



January 19, 2009

VIA FEDERAL EXPRESS

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

Re: NEW JERSEY NATURAL GAS COMPANY
FOR APPROVAL OF ENERGY EFFICIENCY
PROGRAMS WITH AN ASSOCIATED COST
RECOVERY MECHANISM
BPU DOCKET NO. GR0901 _____

Dear Secretary Izzo:

Enclosed herewith for filing please find an original and ten (10) copies of the petition of New Jersey Natural Gas Company (NJNG) for the approval of energy efficiency programs with an associated cost recovery mechanism.

Copies of the petition, including the supporting Exhibits, are also being served electronically upon the Department of the Public Advocate, Division of Rate Counsel and the Division of Law.

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

Very truly yours,

A handwritten signature in blue ink that reads 'Tracey Thayer'. The signature is written in a cursive style with a large, stylized 'T' at the beginning.

Tracey Thayer
Director, Regulatory Affairs Counsel

Enclosures

C: Service List

**IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS
COMPANY FOR APPROVAL OF ENERGY EFFICIENCY PROGRAMS WITH
AN ASSOCIATED COST RECOVERY MECHANISM
NJ BPU DOCKET NO. GR0901_____**

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**IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS
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**STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

IN THE MATTER OF THE PETITION)	
OF NEW JERSEY NATURAL GAS)	PETITION
COMPANY FOR APPROVAL OF)	
ENERGY EFFICIENCY PROGRAMS)	BPU DOCKET NO. GR0901_____
WITH AN ASSOCIATED COST)	
RECOVERY MECHANISM)	

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

New Jersey Natural Gas (“NJNG” or the “Company”) respectfully petitions the New Jersey Board of Public Utilities (the “Board” or “BPU”) pursuant to N.J.S.A. 48:3-98.1, as follows:

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

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

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

3. This Petition is accompanied by the necessary supporting schedules, program descriptions, financial and other information as required in the Minimum Filing Requirements established for this filing. The following Exhibits, discussed further below, are included with and made part of this Petition:

NJNG-1	Home Performance with Energy Star Enhancements Program
NJNG-2	Enhanced Warm Advantage Rebate Program
NJNG-3	Commercial Customer Direct Install Program
NJNG-4	Marketing Plan
NJNG-5	Revenue Requirement Data
NJNG-6	Impact on Customers
NJNG-7	Proposed Tariff Sheets
NJNG-8	Draft Form of Public Notice
NJNG-9	Budget based on New Jersey Clean Energy Program components
NJNG-10	Job Creation Overview

Background

4. Pursuant to N.J.S.A. 26:2C-45 (“Global Warming Response Act” or the “RGGI Legislation”), signed into law by the Honorable Jon Corzine, Governor of the State of New Jersey, on January 13, 2008, the New Jersey Legislature found global warming to be a pervasive and dangerous threat internationally, nationally and locally. It was further determined that New Jersey can address the problem through the establishment of a statewide greenhouse gas (“GHG”) emissions reduction program that will, among other things, limit the level of statewide GHG emissions from electricity generated and used in the state as well as that used in the state but generated from sources outside New Jersey. Establishing an ambitious and far-reaching goal of reducing such emissions to the 1990 level or below by 2020, the RGGI Legislation also found that energy efficiency and conservation measures must

be essential elements within all future energy planning, including the direction encompassed in the New Jersey Energy Master Plan (“EMP”).

5. An additional finding in the RGGI Legislation stresses the importance of a coordinated statewide effort toward reaching the aggressive goals and that approach includes the active involvement and participation of public utilities through the establishment of competitive energy efficiency and conservation programs. The active participation of New Jersey utilities provides an integral element of the coordinated approach to successfully reducing emissions.

6. Section 13 of the RGGI Legislation, codified as N.J.S.A. 48:3-98.1, establishes that an electric or natural gas utility can offer and invest in regulated energy efficiency and conservation programs within its service territory. Furthermore, utilities are authorized to seek approval from the BPU for recovery of costs related to such programs. That recovery may include a return on equity, the establishment of incentives and the development of a rate mechanism that breaks the link between utility revenues and customer usage. The eligible ratemaking treatments can provide for the inclusion of certain related investments in rate base or the recovery of such costs through a BPU-approved method.

7. In response to recent economic conditions, on October 16, 2008, Governor Corzine presented a comprehensive Economic Stimulus Package for New Jersey that is intended to promote both short- and long-term economic recovery. Noting that the electric and natural gas utilities play a crucial role in both improving the state’s economic condition and encouraging energy efficiency, the proposal included provisions for the energy companies to invest in programs for utility customers that will encourage energy efficiency, generate jobs and strengthen the local economy. Additionally, the economic recovery proposals of President Barack Obama and Vice President Joseph Biden are very much aligned with the New Jersey Economic Stimulus Package, with a coordinated focus on infrastructure projects, job creation, energy efficiency and renewable energy.

8. NJNG fully supports the State and Federal energy efficiency and conservation goals that form the underlying basis for the RGGI Legislation, that permeate the findings and action items in the EMP and that provide New Jersey energy public utilities with opportunities to support economic recovery and generate jobs. That support has been demonstrated to date with the extensive outreach, education and financial support provided to NJNG's customers through the Conservation Incentive Program ("CIP"), approved by the BPU in October 2006. Many of the tools and experiences developed during NJNG's involvement with the CIP directly apply to the Company's current and future efforts in meeting the aggressive energy reduction goals incorporated in the EMP, further the underpinnings of the Governor's Economic Stimulus Package and, importantly, will benefit NJNG's customers.

9. Based on the foregoing, NJNG has developed the Energy Efficiency Programs discussed herein, a package of proposals that target different customer segments to meet varied customer needs. These programs have been designed to fully complement or supplement the existing New Jersey Clean Energy Program ("NJCEP") offers, either through enhancements to or further support of such programs as the ongoing WARMAdvantage, COOLAdvantage, Home Performance with Energy Star ("HPES"), Commercial Direct Install and SmartStart Building programs. The NJNG proposals do not duplicate or eliminate any of the NJCEP programs, intended instead to increase customer awareness, enhance participation and support utilization of NJCEP efforts throughout the State, promoting a "Whole Building" approach to energy efficiency measures. Some aspects of the proposed energy efficiency offerings are actually embedded within existing NJCEP programs, with NJNG's programs providing funding to encourage a significantly higher level of participation than originally included in the BPU-approved 2009 NJCEP Compliance Plan. This approach will avoid duplicative administrative structures and spur additional economic activity within the State.

10. Consistent with the focus of Governor Corzine's Economic Stimulus Package, the programs proposed by NJNG are geared toward creating additional jobs in the energy

efficiency market as well as encouraging customers to reduce their overall energy usage. To that end, Exhibit NJNG-10 provides information and a discussion on anticipated workforce development linked to this proposal.

11. This filing is being made pursuant to Section 13 of the RGGI Legislation, N.J.S.A. 48:3-98.1. Relative to that, the BPU issued an Order on May 8, 2008 (“May 8 Order”), which established, among other things, the procedures and Minimum Filing Requirements for utility filings proposing energy efficiency and conservation programs on a regulated basis pursuant to the RGGI Legislation. However, given the imperative within Governor Corzine’s Economic Stimulus Package that programs be implemented as soon as possible, NJNG is requesting that the Board waive certain of the procedural requirements and Minimum Filing Requirements (“MFRs”) from the May 8 Order to ensure that the programs proposed within this filing can be implemented in an accelerated manner. This submission includes available information based on the MFRs recently developed specifically for Energy Efficiency filings. Additionally NJNG requests that the Board retain this filing for review itself and that an Order be issued in this matter on or before February 24, 2009 or as soon as reasonably possible.

