

**BEFORE THE STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES**

<b>IN THE MATTER OF THE RATE UNBUNDLING</b>	)	<b>BPU Docket Nos.</b>
<b>FILINGS BY GAS PUBLIC UTILITIES</b>	)	<b>GX99030121</b>
<b>PURSUANT TO SECTION 10, SUBSECTION A</b>	)	
<b>OF THE ELECTRIC DISCOUNT AND</b>	)	
<b>ENERGY COMPETITION ACT OF 1999</b>	)	
<b>NEW JERSEY NATURAL GAS COMPANY</b>	)	<b>GO99030123</b>

**DIRECT TESTIMONY OF**

**JEROME MIERZWA**

**CONCERNING**

**NEW JERSEY NATURAL GAS COMPANY**

**Filed on Behalf of**

**THE NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE**

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1 federal regulation. I was also responsible for preparing NFG Supply's Purchase Gas  
2 Adjustment ("PGA") filings and developing interstate pipeline and spot market supply gas  
3 price projections. These forecasts were utilized for internal planning purposes as well as  
4 in NFG Distribution's purchased gas cost proceedings.

5 In April 1990, I accepted a position as a Utility Analyst with Exeter Associates, Inc.  
6 In December 1992, I was promoted to Senior Regulatory Analyst. Effective April 1,  
7 1996, I became a principal of Exeter Associates. Since joining Exeter Associates, I have  
8 specialized in evaluating the gas purchasing practices and policies of natural gas utilities,  
9 class cost of service and rate design analysis, sales and rate forecasting, performance-  
10 based incentive regulation, revenue requirement analysis, and the evaluation of residential  
11 customer choice transportation programs and service restructuring proposals.

12 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS ON  
13 UTILITY RATES?

14 A. Yes. I have provided testimony on more than 60 occasions in proceedings before the  
15 Federal Energy Regulatory Commission ("FERC"), and utility regulatory commissions in  
16 Delaware, Georgia, Illinois, Indiana, Louisiana, Montana, Nevada, Ohio, Pennsylvania,  
17 Rhode Island, Texas and Virginia. A detailed statement of my qualifications appears as  
18 Appendix B to the joint testimony of Mr. Richard A. Galligan and myself on generic  
19 restructuring issues.

20 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

21 A. Exeter Associates, Inc. was retained by the Division of Ratepayer Advocate ("Ratepayer  
22 Advocate") to assist in evaluating the restructuring filings made by New Jersey gas public  
23 utilities pursuant to Section 10, Subsection a, of the Electric Discount and Energy  
24 Competition Act of 1999 ("Restructuring Act" or "the Act"). The "Order Establishing  
25 Procedures" issued by the Board of Public Utilities ("Board") on March 17, 1999 required

1 intervenor testimony in the restructuring proceedings to be presented in two sections. The  
2 first section is to address generic policy and methodological issues. The second is to  
3 address specific numerical issues, such as proposed rates, applicable to individual gas  
4 public utilities. This testimony addresses company-specific issues relating to New Jersey  
5 Natural Gas Company (“New Jersey Natural” or the “Company”).

6 Q. PLEASE SUMMARIZE WHETHER NEW JERSEY NATURAL HAS COMPLIED  
7 WITH THE REQUIREMENTS OF THE ELECTRIC DISCOUNT AND ENERGY  
8 COMPETITION ACT.

9 A. New Jersey Natural’s unbundling filing in this proceeding substantially complies with the  
10 requirements of the Restructuring Act and applicable Board Orders. There are, however,  
11 certain deficiencies in the filing which should be corrected in New Jersey Natural’s rebuttal  
12 testimony.

13 The policy goals of the Ratepayer Advocate in these proceedings, which largely echo  
14 those of the Act, are to: provide the broadest possible customer choice; provide all  
15 customers, including small customers and low income customers, the opportunity to share  
16 in the benefits of increased competition, including reduced affordable gas bills; ensure full  
17 and fair competition in the gas supply market; provide functional separation of the gas  
18 commodity sales services and gas distribution services; and support and further  
19 environmental protections.

