 BGSS Savings operates as a cap on CIP recoveries for the reasons I have described, the
19 throughput incentive is re-established and the economic interests of the Company are no
20 longer aligned with customers. There are additional concerns with respect to relying on a
21 base rate case to address issues associated with changes in customer consumption
22 patterns. These include the resources that are required by all parties to resolve a rate case

1 that involves the review and consideration of many operational and financial issues as
2 well as impact of regulatory lag.

3 ***PROPOSED MODIFICATIONS TO THE CIP***

4 **Q. Given the current status of the CIP and associated concerns, what options are**
5 **available to the Companies and stakeholders in order to maintain the benefits of the**
6 **rate design approach?**

7 A. Three options are available to the Companies and stakeholders to remedy the
8 existing concerns with the CIP mechanisms. The first option is to continue the CIP and
9 eliminate the BGSS Savings test from the mechanism. This approach relies on the ROE
10 test to ensure the reasonableness of amounts recoverable under the CIP, which is
11 consistent with the practice for each of the Company's weather normalization clauses
12 prior to the implementation of the CIP. This approach offers the primary advantage that
13 all concerns associated with the BGSS Savings test are resolved.

14 The second option would be to continue the CIP and retain the BGSS Savings test
15 with modifications that address the aspects of this element of the CIP that diminish the
16 effectiveness of the entire mechanism. Implementation of this option preserves all
17 existing aspects of the CIP, but requires comprehensive changes to the BGSS Savings
18 test.

19 The third option would be to replace the CIP with a form of fixed charge rate
20 design. This option requires the most significant change and would require careful
21 assessment to ensure that it was applied on a revenue-neutral basis. The approach offers
22 the principle advantage of directly addressing the throughput incentive and eliminating
23 the need for annual adjustment filings once implemented.

1 **Q. What approach do you recommend?**

2 A. I believe that Option Two above is the best course of action considering the
3 structure in place for the Companies and the present circumstances in New Jersey. This
4 approach retains the CIP and properly adjusts the operation of the BGSS Savings test to
5 ensure that it does not lead to unintended outcomes that are at odds with the fundamental
6 objectives of the CIP.

7 **Q. Please explain what adjustments to the BGSS Savings test would be needed in order**
8 **to apply the test on a therm basis rather than on a dollar basis.**

9 A. Modification of the BGSS Savings test to consider margin impacts and BGSS
10 Savings on an equivalent basis would require two changes. The first is to calculate the
11 therm reductions associated with each portfolio modification recognized as eligible for
12 BGSS Savings, taking into account the overall load factor of BGSS utilization. For year-
13 round contracts this would entail multiplying the quantity of capacity reduction by 365
14 days. Shorter duration contracts would be translated into therm-based BGSS Savings on
15 the basis of the number of days of service. Calculations of BGSS Savings on a therm
16 basis for each Company are provided in Exhibit DPY-5. This Exhibit utilizes information
17 related to BGSS Savings contained in each of the Companies most recent annual CIP
18 filings.

19 The second modification is that the BGSS Savings test would be performed prior
20 to the application of the MRF. This provides for a therm-to-therm comparison. The MRF
21 would be applied to the level of therms that pass the eligibility test in order to establish
22 the recoverable non-weather CIP impacts on a dollar basis.

23 **Q. How should your concern related to BGSS Savings carry-overs be addressed?**

1 A. The BGSS Savings test should be modified in order to allow any unused savings
2 to be carried forward to a future year. Unused BGSS Savings would be stated on a term
3 basis and be equivalent to the amount by which BGSS Savings exceed non-weather-
4 related CIP amounts subject to the BGSS Savings test. The proposal preserves the
5 underlying framework of the BGSS Savings test as all non-weather-related CIP amounts
6 would only be recoverable if offset by BGSS Savings. This modification is particularly
7 important given the fact that there is imprecision related to the weather calculations.

8 I have reviewed the prior annual filings to identify unused BGSS Savings for each
9 Company attributable to years when the BGSS Savings exceeded the non-weather related
10 component of the CIP. The associated BGSS Savings are derived in Exhibit DPY-6 and
11 should be available to offset CIP deferrals in future years. The derivation of unused
12 BGSS Savings excludes the BGSS Savings set aside during the first year of the program.
13 The parties to the CIP Stipulation approved by the BPU in 2006 agreed that the first year
14 of BGSS Savings would not be used to offset any CIP amount and this agreement is
15 adhered to in the calculation of unused BGSS Savings.

16 **Q. What recommendations do you offer related to the impact of customer growth on**
17 **BGSS Savings?**

18 A. The CIP provides for the identification of BGSS Savings associated with avoided
19 increases to capacity costs. I am proposing to establish the method for determining these
20 BGSS Savings now, so that the impact of customer growth on the BGSS portfolios of
21 each Company may be properly recognized. The importance of this proposal is
22 highlighted by the 2011 EMP, which establishes a policy that favors the use of natural
23 gas over oil in end-uses such as to meet heating requirements.

1 Specifically, I am proposing to identify the net change in the number of customers
2 for each Company on a year-over-year basis. The resulting customer count would be
3 multiplied by the BUC to generate an annual level of BGSS Savings associated with
4 avoided BGSS capacity. For purposes of this calculation, I am recommending that the
5 calculation be limited to the net change in aggregate residential customers for two
6 reasons. The first is that the residential class is relatively homogenous and the quantity of
7 BGSS capacity associated with serving a new residential customer is reasonably
8 approximated by the average for existing residential customers. Second, this approach
9 yields a conservative estimate of the BGSS Savings associated with avoided BGSS
10 capacity to serve new customers as all new non-residential customers are not reflected in
11 the determination of this category of BGSS Savings.

12 **Q. Please provide the level of avoided BGSS capacity savings that you would**
13 **recommend be derived for each of the Companies.**

14 A. The net customer growth and associated calculation of BGSS Savings attributable
15 to avoided BGSS capacity is set forth in Exhibit DPY-7. This Exhibit supports
16 incremental annual BGSS Savings of 31.5 million therms for NJNG and 23.8 million
17 therms for South Jersey Gas.

18 **Q. Can you provide illustrative CIP calculations that reflect all of these**
19 **recommendations?**

20 A. Yes. Exhibit DPY-8 provides sample CIP calculations based on the proposed
21 modifications to the BGSS Savings test and the additional annual and carry-over BGSS
22 Savings that I recommend.

23 **Q. What tariff changes are necessary to implement these changes?**

1 A. The CIP Tariffs specify that the recovery of margin deficiencies associated with
2 non-weather related changes in customer usage is limited to the level of BGSS Savings
3 achieved. The tariff language is general enough to apply the savings in the manner I am
4 recommending without any changes to the Tariff. However, the Companies would
5 require a BPU order approving the recommended changes set forth in my testimony and
6 the accompanying exhibits prescribing the manner in which the BGSS Savings test is
7 applied.

8 **Q. Please summarize the advantages associated with these proposed modifications of**
9 **the CIP.**

10 A. The primary benefit and objective of my recommended changes to the CIP is that
11 they enable the mechanism to continue to align both Company and customer interests.
12 This step is essential to achieving the public policy goals favoring additional energy
13 efficiency and conservation in New Jersey to promote economic development and benefit
14 the environment. Each utility plays a critically important role in reaching technically
15 achievable reductions in energy consumption. This occurs both with respect to resource
16 planning activities as well as from the ability of each Company to influence consumer
17 behavior. Without modifying the elements of the BGSS Savings test as discussed in my
18 testimony, the throughput incentive will come into play once again, negating the benefits
19 brought through the implementation of the CIP. NJNG and South Jersey Gas customers
20 have benefitted from the role that these Companies play in advancing New Jersey's
21 energy policy goals. Continuation of the overall framework of the CIP while ensuring
22 that the mechanism does not lead to a return of the throughput incentive is an appropriate
23 and straightforward course of action for the BPU to approve.