12. Through recent efforts within the CIP, NJNG has learned that education and outreach are crucial elements in reaching customers to encourage energy efficiency and conservation activities. Given the aggressive goals that have been established for New Jersey, an increased focus on education and outreach is certainly imperative. Therefore, for the Energy Efficiency Programs, NJNG proposes to rely on marketing initiatives that include traditional utility communication channels (bill inserts, direct mail and employee interactions with customers), new channels developed through the Company’s CIP (such as electronic messages and employee distributed materials), direct promotion of these programs by NJNG employees, extensive work with community groups, municipalities and industry trade organizations and coordination with ongoing NJCEP communications. Additionally, an integral aspect of these programs will be the direct involvement of contractors and energy

efficiency businesses in NJNG's service territory. Those entities will not only provide the base from which the anticipated jobs will be created and the work will be completed, but can be counted on to promote customer involvement in both the NJNG programs and those of the NJCEP. A description of the proposed marketing efforts is attached hereto as Exhibit NJNG-4.

Programs To Be Offered

13. The three programs that constitute the NJNG Energy Efficiency Programs proposal are summarized below with additional detail provided in Exhibits NJNG-1 through NJNG-3. The proposals included in the NJNG programs are based on the revised customer incentive structure included in the Honeywell 2009 Compliance Plan. The timing for NJNG implementation is directly tied to the roll-out of the new structure and, if necessary, could be delayed pending implementation of that new structure by NJCEP and Honeywell.

a. Home Performance with Energy Star Enhancements (Exhibit NJNG-1)

NJCEP actively encourages New Jersey residents to take advantage of the Home Performance with Energy Star (HPES) Audit program, through which customers are provided with a "whole house" solution toward reducing both their energy costs and carbon footprint. To promote an increased awareness about reliance on the HPES Audits, NJNG is proposing several features that are geared toward increasing participation in the NJCEP HPES program. To that end, NJNG will provide customers who have voluntarily participated in an HPES Audit with incentives up to \$1,000 to cover the costs associated with the audit-recommended weatherization improvements in Tier II.¹ The work associated with this program must stem from an HPES audit and the improvements must be performed under the direction of a Building Performance Institute (BPI) certified contractor².

Secondly, and consistent with the incentives currently available from NJCEP, eligible customers can also opt to obtain discounted financing through NJCEP or to receive an

¹ Measures included in each of the respective Tiers as well as the contractor training requirements related to making such improvements are to be consistent with those proposed in the 2009 Honeywell NJCEP Compliance Filing.

² This requirement is consistent with the current terms of the NJCEP HPES program and would be updated going forward, if necessary, should there be any change to NJCEP standards.

incentive payment ranging from 10-50 percent (“calculated incentives”) of the costs associated with the Tier II work in excess of \$1,000 and for all Tier III work, depending on the scope and amount of work completed from the Audit recommendations. If an NJNG customer chooses the NJCEP calculated incentive, NJNG will fund the cost of such Tier II and Tier III incentives upon approval from the HPES Market Manager. For customers who decide to only pursue an HVAC upgrade that meets the NJCEP WARMAdvantage criteria, NJNG will offer an alternate incentive of \$900 toward such purchase in lieu of the NJCEP Tier III calculated incentives.

NJNG will initially promote the HPES Enhancements through the Company’s current and future CIP communication channels. Such efforts include target marketing to the nearly 30,000 customers who have enrolled or are participating in the Conserve to Preserve Dashboard, purchased discounted Conservation Kits over the past two years or subscribed to our E-tips service. NJNG will also promote this program through more traditional utility channels, such as the NJNG website, *njliving.com*, and customer newsletters or bill inserts. Additionally, details about this program will be made available through direct mail offerings to NJNG’s non-heat customers and non-natural gas users. It is expected that there will be an increase in the number of auditors needed to meet the increased demand for Tier I audits and a significant increase in the number of contractors needed to complete the installation projects, thus creating additional jobs in these sectors.³ Related information regarding job development is provided in Exhibit NJNG-10.

b. Enhanced Warm Advantage Rebate (Exhibit NJNG-2)

This program includes financial incentives intended to encourage investment in high efficiency (Energy Star) natural gas heat and natural gas water heaters by residential customers eligible to participate in the existing NJCEP WARMAdvantage program. This program is also applicable to small commercial customers with an HVAC system sized up to 400 CFH.

Unfortunately, those customers needing to purchase and install new equipment quickly because of inoperable or poorly operating appliances tend to make a snap decision and choose standard efficiency levels, either because they are not made aware of the high efficiency options or they do not have sufficient incentive to install high efficiency appliances. In order to encourage customer involvement in existing NJCEP programs that support the installation of high efficiency equipment, NJNG has developed a complementary program providing additional rebates to eligible NJNG customers making the decision to install high efficiency equipment. This program is intended to focus customers on the overall benefits of saving energy.

To receive the additional rebate, eligible customers must agree to participate in a Tier I HPES audit that will be funded and performed by NJNG⁴. For customers with an immediate or imminent need to replace equipment, NJNG will supplement the NJCEP rebate in an amount up to \$900 for the replacement of a complete central heating system.⁵ All installation work will be performed by local, independent HVAC contractors. At a customer's request, NJNG will forward copies of the mandated Tier I audit to qualified HPES contractors who will provide estimates for the additional Tier II and Tier III work recommended⁶. These customers can then participate in the additional incentives for the HPES program as described in Section 12a.

Because of the direct involvement of local contractors in this program and the connections they will have with customers eligible to participate, NJNG does not anticipate that it will directly market this program to customers. Instead, the Company will work closely with local HVAC contractors to ensure their understanding and active promotion of this program. However, NJNG will initiate some targeted direct marketing to customers whose

³ If the NJNG efforts result in more audit requests than can be handled in a timely manner by independent contractors doing that work, NJNG will meet with BPU Staff to develop an approach and help meet the customer demand.

⁴ There is currently no Audit program available for the small commercial customers included in this program. As such, there is no requirement to participate in an Audit at this time.

⁵ Consistent with NJCEP procedures, eligible premises with multiple HVAC systems are entitled to a rebate for each unit replaced.

⁶ If the NJCEP program develops the secure contractor bidding website proposed in the Honeywell 2009 NJCEP compliance plan (p. 34), NJNG will also post the Tier I activity to this site at the customer's request.

equipment is approximately 18-23 years old, since those households are more likely to have equipment in imminent need of replacement. NJNG wants to ensure that these customers are aware of this new opportunity to proactively suggest an energy efficient approach to the contractor. In that way, the option of purchasing high efficiency equipment is readily available.

It is anticipated that there will be a need for both additional auditing personnel to conduct the increased Tier I audits and additional contractors or contractor employees to perform the WARMAdvantage work, as well as the Tier II and Tier III improvements that customers decide to pursue. This program may also stimulate activity in the high efficiency central air conditioning market as NJNG's outreach efforts will also include mention and discussion about all NJCEP energy saving offerings. Related information regarding job development is provided in Exhibit NJNG-10.

c. Expanded Direct Install Program (Exhibit NJNG-3)

This program will be available to eligible commercial and industrial customers and commercial multi-family structures (including governmental and not-for-profit entities) installing eligible energy efficiency measures under the new NJCEP Direct Install program. NJNG will provide funding for an additional 50 participants above the number currently included in the Direct Install program, more than doubling the anticipated participation level for NJNG. Installations through this program will be performed by NJCEP authorized Direct Install contractors.

To promote these offers, NJNG will work with TRC, the current NJCEP commercial program administrator, as well as with approved Direct Install contractors and local and regional business organizations and Chambers of Commerce to promote these NJCEP programs. NJNG will also frequently promote this offer through the CIP related Conserve to Preserve Business On-line channel.

14. To further support energy efficiency overall and to assist all commercial customers reduce consumption, NJNG will expand outreach to commercial customers. This

initiative includes the launch of a new edition of *njliving times*, the Company's monthly newsletter, that is geared specifically to commercial customers. NJNG is also implementing a Relationship Management Program through which the energy decision makers for many business customers will be contacted and served by an NJNG employee liaison. Marketing Department employees will work with the largest customers and additional NJNG employees will be contacting other high energy users. As part of the communication promoting the expanded Direct Install Program, the opportunities and benefits of Conserve to Preserve Business Online will be outlined. The Relationship Management Program creates an additional channel through which communications about energy efficiency in general and the relevant NJCEP offerings in particular will occur routinely. Further detail is provided in Exhibit NJNG-4.

