



STATE OF NEW JERSEY
Board of Public Utilities
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AUDITS

IN THE MATTER OF A MANAGEMENT AUDIT AND
A FOCUSED AUDIT ON THE TRANSACTIONS OF)
NEW JERSEY NATURAL GAS COMPANY AND ITS)
AFFILIATES)

ORDER

DOCKET NO. GA05100909

(SERVICE LIST ATTACHED)

BY THE BOARD:

At its regular meeting of December 19, 2007, the New Jersey Board of Public Utilities ("Board" or "BPU") accepted, for filing purposes only, the final audit report of Liberty Consulting Group ("Liberty" or "Consultant") in the management audit and focused audit of New Jersey Natural Gas Company ("NJNG" or "Company") and released redacted volumes of the report ("Final Report") to the public and the confidential volumes of the report, with the execution of a confidentiality agreement, to appropriate parties for comment. The Board now orders the implementation of the 91 recommendations set forth in the Final Report, as modified herein.

Background/Procedural History:

At its Agenda Meeting of October 31, 2005, the New Jersey Board of Public Utilities requested that Board Staff initiate a Focused Audit of the affiliated transactions between NJNG and New Jersey Resources ("NJR") and its affiliates. The Electric Discount and Energy Competition Act ("EDECA") provides for a competitive service audit every two years to be performed by an independent consultant. This audit was intended to satisfy the provisions of N.J.S.A. 48:3-49, 48:3-58 and N.J.A.C. 14:4-5 et seq. At the same meeting, the Board also requested that Board Staff initiate a Management Audit pursuant to N.J.S.A. 48:2-16.4 and N.J.A.C. 14:3-12.1. Pursuant to the Board authorized Interdepartmental Agreement dated January 14, 2005 by and between the BPU and the State Department of Treasury ("Treasury"), a Request for Proposal ("RFP") # 06-X37501, was issued on behalf of the Board by Treasury. Treasury personnel assisted Board Staff in the evaluation of proposals and conducted contract negotiations. Pursuant to the Board Agenda meeting of September 13, 2006, Liberty was selected by the Board to conduct the audit at a cost not to exceed \$789,540.

This assignment was developed in two phases. The first phase concentrated on NJNG's procurement strategies, particularly the impact of retail and wholesale transactions with NJR and its affiliates. Specific transactions examined by Liberty included NJNG's gas procurement

activities with NJR and its affiliates, as well as other financial hedging and gas business transactions. Furthermore, Liberty reviewed and assessed affiliate gas and capacity cost allocation methodologies to determine accounting and allocation procedures for separating the costs of inter-company transactions. Liberty also examined and determined if the holding structure, affiliates and their diversified activities have had or may have any detrimental effects on NJNG. This review included among other things, an assessment of the independence of the gas supply department in purchasing supplies on behalf of NJNG on all Staff levels, and the ability of NJR's internal controls and structure to act in the best interests of NJNG and its ratepayers when making purchases on behalf of NJNG. In this phase, the consultants also examined NJNG's remediation costs. Phase two consisted of a comprehensive audit of NJNG's other major organizational areas, functional processes, procedures and internal workings and the effect of its association with NJR and other affiliates. This examination included Executive Management and Corporate Governance, Strategic Planning, Finance, Accounting and Property Records, Distribution and Operation Management, Human Resources, Customer Services, External Relations and Support Services. Additionally, this audit incorporated all of the requirements of EDECA.

On November 20, 2007, Liberty submitted its Final Report to Board Staff, which included a total of 91 recommendations. The Final Report is contained in four volumes: Gas Supply (Volume One), Cost Allocations and Affiliate Relationships (Volume Two), Management and Operations (Volume Three, in Confidential and Public Versions), and EDECA Affiliate Standards (Volume Four). NJNG requested that the Management and Operations volume be classified as Confidential due to the inclusion of sensitive data in the report.

At the December 19, 2007 Agenda Meeting, Board Staff recommended that the Board accept all four volumes of Liberty's Final Report for filing purposes only; authorize the release of the redacted volumes of the report to the public for comment; release the confidential volumes of the report to appropriate parties, with the execution of a confidentiality agreement; and authorize the release of the 25% hold-back owed to Liberty, in accordance with the RFP. These actions were adopted by the Board.

