

May 15, 2024

VIA ELECTRONIC MAIL and ELECTRONIC FILING

Honorable Sherri Golden, Secretary of the Board
New Jersey Board of Public Utilities
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RE: I/M/O the Petition of New Jersey Natural Gas Company for Approval of an Increase in Gas Base Rates, for Changes in its Tariff for Gas Service Pursuant to N.J.S.A. 48:2-21 and N.J.S.A. 48:2-21.1, and for Changes to Depreciation Rates for Gas Property Pursuant to N.J.S.A. 48:2-18, and Other Requested Relief
BPU Docket No. GR24010071
OAL Docket No. PUC 02298-24

Dear Secretary Golden:

On behalf of New Jersey Natural Gas Company (the "Company"), enclosed for filing is the Company's update to its test year data from the five months of actual and seven months of projected data provided with the Petition to nine months of actual and three months of projected data, i.e., the 9+3 Update. The 9+3 Update includes the following:

- Updated 9+3 Direct Testimony of James Corcoran with accompanying schedules,
- Selected Updated Schedules for Angela Cahill, and
- Selected Updated Schedules Harold Walker, III.

Thank you for your attention to this matter.

Sincerely,


Courtney L. Schultz

cc: ALJ Jacob Gertsman (via email, Nicole.Newman@oal.nj.gov)
All parties per service list

SERVICE LIST

I/M/O the Petition of New Jersey Natural Gas Company for Approval of an Increase in Gas Base Rates, for Changes in its Tariff for Gas Service Pursuant to N.J.S.A. 48:2-21 AND N.J.S.A. 48:2-21.1, and for Changes to Depreciation Rates for Gas Property Pursuant to N.J.S.A. 48:2-18, and Other Requested Relief
BPU Docket No. GR24010071

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NEW JERSEY NATURAL GAS COMPANY
UPDATED 9+3 DIRECT TESTIMONY
OF
JAMES M. CORCORAN
DIRECTOR – REVENUE REQUIREMENTS

1 **I. INTRODUCTION AND BACKGROUND**

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

3 A. My name is James M. Corcoran and I am the Director – Revenue Requirements for
4 New Jersey Natural Gas Company (“NJNG” or the “Company”). My business address
5 is 1415 Wyckoff Road, Wall, New Jersey 07719.

6 **Q. Please describe your education and experience.**

7 A. I received a Bachelor of Science degree in Accounting from Seton Hall University. In
8 May 2010, I received a Master’s of Business Administration – Finance from Seton Hall
9 University. I was employed by the State of New Jersey – Board of Public Utilities
10 (“BPU” or “Board”) beginning in July 1986 as an Accountant-Trainee and over a 20-
11 year career moved into various Analyst positions of increased responsibility. In March
12 2007, I accepted a Senior Regulatory Analyst position at Public Service Electric and
13 Gas Company with responsibilities that included preparing the requisite testimony and
14 financial schedules for various rate recovery mechanisms. In August 2007, I was
15 promoted to the position of Principal Staff Regulatory Analyst and, in August 2011, I
16 was promoted to the position of Revenue Requirements Manager.

17 I joined NJNG in July 2014 as the Manager – Revenue Requirements. On
18 January 2, 2018, I was promoted to the position of Director – Revenue Requirements.

1 My responsibilities include supporting the Regulatory Affairs department with the
2 preparation of testimony regarding all rate recovery matters. I also participate on behalf
3 of NJNG in the New Jersey Resources (“NJR”) financial reporting committee.

4 As Director – Revenue Requirements, I perform the calculation of revenue
5 requirements for NJNG’s base rates as well as its cost recovery riders.

6 **Q. Have you previously testified in regulatory proceedings?**

7 A. Yes. I have submitted Direct Testimony before the Board in NJNG’s three most recent
8 base rate cases (BPU Docket No. GR21030679, BPU Docket No. GR19030420 and
9 BPU Docket No. GR15111304), and various other proceedings, including: the
10 SAVEGREEN 2020 case (BPU Docket Nos. QO19010040 and GO20090622),
11 SAVEGREEN 2023 case (BPU Docket No. QO23120868), the Infrastructure
12 Investment Program (“IIP”) (BPU Docket No. GR19020278), the NJ Reinvestment in
13 System Enhancement (“NJ RISE”) cost recovery petition (BPU Docket No.
14 GR15050638), as well as various Societal Benefit Charge cost recovery matters. In
15 addition, I have provided testimony on behalf of PSEG Power, LLC in a rate matter
16 proceeding before the Connecticut Public Utilities Regulatory Authority in PURA
17 Docket No. 12-07-17.

18 **Q. Please summarize the purpose of your Updated 9+3 Direct Testimony.**

19 A. On January 30, 2024, I filed Direct Testimony and associated financial schedules in
20 support of NJNG’s petition for rate relief utilizing five (5) months of actual data and
21 seven (7) months of forecasted data for the test year ending June 30, 2024 and related
22 post-test year adjustments through and including December 31, 2024. In this revision,
23 I have updated the financial information for nine (9) months of actual data and three
24 (3) months of forecasted data for the test year and revised the associated post-test year

1 adjustments, where necessary.

2 Schedule JMC-1 UPDATE-1 shows the operating income required to provide
3 a just and reasonable return on NJNG's investment in rate base, the pro forma operating
4 income for the test period, and the additional revenue necessary to satisfy the operating
5 income requirement. Schedule JMC-2 UPDATE-1 summarizes NJNG's rate base, and
6 Schedule JMC-12 UPDATE-1 reflects Operating Income as of June 30, 2024, on a
7 nine-month actual and three-month estimated basis. The Revenue Factor is presented
8 on Schedule JMC-4 UPDATE-1. The individual amounts shown on these Schedules
9 are further supported by NJNG's accounting records and its operating and capital
10 budgets for the period ending June 30, 2024. The books and records of NJNG are
11 maintained in accordance with the Uniform System of Accounts prescribed by the
12 Board and the Federal Energy Regulatory Commission ("FERC"). The Direct
13 Testimony of Angela M. Cahill (Exh. P-4) describes in detail the Company's financial
14 schedules.

15 The balance of my Direct Testimony supports the rate base, operating income,
16 and the pro forma adjustments necessary for the period ending June 30, 2024. The
17 additional revenue of \$219.58 million requested in this case, as calculated on Schedule
18 JMC-1, is needed to provide NJNG the opportunity to recover operating revenues
19 through base rates sufficient to meet operating expenses, taxes, and fixed charges, and
20 to provide a reasonable return on its rate base investments, in the provision of service
21 to customers.

22 Schedules JMC-13 UPDATE-1 through JMC-28 UPDATE-1 provide the pro
23 forma adjustments and the detail of Operating Income, which I discuss later in my
24 Direct Testimony.

1 **Q. Please identify the schedules attached to the Petition that are being sponsored by**
2 **Company Witness Angela M. Cahill that have been updated in this filing.**

3 A. The following schedules of Company Witness Angela M. Cahill have been updated to
4 reflect the financial information for nine (9) months of actual data and three (3) months
5 of forecasted data for the test year: AMC-5 UPDATE-1, AMC-6 UPDATE-1, AMC-
6 7 UPDATE-1, AMC-9 UPDATE-1, AMC-10 UPDATE-1, AMC-11 UPDATE-1,
7 AMC-12 UPDATE-1, AMC-13 UPDATE-1, and AMC-14 UPDATE-1. Please note
8 that no changes were made to Ms. Cahill's Direct Testimony.

9 **Q. Please identify the schedules attached to the Petition that are being sponsored by**
10 **Company Witness Harold Walker III that have been updated in this filing.**

11 A. The following schedules of Company Witness Harold Walker III have been updated to
12 reflect the financial information for nine (9) months of actual data and three (3) months
13 of forecasted data for the test year: HW-1 UPDATE-1 and HW-25 UPDATE-1. Please
14 note that no changes were made to Mr. Walker's Direct Testimony.

15
16

II. RATE CASE OVERVIEW

17 **Q. Please provide an overview of the NJNG rate case Petition.**

18 A. NJNG's last base rate case decision was approved by the BPU in an Order effective
19 November 24, 2021 (Docket No. GR21030679). Since that time, the Company has
20 continued to provide safe and reliable service to its customers and is committed to
21 providing the same in the future.