1 **CONCLUSION**

2 **Q. Please summarize your conclusions regarding the value of the CIP as a ratemaking**
3 **approach.**

4 A. Implementation of the CIP led to significant benefits for NJNG and South Jersey
5 Gas customers, the Companies and other stakeholders. The benefits include significant
6 savings for customers, substantial support of New Jersey clean energy initiatives, and
7 innovative approaches to encouraging customers to understand and take advantage of
8 opportunities to reduce their energy consumption. However, without making the
9 modifications I suggest herein, aspects of the existing mechanism will have the
10 unintended consequence of reintroducing the throughput incentive and, therefore,
11 undermine the core principle of separating utility earnings from sales. The concerns relate
12 to deficiencies associated with the application of the BGSS Savings test.

13 **Q. Please summarize your recommendations for modifying the CIP.**

14 A. I recommend the following changes to the BGSS Savings Test for NJNG and
15 South Jersey Gas:

- 16 (1) The BGSS Savings test should be applied on a therm basis rather than a
17 dollar basis as is the case today;
- 18 (2) Unused BGSS Savings should be carried-forward and eligible to offset
19 non-weather-related CIP amounts in future years; and
- 20 (3) BGSS Savings based upon avoided BGSS capacity should be established
21 reflecting each Company's net growth in residential customers.

22 **Q. How should the operation of the CIP be reviewed in the future.**

23 A. The most appropriate venue for consideration of subsequent changes to the CIP, if
24 any, is in a base rate case proceeding. The more than six years of experience under the
25 CIP demonstrate its value as a ratemaking mechanism. Consideration of future changes in

1 a base rate proceeding is an effective regulatory approach and reflects the fact that the
2 mechanism is inextricably linked to the underlying base rate design, which is also
3 addressed in a base rate case.

4 **Q. Does this conclude your prepared direct testimony?**

5 A. Yes, it does.

**Prior Testimony of
Daniel P. Yardley**

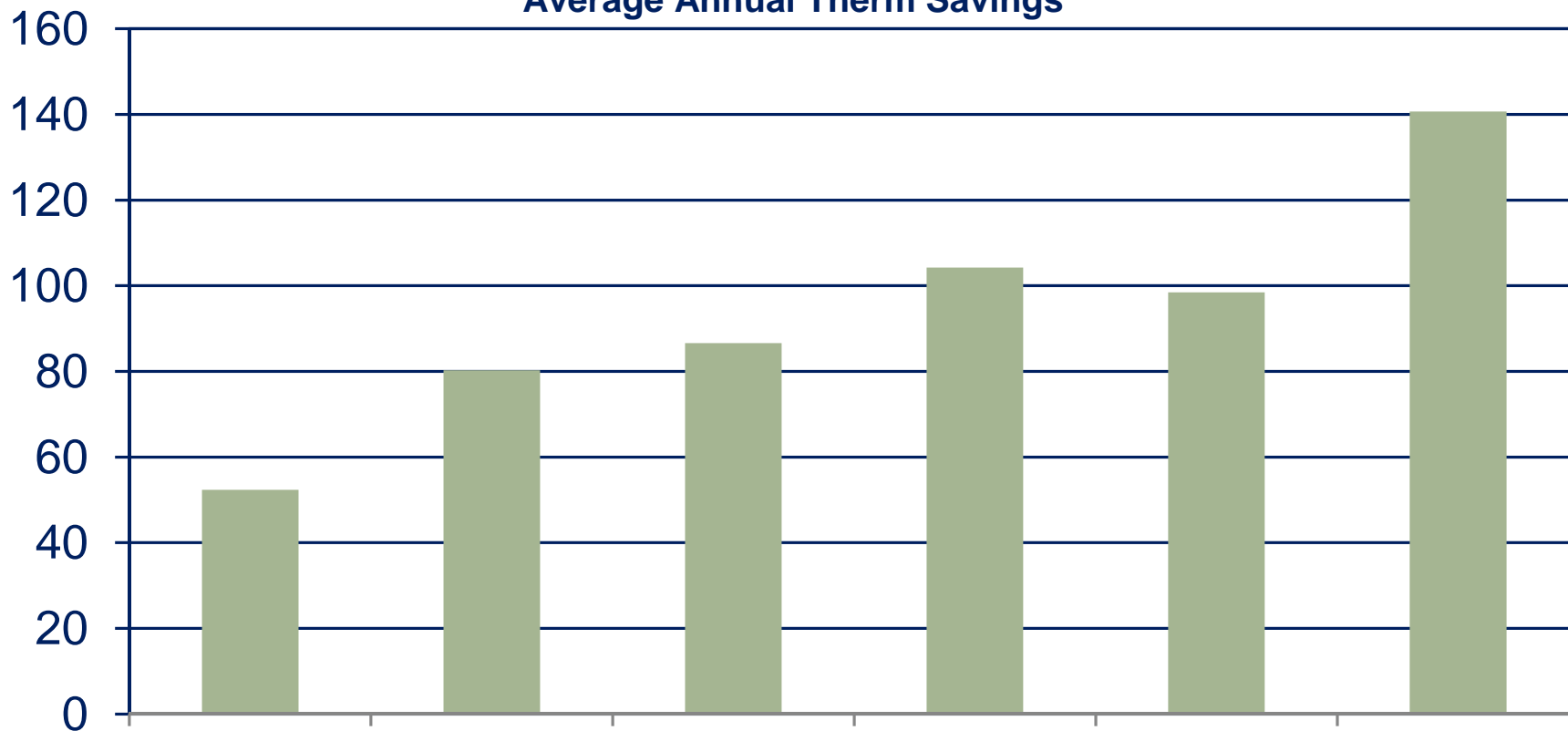
Jurisdiction	Sponsor	Year	Topics	Docket
Florida	Peoples Gas System	2008	Cost Allocation and Rate Design	Docket No. 080318-GU
Federal Energy Regulatory Commission	Northern Distributor Group	1992	Cost of Service and Cost Allocation	RP92-1
	Northern Distributor Group	1995	Cost of Service and Rate Design	RP95-185
	Atlanta Gas Light, et al.	2001	Storage Cost Allocation	RP01-245
	Bay State Gas and Northern Utilities	2002	Rate Design	RP02-13
New Hampshire	Northern Utilities	2005	Jurisdictional Gas Cost Allocation	DG05-080
Massachusetts	Bay State Gas	1998	Capacity Assignment	D.T.E. 98-32
	Bay State Gas	2001	Contract Approval	D.T.E. 00-99
	Bay State Gas	2006	Declining Use Rate Adjustment	D.T.E. 06-77
	Bay State Gas	2007	Declining Use Rate Adjustment	D.P.U. 07-89
	Bay State Gas	2009	Revenue Decoupling	D.P.U. 09-30
	National Energy Board of Canada	Alberta Northeast Gas, Ltd.	2012	TransCanada Pipeline Service Restructuring and Rate Design
New Jersey	New Jersey Natural Gas	1999	Rate Unbundling	Docket No. GO99030123
	Elizabethtown Gas, et al.	1999	Customer Account Services	Docket No. EX99090676
	Elizabethtown Gas	2002	Cost Allocation and Rate Design	Docket No. GR02040245
	South Jersey Gas Company	2003	Cost Allocation and Rate Design	Docket No. GR03080683
	South Jersey Gas Company	2004	Capacity Charge	Docket No. GR04060400
	New Jersey Natural Gas	2005	Revenue Decoupling	Docket No. GR0512020
	South Jersey Gas Company	2005	Revenue Decoupling	Docket No. GR0512019
	South Jersey Gas Company	2007	Annual Decoupling Adjustment	Docket No. GR07060354
	New Jersey Natural Gas	2007	Cost Allocation and Rate Design	Docket No. GR07110889