The other interested party in this matter is the Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel").

Company and Rate Counsel Comments:

On January 11, 2008, NJNG submitted for filing its comments on the recommendations included in the Final Report. The Company concurred with the majority of the 91 recommendations contained in the Final Report, and indicated that it had, in fact, started implementing many of the suggested measures and procedures. As summarized in the Audit Recommendation and the Party Position section of this Order, the Company partially disagreed with recommendations GS-7 and GS-13 and disagreed with recommendations GS-14, ED-1, ED-3, ED-13, ED-15 and ED-18.¹

By letter dated January 11, 2008, Rate Counsel submitted for filing its comments on the recommendations included in the Final Report. In its comments, Rate Counsel incorporated its previously filed comments of November 7, 2007, and expressed concerns in four (4) general areas: Gas Supply Functions (Volume 1); Customer Service (Volume 3); Metering and Billing

¹ The January 11, 2008 letter references ED-3 as ED-2, ED-13 as ED-12, ED-15 as ED-14 and ED-18 as ED-17.

(Volume 3); and Construction Work In Progress (Volume 3). While not specifically noted in its letter, Rate Counsel's comments applied to audit recommendations GS-1, GS-7, GS-8, GS-9, GS-10, GS-12, GS-14, GS-17, GS-20, GS-21, MO-10, MO-11, MO-12 and MO-31. Rate Counsel noted that it would utilize the base rate case pending at that time to follow-up on all issues raised in the Final Report.

On April 22, 2008, NJNG submitted an update to the January 11, 2008 letter. NJNG modified its January 11, 2008 letter to note additional recommendations with which the Company is in agreement. In its letter, NJNG submitted further comment on nine recommendations, including ED-1, ED-13, ED-15, ED-17, GS-1, GS-7, GS-8, GS-14, and GS-17.

Below is a detailed discussion of the comments filed by the Company and Rate Counsel. Additionally, recommendations of the Board Staff are stated with respect to each of the related audit recommendations.

AUDIT RECOMMENDATIONS AND POSITIONS OF THE PARTIES:

VOLUME 1: GAS SUPPLY

GS-1 *Separate utility and affiliate gas supply.* Liberty recommended that NJNG and NJR Energy Services ("NJRES"), the wholesale marketing/trading affiliate, be physically separated.

GS-14 *Provide on an interim basis for dual reporting of the new utility manager to be created and require a showing that further separation of the common supply functions should not take place at the end of 12 months.*

The above two recommendations address Liberty's concern regarding the relationship between NJNG and NJRES, the wholesale marketing/trading affiliate. Liberty recommended that NJNG and NJRES be physically separated. Liberty further recommended that the utility have its own executive for gas supply, and a stronger, more experienced gas supply staff. Liberty also recommended that the scope of the Company's Internal Audit Committee should be expanded with regard to the evaluation of the utility's supply processes.

Rate Counsel asserts that its office has had reservations concerning the lack of separation between NJNG and NJRES for some time. Rate Counsel agreed with Liberty's recommendations, but states that in order to continue to benefit from the expertise that resides in the NJRES entity, provisions should be made for cross-training and technical assistance to be provided by NJRES to the utility on an on-going basis.

As indicated in its January 11, 2008 comments, NJNG agrees with the Consultant's recommendation regarding separation of the two entities, and has indicated that three Transportation and Exchange ("T&E") staff have been transferred from NJRES to the NJNG organization and that no "backup" responsibilities are now being shared with NJRES personnel. In addition, NJNG has changed the reporting structure for the utility. A Trading Analyst will move from NJRES to NJNG and that employee will not complete any tasks for NJRES. Additionally, in its April 22, 2008 letter, NJNG states that the changes outlined on page 81 of Volume 1 of Liberty's Final Report have been instituted.

According to the letter, NJNG has appointed a new Vice President, Gas Supply and Energy Services, and the NJNG Energy Services personnel are in a new location physically separated from the activities of NJRES.