22 The Company initiated this proceeding with a petition filed on January 30,
23 2024, seeking an increase in base rate revenues of \$222.6 million. With this update,
24 the Company is requesting an increase in its base rate revenues of \$219.58 million

1 based on the test year ending June 30, 2024, with adjustments to reflect certain known
2 and measurable changes through December 31, 2024. Financial integrity and strength
3 are key components to the Company's ability to employ the necessary capital and to
4 cover the operating expenses necessary to maintain and improve its distribution and
5 transmission systems, and to continue to provide safe and reliable service to
6 approximately 582,000 residential and commercial customers in its service territory.
7 The health and safety of NJNG's customers and employees is the Company's number
8 one priority and maintaining a strong financial position in the marketplace is a
9 necessary ingredient to accomplishing this goal.

10 **Q. What test period is NJNG using to support its base rate case request?**

11 A. The test period in this base rate case proceeding is the 12-month period ending June
12 30, 2024. This filing consists of nine months actual data ending March 31, 2024, and
13 three months estimated data through June 30, 2024.

14 **Q. Please describe the New Jersey Resources Service Company ("Service Company")**
15 **and its role in providing service to NJNG.**

16 A. The Service Company provides shared administrative services to NJNG. These
17 services include, but are not limited to, financial, shared facilities, information
18 technology, human resources, office services, security, communications, legal, and
19 internal auditing.

20 The Service Company allocates its costs to the affiliate benefiting from the
21 work performed. These costs are either directly charged to affiliates or charged to
22 intermediate expense pools that are then charged to users of these services based on
23 cost drivers. The type of cost driver assigned to each expense pool will best match the
24 benefit of the receiving affiliate and may include time sheets, square footage,

1 equipment usage, headcount, etc. Timesheets are submitted monthly whereas all other
2 cost drivers are updated annually or during a major organizational change. No costs
3 are retained at the Service Company.

4 **III. DEVELOPMENT OF RATE BASE**

5 **Q. Please describe Schedule JMC-2 UPDATE-1.**

6 A. Schedule JMC-2 UPDATE-1 presents total rate base, as of June 30, 2024, of \$3.37
7 billion. The NJNG rate base consists of the utility's investment in natural gas plant,
8 net of accumulated depreciation of utility plant; natural gas commodity in storage and
9 LNG inventory; materials and supplies; prepayments and cash working capital, offset
10 by customer advances in aid of construction ("CIAC") and accumulated deferred
11 income taxes ("ADIT"); and a consolidated tax adjustment ("CTA"). I will now
12 address each individual component of the Company's Revenue Requirement.

13 **Q. Has the Company included a CTA in accordance with the Board's current**
14 **methodology?**

15 A. Yes. The Company has calculated and included a CTA in accordance with the
16 requirements set out in N.J.A.C. 14:1-5.12(a)(10). The calculated CTA reduces rate
17 base by \$7.62 million. *See* Schedule JMC-2 UPDATE-1.

18 **Q. Please describe Schedule JMC-3 UPDATE-1.**

19 A. Schedule JMC-3 UPDATE-1 provides NJNG's capital structure components and their
20 respective embedded cost rates to calculate the requested weighted average cost of
21 capital ("WACC") to establish the proper operating income requirement. The Direct
22 Testimony of Mr. Dylan D'Ascendis (Exh. P-6) supports the capital structure, the long-
23 term debt cost rate and the return on common equity ("ROE") utilized in the WACC.

1 I have incorporated the low-point recommendation of Mr. D’Ascendis and have
2 utilized a 10.42% ROE in the Company’s capital structure.

3 **Q. Please explain Schedule JMC-4 UPDATE-1.**

4 A. Schedule JMC-4 UPDATE-1 presents the revenue factor utilized by the Company in
5 this proceeding, which is 1.4029. The factor includes State of New Jersey Corporate
6 Business Tax, Federal Income Tax, the Assessments for the Board and the New Jersey
7 Division of Rate Counsel (“Rate Counsel”) and Uncollectibles.

8 **Q. Please explain Utility Plant In Service (“UPIS”) Schedules JMC-5 UPDATE-1 and**
9 **JMC-6 UPDATE-1.**

10 A. The NJNG UPIS, as shown on Schedule JMC-5 UPDATE-1, is \$4.12 billion at June
11 30, 2024. Since August 2021, UPIS has increased by approximately \$850 million. This
12 growth is, in part, attributable to investment in Board-approved infrastructure programs
13 for distribution and transmission mains and services, as well as safety and reliability
14 upgrades in the Company’s service territory. Distribution and transmission plant
15 investments were discussed in the testimony of Mr. John B. Wyckoff (Exh. P-2).
16 Schedule JMC-6 UPDATE-1 provides a further breakdown of the Plant Additions
17 summarized on Schedule JMC-5 UPDATE-1.

18 **Q. Please describe the accumulated depreciation of utility plant – Schedule JMC-7**
19 **UPDATE-1.**

20 A. Plant in service investments have an estimated useful life, which normally extends over
21 many years as the asset provides natural gas service to customers. The systematic
22 recovery of these investments is accomplished by the recognition in rates and operating
23 expense of annual depreciation charges, with accumulated depreciation primarily

1 representing the cumulative recovery of depreciation expense. This accumulated
2 recovery of depreciation is used to reduce rate base. This has been, and continues to
3 be, an acceptable principle in developing rate base, since the accumulated depreciation
4 reserve balance infers that these amounts have already been charged to income and
5 recovered from customers. The accumulated depreciation reserve balance of \$677.44
6 million includes the accumulated recognition of depreciation expense, salvage, and cost
7 of removal. The accumulated depreciation reserve balance does not recognize the legal
8 Asset Retirement Obligation liabilities associated with the Statement of Financial
9 Accounting Standards No. 143 and Financial Accounting Standards Board
10 Interpretation Number 47.

11 The Company has proposed new distribution depreciation rates based on a fiscal
12 year 2023 Gas Depreciation Study, supported by the testimony of Dr. Ronald E. White
13 (Exh. P-7). The proposed depreciation rates and related depreciation expense have
14 been annualized for plant balances at June 30, 2024 and are reflected in the Company's
15 revenue requirement.

16 As detailed on Schedule JMC-7 UPDATE-1, the Company has increased its
17 June 30, 2024 Accumulated Depreciation Reserve balance by \$25.44 million,
18 representing an adjustment equal to one-half of the annualized period-end depreciation
19 expense plus one-half of the annualized depreciation rate change impact as shown on
20 Schedule JMC-21 UPDATE-1. This test year adjustment to the Accumulated
21 Depreciation Reserve balance annualizes the period-end depreciation expense and the
22 proposed new depreciation rates resulting from Dr. White's depreciation study for plant
23 balances at June 30, 2024.

1 **Q. Please describe Schedule JMC-8 UPDATE-1.**

2 A. As a normal part of utility business, the costs of construction related to advances made
3 by the Company’s customers (*i.e.*, CIAC) are capitalized and included in the Net Plant
4 In Service balance. Therefore, it is appropriate to reduce plant costs for these
5 construction related customer advances. As shown on Schedule JMC-2 UPDATE-1,
6 rate base has been reduced by \$2.44 million, based upon the 13-month average of actual
7 CIAC received through March 31, 2024. This amount will continue to be updated
8 throughout the case.

9 **Q. Please describe the Natural Gas Supply & Liquefied Natural Gas (“LNG”)**
10 **inventory component of rate base – Schedule JMC-9 UPDATE-1.**

11 A. Included in rate base is a representative amount of natural gas supply and LNG
12 inventory maintained by NJNG to serve its customers. The natural gas supply and LNG
13 inventory, in the amount of \$123.47 million, is based on a 13-month projected average
14 as of June 30, 2024. This amount will be updated throughout the case.

15 **Q. Please describe the working capital component of rate base.**

16 A. The Company’s proposed working capital allowance is \$170.78 million, consisting of
17 three components: cash (Lead/Lag and Net Assets/Net Liabilities Analysis) of \$143.33
18 million; materials and supplies at a 13-month actual average of \$23.17 million; and
19 prepayments at a 13-month actual average of \$4.28 million. The cash working capital
20 requirements associated with the Lead/Lag study were discussed in the Direct
21 Testimony of Harold Walker, III. (Exh. P-5). I will, however, further discuss the rate
22 treatment for the Materials and Supplies and Prepayments components.