**Prior Testimony of
Daniel P. Yardley**

Jurisdiction	Sponsor	Year	Topics	Docket
New Jersey cont.	South Jersey Gas Company	2008	Annual Decoupling Adjustment	Docket No. GR08050367
	Elizabethtown Gas	2009	Revenue Decoupling, Cost Allocation and Rate Design	Docket No. GR09030195
	South Jersey Gas Company	2009	Annual Decoupling Adjustment	Docket No. GR09060340
	South Jersey Gas Company	2009	Cost Allocation and Rate Design	Docket No. GR10010035
	New Jersey Natural Gas	2010	Energy Efficiency Cost Recovery	Docket No. GR10030225
	South Jersey Gas Company	2011	Annual Decoupling Adjustment	Docket No. GR11060337
	New Jersey Natural Gas	2011	Energy Efficiency Cost Recovery	Docket No. GR11070425
	South Jersey Gas Company	2012	Annual Decoupling Adjustment	Docket No. GR12060475
	New Jersey Natural Gas	2012	Energy Efficiency Cost Recovery	Docket No. GR12070640
	Providence Gas Company	1996	Cost Allocation and Rate Design	Docket No. 2076
Rhode Island	Chattanooga Gas Company	2009	Revenue Decoupling, Cost Allocation and Rate Design	Docket No. 09-00183
	Piedmont Natural Gas Company	2011	Cost Allocation and Rate Design	Docket No. 11-00144
Tennessee	Wisconsin Power and Light	2001	Cost Allocation and Rate Design	Docket No. 6680-JR-111

New Jersey Natural Gas Residential Heating Average Annual Therm Savings

Therms



2006-07

2007-08

2008-09

2009-10

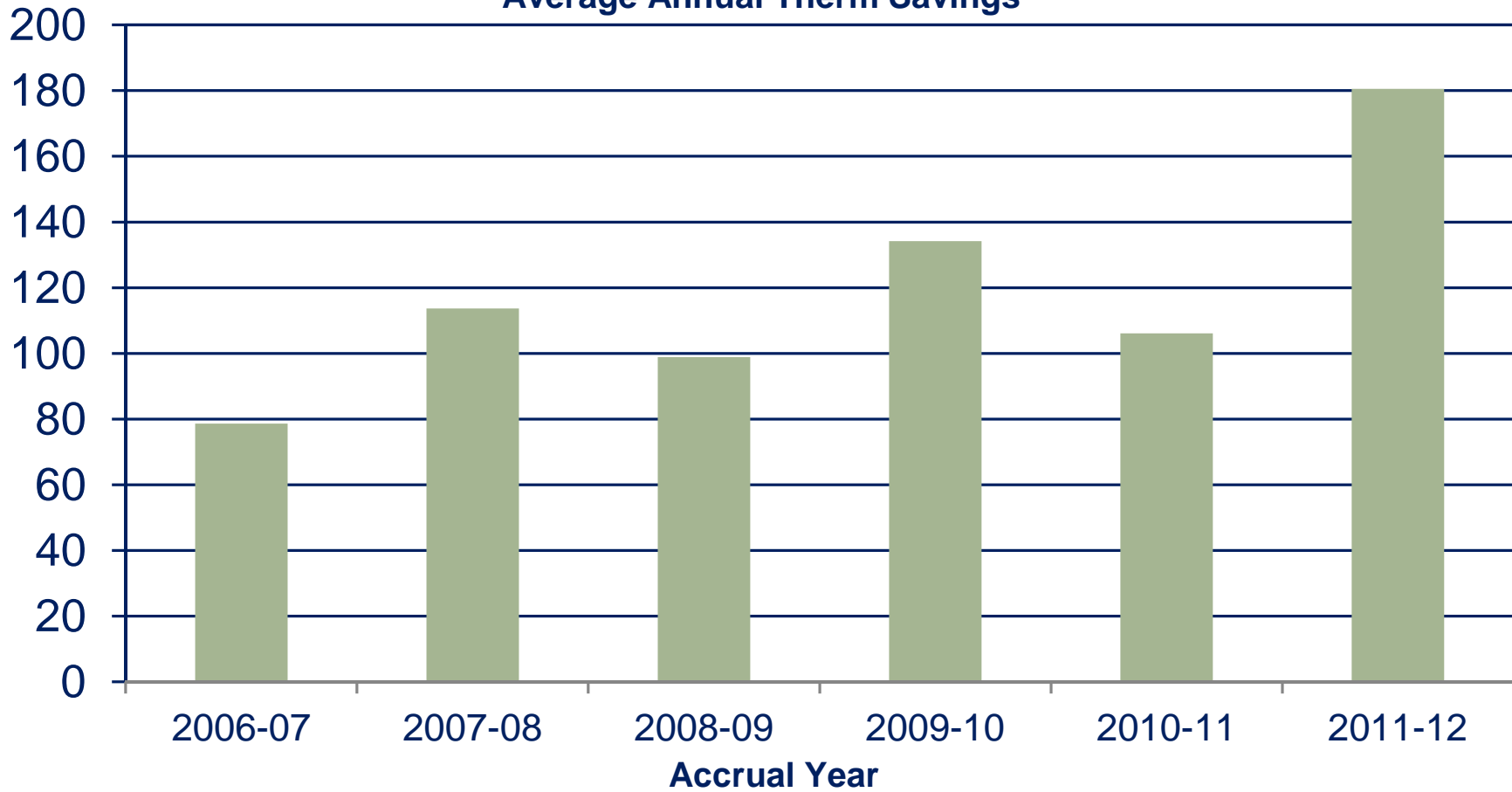
2010-11

2011-12

Accrual Year

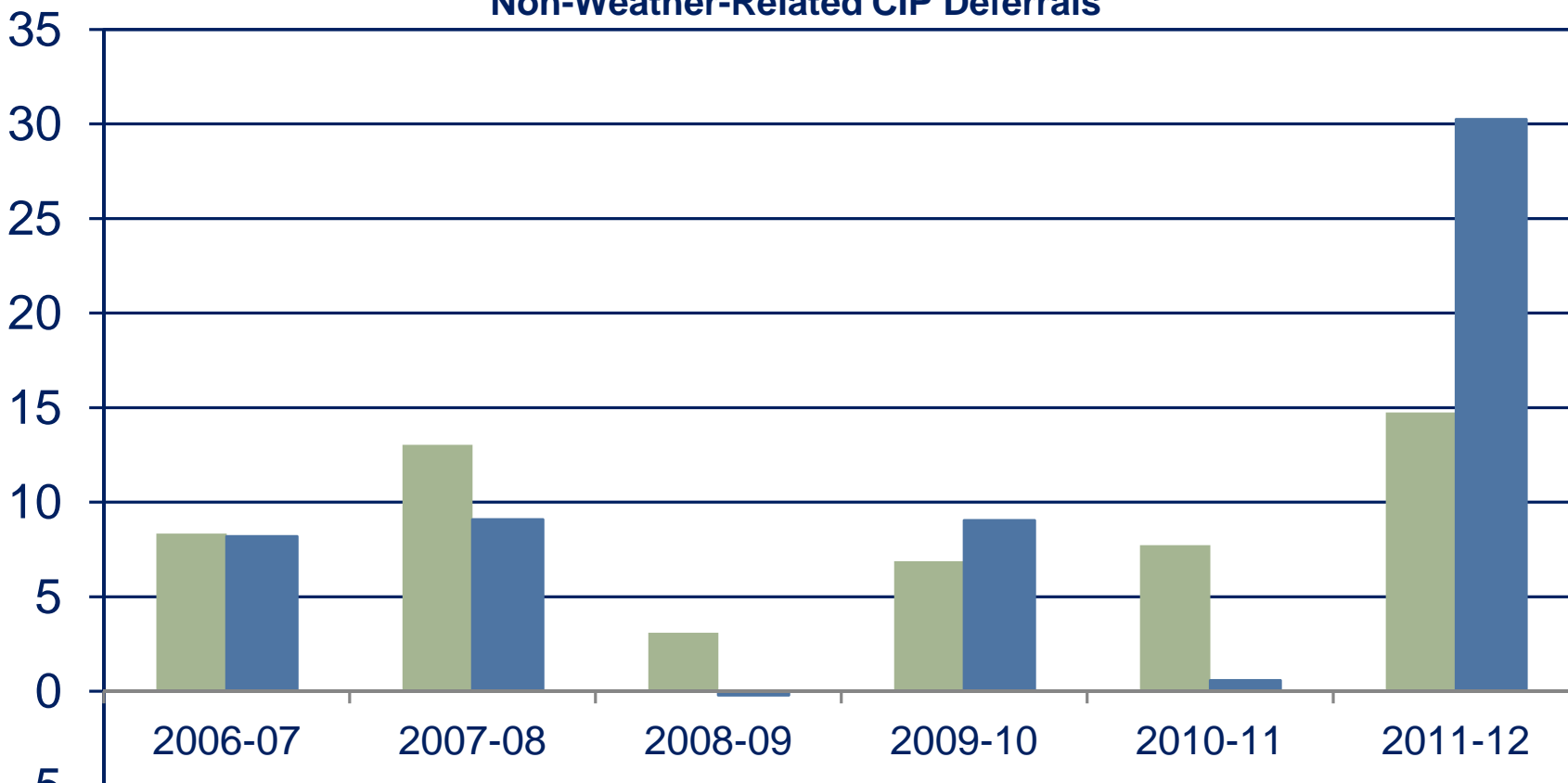
South Jersey Gas Residential Heating Average Annual Therm Savings