Cost Recovery Mechanism

15. The Energy Efficiency Programs promote the goals of the Governor's Economic Stimulus Package, RGGI, and the EMP. Specifically, the programs reflected in this Petition have been developed to increase energy efficiency opportunities for customers, promote and enhance the use of the NJCEP HPES Audit, Warm Advantage and Direct Install programs, increase New Jersey employment in the energy efficiency and conservation sectors, and increase customer awareness of energy efficient appliances and weatherization measures. Since these programs include new approaches and new concepts, the number of customers who will respond favorably is difficult to project. Since actual participation levels could well vary from the projections used herein, the number of customers taking advantage of the programs could be greater or lesser than what is used to calculate the supporting financial information, potentially impacting the overall costs and recovery levels respectively. Nevertheless, NJNG relied upon its industry knowledge and understanding of the goals of the Governor's Economic Stimulus Package to develop various assumptions underlying the financial information on which the costs and recovery are based. These are detailed in Exhibits NJNG-5, 6, 7 and 9. NJNG has relied on information from existing NJCEP programs

and data from local contractors to develop the costs associated with these Energy Efficiency Programs in place of a comparable set of historical data, which is not available.

16. NJNG is requesting that the Board approve recovery of all Program Costs, including the costs of the rebates, customer incentives and associated incremental Operations and Maintenance (“O&M”) expenses through a per-therm charge applicable to all jurisdictional throughput on NJNG’s system. The costs associated with the rebate and customer incentive payments are to be recovered over 4 years. The Company is requesting approval from the Board for deferred accounting treatment for the Energy Efficiency Program costs and authority to calculate the carrying costs associated with the investments related to these programs based upon the weighted average cost of capital (WACC) including income taxes. The WACC will be initially calculated from the rate of return most recently approved by the Board in Docket No. GR07110889, in an Order dated October 3, 2008, with an adjustment to the rate for long-term debt to account for current capital market conditions with respect to cost rates.

Cost recovery will be made through the establishment of an Energy Efficiency Rider (proposed Tariff sheets are attached hereto as Exhibit NJNG-7) that will be collected from all jurisdictional throughput, the rate for which will initially be established as of the date of the Board Order approving this Petition and based on projected costs. In order to establish future rates under the proposed Energy Efficiency Rider, NJNG will make annual filings in alignment with the annual Societal Benefits Clause filings. The annual energy efficiency filing will provide actual costs and recoveries for the previous year as well as projections for the upcoming year. Any variance between costs and recoveries will accrue interest at a rate equal to NJNG’s monthly commercial paper rate and will be included in the rate for the upcoming year along with any over- or under-recovery of Program Costs

17. As provided on Exhibit NJNG-5, Revenue Requirement Summary, the estimated costs associated with the Energy Efficiency Programs and the associated NJNG Operations and Maintenance expenses total \$22.894 million. Since the O&M costs are

greatest at the outset, there is a sharp decline in costs over time. Furthermore, these total expenditures will only be realized if the proposed programs reach the projected participation levels at the assumed terms. In the event that the program participation assumptions are not met or are exceeded, the actual cost for the programs will be lower or higher than the estimates reflected herein and, therefore, the necessary recovery level will change.

18. Based upon the anticipated costs associated with the Energy Efficiency Programs, NJNG has calculated an estimated typical residential customer impact of approximately \$36 (pre-tax) over the four-year recovery period, resulting in an average annual impact of approximately \$9.00 per year. That impact is necessarily greater in the early years due to the initial costs associated with implementing these programs. Accordingly, the customer impact, provided in detail in the attached Exhibit NJNG-5, ranges between an annual impact of \$13.60 to the average residential customer using 1,000 therms annually in the first year to an annual impact of \$6.70 for the last year of the recovery. The anticipated impact on customer is provided in Exhibit NJNG-6 and the proposed budget, allocated by the components set forth in the NJCEP 2009 Program and Budget Compliance Filings, is attached as Exhibit NJNG-9.

19. The Company believes that this proposal's focus on aggressively growing the demand for HPES audits will support the development of a broader HPES certified contractor workforce and a trained pool of home energy auditors. That expansion of audit work, and related job growth, will also support some of the recommendations on successful implementation of the EMP encompassed within the November 2008 Draft Report from the Northeast Energy Efficiency Project ("NEEP"), including the recommendation for time of sale disclosure and audit requirements. Essentially, this rebate driven package of programs requiring participation in the HPES audit can develop the workforce necessary to support further state policy changes to provide other more cost effective methods for achieving the aggressive EMP targets. This focus on encouraging HPES audits allows the State to expedite the implementation of relevant policy changes, all geared toward meeting the EMP goals.

20. A cost benefit analysis will be performed by the Center for the Energy, Economic & Environmental Policy (CEEEP) and the information resulting from that work will be provided to all parties to this proceeding as soon as it is available.

21. In this Petition, NJNG is not seeking Board approval of incentives or a rate mechanism that decouples utility revenues from sales since the CIP pilot is currently in effect. However, NJNG reserves the right to amend this Petition or request such treatment in a future filing should the CIP be terminated or modified in such a way that it no longer provides NJNG with the necessary recovery of its costs of operations.

22. NJNG will begin implementing the Energy Efficiency Programs immediately upon receipt of a final BPU Order approving the programs and the associated cost recovery mechanism.

Notice

23. Attached hereto as Exhibit NJNG-8 is a proposed Draft form of Public Notice of the Energy Efficiency Filing and Public Hearing. This notice sets forth the proposed impact on customer rates and will be submitted to newspapers having circulation within the NJNG Service Territory once a public hearing date agreeable to all Parties has been scheduled.

24. NJNG has served notice and a copy of this Filing, together with a copy of the annexed exhibits being filed herewith, upon the Department of the Public Advocate, Division of Rate Counsel and to the Division of Law.

WHEREFORE, NJNG requests that the Board issue an Order:


1. Approving NJNG's request that the Board retain this filing for the issuance of a Decision and Order and that the Board waive certain of the procedural requirements and Minimum Filing Requirements from the May 8 Order;

2. Approving the Company's request to implement the Energy Efficiency Programs as proposed under the terms set forth herein and in the attached supporting Exhibits;
3. Approving the Company's request for authorization to recover the incremental costs associated with these programs through the Energy Efficiency Rider as proposed herein:
4. Approving the Company's request for deferred accounting and the request for inclusion of carrying costs associated with the Energy Efficiency Programs under the terms set forth herein;
5. Approving the Company's request to submit an annual filing in which NJNG will provide actual costs and recoveries for the previous year as well as projections for the upcoming year through which the Energy Efficiency Rider rate will be established;
6. Approving the initial rates and charges associated with these programs, and the proposed Tariff Sheets, as set forth herein and to be effective as of the date of the Board Order in this proceeding; and
7. Granting such other relief as the Board deems just, reasonable and necessary.

Respectfully submitted,

NEW JERSEY NATURAL GAS COMPANY

By:


Tracey Thayer, Esq.

Attorney for New Jersey Natural Gas Company

Dated: January 19, 2009

STATE OF NEW JERSEY)
 :
COUNTY OF MONMOUTH)

VERIFICATION

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

1. I am Vice President, Regulatory Affairs for New Jersey Natural Gas Company, the Petitioner in the foregoing Petition.
2. I have read the annexed Petition, along with the Exhibits attached thereto, and the matters and things contained therein are true to the best of my knowledge and belief.