1 **Q. Please explain the development of the materials and supplies component of the**
2 **working capital allowance, Schedule JMC-9 UPDATE-1.**

3 A. Included in rate base is \$23.17 million of materials and supplies necessary for ongoing
4 utility operations. This amount is a 13-month actual average balance representing
5 general store items held in NJNG's inventory for O&M and capital purposes as of
6 March 31, 2024. This amount will continue to be updated throughout the case.

7 **Q. Please describe the calculation of the prepayments component of the working**
8 **capital allowance, Schedule JMC-10 UPDATE-1.**

9 A. The Company is required to make advance payments for certain operating costs, such
10 as insurance and assessments, prior to those amounts being charged to operating
11 expenses. The NJNG prepayments, which are similar to the materials and supplies,
12 represent a permanent, ongoing investment by the Company. Accordingly, I have
13 included in rate base the 13-month actual average of prepayments at March 31, 2024
14 of \$4.28 million. This amount will continue to be updated throughout the case.

15 **Q. Please describe the ADIT portion of rate base – Schedule JMC-11 UPDATE-1.**

16 A. ADIT represents the accumulated tax effect for the timing differences between when
17 an item is recognized for tax purposes and when it is recognized for book purposes in
18 Utility Operating Income. Since the ADIT balances shown on Schedule JMC-11
19 UPDATE-1 relate either to utility assets included in rate base or to expenses, both of
20 which are utilized in setting customer rates, a rate base deduction is appropriate. The
21 ADIT reduction to rate base is estimated to be \$233.08 million at June 30, 2024.

22 **Q. Has the Company included any costs associated with the annual cost recovery**
23 **filing for its IIP in this instant proceeding?**

1 A. No. The investments related to the IIP that have been placed in-service from July 1,
2 2023 through June 30, 2024 are excluded from the Company's rate base. On March
3 31, 2024, the Company filed its annual cost recovery petition for the IIP investments
4 for the July 1, 2023 through June 30, 2024 period.

5 **IV. PRO FORMA OPERATING INCOME ADJUSTMENTS**

6 **Q. Please describe the operating income level at current rates.**

7 A. Schedule JMC-12 UPDATE-1 presents NJNG's income statement for the test year
8 ended June 30, 2024.

9 **Q. Please describe the operating income and the pro forma adjustments at June 30,**
10 **2024.**

11 A. I have made the following pro forma adjustments to Operating Income to recognize a
12 normalized test year ending June 30, 2024:

13 **Pro Forma Operating Income – Schedule JMC-13 UPDATE-1**

14 This Schedule presents a summary of the pro forma adjustments applied to
15 NJNG's test period Operating Income. The pro forma adjustments modify test year
16 Operating Income for known and measurable changes to expense and income levels
17 that will be incurred when the rates are established in this proceeding. Adoption of
18 these adjustments by the Board will provide the Company with an opportunity to earn a
19 reasonable return on its investments during the period when the proposed base rates are
20 in effect.

21 **Annualization of Wages – Schedule JMC-14 UPDATE-1**

22 This adjustment of \$5.18 million (\$3.72 million, net) represents the
23 annualization of labor costs applicable to represented and non-represented employees

1 at NJNG at June 30, 2024, plus an adjustment for known and measurable changes to
2 include in the test year for the December 2024 wage increase.

3 The Company and its Union, Local 1820 of the International Brotherhood of
4 Electrical Workers, are operating under a three-year agreement that was ratified on
5 December 13, 2023. The contract contains an agreed-upon annual percentage increase
6 of 4.25 percent, effective on December 8, 2023, and a 3.75 percent increase, effective
7 on December 8, 2024. For represented employees, this ratemaking adjustment
8 annualizes the December 2023 wages and calculates the pro forma impact of the
9 contractual December 2024 union contract increase for employees.

10 The adjustment also annualizes the December 2023 increase and calculates the
11 pro forma impact of a January 2024 increase applicable to the Company's non-
12 represented employees. The identical percent increases afforded the represented work
13 force have been applied to the non-represented employees. The adjustment to labor
14 expense also includes the wage increases associated with the labor dollars charged to
15 NJNG for the Service Company employees in a similar manner.

16 The Company's employees are a critical element in meeting the service and
17 reliability needs of NJNG's customers, and this adjustment to the test year operating
18 expenses ensures that the Company's base rates will reasonably reflect the cost of this
19 workforce during the time these proposed base rates are in effect.

20 **Annualization of Payroll Taxes – Schedule JMC-15 UPDATE-1**

21 This adjustment of \$396,000 (\$285,000, net) annualizes the test year for
22 changes in payroll taxes and represents the increases in the Federal Insurance
23 Contribution Act ("FICA") Tax for increases in taxable wages. The test period has
24 been annualized for the statutorily mandated rates of 6.20 percent and 1.45 percent for

1 Social Security and Medicare Benefits, respectively.

2 **Interest Synchronization (Tax Savings) – Schedule JMC-16 UPDATE-1**

3 The Board has historically adopted an adjustment to synchronize the federal
4 income tax savings associated with interest expense in the test period with the tax
5 savings, based on an interest calculation using the weighted average cost of debt in the
6 capital structure utilized to support rate base.

7 As shown on Schedule JMC-16 UPDATE-1, the interest-bearing components
8 of the capitalization supporting the NJNG rate base produce interest expenses of \$63.48
9 million. This is \$3.32 million more than the recorded test year period interest expense
10 of \$60.16 million. This adjustment of \$3.32 million (\$932,000, net) increases
11 Operating Income attributable to the tax savings on the interest component.

12 **Medical and Benefits Expense – Schedule JMC-17 UPDATE-1**

13 An adjustment in the amount of \$4.73 million (\$3.40 million, net) represents an
14 operating expense increase and reflects the necessary adjustments in medical and dental
15 expenses and fringe transfer expense over the test period amounts included in operating
16 income. This level of expense reflects the forecasted medical and dental expenses and
17 fringe benefits transfer through fiscal year 2025 (*i.e.*, October 1, 2024 through
18 September 30, 2025).

19 **BPU and Rate Counsel Assessments – Schedule JMC-18 UPDATE-1**

20 In accordance with N.J.S.A. 48:2-60 and N.J.S.A. 52:27EE-52, the Company
21 provides funding to the State of New Jersey associated with the operations of the Board
22 and Rate Counsel. These assessments are predicated on rates established by the State
23 of New Jersey and are applied to each gross intrastate revenue dollar recorded by the
24 Company for the preceding year. The current assessment rates are 0.2176 percent for

1 the Board and 0.0455 percent for Rate Counsel. By applying these rates to year-end
2 2023 intrastate operating revenues, the Company has estimated its funding obligation
3 for the Board and Rate Counsel at \$2.36 million. The adjustment of \$353,000
4 (\$254,000, net) increases the test year operating expenses to that level. The adjustment
5 recognizes test year expense for this item at a level that the Company will incur while
6 new rates are in effect, assuming the assessment rate remains stable, and is therefore,
7 appropriate to be adopted in this proceeding.

8 **Basic Gas Supply Service (“BGSS”) Incentive Margin – Schedule JMC-19**
9 **UPDATE-1**

10 Included in test period Operating Income is a level of net BGSS incentive
11 margin that should be excluded from the calculation of base rates in the amount of
12 \$16.29 million (\$11.71 million, net). This incentive margin should be excluded to
13 prevent NJNG’s base rates from being reduced, which would eliminate the incentive
14 margins earned by NJNG pursuant to the Board’s separately approved program.

15 **Rate Case - Outside Services – Schedule JMC-20 UPDATE-1**

16 This adjustment represents a normalized level of expense incurred for rate case
17 expense. The expenses are then ratably amortized over an appropriate time to
18 determine an appropriate level of operating expense recovery in base rates. In
19 accordance with the Board’s long-standing policy, I have reflected a 50%/50% sharing
20 of rate case expense between shareholders and NJNG’s customers. The resulting
21 adjustment represents an increase in operating expense of \$284,000 (\$204,000, net).

22 **Annualization of Depreciation – Schedule JMC-21 UPDATE-1**

23 The depreciation rate changes reflect the results of the depreciation study
24 completed by Dr. White. The difference between the annualized depreciation expense

1 at current rates and the amount of depreciation expense included in the test year has
2 been recognized, as well as the annualization of the depreciation rate change on Plant
3 In Service investments at June 30, 2024. The adjustment to depreciation expense
4 represents an increase in operating expense of \$50.89 million (\$36.58 million, net).
5 Depreciation expense is a vital component of NJNG's recovery of its investment in
6 utility plant over its service life, as well as the recovery of the cost of removal for the
7 replacement of existing structures and other plant investment.