Therms



New Jersey Natural Gas Annual Weather-Related and Non-Weather-Related CIP Deferrals

\$ Million



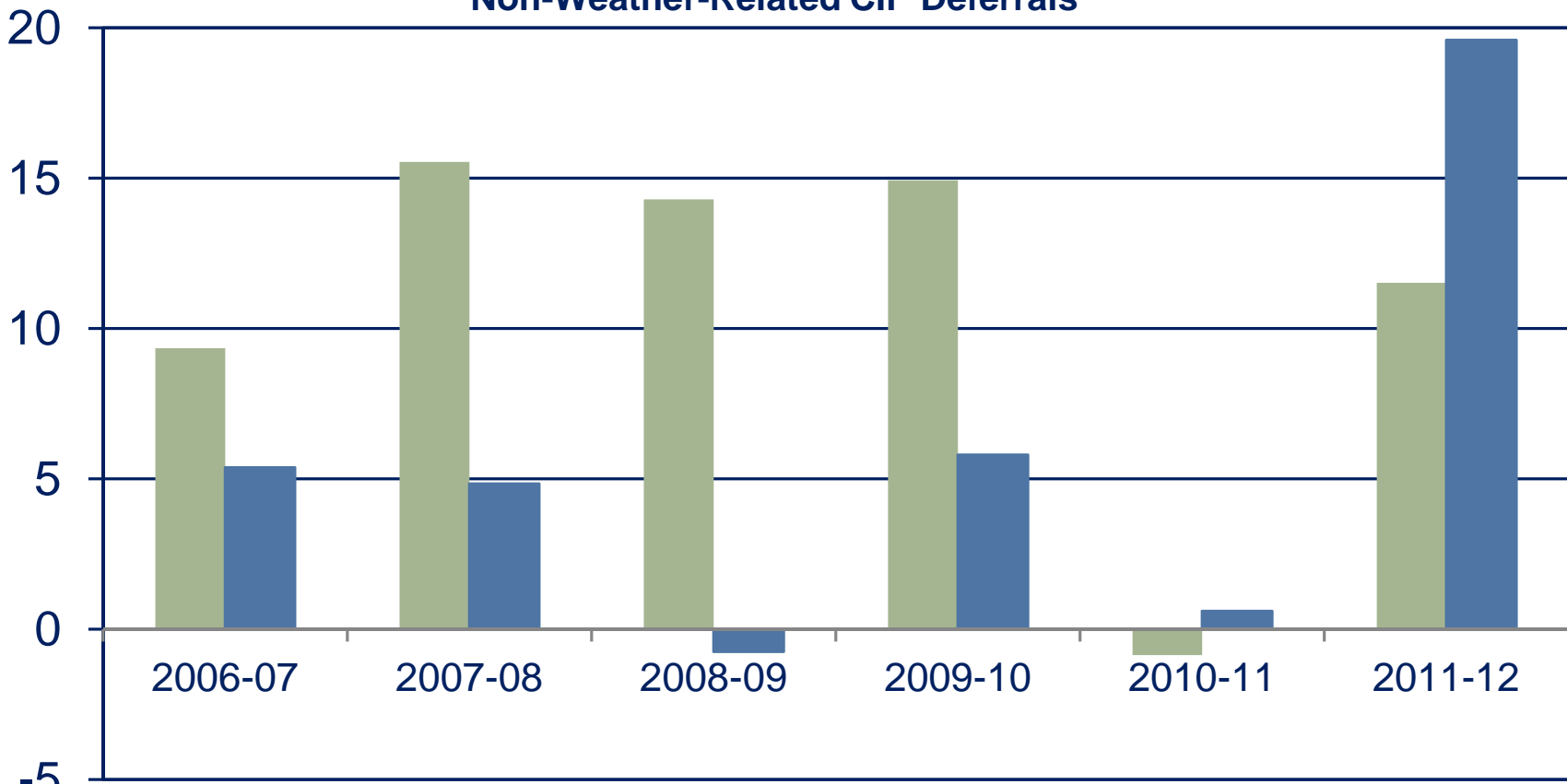
Accrual Year

■ Non-Weather Impact

■ Weather Impact

South Jersey Gas Annual Weather-Related and Non-Weather-Related CIP Deferrals

\$ Million