The Company however, disagreed with Liberty's recommendation to institute a dual reporting structure at this time. The Company states that given the successful management of both operations by the Senior Vice President, Energy Services, the Company does not feel that it would be beneficial at this time to change that level of management during the period when other changes are being made to the NJNG Energy Services operation. The Company agrees to provide a report to the BPU within 12 months of the BPU Order in this case discussing the separation of NJNG Energy Services and NJR Energy Services.

Board Staff, as well as Rate Counsel, acknowledge that NJNG's overall gas procurement has been effective and that its gas prices have been as good as or better than those of comparable utilities, but agree that having a non-regulated entity performing services for a regulated utility without formal agreements and enforcement of all affiliate rules creates concerns about potential inherent conflicts of interest. Therefore, Board Staff recommends implementation of GS-1 and GS-14, modified to withhold the requirement for dual reporting pending the review of the report discussing the separation of NJNG Energy Services and NJR Energy Services. The report should be submitted to the BPU and Rate Counsel for discussion of the necessary changes, if any, to the reporting structure to be implemented at that time.

GS-7 *Include evaluation of performance in peak-day studies.*

Liberty notes that after-the fact evaluations of peak-period portfolio performance are now conducted informally by the Energy Planning group within Energy Services. Liberty recommends formalizing these evaluations by making them part of the annual peak-day studies. Liberty also recommends a methodological change for the peak-day studies. Liberty's report states that the Company's current method can result in reduced sensitivity to peak-day conditions if the most recent year was unusually warm or mild. Liberty recommends remedying this by augmenting the peak-day analysis with regressions of sendout against an average of the most-recent three to five years, rather than just the most recent year.

NJNG has agreed to incorporate an after-the-fact evaluation of peak-period portfolio performance as part of the annual peak-day studies. The Company, however, disagrees with Liberty's recommended methodological change for the peak-day studies for two reasons: (1) by performing a regression analysis specifically on only the coldest daily data, the Company already accommodates Liberty's concern that customer average usage can be reduced if the most recent year was unusually warm. With the selective coldest weather daily data regression analysis, the seasonal averaging effect of an unusually warm or mild winter is eliminated from the peak use analysis; (2) Liberty's proposal would most likely underestimate the current sensitivity to peak-day conditions because it would reduce the impact of customer growth over the years.

Rate Counsel submits that while such evaluations would be helpful, the recommendation on the methodology to be used for the peak-day studies is faulty. Rate Counsel states that the problem identified can be more appropriately addressed by using data for days with heating degree days ("HDDs") above some defined threshold rather than annual

averages. The use of average data from the past three to five years distorts the regression since the relationship between HDDs and sendout has changed materially during recent years. Rate Counsel further asserts that by using older data which reflect higher than current usage levels, the Company's demand requirements will be overstated.

Staff concurs with Liberty's recommendation that the Company formalize its evaluation as part of the peak day study and change the method used for the peak day study. This recommendation appears reasonable since it takes into consideration data from a longer period of time reducing the sensitivity to one unusual mild or cold year. Thus, using more years in the analysis can account for any unusual trends that may not be representative of what will occur in an upcoming year. This appraisal should be reviewed and modified as necessary during the annual BGSS proceedings.

GS-8 Begin to conduct portfolio optimization analysis.

Liberty states that at the present time, the Company does not have the capability to perform portfolio optimization analysis, and instead simply makes long-term capacity commitment decisions on the basis of instinct or perceived market trends. Liberty recommends that the Company either develop a simple optimization model of its own or contract for one of the commercially-available ones. In its comments, Rate Counsel states that it is unclear how or why such models are necessary since models themselves are based on instinct or perception of the modeler. Staff agrees with Liberty's analysis and recommends implementation of GS-8 as written while recognizing the importance of considering NJNG's perception of market trends along with the optimization models. The portfolio optimization analysis chosen by the Company will be reviewed in the annual BGSS proceedings.

GS-9 Perform and document structured analyses of significant capacity-commitment decisions.

Liberty's recommendation would require NJNG to perform and document structured analyses of significant capacity-commitment decisions and present the results to interested parties in its BGSS proceedings over the next few years. Rate Counsel states that while it is believed that the Company has developed such analysis in the past, documentation of the decision process and its associated workpapers would be very beneficial to all parties. The Company does not object to this recommendation. Board Staff recommends that Liberty's recommendation be implemented as written.