20 New Jersey Natural has been a leader in promoting competition and customer choice  
21 in the natural gas industry in New Jersey for several years, and its unbundling proposal in  
22 the current docket substantially reflects the Company’s choice-oriented policies, with  
23 certain noted deficiencies.

24 Many elements of the customer choice program reflected in the Company’s filing  
25 were developed and approved by the Board in a previous proceeding, designated as the

1 “Global Settlement,” BPU Docket No. GR9707542. The current filing basically puts the  
2 Global Settlement program into a format required by the Legislature and the Board. The  
3 Company’s current choice program, as approved by the Board, is available to 40,000  
4 residential customers on an open enrollment basis. As of May 1999, approximately  
5 31,000 residential customers were participating in the program as well as 4,200  
6 commercial customers. Transportation services represented seventeen percent (17  
7 percent) of the Company’s throughput this past fiscal year. Thirty-one third-party  
8 suppliers (“TPS”) serve the commercial market and eight TPSs currently serve the  
9 residential market. New Jersey Natural is prepared to implement full customer choice on  
10 August 1, 1999 and would like to offer choice to all customers simultaneous with the  
11 implementation of electric choice.

12 In its filing New Jersey Natural has separated Basic Gas Supply Service,  
13 transportation and balancing, but has failed to identify and analyze other factors, which  
14 failure results in improper cost allocations. Key deficiencies in the filing are:

- 15 • Failure to identify and analyze in full margin rates all cost elements and potential  
16 supply-related costs, such as carrying costs on storage inventory, LNG and other  
17 peak-shaving services;
- 18 • Failure to allocate costs for administration and customer accounting, which are higher  
19 for transportation than sales customers; and
- 20 • Failure to analyze other customer-related services such as metering and billing.

21 New Jersey Natural proposes to provide multiple balancing service options for its  
22 customers, including a proposed service which allows suppliers to provide a form of “daily  
23 balancing” for customers without automatic telemetering devices. The Company’s  
24 provision of a variety of balancing services allows customers and TPSs to choose from a  
25 menu of options, which will promote competition.

1           Although New Jersey Natural has stated that it plans to unbundle rates for metering,  
2           billing, and customer account services, the Company has not provided this information in  
3           its filing. It should be required to file such information in its rebuttal testimony so that this  
4           issue may be fully addressed at hearing.

5           New Jersey Natural’s proposed Societal Benefits Charge is incomplete because the  
6           Company has failed to identify and quantify the costs of existing social programs, which is  
7           required by the Act. These costs should be quantified and a per unit charge added to the  
8           other components of the SBC. Further, the Company has not defined nor attempted to  
9           quantify the costs of its consumer education program.

10          Regarding Universal Service Fund (“USF”) costs, the Ratepayer Advocate has  
11          recommended that the USF be stated as a separate line item and should not be included in  
12          the SBC charge. New Jersey Natural has not submitted a proposal with respect to the  
13          USF. Although the Board will address the content and funding of the USF, New Jersey  
14          Natural should be required to file a proposal addressing both the scope and the funding of  
15          the USF in this proceeding in order to ensure a full examination of the issue.

16          New Jersey Natural’s program for customer choice appears largely to comply with  
17          the requirements of the Act and related Board Orders. Large numbers of residential, as  
18          well as commercial, customers have chosen to participate in the existing program.  
19          However, New Jersey Natural should be required to amend its proposal to fill the gaps  
20          and correct the errors which the Ratepayer Advocate has noted in its testimony.

21    Q.           PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS  
22                    CONCERNING THE RESTRUCTURING FILING OF NEW JERSEY NATURAL  
23                    GAS.