8 **SAVEGREEN Margin – Schedule JMC-22 UPDATE-1**

9 Included in test period Operating Income is a level of SAVEGREEN margin
10 that should be excluded from the calculation of base rates in the amount of \$11.51
11 million (\$8.28 million, net). This margin should be excluded to prevent NJNG's base
12 rates from being reduced, which would eliminate the margin earned by NJNG pursuant
13 to the Board's separately approved program.

14 **Real Estate Taxes – Schedule JMC-23 UPDATE-1**

15 This adjustment of \$34,000 (\$24,000, net) increases the test year operating
16 expense to be representative of the level of real estate property tax expense that is
17 expected to be accrued and paid by NJNG on its real estate property in the 12-month
18 period following when new base rates go into effect.

19 **Insurance – Schedule JMC-24 UPDATE-1**

20 This adjustment addresses the items for which NJNG carries insurance policies
21 with outside vendors (*e.g.*, Automobile & Workers Compensation) for which the
22 Company pays annual premiums of approximately \$9.22 million. This adjustment of
23 \$1.05 million (\$757,000, net) for the test year operating expense increase is
24 representative of the level of insurance expense that is expected to be accrued and paid

1 in the 12-month period following when new base rates go into effect, *i.e.*, the rate year.

2 **Annual Review of Commercial Customer Usage – Schedule JMC-25 UPDATE-1**

3 Pursuant to the Company’s Tariff, at least once annually, small and large
4 commercial customers’ usage is reviewed to determine their appropriate service
5 classification and highest monthly average daily (“HMAD”) usage, if applicable. This
6 review is typically performed in September. The Company is proposing an adjustment
7 to reflect the margin impact of the anticipated switching of commercial customers
8 between small and large classes, as well as HMAD changes. The margin accrued
9 during the test year will not accrue at the conclusion of this rate case. A pro forma
10 adjustment to reflect the change in margin and income that results from the annual
11 review of commercial customers’ usage is necessary.

12 Schedule JMC-25 UPDATE-1 shows the estimated adjustment necessary to
13 reflect the reduction in margin anticipated from the annual review of commercial
14 customers’ usage. The adjustment results in a decrease to operating income of \$1.16
15 million (\$834,000, net). This adjustment will be updated throughout the case.

16 **Revenue– Schedule JMC-26 UPDATE-1**

17 Schedule JMC-26 UPDATE-1 reflects four adjustments to annualize the
18 Company’s revenues for its IIP Program and the Conservation Incentive Program
19 (“CIP”) component, an extra billing cycle in 2024 and the loss of Nestle, a large
20 commercial customer.

21 The IIP Program adjustment annualizes the test year revenues for the IIP rate
22 change that occurred on October 1, 2023. As the proposed Test Year for this rate case
23 begins on July 1, 2023, the Company has increased its revenues to reflect three
24 additional months for this change.

1 The CIP adjustment normalizes the test year revenue to recognize that, through
2 the resetting of the CIP baseline use per customer in the NJNG Tariff Rider I –
3 Conservation Incentive Program in this base rate case, this margin will not be earned
4 effective with the new base rates and CIP baseline use per customer emanating from
5 this case.

6 Based on the timing of this Test Year, the Company’s revenues reflect 239
7 billing cycles as opposed to a “normal” period of 240 billing cycles. Therefore, the
8 Company has adjusted its revenues to reflect this additional billing cycle.

9 Finally, the Company has been notified that the Nestle plant has ceased
10 operations and I have reflected the loss of revenue associated with this account. Nestle
11 operated a coffee factory located in Freehold, New Jersey.

12 These four adjustments represent an increase in operating expense of \$12.32
13 million (\$8.86 million, net).

14 **Regulatory Assets – Schedule JMC-27 UPDATE-1**

15 This schedule reflects the proper amortization of three regulatory assets: (1)
16 COVID Arrearages; (2) the BPU-mandated Management/Affiliated Standards Audit;
17 and (3) the BPU-ordered Benchmarking Study.

18 *COVID Arrearages* – Pursuant to the BPU’s Order dated July 2, 2020, at Docket
19 No. AO20060471, affected utilities were authorized to create a COVID-19 regulatory
20 asset to defer on their books and records any arrearages incurred due to the COVID-19
21 pandemic during the period March 9, 2020 through March 15, 2023.¹ NJNG ceased
22 deferring COVID-19 costs at December 31, 2022. As of December 31, 2022, NJNG

¹ By Board Order dated December 21, 2022, at Docket No. AO20060471, the BPU extended the deferral period from December 31, 2022 through March 15, 2023.

1 has recorded a regulatory asset of \$3.89 million.

2 *Management/Affiliated Standards Audit* – Pursuant to the BPU’s Order dated
3 September 7, 2022, at Docket No. GA22020074, the BPU authorized the Liberty
4 Consulting Group to perform a two-phase audit of NJNG for the period January 1, 2014
5 through December 31, 2023. Phase One was to be an audit of affiliated transactions of
6 NJNG and New Jersey Resources, NJNG’s affiliates and any competitive services it
7 offers and its compliance with the Board’s Affiliate and Fair Competition Standards.
8 Phase Two was to consist of a comprehensive management audit. Accordingly, the
9 costs incurred by NJNG for this audit have been deferred on the Company’s books and
10 records for recovery in NJNG’s base rate case. The Company is seeking to recover
11 \$1.75 million related to this proceeding.

12 *Benchmarking Study* – By Order dated September 7, 2022, at Docket No.
13 QO21071023, the BPU required NJNG to perform a benchmarking study as a result of
14 the Clean Energy Act. The Order permitted the Company to defer on its books and
15 records the cost of this study to be recovered in its next base rate case. NJNG has
16 recorded and deferred \$158,000 for this matter.

17 These adjustments utilize a two-year amortization period representing an
18 increase to operating expense by \$2.90 million (\$2.08 million, net) for these BPU-
19 mandated regulatory assets.

20 **Transportation Safety Administration (“TSA”) – Schedule JMC-28 UPDATE-1**

21 The Company is requesting authority for recovery of, and on, capital expenses
22 incurred due to various TSA Security Directives. Schedule JMC-28 UPDATE-1
23 reflects the estimated revenue requirement to reflect the return on capital investment,
24 deferred taxes and the depreciation expense associated with this mandate. Based on

1 the most recent data available, this adjustment represents an increase in operating
2 expense of \$563,000 (\$470,000, net).

3 **Q. Please discuss if you anticipate making any additional pro forma adjustments**
4 **during these proceedings.**

5 A. As stated previously, pro forma adjustments modify test year Operating Income for
6 known or measurable changes. Adoption of these known and measurable adjustments
7 provides an opportunity for the Company to earn a reasonable return on its investment
8 during the period when rates set from this process are in effect.

9 It is quite possible that additional pro forma adjustments may be necessary
10 during the course of this proceeding as a result of changes to energy policy, capital
11 investment and operating practices.

12 **V. CONCLUSION**

13 **Q. Please summarize your Updated 9+3 Direct Testimony.**

14 A. With this filing, the Company has updated its test year results to reflect nine months of
15 actual data (*i.e.*, through March 31, 2024) and three months of forecasted data (*i.e.*, the
16 period April 1, 2024 through June 30, 2024). As supported by my Updated Direct
17 Testimony and Schedules, as well as certain updated Schedules of Company Witnesses
18 Walker and Cahill, the net result of this update is a decrease in the Company's requested
19 rate relief from \$222.60 million to \$219.58 million. The Company will continue to
20 update its request to reflect actual results through June 30, 2024, the end of the test year
21 period.

22 **Q. Does this conclude your Updated 9+3 Direct Testimony at this time?**

23 A. Yes. However, I reserve the right to supplement this Updated 9+3 Direct Testimony
24 as needed during this proceeding.