GS-10 Perform a structured study of the benefits of substituting peaking services or shorter-term storage services for some of the seasonal storage services currently under contract.

GS-12 Examine additional commodity-purchase alternatives.

Liberty believes that recommendations GS-10 and GS-12 will provide the Company with more information when making purchasing decisions. Liberty's concern is that NJNG no longer considers term gas purchases, defined as those greater than three years, when today there is renewed interest in term contracts in support of infrastructure development.

The above two recommendations involve the benefits of short-term vs. long-term storage and the examination of additional commodity purchase alternatives. Rate Counsel states that Liberty appears to recommend peaking or short-term storage over seasonal storage and the deferral of any capacity commitments until an optimization model is utilized. Rate Counsel further states that the audit suggests NJNG should experiment with some longer term commodity purchase agreements. Rate Counsel notes that the recommendation cited earlier to perform and document analysis of significant capacity commitments already covers the storage issue, and the audit's recommendation regarding longer-term commodity purchases is predominately a function of current procurement including storage and hedging as well as price expectations for the future which cannot be known with any certainty. Board Staff agrees with Liberty's analysis in that it will assist the Company in making better informed decisions and encourages the Company to consider and examine other alternatives which may prove instrumental in its decision making. Thus, Staff recommends that Liberty's recommendations GS-10 and GS-12 be implemented as written.

GS-13 *Use market data and NJNG's own procurement data to analyze alternatives and seek purchasing improvements.*

The Company agreed with the recommendation, but commented that comparing the pricing of the top 5-10 suppliers to pricing of other suppliers is not the most useful approach. Liberty had suggested such a comparison as a possible analysis, among others, that might be done. According to the Company, supply decisions are made after soliciting verbal bids or viewing electronic offers from the "market". NJNG believes the current transparency of the marketplace assures the transactions are executed at market terms. Staff believes that the Company continues to provide a macro daily market analysis and concurs that the transactions are executed at market terms. However, Board Staff recommends that GS-13 be implemented as written since it will provide additional information to NJNG when rendering their purchasing decisions.

GS-17 *Conduct a structured, focused review of FY1999 and FY2000 transactions, and non-common-delivery-point transactions, in order to identify the full range of potentially linked transactions and perform an objective assessment of their impact.*

Noting the Final Report's reference to approximately \$35,000 of "adverse consequence" to NJNG during the 2001-2002 periods, Rate Counsel questions whether NJNG customers had been harmed by any linked transactions, and if the Company's ratepayers should be reimbursed. Staff reviewed this issue during the audit and concluded that no harm came to the ratepayers. In its April 22, 2008 letter, NJNG indicated that the Company has performed a study of these transactions and will provide a report to Staff and Rate Counsel upon receipt of a Final Order in this docket. Board Staff recommends that GS-17 be implemented as written, and that the report be provided within thirty (30) days of this Order.

GS-19 *Update Risk Management Guidelines and Procedures documents as soon as possible.*

GS-20 *Evaluate the performance of alternative hedging strategies.*

In its comments, Rate Counsel states that based on the fact that gas price trends are continuing to evolve and that volatility has potentially increased since 2005, the

recommendations to update of guidelines and review hedging performance and possible alternative strategies appear timely and appropriate. As noted in Rate Counsel's comments, the hedging guidelines and strategies are currently under review by Board Staff in a separate proceeding. Any audit recommendations implemented as a part of this audit will need to be coordinated with any Board adopted hedging policy provisions. Board Staff recommends that Liberty's recommendation be implemented as written subject to this coordination.

GS-21 *Provide for ongoing analysis of insurance options for the Atlantic Highlands site and in the future for other remaining sites.*

Rate Counsel addressed Liberty's one recommendation on MGP site Remediation. Liberty states that NJNG has been doing a good job with its site remediation program. Liberty recommends that an ongoing analysis of insurance options be conducted. The Company does not object to this recommendation. Rate Counsel states that Environmental Response Compensation and Liability Insurance Policy ("ERCLIP") coverage is not cost effective, and at the current time, such insurance is not being offered by most insurance carriers. Board Staff supports Liberty's recommendation as written.