1 A. Based upon my review and analysis, I recommend that the Board adopt the following  
2 findings and conclusions:

- 3 • New Jersey Natural’s proposed unbundled service offerings are consistent with the  
4 Ratepayer Advocate’s recommendations and provide residential customers with  
5 several options which may result in lower rates;
- 6 • The Company’s capacity assignment and stranded capacity cost recovery procedures  
7 are consistent with the Ratepayer Advocate’s recommendations and promote  
8 competition. New Jersey Natural has no stranded costs and its policy regarding use  
9 of capacity avoids an automatic pass-through of stranded capacity costs. However,  
10 should the Company eventually experience stranded costs, it should not be permitted  
11 to defer those costs on its books and should be required to file a petition with the  
12 Board to recover those costs;
- 13 • New Jersey Natural’s proposal to assess distribution customers which return to sales  
14 service the same rates which are assessed to remaining sales customers is consistent  
15 with regulatory principles and promotes the Act’s objective of creating a competitive  
16 marketplace;
- 17 • New Jersey Natural should not be permitted to offer a fixed price option for Basic  
18 Gas Supply Service due to the distinct advantage it maintains over TPSs under the  
19 current regulatory structure in offering such services. It should continue to provide  
20 sales service under its current tariffs; however, a fixed price option should be offered  
21 only by the Company’s unregulated affiliate;
- 22 • The rates for service under the Company’s Firm Cogeneration, Cooling, Air  
23 Conditioning and Pool Heating and Economic Development classifications should be  
24 reviewed in the context of the new competitive environment consistent with the  
25 requirements of the Act. Customers currently being served under the Firm  
26 Cogeneration tariff should be grandfathered;
- 27 • The Company has not complied with the Board’s directive to identify all gas supply  
28 and potentially supply-related costs which are included within transportation rates and  
29 should be mandated to do so by the Board;
- 30 • New Jersey Natural has not complied with the Board’s directive to provide unbundled  
31 rates for metering, billing and customer account services, and should be required to  
32 do so in its rebuttal testimony;
- 33 • The Company’s billing options promote the development of a competitive market;  
34 however, the Company has not identified the variable costs of providing billing as  
35 required, and should file this information as part of its rebuttal testimony;
- 36 • New Jersey Natural’s Societal Benefit Charge proposals are generally consistent with  
37 the requirements of the Act; however, the Company has not quantified its social  
38 program costs nor specified and quantified the consumer education activities  
39 proposed to be recovered in the SBC and should do so in its rebuttal testimony; and

- 1 • The Company has not made a specific proposal concerning a Universal Service Fund  
2 and should do so.

3 **II. Unbundled Service Options**

4 Q. WHAT UNBUNDLED DISTRIBUTION OPTIONS DOES NEW JERSEY  
5 NATURAL PROPOSE TO OFFER CUSTOMERS WHO WISH TO PURCHASE  
6 GAS FROM THIRD-PARTY SUPPLIERS?

7 A. New Jersey Natural currently offers its customers two balancing services, and has  
8 proposed a third balancing service which is currently before the Board. The services are  
9 provided under different rate schedules:

10 (1) Under Firm Transportation Service (“FT”), a service for large volume high  
11 load factor customers with telemetering equipment which measures and  
12 communicates gas usage at frequent intervals during a given day, a “daily  
13 balancing” service is provided in which the customer (or TPS) arranges the  
14 delivery of that volume of gas which matches the customer’s actual usage each  
15 day.

16 (2) The second balancing service is available under the Comprehensive  
17 Transportation and Balancing Service (“CTB”), Small Commercial Rebundled  
18 Service (“SCR”) and Residential Transportation (“RT”) service classifications.  
19 Under these services, TPSs deliver the same amount of gas each day of the  
20 month, based on their customers’ average expected usage for that month.  
21 New Jersey Natural manages both expected and unexpected daily variations in  
22 usage.

23 (3) The proposed balancing service, currently before the Board, is a Temperature  
24 Sensitive Delivery Service (“TSD”) (Docket No. 970707542). This service  
25 would require suppliers to deliver to customers without automatic telemetering

1 equipment each customer's anticipated daily gas requirement. Under this  
2 service, TPSs would adjust deliveries to match expected daily variations in  
3 usage, based on forecasted weather. New Jersey Natural would continue to  
4 provide gas to customers where there are differences in usage due to  
5 differences between forecasted and actual weather.

