



South Jersey Gas

Where we put all of our energy®

Samuel A. Pignatelli

Vice President,
Rates and Regulatory Affairs

October 4, 2007

Mr. Lance Miller, Chief of Planning
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

**Re: South Jersey Gas Comments on Energy Master Plan Energy
Efficiency Portfolio Standards**

Dear Mr. Miller:

South Jersey Gas Company ("SJG") is pleased to offer the following comments concerning the Energy Efficiency Portfolio Standards ("EEPS") strategies proposed within the Energy Master Plan ("EMP") process. We would also like to take this opportunity to reaffirm our continued support and participation throughout the development of the EMP and its implementation. To achieve the EMP's aggressive goals, SJG is of the opinion that a collaborative approach must continue in order to effectively align the interests of the State of New Jersey, the energy utilities and their customers.

Historically, the efforts of the New Jersey Board of Public Utilities ("BPU" or "Board") have been recognized nationally as a model for Energy Efficiency programming. SJG is proud to support the BPU's efforts in this area and partner with other New Jersey stakeholders to sustain the Board's success. Further advancements of energy efficiency policies will be essential to achieve the goals established in the EMP and the goals set forth to reduce greenhouse gas emissions in New Jersey.

Utility Participation

As energy providers, local utilities are in the best position to help influence customer behavior related to energy consumption. Our customers not only have a direct link to our company through the physical attachment to our system, but also to our entire network of customer service providers. SJG has been a trusted source for utility related services and through more than a million customer contacts each year can continuously and consistently deliver behavior modifying messages and programs related to

conservation and energy efficiency to our customers. We strongly believe that the New Jersey's energy utilities must have a significant role in the delivery of the EMP conservation and energy efficiency initiatives.

Innovative Ratemaking

The aggressive goals contained in New Jersey's EMP are directed toward reducing energy consumption while facilitating economic growth and improved environmental conditions. The introduction of Energy Efficiency Portfolio Standards is a development which exemplifies the State's exploration of innovative ways to achieve these aggressive goals. The State's goals will not be attained if "business continues to be conducted as usual." Regulatory policies embracing new strategies are essential and will provide the foundation for collaborative efforts that will result in initiatives deployed to achieve the EMP goals.

Utilities are uniquely positioned to assist the State in achieving its goals through the additional penetration of conservation measures required in the EMP by leveraging its direct customer contacts and community relationships. However, traditional ratemaking policies in New Jersey create a natural disincentive for utilities to promote energy efficiency and conservation. This is due to rate design techniques which provide for the majority of a utility's fixed costs to be recovered through variable charges based upon customer usage.

SJG the BPU Staff and the Department of the Public Advocate, Division of Rate Counsel developed an innovative rate mechanism which was approved by the BPU in October 2006. This program entitled the Conservation Incentive Program (CIP) is a three year pilot program designed to assist customers in reducing their energy consumption. The program also eliminates traditional ratemaking impacts which historically rewarded utilities for increasing customer consumption. Under the CIP, the interests of the customer and SJG are aligned, enabling SJG to freely promote energy efficiency and conservation without negatively impacting its financial results.

The CIP is a perfect example of how policymakers eliminated certain utility disincentives related to promoting conservation and efficiency. It is imperative that stakeholders continue to explore innovative ratemaking structures which will provide greater assurance that the interests of customers, utilities and policymakers are properly aligned. Without modifications to the traditional ratemaking approach, the State's goals of reducing energy consumption by 20% by 2020 will undeniably impose significant negative financial impacts on utilities and the inherent disincentives for utilities to promote conservation will still be in place.

Policymakers should also evaluate current pricing structures to ensure that they provide signals to customers, which encourage conservation and energy efficiency. Innovative policies that directly reward customers for achieving specific levels of conservation should be explored.

Energy Efficiency Portfolio Standards

Two generic approaches to achieve savings targets under the EEPS have been presented for consideration to the stakeholders. The first approach referred to as the regulatory model, uses direct rebates. Customer rebates have been utilized for a number of years and have been the principal driver for market transformation, evidenced by the model developed through the New Jersey Clean Energy Program.

Customer incentives have historically been successful in the promotion of heating and cooling systems, improved new home design and construction, and the application within the Commercial / Industrial Markets. A successful rebate model requires on-going evaluation to ensure the appropriate offering of incentive programs are being made to effectively influence customer behavior. Rebate models provide clear price signals as the actual value of the incentive is established. The decision to purchase an energy efficient product is therefore easier to make.

SJG believes that successfully achieving EMP goals will not only depend upon the effectiveness of the utilities efforts to deliver the conservation and energy efficiency programs to its customers, but also, and more importantly the customer's willingness to implement these programs. We believe properly set rebates will lead to the necessary changes in customer behavior. SJG supports this regulatory approach.

In addition to the traditional rebate structure, SJG believes the stakeholders should also evaluate a "customer rewards" program to help change customer's consumption patterns. The California Public Utility Commission instituted a winter rebate program for natural gas customers, providing bill credit "rewards" to customers for achieving targeted levels of reduced consumption. Adding this type of mechanism to the regulatory model discussed in the Rutgers report sends an important signal to the customer, who at the end of the day, we will need to rely upon to achieve the EMP goals.

The second approach referred to as the market based model will use "white tags" as a means of achieving the EMP's goals. The Rutgers report noted that the "white tag" model would cost consumers more than the regulatory model. SJG recommends further analyses be made to better understand the dynamics of white tags before embracing this model. In addition SJG is concerned with the enforcement mechanism referenced in the report as an Alternate Compliance Payment ("ACP"). As we understand the use of this tool from the stakeholder's meeting, it would be used to assess the utility's shareholders for short falls in the goals under the market-based model. The ACP penalizes utility shareholders for the behavior of the utility's customers, of which it has no direct control. SJG questions whether the market-based model as presented, fairly balances the risk, reward and responsibilities among the stakeholders.

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Conclusion

SJG believes that in order for the EMP to be successful, the regulatory environment must consider embracing incentives that are designed to encourage investments in energy efficiency and are targeted at modifying customer behavior. Methods must be established which provide for utilities to be engaged in and support the State's energy efficiency policies and programs, without suffering undue financial and operating risk. SJG looks forward to continuing this collaborative process in the development of New Jersey's EMP.

Thank you for the opportunity to comment on these issues. If you require additional information, please do not hesitate to contact me.

Sincerely,



(Samuel A. Pignatelli
Vice President,
Rates & Regulatory Affairs

Cc: Dr. Bharat Patel