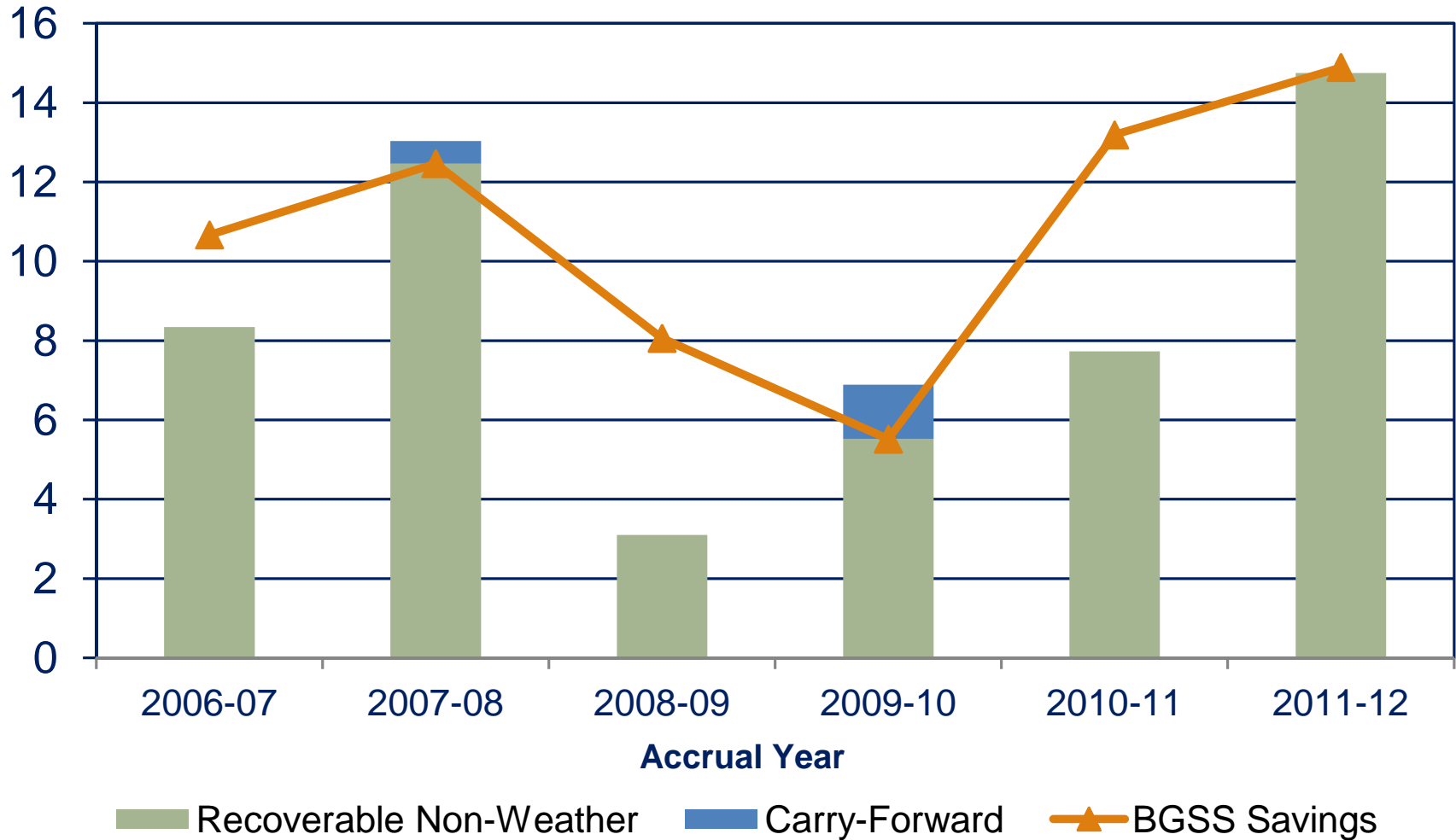
Accrual Year

■ Non-Weather Impact

■ Weather Impact

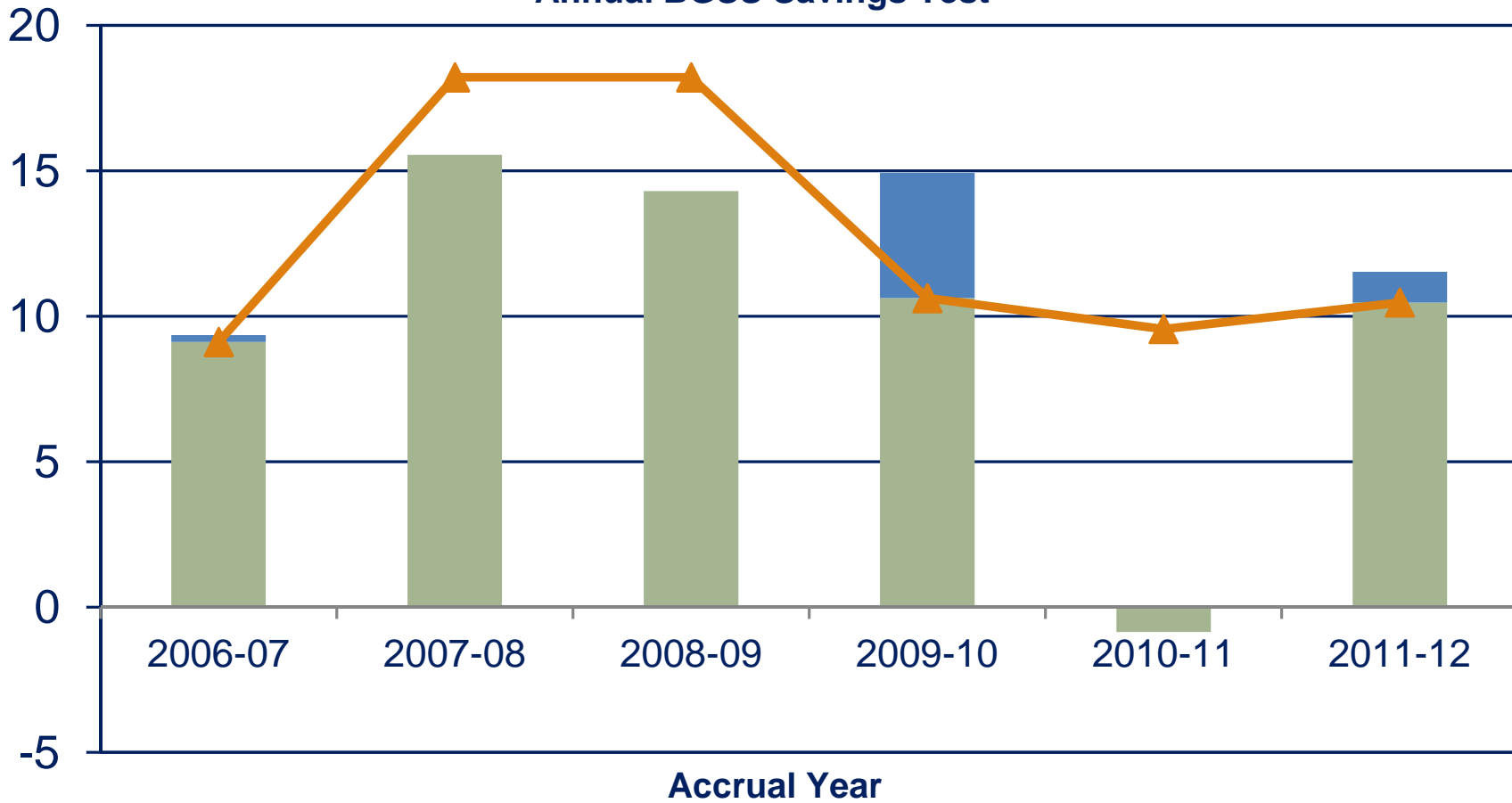
New Jersey Natural Gas Results of Application of Annual BGSS Savings Test

\$ Million



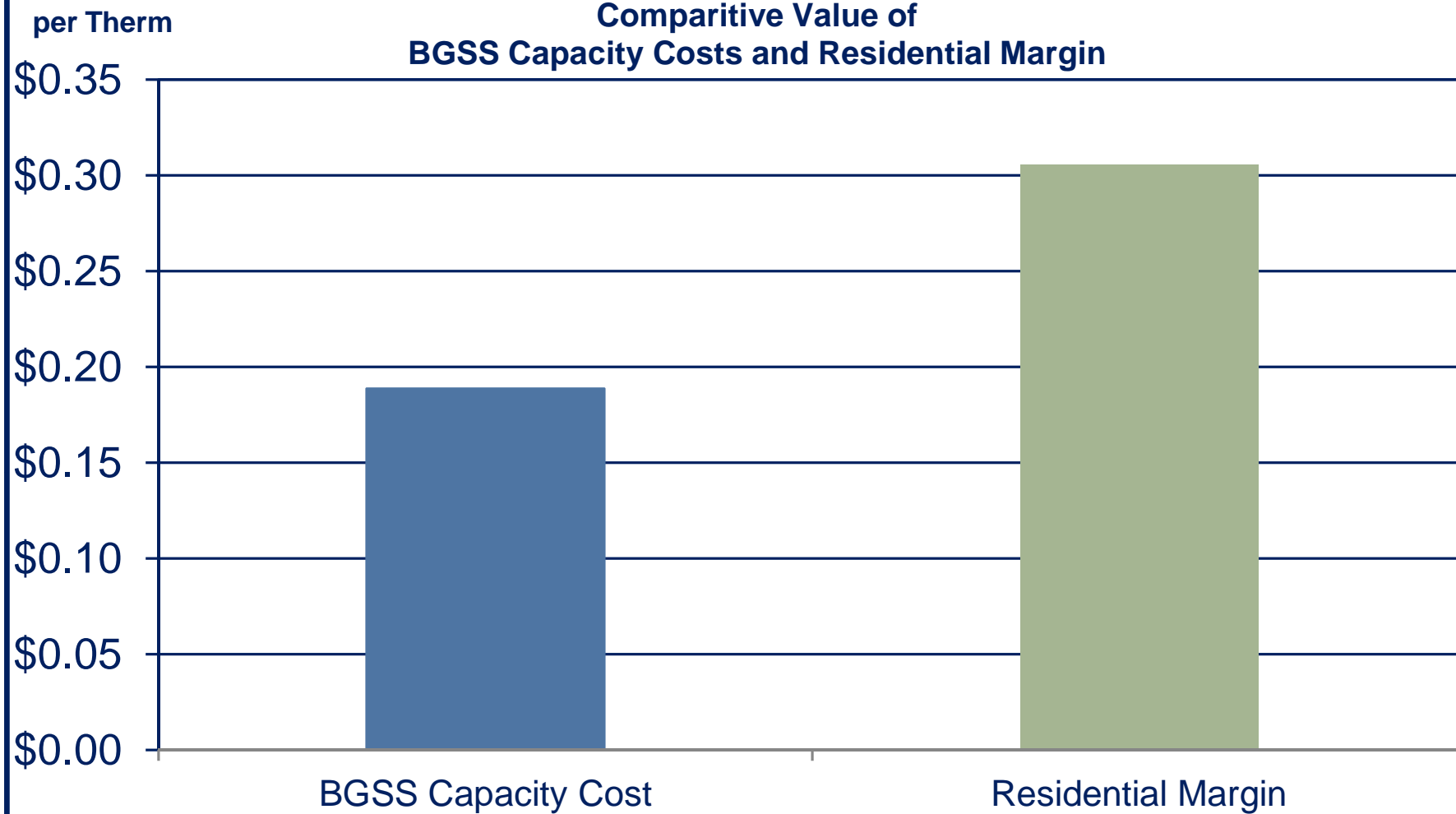
South Jersey Gas Results of Application of Annual BGSS Savings Test