6 Q. ARE THESE OPTIONS CONSISTENT WITH THE RATEPAYER ADVOCATE'S  
7 GENERIC POLICY RECOMMENDATIONS REGARDING UNBUNDLED  
8 SERVICE OFFERINGS?

9 A. Yes. The Ratepayer Advocate has recommended that New Jersey gas utilities be required  
10 to offer at least two types of transportation services for residential customers. These are:  
11 (1) the TPS delivers the same levelized quantity of gas each day of the month, to be  
12 offered by December 31, 1999; and (2) the TPS delivers quantities equal to its customers'  
13 estimated daily usage, to be offered by October 1, 2000. The RT service currently offered  
14 by New Jersey Natural requires TPSs to deliver the same levelized quantity of gas each  
15 day of the month. The proposed TSD service would require TPSs to deliver quantities  
16 equal to their customers' estimated daily usage. In accordance with the Ratepayer  
17 Advocate's generic policy recommendations, TSD service should be available by October  
18 1, 2000.

19 **III. Capacity Assignment and Stranded Costs**

20 Q. WHAT DOES NEW JERSEY NATURAL PROPOSE WITH RESPECT TO THE  
21 ASSIGNMENT OF CAPACITY AND THE RECOVERY OF STRANDED  
22 CAPACITY COSTS?

23 A. First, no natural gas utility in the State of New Jersey has claimed, nor demonstrated, that  
24 it has or will experience stranded costs. New Jersey Natural has had a policy of assigning

1 capacity to TPSs on a voluntary basis; however, to date, TPSs have requested assignment  
2 of de minimis amounts of capacity. Furthermore, the Company utilizes any potentially  
3 excess capacity for new growth in its service territory and currently has no excess  
4 capacity.

5 Pursuant to the Global Stipulation in Docket No. GR97070542, if the pace of  
6 conversions to transportation service accelerates and stranded capacity costs are  
7 experienced, New Jersey Natural may defer those costs and file a proposal to mitigate  
8 stranded capacity costs. More specifically, if annual sales decline below 30 Bcf, New  
9 Jersey Natural may file a mitigation proposal which may include the mandatory  
10 assignment of capacity. However, Counsel informs me that, pursuant to the Act, the  
11 instant restructuring proceeding supersedes and can modify the Global Stipulation. The  
12 Ratepayer Advocate recommends that alleged stranded costs should not be  
13 deferred. The Company should be required to file a mitigation proposal as soon as it  
14 claims such costs can be expected to occur.

15 New Jersey Natural should be pro-active in avoiding stranded costs and mitigating  
16 them should they become unavoidable. Only then should it be permitted to request  
17 Board approval for mandatory capacity assignment to address stranded costs. Board  
18 consideration of such a petition should be in accord with the Ratepayer Advocate's  
19 generic recommendations. It should be noted that mandatory capacity assignment is not a  
20 stranded cost mitigation device. Insofar as mandatory capacity assignment is a pass-  
21 through of the above-market costs of a utility's gas portfolio, it is actually a stranded cost  
22 recovery mechanism.

1 Q. ARE NEW JERSEY NATURAL'S VOLUNTARY CAPACITY ASSIGNMENT  
2 PROCEDURES CONSISTENT WITH THE GENERIC POLICY  
3 RECOMMENDATIONS OF THE RATEPAYER ADVOCATE?

4 A. Generally, yes. The Ratepayer Advocate recommends that utilities offer voluntary  
5 capacity assignment, but that TPSs not be required to accept such assignments. New  
6 Jersey Natural's proposal complies with this policy recommendation. It is uncertain  
7 whether New Jersey Natural would terminate an expiring contract given its growing  
8 customer base. However, if the Company elects to terminate an existing capacity  
9 arrangement, consistent with the Ratepayer Advocate's policy recommendation, the  
10 Company should notify its TPSs and distribution customers of such expiration as soon as  
11 practical through an electric bulletin board announcement or other means including its  
12 website so that the TPSs can arrange for the purchase of some or all of the soon-to-be  
13 released capacity. The notification to the TPSs and customers should be well in advance  
14 of the Company's notification to the pipeline as to whether New Jersey Natural will renew  
15 its contract.