EXHIBIT P-3
SCHEDULE JMC-1
UPDATE-1

NEW JERSEY NATURAL GAS COMPANY

DETERMINATION OF REVENUE REQUIREMENTS
(\$000)

Rate Base	\$ 3,366,744
Rate of Return	<u>7.54%</u>
Operating Income Requirement	\$ 253,852
Pro-Forma Operating Income	<u>\$ 97,331</u>
Operating Income Deficiency	\$ 156,522
Revenue Factor	<u>1.4029</u>
Revenue Requirements	<u>\$ 219,584</u>

EXHIBIT P-3
SCHEDULE JMC-2
UPDATE-1

NEW JERSEY NATURAL GAS COMPANY

RATE BASE
(\$000)

	<u>Balance at June 30, 2024</u>
Plant In Service	\$ 4,119,976
Accumulated Depreciation Reserve	(677,438)
Customer Advances	(2,435)
Net Plant In Service	<u>3,440,102</u>
Gas Supply & LNG Inventory	123,467
Working Capital:	
Cash (Lead/Lag)	\$ 143,334
Materials and Supplies	23,167
Prepayments	4,279
Net Working Capital	<u>170,779</u>
Deferred Taxes	(233,080)
Excess Deferred Tax	(126,901)
Consolidated Tax Adjustment	<u>(7,624)</u>
Total Rate Base	<u>\$ 3,366,744</u>

Source(s):

Workpaper	JMC - 1 UPDATE-1	LL Summary
Workpaper	JMC - 2 UPDATE-1	Excess DFIT
Workpaper	JMC - 3 UPDATE-1	Consolidated Taxes - Confidential

NEW JERSEY NATURAL GAS COMPANY

WEIGHTED AVERAGE COST OF CAPITAL
(\$000)

	Amount	Percent	Embedded Cost	Weighted Cost	Net of Tax	Pre-tax
Long-Term Debt	\$ 1,648,225	45.73%	4.12%	1.89%	1.36%	1.89%
Common Equity	<u>\$ 1,955,691</u>	<u>54.27%</u>	10.42%	<u>5.65%</u>	<u>5.65%</u>	<u>7.87%</u>
Total	\$ 3,603,917	100.00%		<u>7.54%</u>	<u>7.01%</u>	<u>9.75%</u>

Source(s):

Workpaper JMC - 4 UPDATE-1 Long Term Debt

**EXHIBIT P-3
SCHEDULE JMC-4
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

REVENUE FACTOR

Revenue Increase	100.0000	219,584
Uncollectible Rate	0.5844	1,283
BPU Assessment Rate	0.2176	478
Rate Counsel Assessment Rate	<u>0.0455</u>	<u>100</u>
Income before State of NJ Bus. Income Tax	99.1524	217,723
State of NJ Bus. Income Tax @ 9.00%	<u>8.9237</u>	<u>19,595</u>
Income Before Federal Income Taxes	90.2287	198,128
Federal Income Taxes @ 21%	<u>18.9480</u>	<u>41,610</u>
Return	<u>71.2807</u>	<u>156,518</u>
Revenue Factor	<u>1.4029</u>	<u>1.4029</u>

Source(s):

Workpaper JMC - 5 UPDATE-1 Uncollectible Rate

EXHIBIT P-3
SCHEDULE JMC-5
UPDATE-1

NEW JERSEY NATURAL GAS COMPANY

UTILITY PLANT IN-SERVICE
(\$000)

	<u>Test Year</u> <u>June 30, 2024</u>
Beginning Balance @ July 1, 2023	\$ 3,739,873
Total Direct Additions	\$ 407,449
Retirements:	
Production	\$ -
Storage	-
Transmission	(577)
Distribution	(7,315)
General	(4,511)
Total Retirements	\$ (12,403)
Other:	
IIP	(14,944)
Total Utility Plant In-Service	\$ 4,119,976

Source(s):

Workpaper JMC - 6 UPDATE-1 Plant-Reserve

**EXHIBIT P-3
SCHEDULE JMC-6
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

**DIRECT ADDITIONS TO PLANT IN-SERVICE
(\$000)**

	<u>Test Year June 30, 2024</u>
Production	\$ -
Storage	331
Transmission	7,835
Distribution	269,443
General	129,841
Total Direct Additions	<u>\$ 407,449</u>

Source(s):

Workpaper JMC - 6 UPDATE-1 Plant-Reserve

NEW JERSEY NATURAL GAS COMPANY
ACCUMULATED DEPRECIATION OF UTILITY PLANT
(\$000)

		<u>Test Year</u> <u>June 30, 2024</u>
Beginning Balance @ July 1, 2023		\$ (594,095)
Production		\$ -
Storage		(1,491)
Transmission		(15,713)
Distribution		(75,729)
General		(15,806)
Total Charge to Depreciation Expense		<u>\$ (108,739)</u>
Retirements		\$ 12,403
Non-Legal ARO		29,735
Total Cost of Removal	39,924	
Cost of Removal	<u>(34,812)</u>	
Excess Cost of Removal - Test Year		5,112
Accretion of ARO		<u>3,590</u>
Net Increase		<u>\$ 50,839</u>
Ending Balance		<u>\$ (651,995)</u>
Annualization of Depreciation		<u>\$ (25,444)</u>
Balance - Accumulated Depreciation		<u><u>\$ (677,438)</u></u>

Source(s):

Workpaper JMC - 6 UPDATE-1 Plant-Reserve

**EXHIBIT P-3
SCHEDULE JMC-8
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

CUSTOMER ADVANCES FOR CONSTRUCTION (a)
(\$000)

	<u>Test Year June 30, 2024</u>
Extensions/Deposits	\$ (2,435)
Total Customer Advances for Construction	<u><u>\$ (2,435)</u></u>

(a) 13-month Average Balance (March 2023 - March 2024)

Source(s):

Workpaper JMC - 7 UPDATE-1 Balance Sheet

NEW JERSEY NATURAL GAS COMPANY

WORKING CAPITAL - GAS INVENTORY AND MATERIALS & SUPPLIES
(\$000)

	<u>Test Year June 30, 2024</u>
Gas Supply and LNG Inventory (a)	\$ 123,467
Materials and Supplies (b)	23,167
Total Materials and Supplies	<u>\$ 146,633</u>

(a) 13-month Average Balance (June 2023 - June 2024)

(b) 13-month Average Balance (March 2023 - March 2024)

Source(s):

Workpaper	JMC - 8 UPDATE-1	Inventory
Workpaper	JMC - 7 UPDATE-1	Balance Sheet

NEW JERSEY NATURAL GAS COMPANY

WORKING CAPITAL - PREPAYMENTS
(\$000)

	Test Year
	June 30, 2024
Meter Lease (a)	\$ 576
Delta Dental (a)	32
Real Estate Taxes (a)	123
Computer Lease (a)	238
Insurance (a)	2,325
Postage (a)	199
BPU & Rate Counsel Assessment	786
Total Prepayments	\$ 4,279

(a) 13-month Average Balance (March 202 - March 2024)

Source(s):

Workpaper JMC - 7 UPDATE-1 Balance Sheet

EXHIBIT P-3
SCHEDULE JMC-11
UPDATE-1

NEW JERSEY NATURAL GAS COMPANY

ACCUMULATED DEFERRED INCOME TAXES
(\$000)

	<u>Balance at June 30, 2024</u>
Depreciation	\$ (212,696)
Cost of Removal	86,549
Repairs and Maintenance	(49,755)
Section 174 - R&D	1,435
Capitalized Interest	737
Contribution-in-Aid-of-Construction	819
NJ Corporate Business Tax	(67,322)
Depreciation Study	<u>7,152</u>
Total Accumulated Deferred Income Taxes	<u><u>\$ (233,080)</u></u>

Source(s):

Workpaper JMC - 9 UPDATE-1 DFIT

EXHIBIT P-3
SCHEDULE JMC-12
UPDATE-1

NEW JERSEY NATURAL GAS COMPANY

INCOME STATEMENT
(\$000)

Test Year
June 30, 2024

Operating Revenues	1,071,463
<i><u>Operating Expenses:</u></i>	
Operation Expense	675,413
Maintenance Expense	22,560
Depreciation Expense	108,734
Taxes Other Than Income Taxes	63,406
Income Taxes - Current & Deferred	27,488
Total Utility Operating Expenses	<u>897,602</u>
Utility Operating Income	<u><u>\$173,861</u></u>

Source(s):

Workpaper JMC - 10 UPDATE-1 FERC Income Statement

**EXHIBIT P-3
SCHEDULE JMC-13
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

PRO-FORMA DISTRIBUTION OPERATING INCOME
(\$000)

