



**STATE OF NEW JERSEY**  
**Board of Public Utilities**  
Two Gateway Center  
Newark, NJ 07102  
[www.nj.gov/bpu](http://www.nj.gov/bpu)

AUDITS

IN THE MATTER OF THE ANALYSIS OF THE GAS  
PURCHASING AND HEDGING STRATEGIES OF THE )  
NEW JERSEY GAS UTILITIES )

ORDER

DOCKET NO. GA05121062

(SERVICE LIST ATTACHED)

BY THE BOARD:

At its meeting of December 14, 2005, the New Jersey Board of Public Utilities ("BPU" or "Board") directed its Divisions of Audits and Energy to expeditiously initiate a process to obtain a consultant to analyze the gas purchasing practices of all four Gas Distribution Companies ("GDCs") and provide a report and recommendations on these practices. The Divisions of Audits and Energy developed a request for proposal ("RFP"), number 07-X-39146, to solicit bid proposals from qualified bidders. The RFP was issued by the Purchase Bureau, Division of Purchase and Property, Department of the Treasury ("Treasury") on behalf of the State of New Jersey. Treasury, along with Board Staff, proposed that the contract resulting from RFP 07-X-39146 be awarded to Vantage Consulting, Inc. ("Vantage"). The Board considered this matter at its May 11, 2007 agenda meeting, and concurred with Board Staff's and Treasury's selection of Vantage as the consultant for this analysis at a total cost not to exceed \$1,392,033.

Vantage, and its subcontractor Pace Global Energy Services, LLC ("Pace"), performed a comprehensive review of the hedging activities of each of the GDCs covering the period 2001 to 2007. That review included a transaction-by-transaction analysis of each utility's hedging program; an evaluation of risk management policies, control procedures, and organizational structure; and the recommendation of and simulation of an alternative hedging program design. Additionally, Vantage and Pace held two comprehensive seminars on the strategic use of hedging instruments for BPU staff.

On January 15, 2009, Vantage submitted a final report entitled "Analysis of the Gas Purchasing Practices and Hedging Strategies of the New Jersey Major Gas Distribution Companies" ("Final Report"). The Final Report provides a detailed analysis of all four GDCs' hedging programs, specific recommendations for each GDC, and general recommendations for all of the GDCs and the Board. Among other things, Vantage and Pace's analysis found that during the pronounced gas price spike subsequent to the hurricanes of 2005, the collective risk mitigation efforts of the GDCs avoided an estimated \$305 million in gas costs compared to prevailing market prices.

It is Staff's opinion that Vantage has successfully completed the hedging analysis report according to the terms of the contract. Staff recommends that the "Analysis of the Gas Purchasing Practices and Hedging Strategies of the New Jersey Major Gas Distribution Companies" (Docket No. GA05121062) be accepted for filing by the Board and be released to the public.

Staff also recommends that the 25% contractual hold back of fees be paid and that the Board authorize release by Treasury of the final payment to Vantage. Vantage has been paid \$1,044,025, leaving \$348,008 that is owed to Vantage under the terms of the contract. It is Staff's further recommendation that the specific and general recommendations not be implemented at this time but that the Final Report be used as a starting point for discussions in the upcoming 2009 Basic Gas Supply Service (BGSS) proceedings concerning potential modifications or program expansions of each GDC's hedging program, as appropriate and on a case-by case basis. While Staff believes that the Final Report contains many insightful recommendations, adjustments to the GDCs' respective hedging programs should only be undertaken as part of the GDCs' overall gas purchasing strategies which are reviewed in their annual BGSS proceedings.

## DISCUSSION AND FINDINGS

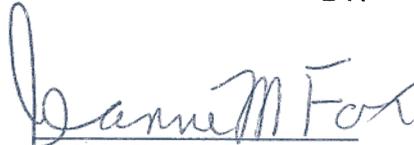
After review of the Final Report and consideration of Staff's recommendations, the Board agrees with Board Staff's assessment and HEREBY FINDS that Vantage and Pace have successfully completed the hedging analysis report as required under the terms of the contract. Therefore, the Board HEREBY ACCEPTS the Final Report for filing purposes and releases it to the public. The Board HEREBY DIRECTS Staff to post the Final Report on the Board's website and to provide a copy of the Final Report to each of the GDCs and to the Department of the Public Advocate, Division of Rate Counsel. Further, the Board HEREBY AUTHORIZES final payment to Vantage.

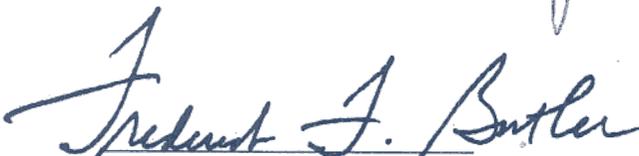
The Board also agrees with Staff's assessment that any adjustments to the GDCs' respective hedging programs should be undertaken in connection with the review of the GDCs' overall gas purchasing strategies within their annual BGSS proceedings. Therefore, the Board HEREBY

DIRECTS the parties in each of the upcoming 2009 BGSS proceedings to use the Final Report as a starting point for discussions concerning potential modifications or program expansions of each GDC's hedging program, as appropriate and on a case-by case basis.

DATED: 2/25/09

BOARD OF PUBLIC UTILITIES  
BY:

  
JEANNE M. FOX  
PRESIDENT

  
FREDERICK F. BUTLER  
COMMISSIONER

  
JOSEPH L. FIORDALISO  
COMMISSIONER

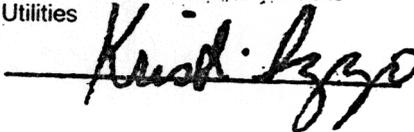
  
NICHOLAS ASSELTA  
COMMISSIONER

  
ELIZABETH RANDALL  
COMMISSIONER

ATTEST:

  
KRISTI IZZO  
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



I/M/O The Analysis of the Gas Purchasing and Hedging Strategies of the New Jersey Gas Utilities  
Docket No. GA05121062

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