16 **IV. Basic Gas Supply Service ("BGSS")**

17 Q. WHAT IS NEW JERSEY NATURAL'S PROPOSAL WITH RESPECT TO BASIC  
18 GAS SUPPLY SERVICE?

19 A. The Company's rates for BGSS are based on the current rates of recovery of gas costs  
20 from customers. Specifically, the existing Levelized Gas Cost Adjustment ("LGAC") rate  
21 and the gas costs embedded in base rates have been combined into a single BGSS rate.  
22 Balancing-related costs are separately identified. Residential customers who return to  
23 sales service from distribution service will be charged the same rates for BGSS which

1 remaining residential sales customers pay. Pursuant to provisions of the Restructuring  
2 Act, there will be no administrative charge assessed to returning residential customers.

3 Q. WHAT ARE THE RATEPAYER ADVOCATE'S RECOMMENDATIONS  
4 REGARDING THE COST OF BASIC GAS SUPPLY SERVICE?

5 Section 10.r of the Act states in part:

6 Gas supply procured for basic gas supply service by a gas public utility shall be  
7 purchased at prices consistent with market conditions. The charges assessed to  
8 customers for basic gas supply service shall be regulated by the board and shall be  
9 based on the cost to the utility of providing such service, including the cost of gas  
10 commodity and capacity purchased at prices consistent with market conditions by the  
11 gas public utility in the competitive wholesale marketplace. . . .

12 There is a possible problem here because some of the gas commodity and capacity  
13 purchases made by New Jersey Natural are purchased at prices higher than those  
14 consistent with market conditions. It may therefore be difficult to set a basic gas supply  
15 price that reflects New Jersey Natural's actual costs of providing basic gas supply service  
16 and also meets the other requirements stated in Section 10.r. I recommend that New  
17 Jersey Natural be required to submit with its rebuttal testimony its plan for complying  
18 with Section 10.r of the Act.

19 Q. SHOULD RESIDENTIAL DISTRIBUTION CUSTOMERS WHO RETURN TO  
20 SALES SERVICE BE ASSESSED THE SAME RATES FOR BGSS WHICH ARE  
21 ASSESSED TO REMAINING RESIDENTIAL SALES CUSTOMERS?

22 A. Yes. As explained in the Ratepayer Advocate's generic policy testimony, the Ratepayer  
23 Advocate recommends that BGSS rates for residential and small commercial classes  
24 should be applied uniformly to all customers seeking that service from a gas utility. There  
25 should be no discrimination between rates for new vs. returning customers. Such a policy  
26 favors customers' unhindered shifting between alternative gas supply options, thus  
27 encouraging a competitive marketplace.

1 Q. IS ANY CHANGE REQUIRED IN NEW JERSEY NATURAL'S PROPOSAL  
2 WITH REGARD TO SWITCHING FEES?

3 A. Yes. New Jersey Natural's switching fee for commercial customers could be a  
4 substantial deterrent to choice for many of these customers. In accordance with the  
5 recommendation in Mr. LeLash's generic testimony, switching fees should be  
6 eliminated for commercial customers.

7 Q. SHOULD NEW JERSEY NATURAL BE PERMITTED TO OFFER A FIXED-  
8 PRICE SERVICE OPTION FOR BGSS?

9 A. No. Gas utilities should not be permitted to offer a fixed-price option for BGSS. Fixed  
10 price offerings are a pricing tool upon which TPSs rely in order to compete with  
11 incumbent gas utilities. Although it is desirable to foster choice in the provision of  
12 competitive gas supply service, gas utilities maintain a distinct advantage over TPSs in  
13 offering such services under the current regulatory structure. For example, TPSs must  
14 recover their operating costs and profits through their rates for gas supply service, while  
15 gas utilities recover such costs through rates for the monopoly distribution service. This  
16 advantage may inhibit new entrants to the market and therefore be a barrier to  
17 competition.