VOLUME 4: EDECA AFFILIATE STANDARDS

ED-1 *Treat Commercial Realty & Resources ("CR&R") as an NJR holding company Retail Competitive Business Service ("RCBS") for purposes of applying the standards.*

ED-18 *Change the officers of CR&R in order to reach compliance with this section of the Standards.*

Liberty finds that CR&R develops and owns commercial office and mixed use commercial and industrial real estate projects and provides retail services to end use customers. Liberty has recommended that, given that CR&R is not engaging in additional acquisitions, but instead is working to develop or sell its existing inventory or real-estate assets, and, because, apart from common senior management, CR&R operates without significant utility interaction or support needs, adoption of recommendations ED-1 and ED-18 would not be necessary to address cross subsidization issues and the primary impact would be in the structural and information disclosure areas addressed by the affiliate standards. Liberty recommends as an alternative that, if NJR adopts a plan with a reasonably near term date for the completion of CR&R's business activities, the BPU might consider a waiver of the standards in order to facilitate a wind-down of CR&R.

In its January 11, 2008 comments, NJNG disagrees that CR&R is an RCBS, asserting that it does not provide competitive services to retail customers, does not provide a competitive service and is not providing a commodity to retail end-users in New Jersey. However, NJNG agrees with Liberty's alternative recommendation because CR&R is in fact in the process of winding down business activities. In its April 22, 2008 letter, NJNG indicated that once a Final Board Order is issued in this proceeding, NJNG will file an application with the Board, for a waiver of the Affiliate Standards applicable to CR&R.

Staff agrees with Liberty's finding that CR&R is a Related Competitive Business Segment (RCBS). However, since CR&R is not engaged in additional acquisitions, but instead is working to develop or sell its existing inventory of real estate assets as the market allows, Staff agrees with Liberty's alternative recommendation that NJR should adopt a plan with a reasonable time horizon for completion of CR&R business activities, and file a petition with the Board for a waiver of the Affiliate Standards applicable to CR&R.

ED-3 *Make the disclaimer on the NJRHS pages of the website visible within the range of information and links that viewers can observe without scrolling to a point below the normal range of view and eliminate the visual bar above the disclaimer.*

While Liberty found that NJNG's website does not create any impression of preference and it includes a disclaimer, the disclaimer is not presented in a fashion that makes it likely to be observed. NJNG believes that the Company has met both the spirit and the intent of N.J.A.C. 14:4-5.5(k). Board Staff has found that all utilities in the state have different approaches to how website disclaimers are arranged on their affiliates' websites. While Staff considers NJNG's disclaimer to be in technical compliance, revised placement of the disclaimer is recommended so that it is visible on the primary screen. It is Staff's recommendation that there be a single standard for all companies. Audits Staff will be meeting with NJNG and other state utilities to discuss the development of a uniform standard for all companies and their affiliates. However, pending development of those standards, Board Staff supports Liberty's recommendation as written.

ED-13 *End NJRHS's display in the lobby that customers use to gain access to NJNG customer representatives.*

Liberty's recommendation is based on the observation that NJR Home Services Corporation ("NJRHS") displays its appliances in the immediate vicinity of the portion of NJR's offices where customers visit. The appliances are visible from the entrance that NJNG customers would likely use, but, in order to see the identity of the offer or of the appliances, customers would have to walk in a different direction from that leading to the window where they would transact with NJNG customer representatives. The Company argues that the space in which this natural gas equipment is located is shared by all tenants in the building. Additionally, there are few alternative locations at which customers can purchase natural gas grills and NJRHS is frequently the last resource for customers seeking to purchase a grill using natural gas instead of propane. NJNG has agreed to ensure that the standard disclaimer is prominently displayed on that merchandise. Board Staff notes that in its April 22, 2008 letter, NJNG states that if ordered to do so by the BPU in its Final Order, NJNG will remove the display of gas grills from the first floor lobby of the Headquarters building. Board Staff supports Liberty's recommendation as written.