Mark R. Spurduto

Sworn and subscribed to)
before me this 19th day)
of January, 2009)



LISA HAMILTON
NOTARY PUBLIC FOR NEW JERSEY
Commission Expires: January 4, 2010



**NJNG WHOLE BUILDING Energy Efficiency Programs
Home Performance with Energy Star Enhancements
and Covering Tier II and III customer incentives**

<p>Description of Program</p>	<p>This program is designed to encourage broader voluntary participation in the NJCEP Home Performance with Energy Star (HPES) Audit program and to encourage customers to implement the recommended audit improvements. The HPES program involves an initial fee-based Audit that identifies both system and building shell improvements to provide improvements to the energy efficiency, comfort, and safety of a customer’s home. Following the completion of an audit, NJNG will fund the cost of the HPES Tier II and Tier III recommendations for customers who choose to take the NJCEP cash incentive or will provide the alternative NJNG rebate of up to \$900 for customers who only pursue a boiler or furnace upgrade meeting the WARM Advantage criteria. Consistent with current NJCEP treatment, potential participants will not be eligible for these financial incentives if they choose the discounted financing option available through NJCEP, unless they fall within the income qualified category of between 225% and 300% of poverty level. Income qualified customers will be eligible for both the discounted NJCEP financing and the cash rebate from NJNG. Consistent with existing NJCEP treatment, NJNG will fund the cost of the rebate and the audit fee paid by customers, if the customer implements a specified dollar threshold of audit recommendations.</p> <p>NJNG will also fund the customer incentives for the Tier II and Tier III recommendations implemented by customers who have the Tier I audit performed by NJNG as described in Exhibit NJNG-2.</p> <p>Note: This proposal presumes that the HPES program is operating under the revised customer incentive structure from the Honeywell 2009 Compliance Plan. Should NJNG’s petition be approved prior to the new incentive structure being implemented, NJNG’s launch will be postponed to coincide with the roll-out of the new structure.</p>
<p>Market Segment/ Efficiency Targeted</p>	<p>Residential homeowners who do not need to immediately replace their energy equipment will be the targeted group since it is mandatory to participate in the HPES audit at the outset. The program will target the installation of high efficiency HVAC equipment and the installation of energy conservation measures (weatherization improvements to the building).</p>
<p>Delivery Method</p>	<p>The HPES audits must be performed by contractors approved as NJCEP Tier I auditors. Installation work will be performed by Tier II/III NJCEP HPES contractors who are expected to meet NJCEP criteria, which currently requires Building Performance Institute (BPI) certification.</p>

**NJNG WHOLE BUILDING Energy Efficiency Programs
Home Performance with Energy Star Enhancements
and Covering Tier II and III customer incentives**

Estimated Program Participants	2,500 voluntary audits (plus 5,000 from NJNG's enhanced rebate program) 6,750 Tier II 1,500 Tier III	Estimated Annual Savings	Tier II work= 244,000 therms Tier III work= 181,000 therms
Link to existing programs	Directly linked to NJCEP HPES program		
Existing Incentives for 2009	Tier I- NJCEP discount on the cost of the audit. Tier II- NJCEP Program offers up to \$1,000 for air and duct sealing. Tier III- choice of rebates ranging from 10 percent to 50 percent of the improvements with total rebate cap of \$5,000 or low cost financing through a 3 rd party	Proposed NJNG Whole Building Incentives	NJNG will fund the cost of up to \$1,000 for Tier II air and duct sealing (weatherization) measures for all customers. NJNG will also fund Tier III cash rebate incentives for customers choosing that cash rebate incentive. ¹ For customers who are only interested in pursuing a boiler or furnace upgrade that meets the WARM Advantage criteria, NJNG will offer an alternative incremental rebate of \$900 in lieu of the HPES Tier III cash incentive rebate. Income qualified customers ² may be eligible for a both rebate and the discounted NJCEP financing option.
Estimated avoided air emissions	Tier II: 2,800,000 lbs. of CO ₂ and 2,246 lbs. of NO _x annually Tier III: 2,100,000 lbs. of CO ₂ and 1,664 lbs. of NO _x annually		
Anticipated Job Creation	Additional auditors needed. Additional contractors and/or workers at contractor companies needed. Refer to Exhibit NJNG-10.		

¹ These offers are based on the recently approved incentives from Honeywell for the 2009 Program year.

² Determination of eligibility will be consistent with NJCEP definition of 225 percent to 300 percent of poverty level. Customers below the 225 percent of poverty level will be eligible to be served by the Comfort Partners program.

**NJNG WHOLE BUILDING Energy Efficiency Programs
Home Performance with Energy Star Enhancements
and Covering Tier II and III customer incentives**

Budget information	Refer to Exhibit NJNG- 9 for categorization of costs.
Marketing Approach	Refer to Exhibit NJNG-4.
Cost Recovery/ Rate design	Refer to Exhibit NJNG-5 for information related to cumulative program costs and the proposed cost recovery schedule. These costs are to be collected through an Energy Efficiency Rider “F” applicable to all jurisdictional throughput
Contractor Role	NJNG projects a significant increase in the volume of contractor work. There will be no change to the relationship between the contractor and customers for work done after the HPES audit. For those customers choosing a rebate, that amount can be assigned to the contractor if desired.

NJNG WHOLE BUILDING Energy Efficiency Programs Overview of Job Growth and Potential Increase in Contractor Activity

Summary of new positions within New Jersey Natural Gas:

NJNG expects to hire 22 individuals to conduct the following work:

- Processing an estimated 6,750 enhanced rebates
- Scheduling and performing 5,000 Home Performance with Energy Star (HPES) Tier I Audits
- Processing and payment of incentive payments for the implementation of Tier II and Tier III HPES measures
- Processing and payment of incentive payments for an additional number of NJCEP Direct Install projects
- Conducting outreach and responding to customer inquiries for all of these programs

A more detailed description of the 22 incremental positions by program is presented in Exhibit NJNG-5, page 5 of 5.

Assessment of Increase in Contractor Activity

Since NJNG does not have access to data on contractor capacity or current market conditions for contractors, we are providing an overview of the potential increase in contractor activity as a result of this proposal, rather than an estimate of the number of new jobs. As captured in the table below, the proposal would generate a tremendous increase in the volume of contractor work necessary under Home Performance with Energy Star (HPES).

	Estimated NJNG Audit Generated Leads	Estimated Voluntary HPES Audits	Estimated Total	Comments regarding contractor activity in NJNG's service territory
Initial HVAC Projects	5,000	N/A- at initial point. Equipment upgrades are identified through the audit.	5,000	No incremental activity in the total number of units to be replaced is estimated. However, the incentive is likely to help support a market that could suffer due to current economic conditions if customers repair older, inefficient equipment rather than making the investment necessary to replace and upgrade. Additionally, since the installation of a high efficiency unit generally takes longer than a standard unit, success in increasing the number of high efficiency installations should also increase contractor work time.
	Estimated NJNG	Estimated	Estimated	Comments regarding contractor activity in NJNG's

**NJNG WHOLE BUILDING Energy Efficiency Programs
Overview of Job Growth and Potential Increase in Contractor Activity**

	Audit Generated Leads	Voluntary HPES Audits	Total	service territory
Tier I Audits	5,000	2,500	7,500	Based upon contractor input, the current estimate of HPES activity in our service territory is less than 40 audits per month. NJNG estimates that the activity level from the Company proposals would increase audit activity for existing contractors by nearly 5 times. By including the audits that NJNG will provide, the volume of audit activity would be nearly 15 times the current rate.
Tier II Projects	4,500	2,250	6,750	
Tier III Projects (total- break out shown below)			3,150	Based upon input from current HPES contractors, an estimated 200 implementation projects per month (2,400 projects per year) could be accomplished with their current staffing levels. The number of additional contractor jobs stemming from the proposed NJNG Energy Efficiency projects is difficult to estimate given the time necessary to perform various projects and the level of contractor efficiencies related to performing Tier II and Tier III work at the same time. However, it is clear that contractors would need to significantly expand their staff to meet the increased demand. All contractors who responded to our HPES ¹ survey indicated a willingness to hire additional staff to meet increased customer demand.
With HVAC	N/A- since entered queue through an equipment upgrade	1,650: \$900 incentive 300: NJCEP incentive structure		
Without HVAC	1,200			
Total Tier II and Tier III			9,900	

NJNG’s commitment to fund the incentives for an additional 50 Direct Install jobs within NJNG’s service territory is expected to result in approximately double the level of activity estimated for NJNG’s share of statewide activity. However, NJNG is not able to assess existing contractor capacity to absorb that work.