18 **V. Unbundled Tariffs**

19 Q. HAS NEW JERSEY NATURAL GAS UNBUNDLED RATE SCHEDULES  
20 CONSISTENT WITH THE REQUIREMENTS OF THE ACT?

21 A. No. The Act requires each gas public utility to unbundle its rate schedules such that the  
22 discrete services which were previously provided as a bundled service are separately  
23 identified and priced in its tariff. Although New Jersey Natural has unbundled the charges  
24 for BGSS, distribution service and balancing service under its Residential and General  
25 Service firm sales service classifications, the tariff does not clearly state the total rates for

1 gas supply and gas distribution. New Jersey Natural should be required to revise its tariffs  
2 so that they clearly set forth complete distribution and gas supply rates.

3 The rates for New Jersey Natural's remaining firm gas service classes such as Firm  
4 Cogeneration ("FC"), Cooling, Air Conditioning and Pool Heating ("CAC"), and  
5 Economic Development ("ED") firm gas sales service have not been unbundled  
6 consistent with the requirements of the Act. Nor has New Jersey Natural unbundled the  
7 rates of its non-firm gas sales service classifications: Natural Gas Vehicle ("NGV"),  
8 Interruptible Sales Service ("IS"). Interruptible Cogeneration ("IC"), and Incremental  
9 Gas Service ("IGS"). In addition, the Company has not properly designed rates for  
10 unbundled distribution service, nor for billing, metering or customer account  
11 services.

12 Q. ARE YOU RECOMMENDING THAT NEW JERSEY NATURAL'S FIRM  
13 COGENERATION RATES BE UNBUNDLED IN THE SAME WAY AS THE  
14 RESIDENTIAL AND GENERAL SERVICE RATES?

15 A. Not for the customers currently on these rate schedules. Each customer using this service  
16 has been able to choose between sales and distribution service. Also, changes to this rate  
17 schedule would necessitate a review of, and probably changes to, the special contracts  
18 used by the customers on this rate schedule. This rate schedule still needs to be reviewed  
19 for possible new customers in the context of the new competitive environment. Existing  
20 customers taking service under these rate schedules should be grandfathered. New Jersey  
21 Natural should be required to file with its rebuttal testimony a cost-based proposal to  
22 address these rate schedules going forward, for new customers. In addition, as a result  
23 of the recent electric restructuring proceeding, it is expected that numerous gas-fired  
24 cogeneration facilities will be built, resulting in increased gas use. Gas utilities should  
25 establish unbundled rates for these facilities.

1 Q. SHOULD NEW JERSEY NATURAL'S RATES FOR OTHER FIRM GAS SALES  
2 SERVICE CLASSIFICATIONS WHICH HAVE NOT BEEN UNBUNDLED AND  
3 THE RATES FOR NON-FIRM GAS SALES SERVICES BE UNBUNDLED?

4 A. These tariffs need to be reviewed in the context of the new competitive environment.  
5 New Jersey Natural should be required to set forth in its rebuttal testimony how it plans to  
6 unbundle those firm tariffs upon which existing customers rely.

7 Q. WHAT OTHER ASPECTS OF NEW JERSEY NATURAL'S RATES SHOULD BE  
8 UNBUNDLED?

9 A. In its Order of Clarification issued June 25, 1999, the Board determined that each gas  
10 utility should provide unbundled rates for metering, billing, and customer account services.  
11 New Jersey Natural has not provided these in its filing, although the Company claims it  
12 will file information related to variable billing costs shortly. To the extent it has not done  
13 so prior to filing its rebuttal testimony, the Company should provide unbundled rates for  
14 metering, billing, and other customer account services in that testimony. In making such a  
15 filing, it should include all work papers and supporting documentation showing derivation  
16 of its proposed rates and should also provide an explanation of how the rates were  
17 developed.