\$ Million

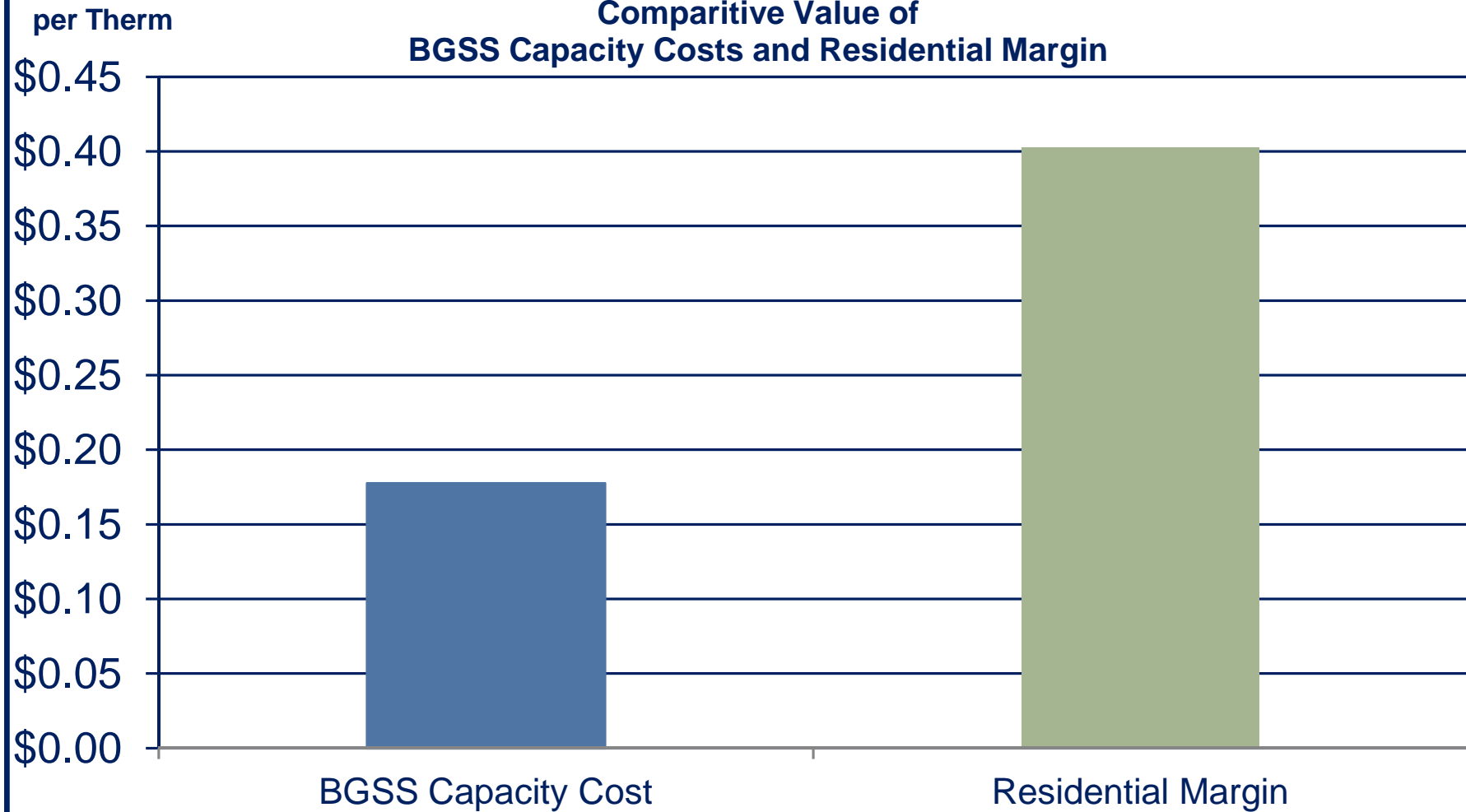


Recoverable Non-Weather Carry-Forward BGSS Savings

New Jersey Natural Gas Comparative Value of BGSS Capacity Costs and Residential Margin



South Jersey Gas Comparitive Value of BGSS Capacity Costs and Residential Margin



New Jersey Natural Gas Company
BGSS Savings Calculated on a Therm Basis

<u>Line No.</u>	<u>Pipeline</u>	<u>Description</u>	<u>Type of Transaction</u>	<u>Days</u>	<u>Quantity Dth</u>	<u>Annual Therms</u>
1	Iroquois	Waddington to South Commack	Release	365	15,000	54,750,000
2	Transco	CNG Leidy to Transco Z6 NNY	Release	365	5,000	18,250,000
3	Transco	National Fuel Wharton to Transco Z6 NNY	Release	365	3,250	11,862,500
4	Transco	CNG Leidy to Transco Z6 NNY	Release	365	10,350	37,777,500
5	Tennessee	Tenn Z5 East Aurora to Tenn Z4 Browns Run	Release/Contract termination	365	11,000	40,150,000
6	Tennessee	Tenn Z4 Stagecoach to Tenn Z5 Ramsey	Release	365	10,728	39,157,200
7	TETCO	CNG Leidy and Chambersburg to M3	Release	365	10,000	36,500,000
8	TETCO	STX-M3	Contract termination	365	30,000	109,500,000
9	Dominion	Lebanon to Chambersburg	Release	365	20,000	73,000,000
10	Dominion	Winter only	Contract termination	151	10,000	15,100,000
11	Dominion	Firm Transportation	Reduced volume	365	20,000	73,000,000
12		Total				509,047,200
13		System Load Factor				46.81%
14		Therm-Based BGSS Savings				238,284,994

South Jersey Gas
BGSS Savings Calculated on a Therm Basis

<u>Line No.</u>	<u>Pipeline</u>	<u>Description</u>	<u>Type of Transaction</u>	<u>Days</u>	<u>Quantity Dth</u>	<u>Annual Therms</u>
1	Transco	Longhaul	Release	365	39,800	145,270,000
2	Transco	SS-1 and Associated FT	Release	151	17,433	26,323,830
3	Transco	FTF	Release	365	25,565	93,312,250
4	Columbia	FTS	Release	365	14,714	53,706,100
5	Columbia	SST (Oct-March)	Release	182	19,029	34,632,780
6	Columbia	SST (April-Sept)	Release	183	9,516	17,414,280
7		Total				370,659,240
8		System Load Factor				45.42%
9		Therm-Based BGSS Savings				168,352,220

**New Jersey Natural Gas Company
Unused BGSS Savings Available for Future Years**

<u>Line No.</u>	<u>Accrual Year</u>	<u>Recovery/BGSS Savings Year</u>	<u>Non-Weather Therms</u> (a)	<u>BGSS Savings Therms</u> (b)	<u>Unused BGSS Savings Therms</u> (c) = (b) - (a)
1		2007		85,428,250	85,428,250
2	2007	2008	34,594,510	85,662,300	51,067,790
3	2008	2009	54,057,736	85,428,250	31,370,514
4	2009	2010	15,232,379	115,501,540	100,269,162
5	2010	2011	30,136,962	145,788,434	115,651,472
6	2011	2012	34,049,751	200,347,025	166,297,274
7	2012	2013	57,017,213	238,284,994	181,267,781
8	Total Since Inception		225,088,551	871,012,544	645,923,992
9	(excludes FY07 BGSS Savings)				