¹ NJNG conducted a survey of active HPES contractors in the service territory to gauge their level of activity and the associated employee levels.

**NJNG WHOLE BUILDING Energy Efficiency Programs
Enhanced Warm Advantage Rebate Program**

<p>Description of Program</p>	<p>Currently, an overwhelming majority of customers with existing HVAC equipment being replaced due to immediate or imminent equipment failure opt for standard efficiency for their new HVAC units. In order to meet the Energy Master Plan savings targets, the State will need almost every customer faced with an equipment decision to select high efficiency equipment. Because this decision will most likely only be made by most equipment owners once between now and 2020, it is crucial to start significantly influencing these HVAC purchases now. Accordingly, NJNG will offer enhanced rebates of \$900 for qualified WARMAdvantage furnace and boiler equipment purchases. However, customers will only be entitled to this enhanced rebate if they agree to have a Home Performance with Energy Star (HPES) Tier I audit that will be paid for and performed by NJNG. Follow-up Tier II and Tier III work will be performed by HPES certified contractors and will run through the NJCEP program channels for approval of work and calculation of customer and contractor incentives. As part of HPES Enhancement (Exhibit NJNG-1), NJNG will fund customer incentives for the HPES Tier II and Tier III recommendations implemented by customers. The Enhanced WARMAdvantage Rebate program is also applicable to small commercial customers with an HVAC system sized up to 400 CFH.¹</p>
<p>Market Segment/ Efficiency Targeted</p>	<p>Residential and small commercial customers who have existing furnaces or boilers needing immediate or imminent replacement. The program will promote the installation of high efficiency equipment and the installation of other energy efficiency measures by creating awareness of opportunities identified through the Tier I audit.</p>
<p>Delivery Method</p>	<p>NJNG and HVAC Contractors to promote programs to customers. NJNG to process incremental rebates and perform the Tier I audits. HPES contractors to implement Tier II and Tier III improvements from Audit recommendations.</p>

¹ Commercial customers will not be required to have an NJNG or HPES Tier I audit performed to receive the incremental rebate since there is no comparable NJCEP commercial audit currently available.

**NJNG WHOLE BUILDING Energy Efficiency Programs
Enhanced Warm Advantage Rebate Program**

Estimated Program Participants	5,000 for Tier I audit performed by NJNG 6,750 for rebate (includes voluntary HPES audit rebates). Note: Tier II and Tier III work implemented as a result of the NJNG Tier I audits are addressed in Exhibit NJNG-1.	Estimated Annual Savings	1,200,000 therms
Link to existing programs	<ul style="list-style-type: none"> • WARMAdvantage • Home Performance with Energy Star (HPES) 		
Existing Incentives	<ul style="list-style-type: none"> • WARMAdvantage \$300-\$400 <p>HPES incentives are captured on Exhibit NJNG-1.</p>	Proposed Incentives	<p>Incremental \$900 rebate to customer for WARMAdvantage furnace or boiler installations. Required HPES Tier I audit to be performed and the cost to be funded by NJNG. NJNG to fund the cost of the HPES Tier II and Tier III incentives². The HPES work is captured on Exhibit NJNG-1.</p>
Estimated avoided air emissions	13,200,000 lbs. of CO ₂ and 10,600 lbs. of NO _x annually		
Anticipated Job Creation	Additional staff at NJNG to schedule and perform the audits, as well as to process rebates. Need for additional contractor employees for the volume of work to be generated. Refer to Exhibit NJNG-10.		
Budget information	Refer to Exhibit NJNG-9 for categorization of costs.		
Marketing Approach	Refer to Exhibit NJNG-4.		
Cost Recovery/ Rate design	Refer to Exhibit NJNG-5 for budget information related to program costs and the proposed cost recovery schedule. These costs to be collected through an Energy Efficiency Rider “F” applicable to all jurisdictional throughput.		

² These offers are based on the recently approved incentives from Honeywell for the 2009 Program year.

**NJNG WHOLE BUILDING Energy Efficiency Programs
Enhanced Warm Advantage Rebate Program**

Contractor Role	Local HVAC contractors currently engaged in equipment replacement can make customers aware of the enhanced rebate opportunity. The resulting work should increase the number of high efficiency equipment replacement jobs that are performed. HPES qualified contractors will also see a significant increase in the demand for Tier II and Tier III HPES work.
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**NJNG WHOLE BUILDING Energy Efficiency Programs
Commercial Customer Direct Install Program**

Description of Program	<p>To further support participation in and implementation of qualified measures or improvements identified by the new NJCEP Direct Install program, NJNG will fund the cost of the customer incentives for an additional 50 eligible customers. This is estimated to be more than double NJNG’s anticipated share of the recently approved 2009 Compliance Plan Statewide target. The incentive amount available through this program will be consistent with the level approved for the 2009 NJCEP Compliance Plan approved for TRC.</p> <p>Note: This proposal presumes that the NJCEP Direct Install program has been fully launched by the time this proposal is approved. Should NJNG’s petition be approved prior to customers being able to participate in the NJCEP program, NJNG’s launch will be postponed until the program is fully operational.</p>		
Market Segment/ Efficiency Targeted	<p>All customers and measures eligible for the new NJCEP Direct Install programs. NJCEP Direct Install targets customers with average annual kW demand of 200 kW or less.</p>		
Delivery Method	<p>The improvements will be delivered consistent with the developing NJCEP Direct Install channels. NJNG will work with TRC to raise awareness of the program and available incentives to those commercial customers who are expected to meet the target profile.</p>		
Estimated Program Participants	50 additional eligible customers	Estimated Annual Savings	17, 000 therms
Link to existing programs	<p>Directly linked to the new NJCEP Direct Install program</p>		
Existing Incentives for 2009	<p>Direct install- NJCEP provides up to 80 percent of the costs of the recommended measures.</p>	Proposed NJNG Whole Building Incentives	<p>No incremental incentive but NJNG will fund the cost of the customer incentives for an additional 50 customers.</p>
Estimated avoided air emissions	<p>198,000 lbs. of CO₂ and 160 lbs. of NO_x annually</p>		
Anticipated Job Creation	<p>Need for additional contractors for the volume of work to be generated. Refer to Exhibit NJNG-10.</p>		
Budget information	<p>Refer to Exhibit NJNG- 9 for categorization of costs.</p>		
Marketing Approach	<p>Refer to Exhibit NJNG-4.</p>		

**NJNG WHOLE BUILDING Energy Efficiency Programs
Commercial Customer Direct Install Program**

Cost Recovery/ Rate design	Refer to Exhibit NJNG- 5 for budget information related to program costs and the proposed cost recovery schedule. These costs will be collected through an Energy Efficiency Rider “F” applicable to all jurisdictional throughput.
Contractor Role	There is no change proposed to the current relationships between the contractors and customers for work done.

NJNG WHOLE BUILDING Energy Efficiency Programs Marketing Overview

Home Performance with Energy Star Enhancements (HPES) and Coverage of Tier II and III customer incentives

NJNG will promote the recently restructured HPES audit program to all customers through broad communication channels; however, homes that are 18 years or older would have increased focus because of their potential need for high efficiency equipment upgrades and weatherization improvements. The Company also plans to encourage owners of homes that are approximately 18-23 years old to participate in the program through their decision on heating system replacement (see Enhanced Warm Advantage Rebate description below). NJNG will conduct a more focused marketing effort for entry into this program through promotion of the voluntary audit to homes that are 23 years or older. Lastly, NJNG will conduct various targeted direct mail campaign to developments that have been connected to NJNG's distribution system for at least 23 years and will work with communities, including NJCEP partner communities, to conduct focused direct mail campaigns supported by grass roots efforts. The marketing materials will promote the benefits of the newly restructured HPES Tier I energy audit, including the provision of free CFL bulbs and the customized recommendations, the free diagnostic and air sealing measures available in Tier II and the financial incentives available for Tier III improvements. NJNG will also address the extra level of incentives available for income qualified customers where appropriate.