ED-15 *Route NJRHS calls through a number that does not identify NJNG; or secure a BPU order permitting the practice.*

Liberty notes that when a customer calls a number commonly provided by NJRHS as the source for discussing product and service offerings, the first response heard is that the customer has reached the parent of NJNG. Thus, before a caller gets through to NJRHS, an affiliate connection is made to the utility. NJNG relies upon the "shared

corporate functions” exemption permitted by Section 14:4-53(b) of the Affiliate Standards. Liberty suggests that NJNG seek BPU clarification that the exemption relied upon applies to this situation and that the routing of customers through a common link for marketing purposes does not violate the joint marketing prohibition. Liberty points out that the Board Order approving the transfer of NJRHS operations from NJNG required separate phone numbers. In its January 11, 2008 comments, NJNG argues that NJRHS does have a separate telephone line that is prominently displayed in advertising and on the bills for NJRHS. Board Staff supports Liberty’s recommendation as written.

ED-17- *Ensure that NJNG financial policies and decisions are not overseen by the NJR CFO, or alter the officer structure of NJRHS and CR&R to exclude him.*

Liberty’s concern with the current structure is that the NJR CFO is serving as NJNG’s de facto CFO while officially serving as an officer of a holding-company RCBS. In its April 22, 2008 letter, NJNG indicated that if so ordered, the officer structure of NJRHS will be changed, and in fact, changes have been recently made such that the CFO for NJR is no longer an officer of NJRHS. Additionally, if so ordered by the BPU in this docket, NJNG will file for a waiver of the Affiliate Standards regarding the officer structure of CR&R. Staff concurs with the recommendation by Liberty as written and recognizes the restructuring changes already made need to be reviewed by Staff to determine whether these changes sufficiently address Liberty’s concerns with regard to NJRHS. With regard to CR&R, Staff has already agreed that NJNG should file a petition for waiver of the Affiliate Standards applicable to CR&R.

ADDITIONAL COMMENTS BY RATE COUNSEL:

VOLUME 3 – MANAGEMENT AND OPERATIONS

Customer Service

MO-10 *Reallocate resources or increase staffing to answer inbound customer calls.*

MO-11 *Undertake a study to determine the appropriate telephone infrastructure to Accommodate customer calls.*

Liberty finds that NJNG’s customer satisfaction level was declining since 2003 and has determined that its telephone customer service response has fallen below standard. NJNG still experiences the lowest number of BPU complaints of any major New Jersey utility. However, formal complaints have been rising. The abandoned call rate (the percentage of callers abandoning while in queue) was high in 2005 and 2006. The Customer Contact Office’s goal to keep abandoned calls under 6% of all calls was only met in 3 of 26 months from October 2004 through November 2006. By a number of other performance measurement standards, NJNG telephone customer service level is below its goal. Rate Counsel and Liberty believe that this area is in need of improvement. Rate Counsel raises concerns with respect to NJNG’s failure to properly interface with its customers demonstrating a disregard for those whom NJNG is obligated to serve. NJNG has started to address the customer service issue. The Company cited the following improvements: 1) additional customer service representative positions in the call center; 2) dedicated revenue and billing personnel;

and 3) full utilization of virtual hold technology and the Interactive Voice Response upgrade allowing for additional self-service options and a bilingual menu path. Staff supports the recommendations made by Liberty regarding customer service, and will monitor this area for improvements.

Metering and Billing

MO-12 Reallocate resources or increase staffing to improve the meter reading read rate.

During the audit period, Liberty found that NJNG read customers' meters on a bi-monthly basis from September to May, and did not read meters at all during the summer. On average, residential meters are read three or four times a year, often resulting in consecutive estimated bills. The Company routinely estimates entire routes when it does not have sufficient staff to read the meters, and all accounts that have not been read at the end of each cycle are automatically estimated. Liberty and Rate Counsel both agree that NJNG should allocate more resources to meter reading so that it can guarantee a high-nineties read rate, and provide more accurate bills for customers. Billing accuracy is one of the biggest determinants of customer satisfaction. Improving the meter reading read rate facilitates more accurate bills thereby increasing customer satisfaction. This will also improve the results at the call center, as less call volume should occur. Rate Counsel supports NJNG spending additional funds in this area. Staff supports Liberty's recommendations on metering and billing.