South Jersey Gas Company
Unused BGSS Savings Available for Future Years

Line No.	Accrual Year	Recovery/BGSS Savings Year	Non-Weather Therms (a)	BGSS Savings Therms (b)	Unused BGSS Savings Therms (c) = (b) - (a)
1		2007		79,484,103	79,484,103
2	2007	2008	35,236,035	79,484,103	44,248,069
3	2008	2009	57,029,699	192,228,117	135,198,418
4	2009	2010	53,112,264	192,228,117	139,115,852
5	2010	2011	55,798,551	168,352,220	112,553,669
6	2011	2012	-	168,352,220	168,352,220
7	2012	2013	31,314,444	168,352,220	137,037,777
8	Total Since Inception		232,490,993	968,996,998	736,506,004
9	(excludes FY07 BGSS Savings)				

**New Jersey Natural Gas Company
Derivation of Annual BGSS Savings
Associated with Customer Growth**

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	<u>Units</u>
1	Net Change attributable to Non-Heat Conversions	4,174	customers
2	Incremental Change in Benchmark	821	Therms
3	Annual BGSS Savings Associated with Non-Heat Conversions (line 1 * Line 2)	3,428,524	Therms
4	Net Change attributable to New Residential Heating Customers	27,263	customers
5	Residential Heating Benchmark	1,028	Therms
6	Annual BGSS Savings Associated with New Residential Heating Customers (line 4 * Line 5)	28,034,543	Therms
7	Total Annual BGSS Savings Associated with Customer Growth (line 3 + Line 6)	31,463,067	Therms

South Jersey Gas
Derivation of Annual BGSS Savings
Associated with Customer Growth

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	<u>Units</u>
1	Net Change attributable to Non-Heat Conversions	2,363	customers
2	Incremental Change in Benchmark	632	Therms
3	Annual BGSS Savings Associated with Non-Heat Conversions (line 1 * Line 2)	1,492,235	Therms
4	Net Change attributable to New Residential Heating Customers	27,797	customers
5	Residential Heating Benchmark	804	Therms
6	Annual BGSS Savings Associated with New Residential Heating Customers (line 4 * Line 5)	22,337,669	Therms
7	Total Annual BGSS Savings Associated with Customer Growth (line 3 + Line 6)	23,829,904	Therms

Conservation Incentive Program
Sample Calculations

<u>Customer Class</u> (a)	<u>Total Class Throughput</u> (b)	<u>Number of Customers</u> (c)	<u>Actual Use / Cust.</u> (d) = (b) / (c)	<u>Baseline Use / Cust.</u> (e)	<u>Difference</u> (f) = (d) - (e)	<u>Aggregate Impact</u> (g) = (f) * (c)
<u>Residential Non-Heating</u>						
October	336,212	25,000	13.4	15.1	(1.6)	(40,538)
November	465,018	25,000	18.6	16.0	2.6	65,518
December	408,098	25,000	16.3	17.5	(1.2)	(30,152)
January	487,086	25,000	19.5	18.3	1.2	30,586
February	410,298	25,000	16.4	17.8	(1.4)	(34,952)
March	367,674	25,000	14.7	17.6	(2.9)	(73,076)
April	395,493	25,000	15.8	17.4	(1.5)	(38,257)
May	483,307	25,000	19.3	16.9	2.4	61,057
June	398,670	25,000	15.9	16.4	(0.5)	(12,330)
July	391,667	25,000	15.7	15.5	0.1	3,417
August	369,070	25,000	14.8	15.5	(0.8)	(19,180)
September	375,890	25,000	<u>15.0</u>	<u>16.0</u>	(0.9)	<u>(23,610)</u>
Total			195.5	200.0		(111,518)
Weather Impact						0
Non-Weather Impact						(111,518)

Conservation Incentive Program
Sample Calculations

<u>Customer Class</u> (a)	<u>Total Class Throughput</u> (b)	<u>Number of Customers</u> (c)	<u>Actual Use / Cust.</u> (d) = (b) / (c)	<u>Baseline Use / Cust.</u> (e)	<u>Difference</u> (f) = (d) - (e)	<u>Aggregate Impact</u> (g) = (f) * (c)
<u>Residential Heating</u>						
October	14,892,371	350,000	42.5	47.7	(5.1)	(1,795,629)
November	35,358,246	350,000	101.0	86.8	14.2	4,981,746
December	45,971,016	350,000	131.3	141.1	(9.7)	(3,396,484)
January	65,911,549	350,000	188.3	168.8	19.5	6,824,548
February	43,283,195	350,000	123.7	140.1	(16.4)	(5,751,806)
March	33,086,312	350,000	94.5	121.8	(27.3)	(9,550,688)
April	22,233,787	350,000	63.5	69.7	(6.1)	(2,150,713)
May	16,144,583	350,000	46.1	38.4	7.8	2,722,083
June	7,866,215	350,000	22.5	23.2	(0.7)	(243,285)
July	7,248,732	350,000	20.7	20.5	0.2	63,232
August	6,690,798	350,000	19.1	20.1	(1.0)	(347,702)
September	7,215,292	350,000	<u>20.6</u>	<u>21.9</u>	(1.3)	<u>(453,208)</u>
Total			874.0	900.0		(9,097,905)
Weather Impact						(2,000,000)
Non-Weather Impact						(7,097,905)

Conservation Incentive Program
Sample Calculations

<u>Customer Class</u> (a)	<u>Total Class Throughput</u> (b)	<u>Number of Customers</u> (c)	<u>Actual Use / Cust.</u> (d) = (b) / (c)	<u>Baseline Use / Cust.</u> (e)	<u>Difference</u> (f) = (d) - (e)	<u>Aggregate Impact</u> (g) = (f) * (c)
<u>General Service</u>						
October	2,533,881	20,000	126.7	142.0	(15.3)	(305,519)
November	4,478,606	20,000	223.9	192.4	31.6	631,006
December	5,823,166	20,000	291.2	312.7	(21.5)	(430,234)
January	7,195,208	20,000	359.8	337.2	22.6	451,808
February	5,887,095	20,000	294.4	319.4	(25.1)	(501,505)
March	4,505,347	20,000	225.3	270.0	(44.8)	(895,453)
April	3,883,356	20,000	194.2	213.0	(18.8)	(375,644)
May	4,062,414	20,000	203.1	177.5	25.7	513,214
June	2,719,686	20,000	136.0	140.2	(4.2)	(84,114)
July	2,506,263	20,000	125.3	124.2	1.1	21,863
August	2,328,019	20,000	116.4	122.5	(6.0)	(120,981)
September	2,805,199	20,000	140.3	149.1	(8.8)	(176,201)
Total			2,436.4	2,500.0		(1,271,759)
Weather Impact						(300,000)
Non-Weather Impact						(971,759)

Conservation Incentive Program
Sample Calculations

<u>Customer Class</u> (a)	<u>Total Class Throughput</u> (b)	<u>Number of Customers</u> (c)	<u>Actual Use / Cust.</u> (d) = (b) / (c)	<u>Baseline Use / Cust.</u> (e)	<u>Difference</u> (f) = (d) - (e)	<u>Aggregate Impact</u> (g) = (f) * (c)
<u>General Service - Large</u>						
October	4,767,812	1,500	3,178.5	3,561.8	(383.2)	(574,873)
November	7,490,986	1,500	4,994.0	4,290.4	703.6	1,055,431
December	6,909,872	1,500	4,606.6	4,946.9	(340.3)	(510,523)
January	9,270,742	1,500	6,180.5	5,540.6	639.9	959,902
February	6,811,986	1,500	4,541.3	5,144.8	(603.5)	(905,229)
March	5,758,227	1,500	3,838.8	4,946.9	(1,108.1)	(1,662,168)
April	6,495,276	1,500	4,330.2	4,749.1	(418.9)	(628,299)
May	7,140,194	1,500	4,760.1	3,957.5	802.6	1,203,884
June	5,182,404	1,500	3,454.9	3,561.8	(106.9)	(160,281)
July	4,790,837	1,500	3,193.9	3,166.0	27.9	41,792
August	4,232,299	1,500	2,821.5	2,968.2	(146.6)	(219,941)
September	4,468,376	1,500	<u>2,978.9</u>	<u>3,166.0</u>	(187.1)	<u>(280,669)</u>
Total			48,879.3	50,000.0		(1,680,975)
Weather Impact						(500,000)
Non-Weather Impact						(1,180,975)