Through the BPU approved Conservation Incentive Program, NJNG has also been successful in developing a large group of customers interested in improving the energy efficiency of their homes. Therefore, additional outreach will be conducted with the following groups:

- Customers who have tried NJNG's Conserve to Preserve® Dashboard (already nearly 10,000 customers)
- E-tips subscribers (approximately 30,000 customers)
- Customers who have purchased this year's NJNG sponsored Energy Conservation Kit (already estimated to be more than 10,000 participants)

As noted above, promotion will also occur through traditional utility channels, including the *njliving* times (our customer newsletter), NJNG's website, *njliving.com*, on-hold messages in the Call Center, etc. NJNG will also continue to develop other promotional resources, like tear-off pads with information sheets that our field personnel can leave behind with customers likely to benefit from the program. Additionally, material will be shared with municipalities and/or community groups interested in customer outreach.

Finally, NJNG will market the HPES Enhancements program through direct mail to NJNG non-heat customers and residents on or near existing natural gas mains. NJNG will also work to promote this offer with all employees and other stakeholders, including HVAC contractors, realtors, and municipalities.

NJNG WHOLE BUILDING Energy Efficiency Programs Marketing Overview

Enhanced Warm Advantage Rebate Program

The marketing of the Enhanced Warm Advantage Program will include targeted direct mailings and promotions through local HVAC contractors. Based upon the dates that premises connected to the distribution system, NJNG can identify customer equipment that is approximately 18 to 23 years old. Such equipment is likely to be inefficient and in need of imminent replacement. Promotions and advertising will identify the benefits of upgrading to high efficiency boilers and furnaces. The messaging will also feature the enhanced rebate of \$900 from NJNG. In order to qualify for the rebate, customers will be required to participate in a free energy audit funded and performed by NJNG. This free energy audit will be consistent with the Tier I energy audit of the HPES program. This combination of the enhanced rebate and free audit will provide eligible customers with a comprehensive view of beneficial energy solutions for their whole house, rather than just focusing on a single heating system. These participants will then be able to access the program incentives available under Tier II and Tier III. The audit will encourage the customer to follow through on the available promotions. To reinforce the benefits of participation, NJNG will send follow-up letters to customers who do not initially pursue the additional recommendations.

Furthermore, NJNG will utilize our relationships with local HVAC contractors to promote the enhanced rebate program. Below is our HVAC Contractor rollout plan

- Update the Participating Contractor Service Agreement
- Provide direct mail announcement to all HVAC and plumbing supply/distributor offices
- Conduct contractor program enrollment, sales and marketing training both at NJNG corporate headquarters and participating company locations
- Provide segmented/target markets to assist contractor program advertising
- Develop marketing and sales print material for contractor use

As noted in the previous section, NJNG initially intends to focus promotion of the HPES program through the traditional channels. However, if there is no evidence of a significant increase in customer interest in the voluntary HPES audit, NJNG will broaden outreach on this enhanced rebate program since it subsequently makes customers eligible for the HPES program incentives for Tier II and Tier III improvements.

NJNG will also work to promote this offer to all Company employees and other stakeholders, including HVAC contractors, realtors and municipalities.

NJNG WHOLE BUILDING Energy Efficiency Programs Marketing Overview

Commercial Customer Direct Install Program

By NJCEP design, this Direct Install program is only available to commercial customers with an average annual kW demand of 200 kW or less. NJNG will work with the Market Manager (TRC) to promote this program through various channels including the following:

- Authorized Direct Install program contractors
- Local business organizations
- Chambers of Commerce
- Industry and trade groups

We also plan to conduct informational seminars on the benefits of the Direct Install program with our customers in communities with a focus on economic development for small businesses, such as Asbury Park. These contacts will be made through our association with local business groups and organizations. Since the target audience is identified through annual electricity demand, NJNG does not intend to conduct a direct campaign to promote this program since we don't have access to the qualifying energy information. However, the Company will promote the availability of the Direct Install program through our Conserve to Preserve Business Online service (developed as a result of the Conservation Incentive Program) and our new commercial editions of *njliving times* (see next section for more information).

Broader Commercial Outreach

NJNG plans to significantly expand our outreach efforts to commercial natural gas customers. This initiative includes the launch of a new commercial edition of *njliving times*, the monthly newsletter that is included in customer bills. NJNG is also in the process of launching a Relationship Management Program. Through this program, NJNG will be segmenting business customers by usage, expanding the direct outreach by Marketing employees to the largest customers, and piloting additional outreach to the next tier of high energy users. A broader cross-section of NJNG employees will act as company liaisons to the energy decision makers within these targeted businesses. As part of this initiative, NJNG will be seeking to enroll these customers in our Conserve to Preserve Business Online channel. The Relationship Management Program will significantly improve our ability to routinely communicate with commercial customers regarding energy efficiency program updates.

Through the combination of these various channels, NJNG will continue to promote existing NJCEP programs (e.g. Smart Start Buildings, Local Government Audit) and expand promotion of new NJCEP programs (Pay for Performance), Combined Heat and Power resources and incentives, and the new sector specific guides developed as an Energy Master Plan initiative.

**New Jersey Natural Gas
Economic Stimulus Energy Efficiency Investments**

**Revenue Requirement and Recovery
(\$000)**

Year	1	2	3	4	Total
<u>Efficiency Investments</u>					
HVAC Rebate	\$ 5,985	\$ 4,489	\$ 2,993	\$ 1,496	
HPES Seal-Up Rebate	6,750	5,063	3,375	1,688	
HPES Tier II and III Rebate	2,160	1,620	1,080	540	
C&I Direct Install Rebate	400	300	200	100	
Total	\$ 15,295	\$ 11,471	\$ 7,648	\$ 3,824	
<u>Revenue Requirements</u>					
Audit Expenses	\$ 1,392	\$ -	\$ -	\$ -	\$ 1,392
O&M Expense	1,628	205	-	-	1,833
Rebate Amortization	3,824	3,824	3,824	3,824	15,295
Debt Cost	379	284	190	95	948
Equity Return	807	605	404	202	2,018
Income Taxes	563	422	281	141	1,407
Total	\$ 8,594	\$ 5,341	\$ 4,698	\$ 4,261	\$ 22,894
<u>Per Therm Recovery</u>					
Firm Throughput (000 therms)	679,261	679,261	679,261	679,261	
Per Therm	\$ 0.0127	\$ 0.0079	\$ 0.0069	\$ 0.0063	
Per Therm with Sales Tax	\$ 0.0136	\$ 0.0085	\$ 0.0074	\$ 0.0067	
Average Residential (1,000 therms)	\$ 13.60	\$ 8.50	\$ 7.40	\$ 6.70	\$ 36.20
4-Year Average Residential (1,000 therms)	\$ 9.05	\$ 9.05	\$ 9.05	\$ 9.05	

**New Jersey Natural Gas
Economic Stimulus Energy Efficiency Investments**

Program Units and Costs

Year	NJNG Audit			Contractor Audit			Other			Year 1 Direct Investments (\$000)
	Units	Cost	Years	Units	Cost	Years	Units	Cost	Years	
HVAC Enhanced Rebate	5,000	\$ 900	4	1,650	\$ 900	4				5,985
HPES Audit	5,000	\$ 230	1	1,950	\$ 125	1				1,392
HPES Seal-Up	4,500	\$ 1,000	4	2,250	\$ 1,000	4				6,750
HPES Rebate	1,200	\$ 800	4	300	\$ 4,000	4				2,160
Direct Install							50	\$ 8,000	4	400
Total Investments										\$ 16,687

New Jersey Natural Gas
Economic Stimulus Energy Efficiency Investments

Cost of Capital and Tax Rates

Component	Amount	Ratio	Cost	Weighted Cost
<u>Cost of Capital</u>				
Long-Term Debt	\$ 411,344	41.63%	5.44%	2.26%
Short-Term Debt	66,000	6.68%	2.90%	0.19%
Customer Deposit	4,447	0.45%	4.79%	0.02%
Common Equity	<u>506,332</u>	<u>51.24%</u>	10.30%	<u>5.28%</u>
Total	\$ 988,123	100.0%		7.76%