			Test Year June 30, 2024	
Test Year Distribution Operating Income			\$	173,861
Adjustment #	Pro-Forma Adjustments:	Schedule #		
1	Wages	JMC - 14	\$	(3,722)
2	Payroll Taxes	JMC - 15	\$	(285)
3	Interest Synchronization (Tax Savings)	JMC - 16	\$	932
4	Medical & Fringe Benefits	JMC - 17	\$	(3,403)
5	BPU/Rate Counsel Assessments	JMC - 18	\$	(254)
6	BGSS Incentive Margin	JMC - 19	\$	(11,708)
7	Rate Case - Outside Services	JMC - 20	\$	(204)
8	Depreciation Annualization	JMC - 21	\$	(36,583)
9	SAVEGREEN	JMC - 22	\$	(8,278)
10	Real Estate Taxes	JMC - 23	\$	(24)
11	Insurance	JMC - 24	\$	(757)
12	Annual Review of Commercial Customers	JMC - 25	\$	(834)
13	Revenue Adjustments	JMC - 26	\$	(8,857)
14	Regulatory Assets	JMC - 27	\$	(2,084)
15	Transportation Safety Administration	JMC - 28	\$	(470)
Total Pro-Forma Adjustments			\$	(76,531)
Total Pro-Forma Distribution Operating Income			\$	97,331

EXHIBIT P-3
SCHEDULE JMC-14
UPDATE-1

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 1

Wages
(\$000)

	<u>Test Year</u> <u>June 30, 2024</u>	
<u>NJNG:</u>		
2024 Annualization	\$	1,746
2025 Wage Increase		3,431
Operating Expense Increase before Taxes	\$	5,178
Income Taxes @ 28.11%		1,455
Operating Income Increase (Decrease) After Taxes	\$	<u><u>(3,722)</u></u>

Source(s):

Workpaper JMC - 11 UPDATE-1 Wages

EXHIBIT P-3
SCHEDULE JMC-15
UPDATE-1

NEW JERSEY NATURALGAS COMPANY

Adjustment No. 2
Payroll Taxes
(\$000)

	Test Year
	<u>June 30, 2024</u>
<u>NJNG:</u>	
2024 Annualization	\$ 134
2025 Wage Increase	<u>263</u>
Operating Expense Increase before Taxes	\$ 396
Income Taxes @ 28.11%	<u>111</u>
Operating Income Increase (Decrease) After Taxes	<u>\$ (285)</u>

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 3
Interest Synchronization (Tax Savings)
(\$000)

Rate Base				\$ 3,366,744
	Percent	Embedded Cost	Weighted Cost	
Debt Components:				
Long Term Debt	45.73%	4.12%	1.89%	
Total Weighted Cost of Debt				<u>1.89%</u>
Annualized Interest Expense				\$ 63,480
Less: Test Period Interest Expense				<u>60,163</u>
Net Interest Expense Increase/Decrease				\$ 3,317
Income Tax Rate				<u>28.11%</u>
Operating Income Increase (Decrease) After Taxes				<u><u>\$ 932</u></u>

Source(s):

Workpaper JMC - 10 UPDATE-1 FERC Income Statement

**EXHIBIT P-3
SCHEDULE JMC-17
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 4
Medical and Fringe Benefits
(\$000)

Fiscal Year 2025	Medical, net of employee contributions	15,822
	Dental, net of employee contributions	697
	Fringe Transfer	(6,607)
	FY 2025 Total	\$ 9,912

Less:

Test Year	Medical, net of employee contributions	12,161
	Dental, net of employee contributions	763
	Fringe Transfer	(7,745)
	Total	\$ 5,178

Increase in Test Year Operating Expenses	\$ 4,734
Income Taxes @ 28.11%	<u>1,331</u>
Operating Income Increase (Decrease) After Taxes	\$ (3,403)

Source(s):

Workpaper JMC - 12 UPDATE-1 Medical & Fringe

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 5
BPU/Rate Counsel Assessment
(\$000)

	BPU	Rate Counsel	Total
Year 2023 Intrastate Revenues	\$ 895,672	\$ 895,672	
Assessment Rate (2024 Fiscal Year)	0.2176%	0.0455%	
Estimated Assessment	\$ 1,949	\$ 408	\$ 2,357
Less: Assessment Included in Test Year			
Operating Expenses	1,601	402	\$ 2,004
Operating Expense Increase Before Taxes	\$ 347	\$ 5	\$ 353
Income Taxes @ 28.11%	98	2	99
Operating Income Increase (Decrease) After Taxes	\$ (250)	\$ (4)	\$ (254)

Source(s):

Workpaper JMC - 13 UPDATE-1 Assessment

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 6
BGSS Incentive Margin
(\$000)

	Test Year June 30, 2024
Net BGSS Incentive Margin	\$ 16,286
Income Taxes @ 28.11%	<u>4,578</u>
Operating Income Increase (Decrease) After Taxes	<u>\$ (11,708)</u>

Source(s):

Workpaper JMC - 14 UPDATE-1 BGSS Incentive Margin

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 7
Rate Case - Outside Services
(\$000)

Test Year
June 30, 2024

Rate Case:

Outside Counsel	\$	719
Consultants		410
Miscellaneous		5
Total Rate Case Expense	\$	1,134

50/50 Sharing \$ 567

Amortization Period 2

Normalized Rate Case Expense \$ 284

Income Taxes @ 28.11% 80

Operating Income Increase (Decrease) After Taxes \$ (204)

NEW JERSEY NATURAL GAS COMPANY

**Adjustment No. 8
Annualization of Depreciation
(\$000)**

		<u>Test Year June 30, 2024</u>
Annualization of Depreciation Rate Change		\$ 42,165
Annualization of Depreciation at Current Rates	\$ 117,457	
Test Year Depreciation	<u>108,734</u>	
Difference		<u>\$ 8,722</u>
Operating Expense Increase Before Taxes		\$ 50,887
Income Taxes @ 28.11%		14,304
Operating Income Increase (Decrease) After Taxes		<u><u>\$ (36,583)</u></u>

Source(s):

Workpaper JMC - 15 UPDATE-1	Depreciation Expense
Workpaper JMC - 10 UPDATE-1	FERC Income Statement

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 9
SAVEGREEN
(\$000)

	Test Year June 30, 2024
SAVEGREEN Margin	\$ 11,514
Operating Expense Increase Before Taxes	\$ 11,514
Income Taxes @ 28.11%	3,237
Operating Income Increase (Decrease) After Taxes	\$ (8,278)

Source(s):

Workpaper JMC - 16 UPDATE-1 SAVEGREEN Margin

EXHIBIT P-3
SCHEDULE JMC-23
UPDATE-1

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 10
Real Estate Taxes
(\$000)

	Test Year June 30, 2024
Property Taxes	\$ 715
Test Year Property Taxes	<u>681</u>
Operating Expense Increase Before Taxes	\$ 34
Income Taxes @ 28.11%	10
Operating Income Increase (Decrease) After Taxes	<u>\$ (24)</u>

Source(s):

Workpaper JMC - 17 UPDATE-1 Real Estate Taxes

EXHIBIT P-3
SCHEDULE JMC-24
UPDATE-1

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 11
Insurance
(\$000)

	<u>Test Year</u> <u>June 30, 2024</u>
Insurance Premium Expense	\$ 9,217
Test Year Insurance Premium Expense	<u>8,164</u>
Operating Expense Increase Before Taxes	\$ 1,053
Income Taxes @ 28.11%	296
Operating Income Increase (Decrease) After Taxes	<u>\$ (757)</u>

Source(s):

Workpaper JMC - 18 UPDATE-1 Insurance

**EXHIBIT P-3
SCHEDULE JMC-25
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

**Adjustment No. 12
Annual Review of Commercial Customer Usage
(\$000)**

	<u>Test Year June 30, 2024</u>
Class Change	811
HMAD	<u>349</u>
Operating Income Decrease Before Taxes	\$ 1,160
Income Taxes @ 28.11%	326
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (834)</u></u>

Source(s):

Workpaper JMC - 19 UPDATE-1 Annual Review

**EXHIBIT P-3
SCHEDULE JMC-26
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 13

**Revenue
(\$000)**

**Test Year
June 30, 2024**

IIP	\$ (245)
CIP Impact	11,342
Billing Cycles	(525)
Nestle	<u>1,749</u>
Operating Expense Increase Before Taxes	\$ 12,320
Income Taxes @ 28.11%	3,463
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (8,857)</u></u>

Source(s):