Conservation Incentive Program
Sample Calculations

<u>Category</u> (a)	<u>Days</u> (b)	<u>Quantity</u> (c)	<u>Therm Savings</u> (d) = (b) * (c)
<u>BGSS Savings</u>			
Prior Year Carry Forward			1,250,000
<u>Current Year</u>			
Tetco Release	365	7,500	2,737,500
Transco Release	365	12,000	4,380,000
Columbia Release	151	5,000	<u>755,000</u>
Current Year Total			7,872,500
Avoided Capacity Savings			1,800,000
Total BGSS Savings			10,922,500

Conservation Incentive Program
Sample Calculations

<u>Customer Class</u> (a)	<u>Non-Weather Impact</u> (b)	<u>BGSS Savings</u> (c)	<u>Recoverable Non-Weather</u> (d)	<u>Weather Impact</u> (e)	<u>Total Recoverable</u> (f) = (d) + (e)
<u>CIP Group</u>					
Residential Non-heating	111,518		111,518	(0)	111,518
Residential Heating	7,097,905		7,097,905	2,000,000	9,097,905
General Service	971,759		971,759	300,000	1,271,759
General Service - Large	<u>1,180,975</u>		<u>1,180,975</u>	<u>500,000</u>	<u>1,680,975</u>
Total	9,362,156	10,922,500	9,362,156	2,800,000	12,162,156

BGSS Savings Carry-Forward 1,560,344

Residential Non-heating

Recoverable CIP Therms	111,518
Margin Revenue Factor	\$ 0.35
Recoverable CIP Amount	\$ 39,031

Residential Non-heating

Recoverable CIP Therms	9,097,905
Margin Revenue Factor	\$ 0.35
Recoverable CIP Amount	\$ 3,184,267

Residential Non-heating

Recoverable CIP Therms	1,271,759
Margin Revenue Factor	\$ 0.25
Recoverable CIP Amount	\$ 317,940

Residential Non-heating

Recoverable CIP Therms	1,680,975
Margin Revenue Factor	\$ 0.15
Recoverable CIP Amount	\$ 252,146

EXHIBIT P-2

**PROPOSED FORM OF NOTICE
FOR NEW JERSEY NATURAL GAS**

NOTICE TO NEW JERSEY NATURAL GAS CUSTOMERS
Docket No. GR1303_____

NOTICE OF FILING AND PUBLIC HEARINGS

TO OUR CUSTOMERS:

PLEASE TAKE NOTICE that on March 1, 2013, New Jersey Natural Gas (NJNG or the Company) filed with the New Jersey Board of Public Utilities (BPU) for approval to continue, with certain modifications, the Conservation Incentive Program (CIP) originally approved by the BPU in an Order dated December 12, 2006 in Docket No. GR05121020. In an Order dated January 21, 2010, the BPU approved the continuation of the CIP through September 30, 2013.

The CIP is a program to allow NJNG to encourage customer energy efficiency and conservation efforts without incurring negative financial impacts. The CIP allows the Company to recoup revenues lost as a result of customers' reductions in usage due to energy efficiency and conservation efforts and other factors. The CIP is structured as a modification of the Company's Weather Normalization Clause, approved by the BPU in 1992 in Docket No. GR91081393J, which allowed the Company to implement surcharges or credits to compensate for weather-related variations in customer usage. The approved CIP structure permits the Company to implement surcharges or credits to compensate for variations in customer usage based on all factors affecting usage, including customer energy efficiency and conservation efforts in addition to weather. Also, the CIP includes a requirement that customer savings related to commodity procurement be realized in an amount that is equal to or greater than any margin shortfall resulting from non-weather factors. In addition, the recovery of any CIP shortage cannot result in the Company earning a return greater than the currently BPU approved return on equity as established in the last NJNG base rate case.

As an integral aspect of the CIP, NJNG promotes customer-oriented programs that encourage enhanced energy efficiency and provide information on conservation measures for customers to employ. The Company does not recover the costs of the customer program portion of the CIP from ratepayers.

At this time, the Company is requesting BPU approval to continue the CIP with minor modifications and, if approved, there is no immediate impact on customers' rates. Each June, NJNG makes a filing with the BPU for approval of the CIP rate for the twelve month period starting on or about the following October. The amount of any increase or decrease depends on factors such as customer conservation, weather, and the resulting consumption patterns of NJNG's customers in comparison to a baseline level of usage previously approved by the BPU. Any final disposition of the annual CIP rate filings found by the BPU to be just and reasonable may result in an upward or downward impact on a customer's bill.

PLEASE TAKE FURTHER NOTICE that the Board has scheduled public hearings on this petition at the following date, times and place:

(Add date) at 3:30 and 5:30 pm
Rockaway Township Municipal Bldg
65 Mt. Hope Road
Rockaway, NJ 07866

(Add date) at 3:30 and 5:30 pm
Freehold Township Municipal Building
One Municipal Plaza, Schank Road
Freehold, NJ 07728-3099

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 increases. 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, 44 South Clinton Avenue, P.O. Box 350, Trenton, New Jersey, 08625-0350. Copies of the NJNG filing can be reviewed at the NJNG Customer Service Centers, the addresses of which are located on the NJNG bill, or at the New Jersey Board of Public Utilities, 44 South Clinton Avenue, P.O. Box 350, Trenton, New Jersey, 08625-0350.

Tracey Thayer, Esq.
New Jersey Natural Gas

EXHIBIT P-3

PROPOSED FORM OF NOTICE

FOR SOUTH JERSEY GAS

**NOTICE OF FILING OF PETITION
AND PUBLIC HEARING**

**IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY FOR
AUTHORITY TO CONTINUE THE CONSERVATION INCENTIVE PROGRAM
BPU DOCKET NO. GR1302 _____**

NOTICE IS HEREBY GIVEN that South Jersey Gas Company (“South Jersey” or the “Company”) filed with the New Jersey Board of Public Utilities (the “Board”) for approval to continue its Conservation Incentive Program (“CIP”), originally approved by the Board in an Order dated December 12, 2006 and subsequently extended through September 30, 2013 by Order dated January 14, 2010. The Company has proposed to continue the CIP and make certain modifications.

The CIP is a rate mechanism through which South Jersey’s revenue is adjusted to account for variations in customer usage due to energy efficiency, conservation and weather. The CIP is an extension of the Company’s Temperature Adjustment Clause (“TAC”) approved by the Board in 1992 in Docket No. GR91071243J and has the potential to impact customers’ rates. The approved CIP structure permits the Company to implement surcharges or credits to compensate for variations in customer usage based on all factors affecting usage, including customer conservation and weather. Also, the CIP currently includes a requirement that customer savings related to commodity procurement be realized in an amount that is equal to or greater than any margin shortfall resulting from non-weather factors. In addition, the recovery of any CIP shortage cannot result in the Company earning a return greater than the current return on equity as approved in the last South Jersey base rate case.

Since the inception of the CIP, South Jersey has developed customer oriented programs that have expanded outreach and education efforts directed towards energy efficiency and conservation measures for customers to employ. The Company does not recover the cost of these customer programs from the ratepayers.

At this time, the Company is requesting Board approval to continue the CIP and, if approved, there is no immediate impact on customers’ rates. Each June, South Jersey makes a filing with the Board for approval of the CIP rate for the twelve-month period starting on or about the following October. The amount of any increase or decrease depends on factors such as customer conservation, weather, and the resulting consumption patterns of South Jersey’s customers in comparison to a baseline level of usage previously approved by the Board. Any final disposition of the annual CIP rate filings found by the Board to be just and reasonable may result in an upward or downward impact on a customer’s bill. Notice is further given that a public hearing has been scheduled for the following date, time and place on the Company’s above-mentioned request:

**Voorhees Middle School, Lecture Hall
Holly Oak Drive
Voorhees, New Jersey 08043**

**on
_____, 2013 at _____ p.m.**

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 request. 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 this hearing. In addition, members of the public may submit written comments concerning the petition to the BPU regardless of whether they attend the hearing by addressing them to: Honorable Kristi Izzo, Secretary, Board of Public Utilities, 44 South Clinton Avenue, P.O. Box 350, Trenton, New Jersey 08625-0350.

SOUTH JERSEY GAS COMPANY
By: Jeffrey E. DuBois, President

DRAFT