Total Debt Cost: 2.48%

Tax Effects

Federal Income Tax	35.00%
NJ Corporate Income Tax	<u>9.36%</u>

Combined Tax Rate

41.08%

Weighted-Return on Equity

5.28%

Tax Rate

3.68%

After-Tax Return

11.44%

**New Jersey Natural Gas
Economic Stimulus Energy Efficiency Investments**

	Rate Base (\$000)				Total
	Year 1	2	3	4	
<u>Efficiency Investments</u>					
HVAC Rebate	\$ 5,985	\$ 4,489	\$ 2,993	\$ 1,496	
HPES Seal-Up Rebate	6,750	5,063	3,375	1,688	
HPES Tier II and III Rebate	2,160	1,620	1,080	540	
C&I Direct Install Rebate	400	300	200	100	
Total	\$ 15,295	\$ 11,471	\$ 7,648	\$ 3,824	
<u>Amortization</u>					
HVAC Rebate	\$ 1,496	\$ 1,496	\$ 1,496	\$ 1,496	\$ 5,985
HPES Seal-Up Rebate	1,688	1,688	1,688	1,688	6,750
HPES Tier II and III Rebate	540	540	540	540	2,160
C&I Direct Install Rebate	100	100	100	100	400
Total	\$ 3,824	\$ 3,824	\$ 3,824	\$ 3,824	\$15,295

New Jersey Natural Gas
Economic Stimulus Energy Efficiency Investments

O&M Detail

	Mgr	Contract Supervisor	Auditor Scheduler	Lead Scheduler	Auditor	Res Market Specialist	Comm Mkt Specialist	Program Promo Spec	Processing Assistant	Program Analyst	Non-Labor	Total
FTEs												
HVAC Enhanced Rebate	1.00	0.50				1.25		0.50	2.50	0.50		6.25
HPES Audit	0.35		1.00	1.00	9.00				1.00	0.25		12.60
HPES Seal-Up	0.25	0.20				0.25		0.30				1.00
HPES Rebate	0.10	0.30							0.25	0.15		0.80
Direct Install	0.30	-	-	-	-	-	0.50	0.20	0.25	0.10		1.35
Total FTEs	2.00	1.00	1.00	1.00	9.00	1.50	0.50	1.00	4.00	1.00		22.00

2009 Salary	\$ 105,500	\$ 82,000	\$ 42,500	\$ 60,000	\$ 50,500	\$ 73,000	\$ 73,000	\$ 73,000	\$ 42,500	\$ 73,000		
Total Labor	\$ 211,000	\$ 82,000	\$ 42,500	\$ 60,000	\$ 454,500	\$ 109,500	\$ 36,500	\$ 73,000	\$ 170,000	\$ 73,000		
Fringe Overheads	\$ 71,740	\$ 27,880	\$ 14,450	\$ 20,400	\$ 154,530	\$ 37,230	\$ 12,410	\$ 24,820	\$ 57,800	\$ 24,820		
Office Overheads	63,300	24,600	12,750	18,000	136,350	32,850	10,950	21,900	51,000	21,900		
Subtotal Overheads	\$ 135,040	\$ 52,480	\$ 27,200	\$ 38,400	\$ 290,880	\$ 70,080	\$ 23,360	\$ 46,720	\$ 108,800	\$ 46,720		
Total with Overheads	\$ 346,040	\$ 134,480	\$ 69,700	\$ 98,400	\$ 745,380	\$ 179,580	\$ 59,860	\$ 119,720	\$ 278,800	\$ 119,720	\$ 868,750	\$ 3,020,430

Audit O&M	\$ 60,557	\$ -	\$ 69,700	\$ 98,400	\$ 745,380	\$ -	\$ -	\$ -	\$ 69,700	\$ 29,930	\$ 318,750	\$ 1,392,417
Total without Audit	\$ 285,483	\$ 134,480	\$ -	\$ -	\$ -	\$ 179,580	\$ 59,860	\$ 119,720	\$ 209,100	\$ 89,790	\$ 550,000	\$ 1,628,013

FTE's Year 2	0.25	0.50	-	-	-	0.50	-	-	0.50	-		1.75
O&M Cost Year 2	\$ 43,255	\$ 67,240	\$ -	\$ -	\$ -	\$ 59,860	\$ -	\$ -	\$ 34,850	\$ -		\$ 205,205

**New Jersey Natural Gas Company
Energy Efficiency Rider
Net impact of Proposed Rate Change
BPU. DOCKET NO. GR0901_____**

(\$/therm)

	Component of	Current		Proposed		Change	
		Pre-tax	Post-tax	Pre-tax	Post-tax	Pre-tax	Post-tax
EE	Delivery Price	<u>0.0000</u>	<u>0.0000</u>	<u>0.0127</u>	<u>0.0136</u>	<u>0.0127</u>	<u>0.0136</u>
NET IMPACT		<u>0.0000</u>	<u>0.0000</u>	<u>0.0127</u>	<u>0.0136</u>	<u>0.0127</u>	<u>0.0136</u>

Impact on Residential Heating Customers- Assume 100 therm bill

Current Prices				1000 therm annual bill per BPU	
				Monthly	Report Card
	Customer Charge		\$8.25	\$8.25	\$99.00
	Delivery	100	\$0.5172	\$51.72	\$517.20
	BGSS	100	\$1.1008	\$110.08	\$1,100.80
	Total		<u>\$1.6180</u>	<u>\$170.05</u>	<u>\$1,717.00</u>

Proposed Prices¹

	Customer Charge		\$8.25	\$8.25	\$99.00
	Delivery	100	\$0.5308	\$53.08	\$530.80
	BGSS	100	\$1.1008	\$110.08	\$1,100.80
	Total		<u>\$1.6316</u>	<u>\$171.41</u>	<u>\$1,730.60</u>

Additional Increase in Monthly bill		\$1.36	\$13.60
Increase as a %		0.8%	0.8%

Projected Annual Revenue

Projected EE annual therms 679,261 (000s)

Projected Annual Pre-tax Revenue

	Projected Revenue at Current Rates \$million	Projected Revenue at Proposed Rates \$million	Change \$million
EE IMPACT	<u>\$0.0</u>	<u>\$8.6</u>	<u>\$8.6</u>

Projected Annual Post-tax Revenue

	Projected Revenue at Current Rates \$million	Projected Revenue at Proposed Rates \$million	Change \$million
EE IMPACT	<u>\$0.0</u>	<u>\$9.2</u>	<u>\$9.2</u>

¹ Proposed effective date of February 24, 2009 or as of the date of the Board Order in this proceeding.

Exhibit NJNG-7

Proposed Tariff Sheets

Redline Tariff Sheets

NEW JERSEY NATURAL GAS COMPANY

BPU No. 8 - Gas

***First Revised Sheet No. 3
Superseding Original Sheet No. 3***

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Date of Issue: ~~October 6, 2008~~
Issued by: ~~Mark R. Sperduto, Vice President~~
~~2009 October 3, 2008~~
Wall, NJ 07719

**Effective for service rendered on
and after February 24,**

NEW JERSEY NATURAL GAS COMPANY

BPU No. 8 - Gas

First Revised Sheet No. 172
Superseding Original Sheet No. 172

RIDER "F"

ENERGY EFFICIENCY – EE

RESERVED FOR FUTURE USE

AVAILABILITY

Applicable to the following service classifications:

<u>RS</u>	<u>Residential Service</u>	<u>ED</u>	<u>Economic Development</u>
<u>DGR</u>	<u>Distributed Generation Residential</u>	<u>FC</u>	<u>Firm Cogeneration</u>
<u>GSS</u>	<u>General Service - Small</u>	<u>NGV</u>	<u>Natural Gas Vehicle</u>
<u>GSL</u>	<u>General Service - Large</u>	<u>IS</u>	<u>Interruptible Service</u>
<u>FT</u>	<u>Firm Transportation</u>	<u>IGS</u>	<u>Incremental Gas Service</u>
<u>DGC</u>	<u>Distributed Generation Commercial</u>		

The Energy Efficiency (“EE”) rate is for recovering authorized expenditures related to the energy efficiency programs as approved in BPU Docket No. GR0901_____.