18 **VI. Cost Allocation and Rate Design**

19 Q. WHAT ARE NEW JERSEY NATURAL'S MAJOR COST AND RATE  
20 FUNCTIONS?

21 A. New Jersey Natural's two major cost and rate functions are gas supply and gas  
22 distribution. Within the gas supply function, costs and rates for gas commodity service  
23 and balancing service can be separately identified.

1 Q. WHAT IS THE SCOPE OF THIS PROCEEDING WITH RESPECT TO THE  
2 DESIGN OF UNBUNDLED TRANSPORTATION AND SALES RATES?

3 A. In its June 25, 1999 “Order of Clarification” in the instant proceeding, the Board states:

4 “... it was and is the Board’s intent to utilize this proceeding to fully  
5 examine unbundled rates for transportation service, gas sales service and  
6 all services, such as balancing services and customer account services,  
7 that have the potential to be competitively provided. Third party  
8 suppliers have for some time asserted that the establishment of properly  
9 unbundled transportation and sales rates require more than simply  
10 removing the cost of the commodity from current rates. It is our  
11 intention that this proceeding be the venue for the suppliers to pursue  
12 that assertion and to determine the appropriate unbundled transportation  
13 rates and sales rates. In order to do so, the parties must be permitted to  
14 engage in a complete analysis of all cost elements in bundled rates to  
15 identify within transportation rates all supply and potentially supply-  
16 related costs, including, without limitation, gas commodity costs,  
17 upstream transportation costs, upstream storage costs, peaking service  
18 costs, and an appropriate allocation of all supply-related overhead,  
19 administrative and general costs.

20 The appropriateness of such an undertaking is underscored by the  
21 acknowledgment set forth in various gas public utility filings that certain  
22 gas supply costs may well be reflected in current transportation rates. In  
23 fact, for some time the Board has been committed to a complete review  
24 of transportation rates and sales rates as described above, and the Board  
25 intends for this proceeding to be the vehicle to accomplish this task.

26 Q. WHAT DOES NEW JERSEY NATURAL PROPOSE WITH RESPECT TO COST  
27 ALLOCATION AND RATE DESIGN FOR ITS UNBUNDLED DISTRIBUTION  
28 SERVICE OFFERINGS?

29 A. New Jersey Natural’s unbundled distribution rates are based on full margin rates. That is,  
30 New Jersey Natural has removed the cost of gas commodity from current sales rates to  
31 determine the appropriate charges for distribution service. A balancing component of  
32 commodity costs has also been separately designed.

1 Q. HAS NEW JERSEY NATURAL ANALYZED ALL COST ELEMENTS IN  
2 BUNDLED SALES RATES SO THAT ALL SUPPLY AND POTENTIALLY  
3 SUPPLY RELATED COSTS RATES CAN BE IDENTIFIED?

4 A. No. This lack of information is a serious impediment to determining appropriate rates for  
5 unbundled distribution service. The Company should be required to perform this analysis  
6 and provide the information in its rebuttal. Specifically, the Company should identify gas  
7 costs in base rates, such as peak-shaving and inventory carrying costs.

8 Q. DID YOU EXAMINE THE COSTS OF DISTRIBUTION SERVICE TO  
9 IDENTIFY THOSE COSTS WHICH MAY BE INCLUDED IN NEW JERSEY  
10 NATURAL'S FULL MARGIN RATES WHICH ARE APPLICABLE ONLY TO  
11 SALES CUSTOMERS?

12 A. Yes, I examined the costs of distribution service. However, given the limited information  
13 available, I could not determine whether the total cost of providing distribution service to  
14 a sales customer is significantly different from the total cost of providing distribution  
15 service to a distribution customer. The Company has again failed to provide the details  
16 necessary for adequate review and analysis and should be required to provide such  
17 information in its rebuttal testimony

18 Q. DO DISTRIBUTION CUSTOMERS PRESENTLY ENJOY ANY SORT OF RATE  
19 ADVANTAGE OVER SALES CUSTOMERS?

20 A. Yes, while the distribution charges applicable to transportation and sales customers are  
21 equal, the Company's Prior Gas Cost Adjustment Surcharge ("PGCA") mechanism,  
22 established in the Global Settlement, provides transportation customers a \$.016 per therm  
23 price advantage. The PGCA mechanism is designed to recover a significant purchased gas  
24 cost under-recovery experienced by the Company as of September 30, 1997.