Workpaper JMC - 20 UPDATE-1 IIP
Workpaper JMC - 21 UPDATE-1 CIP
Workpaper JMC - 22 UPDATE-1 Billing Cycle
Workpaper JMC - 23 UPDATE-1 Nestle

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 14
Regulatory Assets
(\$000)

Regulatory Assets

COVID Arrearages	\$	3,889
Management Audit		1,750
Benchmarking Study		158
Total Rate Case Expense		

Amortization Period 2

Normalized Expense

Income Taxes @ 28.11%

Operating Income Increase (Decrease) After Taxes

Source(s):

Workpaper JMC - 7 UPDATE-1 Balance Sheet

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 15
Transportation Safety Administration - Capital
(\$000)

		<u>Amount</u>
<u>Capital Expenditure</u>		
Transportation Safety Administration		\$ 3,288
Deferred Taxes ¹		50
Total		<u>\$ 3,338</u>
Rate of Return, Net of Tax		7.01%
Return on Capital Investment		\$ 234
<u>Depreciation on Capital</u>		
Transportation Safety Administration	10.00%	\$ 329
Total Depreciation		<u>\$ 329</u>
Total Net Expense Impact Before Tax		\$ 329
Income Taxes @ 28.11%		<u>92 236</u>
Operating Expense Increase After Taxes		<u><u>\$ 470</u></u>
Revenue Factor		<u>1.4029</u>
Revenue Requirement		<u><u>\$ 660</u></u>

(1) Deferred Taxes:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Tax Depreciation Basis	3,025	3,025	
MACRS Rate	5.00%	5.00%	
Tax Depreciation	151	151	
Book Depreciation Basis	3,288	3,288	
Book Rate	10.00%	10.00%	
Book Depreciation	329	329	
Difference	178	178	
Tax Rate	19.11%	9.00%	
	<u>34</u>	<u>16</u>	<u>50</u>

NEW JERSEY NATURAL GAS COMPANY

INCOME STATEMENT
(\$000)

Test Year
June 30, 2024

Operating Revenues 1,071,463

Operating Expenses:

Operation Expense 675,413

Maintenance Expense 22,560

Depreciation Expense 108,734

Taxes Other Than Income Taxes 63,406

Income Taxes - Current & Deferred 27,488

Total Utility Operating Expenses \$897,602

Utility Operating Income \$173,861

NEW JERSEY NATURAL GAS COMPANY

DISTRIBUTION SALES BY CLASS OF BUSINESS

(Therms - 000)

Test Year
June 30, 2024

Residential:

Residential Service	450,636
Transportation	11,935

Commercial:

Commercial Service	86,279
Transportation	105,058

Industrial:

Interruptible	-
Transportation	14,161
Street and Yard Light Service	3
Off-System Sales and Other	1,508,953
Total Distribution Sales By Class Of Business	<u>2,177,024</u>

NEW JERSEY NATURAL GAS COMPANY

CUSTOMERS BILLED BY CLASS OF BUSINESS

**Test Year
June 30, 2024**

Residential:

Residential Service	527,051
Transportation	14,962

Commercial:

Commercial Service	32,349
Transportation	8,030

Industrial:

Interruptible	-
Transportation	25
Street and Yard Light Service	2
Off-System Sales and Other	84

Total Customers Billed By Class Of Business

582,503

NEW JERSEY NATURAL GAS COMPANY
CUSTOMER ACCOUNTS AND INFORMATION
(\$000)

Test Year
June 30, 2024

Customer Accounts Expenses:

Operation:

901	Supervision	\$	918
902	Meter Reading Expenses		6,583
903	Customer Records and Collection Expenses		22,968
904	Uncollectible Accounts		1,381
905	Miscellaneous Customer Accounts Expenses		3,478
	Total Customer Accounts Expenses	\$	<u>35,328</u>

Customer Service and Informational Expenses:

Operation:

908	Customer Assistance Expenses	\$	45,257
909	Informational/Instruction Exp		775
910	Misc. Customer Service and Informational Expenses		-
	Total Customer Service and Informational Expenses	\$	<u>46,032</u>

Sales Expenses:

Operation:

911	Supervision	\$	489
912	Demonstration and Selling Expenses		4,184
913	Advertising Expense		174
914	Economic Development		-
916	Miscellaneous Sales Expenses		2
	Total Sales Expenses	\$	<u>4,849</u>

Total Customer Accounts and Information

\$ 86,210

NEW JERSEY NATURAL GAS COMPANY

ADMINISTRATIVE AND GENERAL SALARIES AND EXPENSES
(\$000)

		Test Year
		June 30, 2024
<u>Operations:</u>		
920	Salaries & Wages	\$ 8,682
921	Supplies & Expenses	2,403
922	Adminstrative Exp Transferr-Cr	-
923	Outside Services	66,418
924	Property Insurance	497
925	Injuries and Damages	7,224
926	Pension/Benefits	13,043
928	Regulatory Commission Expenses	3,883
929	Duplicate Charges	-
930	General publicity	-
930.1	General Advertising	158
930.2	Miscellaneous	4,011
931	Rents	157
	Total Operation	<u>\$ 106,474</u>
	Maintenance of General Plant	-
	Total Maintenance	<u>\$ -</u>
Total Administrative and General Salaries and Expenses		<u><u>\$ 106,474</u></u>

NEW JERSEY NATURAL GAS COMPANY

DEPRECIATION
(\$000)

	Test Year June 30, 2024
<u>Depreciation and Amortization:</u>	
403 Depreciation	\$ 108,734
Total Depreciation	<u><u>\$ 108,734</u></u>

NEW JERSEY NATURAL GAS COMPANY

TAXES OTHER THAN INCOME TAXES
(\$000)

Test Year
June 30, 2024

Real Estate	\$ 681
FICA	7,064
State Unemployment	401
Federal Unemployment	57
Municipal and State Taxes	<u>55,202</u>
Total Taxes Other	
Than Income	<u><u>\$63,406</u></u>

NEW JERSEY NATURAL GAS COMPANY

CURRENT AND DEFERRED INCOME TAXES
(\$000)

		Test Year
		<u>June 30, 2024</u>
<u>Current:</u>		
Federal		\$ (4,610)
State		(4,539)
ITC		(289)
	Total Current	<u>\$ (9,438)</u>
<u>Deferred:</u>		
Deferred		\$ 36,926
	Total Deferred	<u>\$ 36,926</u>
	Net Income Taxes	<u><u>27,488</u></u>

NEW JERSEY NATURAL GAS COMPANY

EXHIBIT P-4
SCHEDULE AMC - 14 UPDATE 1
PAGE 1 of 10INCOME ACCOUNT
12 MONTHS ENDING JUNE 30, 2024*

(Thousands)

Operating Revenues	1,071,463
Operating Expenses	<u>897,602</u>
Operating Income	173,861
Other Income and Deductions:	
Other Income	10,301
Other Deductions	(36)
Taxes on Other Income and Deductions	-
Total	<u>10,265</u>
Income Before Interest Charges	184,126
Interest Charges	<u>(60,163)</u>
Net Income	<u><u>\$123,964</u></u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

EXHIBIT P-4
SCHEDULE AMC - 14 UPDATE 1
PAGE 2 of 10REVENUE BY CLASS OF BUSINESS
12 MONTHS ENDING JUNE 30, 2024*

(Thousands)

Residential-Service	691,732
- Transportation	11,840
Commercial-Service	131,918
- Transportation	80,019
Industrial- Interruptible	-
- Transportation	2,494
Street and Yard Light Service	3
Off-system Sales and Other	154,847
CIP Rider Revenue	(1,391)
Total Natural Gas Service Revenues	<u>1,071,463</u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

EXHIBIT P-4
SCHEDULE AMC - 14 UPDATE 1
PAGE 3 of 10

OPERATING EXPENSES
12 MONTHS ENDING JUNE 30, 2024*

(Thousands)

Production Expenses:	
Gas Supply Expenses	\$412,249
Gas Production	14,297
Manufactured Gas Production	-
Other Storage	4,863
LPG Expense	-
Total Production Expenses	<u>431,408</u>
Transmission:	
Operation	\$6,941
Maintenance	<u>\$1,836</u>
Total Transmission	8,777
Distribution:	
Operation	\$48,210
Maintenance	<u>\$16,894</u>
Total Distribution	65,104
Customer Accounts and Information:	
Customer Accounts	\$35,328
Customer Service and Informational	<u>\$46,032</u>
Total Customer Accounts and Information	81,360
Sales	4,849
Administrative and General:	
Operation	<u>106,474</u>
Total Administrative and General	106,474
Depreciation	108,734
Taxes other than Income Taxes	63,406
Income taxes:	
Current	(9,418)
Deferred (Net)	<u>36,905</u>
Total Income Taxes	27,488
Total Gas Operating Expenses	<u><u>\$897,602</u></u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