Continuing Property Records – Construction Work In Progress (“CWIP”)

MO-31. Revise the CWIP aging report to provide for additional information sufficient enough to assist upper level management in its review and decision making process as it relates to major long outstanding work orders.

Liberty analyzed NJNG's CWIP aging report and reviewed 14 projects that had shown little activity during the prior two years. As a general proposition, a large time delay between the project in-service date and the date when the projects were reclassified from CWIP to plant in service does result in an overstatement of asset values for BPU regulatory purposes. While Liberty recommended changes to NJNG's aging report and the need for the company to follow FERC guidelines, there was no attempt to quantify whether there were material overstatements of AFUDC and understatements of depreciation during the period covered by the audit. Rate Counsel believes that the Company should be required to develop an analysis of its historical reclassifications of CWIP to plant in-service status. Staff believes that such a study is most beneficial for rate case purposes. Therefore, Staff supports Liberty's recommendations on CWIP.

DISCUSSION AND FINDINGS

There are 91 recommendations in Liberty's audit report for improvement in the management and operations of NJNG. Staff recommends implementation of all 91 recommendations as modified and discussed above. The Board agrees with Staff's recommendations. Therefore, upon careful review of the Final Report recommendations and the comments received, the Board HEREBY ORDERS New Jersey Natural Gas Company to implement all 91 recommendations, as modified above. Specifically, the Board HEREBY DIRECTS NJNG, with the assistance of the Division of Audits, to formulate detailed implementation plans for all 91 recommendations, as modified above, within 60 days from the date of this Order. The utility

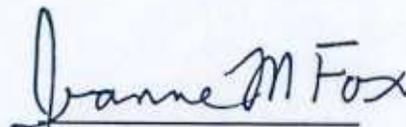
shall implement all recommendations as soon as possible and not later than two years from the date of this Order. Furthermore, the Board HEREBY DIRECTS NJNG to file quarterly reports to the Division of Audits, by the fifteenth day of the month following the conclusion of each calendar quarter, regarding the status of all recommendations. The Division of Audits shall monitor, evaluate, and modify, as necessary, the implementation of the recommendations. The recommendations of the management audit report shall not be dispositive of issues raised in any other proceeding before this Board.

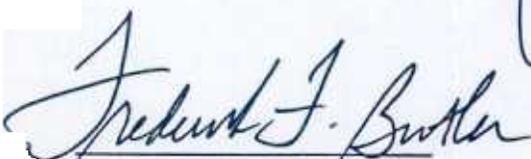
It is FURTHER ORDERED, that, pursuant to Liberty's alternative recommendations ED-1 and ED-18, NJNG shall file a request for a waiver to facilitate the completion of the business activities of CR&R within the Real Estate Business Cycle.

It should be noted that Staff and Rate Counsel had the opportunity to pursue many of the findings in Liberty's audit report in NJNG's recent base rate case in Docket No. GR07110889. Among other items, the Stipulation in that base rate case matter addresses a number of the audit findings and includes several conditions relative to: (1) the installation of automated meter reading; (2) performance measures for NJNG's call center, meter reading and billing and field operations; and (3) the Allowance for Funds Used During Construction ("AFUDC") associated with Construction Work In Progress ("CWIP"). Therefore, as part of the implementation process Staff and the Company are HEREBY DIRECTED to determine how the terms of the Stipulation satisfy the recommendations in the Final Report.

DATED: 1/28/09

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT

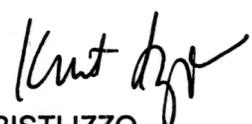

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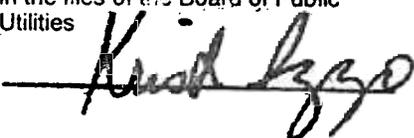

JOSEPH L. FIORDALISO
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I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities

ATTEST:

KRISTI IZZO
SECRETARY



N.J. NATURAL GAS COMPANY MANAGEMENT AUDIT AND FOCUSED AUDIT
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N.J. NATURAL GAS COMPANY MANAGEMENT AUDIT AND FOCUSED AUDIT
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