DETERMINATION OF THE EE

The Company shall file an annual request with the Board for implementation of an Energy Efficiency (“EE”) charge, which shall be applicable to customers on all service classifications to which Rider “F” applies.

I. Determination of the EE

The EE Factor shall be derived in the following manner:

- (1) An estimate shall be made of the total annual cost related to the Energy Efficiency programs. This rider will include only expenses for energy efficiency programs approved by the Board in BPU Docket No. GR0901_____, unless modified further by Board Order.
- (2) An estimate shall be made of the total annual volume of prospective jurisdictional sales of gas (in therms) to NJNG’s sales and transportation customers.
- (3) The prospective EE costs (per paragraph (1)) shall be adjusted upward or downward to the extent of the amount of any prior under-recovery or over-recovery of EE to determine the total EE costs to be recovered and then shall be divided by the estimated total volume of prospective sales (per paragraph (2)), to determine the per unit EE cost recovery rate.

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2009 October 3, 2008
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NEW JERSEY NATURAL GAS COMPANY

BPU No. 8 - Gas

First Revised Sheet No. 173
Superseding Original Sheet No. 173

RIDER "F"

ENERGY EFFICIENCY – EE

RESERVED FOR FUTURE USE

II. Tracking the Operation of the EE

The Company shall calculate carrying costs on the average monthly balances of under-or over-recovery of deferred EE costs based upon the Company's monthly commercial paper rate. The carrying costs shall accrue on a monthly basis and shall be rolled into the EE balance at the end of each EE year.

In accordance with P.L., 1997 c. 162, the charges applicable under this Rider include provision for the New Jersey Sales and Use Tax ("SUT"), and when billed to customers exempt from this tax, as set forth in Rider "B", shall be reduced by the amount of such tax included therein.

The EE factor shall be credited/collected on a per therm basis within the Delivery Charge for all service classifications to which Rider "F" applies. The EE factor is as set forth below:

\$0.0135

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~~2009~~October 3, 2008
Wall, NJ 07719

Effective for service rendered on
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Clean Tariff Sheets

NEW JERSEY NATURAL GAS COMPANY

*First Revised Sheet No. 3
Superseding Original Sheet No. 3*

BPU No. 8 - Gas

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NEW JERSEY NATURAL GAS COMPANY**BPU No. 8 - Gas****First Revised Sheet No. 172
Superseding Original Sheet No. 172****RIDER "F"
ENERGY EFFICIENCY – EE****AVAILABILITY**

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RS	Residential Service	ED	Economic Development
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Date of Issue:

Issued by: *Mark R. Sperduto, Vice President*
Wall, NJ 07719

**Effective for service rendered on
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**Filed pursuant to Order of the Board of Public Utilities entered in
Docket No. GR0901_____**

NEW JERSEY NATURAL GAS COMPANY*First Revised Sheet No. 173**BPU No. 8 - Gas**Superseding Original Sheet No. 173***RIDER "F"**
ENERGY EFFICIENCY – EE**II. Tracking the Operation of the EE**

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Docket No. GR0901_____*

NOTICE TO NEW JERSEY NATURAL GAS CUSTOMERS
Docket No. GR0901_____

NOTICE OF ENERGY EFFICIENCY FILING AND PUBLIC HEARING

TO OUR CUSTOMERS:

PLEASE TAKE NOTICE that on January 20, 2009, New Jersey Natural Gas (“NJNG” or the “Company”) filed a Petition with the New Jersey Board of Public Utilities (“Board”) seeking approval to implement its Energy Efficiency Programs and also seeking approval of the associated cost recovery mechanism. Pursuant to its filing, NJNG requested that the Board permit NJNG to implement the Energy Efficiency Rider to recover all costs associated with the Energy Efficiency Programs. Additionally, NJNG has requested that the carrying costs associated with these programs be allowed. These programs will provide customers with increased incentives for participation in New Jersey Clean Energy Programs.

The recovery charge mechanism will operate and be applied in a manner consistent with existing components and processes of the Board-approved Societal Benefits Clause. Upon approval by the Board, the impact of this recovery mechanism will result in an overall **increase of approximately \$1.36 or 0.80 percent** per month on a 100 therm residential bill.

The impact of the Company’s filing, requested to be effective on February 24, 2009 or as of the date of the Final Board Order in this proceeding, on a typical residential customer (both heat and non-heat) and a typical general service small customer on a monthly basis is estimated to be as follows based on the usage levels shown below:

Customer Type	Therm Level (Usage)	Total Bill		Net Dollar Increase	Percent Increase
		Monthly Bill as of Dec. 31, 2008	Proposed Monthly Bill as of Feb. 24, 2009 With the Energy Efficiency Charge		
Residential Heat Sales	100	\$170.05	\$171.41	\$1.36	0.80%
Residential Non-Heat Sales	25	\$47.06	\$47.40	\$0.34	0.72%
General Service Small	500	\$811.65	\$818.45	\$6.80	0.84%

The Board has the statutory authority to establish the Energy Efficiency Charge rates at levels it finds just and reasonable pursuant to *N.J.S.A. 48:2-21*. Therefore, the Board may establish the Energy Efficiency Charge at levels other than those proposed by NJNG and the impact on a customer’s bill may vary from the information provided above.

PLEASE TAKE NOTICE that a public hearing on the Energy Efficiency Program and Rider has been scheduled at the following date, time and place:

February ??, 2009, 7 p.m.
 Freehold Borough Municipal Building
 51 W. Main Street
 Freehold, NJ 07728-2195

The public is invited to attend, and interested persons will be permitted to testify and/or make a statement of their views on the proposed rate changes. 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 to the Board Secretary at the address below. Regardless of whether they attend the hearing, members of the public may submit written comments concerning the petition to the Board by addressing them to: Kristi Izzo, Secretary, New Jersey Board of Public Utilities, Two Gateway Center, Newark,

New Jersey 07102. Copies of NJNG's January 20, 2009, filing can be reviewed either at the NJNG Customer Service Centers or at the New Jersey Board of Public Utilities, Two Gateway Center, Newark, New Jersey 07102.

Tracey Thayer, Esq.
New Jersey Natural Gas

**NJNG WHOLE BUILDING
Energy Budget Components**

2009 Budget

Energy Efficiency Programs	Proposed 2009 Budget	Administration, IT and Program Development	Sales and Marketing	Training	Rebates, Grants, and Other Direct Incentives	Rebate Processing, Inspections and Other Quality Control	Performance Incentives	Evaluation and Related Research
HVAC Enhanced Rebate	\$6,968,879	\$161,402	\$621,677	\$9,375	\$5,985,000	\$191,425		
HPES Audit	\$1,392,417	\$30,278		\$18,900	\$318,750	\$1,024,489		
HPES Seal-Up	\$7,035,997	\$19,827	\$242,694	\$1,500	\$6,750,000	\$21,976		
HPES Rebate	\$2,253,029	\$21,742	\$8,676	\$1,200	\$2,160,000	\$61,411		
Commercial Direct Install	\$665,108	\$34,565	\$214,279	\$2,025	\$400,000	\$14,239		
Total	\$18,315,430	\$267,814	\$1,087,326	\$33,000	\$15,613,750	\$1,313,540	\$0	\$0

2010 Budget

Energy Efficiency Programs	Proposed 2009 Budget	Administration, IT and Program Development	Sales and Marketing	Training	Rebates, Grants, and Other Direct Incentives	Rebate Processing, Inspections and Other Quality Control	Performance Incentives	Evaluation and Related Research
Energy Efficiency Implementation	\$205,205					\$205,205		
Total	\$205,205	\$0	\$0	\$0	\$0	\$205,205	\$0	\$0