EXHIBIT P-4
SCHEDULE AMC - 14 UPDATE 1
PAGE 4 of 10ADJUSTMENTS - INCREASE OR (DECREASE) - PRESENT RATES
12 MONTHS ENDING JUNE 30, 2024*

(Thousands)

Test Year Distribution Operating Income	\$173,861
Wages	(5,178)
Federal and State Income Taxes @ 28.11%	1,455
Payroll Taxes	(396)
Federal and State Income Taxes @ 28.11%	111
Interest Synchronization (Tax Savings)	932
Medical and Fringe Benefits	(4,734)
Federal and State Income Taxes @ 28.11%	1,331
BPU/Rate Counsel Assessments	(353)
Federal and State Income Taxes @ 28.11%	99
BGSS Incentive Margin	(16,286)
Federal and State Income Taxes @ 28.11%	4,578
Rate Case - Outside Services	(284)
Federal and State Income Taxes @ 28.11%	80
Depreciation Annualization	(50,887)
Federal and State Income Taxes @ 28.11%	14,304
SAVEGREEN Margin	(11,514)
Federal and State Income Taxes @ 28.11%	3,237
Real Estate Taxes	(34)
Federal and State Income Taxes @ 28.11%	10
Insurance	(1,053)
Federal and State Income Taxes @ 28.11%	296

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

EXHIBIT P-4
SCHEDULE AMC - 14 UPDATE 1
PAGE 5 of 10

ADJUSTMENTS - INCREASE OR (DECREASE) - PRESENT RATES
12 MONTHS ENDING JUNE 30, 2024*

(Thousands)

Commercial Customer Usage	(1,160)
Federal and State Income Taxes @ 28.11%	326
Revenue Adjustments	(12,320)
Federal and State Income Taxes @ 28.11%	3,463
Regulatory Assets	(2,898)
Federal and State Income Taxes @ 28.11%	815
TSA - Capital	(563)
Federal and State Income Taxes @ 28.11%	92

Total Pro-Forma Adjustments	<u>(76,531)</u>
Total Pro-Forma Distribution Operating Income	<u>\$97,331</u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY
PRO FORMA OPERATING INCOME - PROPOSED RATES
12 MONTHS ENDING JUNE 30, 2024*
(Thousands)

EXHIBIT P-4
SCHEDULE AMC - 14 UPDATE 1
PAGE 6 of 10

Operating Income Pro Forma - Present Rates	\$ 97,331
Adjustment:	
1. Net Increase in Revenues Resulting from proposed Rates	219,584
2. Increase in BPU / RC Assessment and Uncollectible Resulting from Increase Revenue	(1,861)
3. Increase in State Income Taxes	(19,595)
4. Increase in Federal Income Taxes	<u>(41,610)</u>
Total Pro Forma Adjustments	<u>156,518</u>
Operating Income Pro Forma - Proposed Rates	<u><u>\$ 253,849</u></u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

EXHIBIT P-4
SCHEDULE AMC - 14 UPDATE 1
PAGE 7 of 10OPERATING INCOME, YEAR-END RATE BASE AND RATE OF RETURN
12 MONTHS ENDING JUNE 30, 2024*

(Thousands)

Present Rates

Operating Income	\$ 97,331
Year-End Rate Base	\$3,366,744
Rate of Return	2.89%

Proposed Rates

Operating Income	\$ 253,849
Year-End Rate Base	\$3,366,744
Rate of Return	7.54%

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

EXHIBIT P-4
SCHEDULE AMC - 14 UPDATE 1
PAGE 8 of 10RATE BASE - ESTIMATED
12 MONTHS ENDING JUNE 30, 2024*

(Thousands)

Plant in Service	\$4,119,976
Accumulated Depreciation Reserve	(\$677,438)
Customer Advances	(\$2,435)
Net Plant	<u>3,440,102</u>
Gas Supply & LNG Inventory	123,467
Working Capital	
Cash (Lead/Lag)	143,334
Materials and Supplies	23,167
Prepayments	4,279
Net Working Capital	<u>170,779</u>
Net Plant and Working Capital	<u>3,734,348</u>
Deferred Taxes	(233,080)
Excess Deferred Tax	(126,901)
Consolidated Tax Adjustment	<u>(7,624)</u>
Total Rate Base	<u><u>\$3,366,744</u></u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

EXHIBIT P-4
SCHEDULE AMC - 14 UPDATE 1
PAGE 9 of 10

OPERATING INCOME, AVERAGE NET INVESTMENT RATE
BASE AND RATE OF RETURN FOR
TEST YEAR ENDING JUNE 30, 2024*

PRO FORMA PRESENT AND PROPOSED RATES
(Thousands)

Present rates

Operating Income	\$97,331
Average Net Investment Rate Base	\$3,196,123
Rate of Return	3.05%

Proposed Rates

Operating Income	\$ 253,849
Average Net Investment Rate Base	\$3,196,123
Rate of Return	7.94%

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

EXHIBIT P-4

SCHEDULE AMC - 14 UPDATE 1

AVERAGE NET INVESTMENT RATE BASE

PAGE 10 of 10

AT JUNE 30, 2024

(Thousands)

Plant in Service	\$3,930,924
Accumulated Depreciation Reserve	(\$622,136)
Customer Advances	<u>(\$2,532)</u>
Net Plant	<u>3,306,256</u>
Gas Supply Inventory	125,985
Working Capital	
Cash (Lead/Lag)	111,803
Materials and Supplies	20,377
Prepayments	<u>9,789</u>
Net Working Capital	<u>141,969</u>
Net Plant and Working Capital	<u>3,574,210</u>
Deferred Taxes	(370,464)
Consolidated Tax Adjustment	<u>(7,624)</u>
Total Rate Base	<u><u>\$3,196,123</u></u>

NEW JERSEY NATURAL GAS COMPANY
SUMMARY OF OTHER CASH WORKING CAPITAL
FOR THE TWELVE MONTHS ENDED MARCH 31, 2024

(THOUSANDS)

	<u>Other Cash Working Capital</u>
Amount Required to Recover Cost of Service	\$112,523
Net Assets and Liabilities	<u>30,811</u>
Total Other Cash Working Capital	<u><u>\$143,334</u></u>

NEW JERSEY NATURAL GAS COMPANY
SUMMARY OF NET ASSETS AND LIABILITIES
13-MONTH AVERAGE BALANCE ENDING MARCH 31, 2024

	<u>13-Month Average Balance Ending March 31, 2024</u>
<u>Assets:</u>	
CASH BALANCES	\$6,419,331
WORK ORDERS	586,319
THIRD PARTY DAMAGE	1,096,019
NJ LIFELINE	169,202
LI HEAP	814,521
EMPLOYEES	324,388
BILLING IN PROGRESS	10,930,501
ACCOUNT RECEIVABLES	586,451
BCBS	2,568,828
DAMAGE CLAIMS	15,454
PREPAID COMM'L PAPER INTEREST	9,556
PENSION/OPEB ASSET	90,467,816
CSV LIFE INSURANCE	1,631,397
Total Assets	<u><u>\$115,619,781</u></u>
 <u>Liabilities</u>	
PENSION/OPEB LIABILITY	(\$46,356,237)
VOUCHERS	(22,000,688)
UNDISTRIBUTED INVOICES	(134,830)
DENTAL CLAIM RESERVE	(49,900)
ACCOUNT PAYABLES	(554,089)
VIP LIFE INSURANCE DEDUCTION	(26,410)
ALLSTATE SUPPLEMENTAL INSURANCE	(40,303)
CREDIT CARD PROCESSING	(119,915)
RETAINAGE PAYABLE	(244,559)
CUSTOMER DEPOSITS	(14,691,301)
CURRENT AND ACCRUED LIABILITIES	9,089
SUPPLEMENTAL RETIREMENT	(599,753)
Total Liabilities	<u><u>(\$84,808,895)</u></u>
 Net Assets/Liability	 <u><u>\$30,810,887</u></u>