1 Q. PLEASE DESCRIBE HOW YOU EXAMINED NEW JERSEY NATURAL'S  
2 RATES FOR UNBUNDLED TRANSPORTATION SERVICE GIVEN THE LACK  
3 OF NECESSARY INFORMATION.

4 A. Public Service Electric & Gas (Public Service") was the only gas utility to present any  
5 substantive evidence as to which base rate cost rates are more properly assigned to the gas  
6 supply function than to distribution. Therefore, I based my examination largely on the  
7 analysis performed by Public Service.

8 Q. PLEASE CONTINUE.

9 A. The primary base rate costs identified by Public Service as more properly assigned to the  
10 gas supply function were the carrying costs on gas in storage inventory and other gas  
11 supply-related expenses. To determine the costs associated with gas in storage inventory,  
12 I reviewed New Jersey Natural's most recent cost of service study. As shown on  
13 Schedule JDM-1, this analysis indicates that approximately \$0.003 per therm of gas  
14 storage inventory costs are reflected in New Jersey Natural's unbundled rates for  
15 distribution service.

16 With respect to other gas supply-related costs, I relied upon the same per unit costs  
17 developed through Public Service's analysis. As shown on Schedule JDM-1, that analysis  
18 indicates that approximately \$0.002 per therm of other gas supply-related costs are  
19 reflected in New Jersey Natural's unbundled rate for distribution service. In total, my  
20 analysis indicates that approximately \$0.005 per therm of gas supply-related costs may  
21 currently and inappropriately be reflected in New Jersey Natural's unbundled rates for  
22 distribution service. These costs should be removed from distribution rates and added to  
23 the gas supply rate.

1 Q. ARE THERE OTHER FACTORS WHICH SHOULD BE CONSIDERED IN  
2 YOUR ANALYSIS?

3 A. Yes. The administrative and customer accounting and related costs of serving a  
4 distribution (transportation) customer exceed those of serving a sales customer. These  
5 additional costs should be considered in any adjustment to unbundled distribution rates.  
6 Charges of \$.002 to \$.010 per therm have been approved in Pennsylvania in recognition of  
7 these additional costs [(Columbia Gas of Pennsylvania (\$.002); The Peoples Natural Gas  
8 Company (\$.008); Equitable Gas Company (\$.005); and National Fuel Gas Distribution  
9 (\$.010)].

10 Q. WHAT DO YOU CONCLUDE FROM YOUR ANALYSIS?

11 A. New Jersey Natural has not provided sufficient information to perform an extensive  
12 analysis of the gas supply-related costs which may be embedded in the Company's full  
13 margin rates. However, my initial review of these costs indicates that they are comparable  
14 to the costs incurred by other gas utilities to administer their small customer distribution  
15 (transportation) programs. However, the Ratepayer Advocate recommends that the  
16 Company provide the information needed for such analysis in its rebuttal testimony.

17 **VII. Billing Options and Credits**

18 Q. WHAT BILLING OPTIONS DOES NEW JERSEY NATURAL PROPOSE TO  
19 OFFER?

20 A. New Jersey Natural currently offers three billing options: (1) a single bill rendered by the  
21 TPS for both its gas supply charges and New Jersey Natural's distribution charges; (2) a  
22 single bill rendered by New Jersey Natural for both the TPS's commodity charges and the  
23 Company's distribution charges; and (3) a two-bill option, wherein the TPS renders a bill  
24 for gas supply commodity charges and New Jersey Natural renders a second bill for  
25 distribution service. TPSs are responsible for collection of their own delinquent accounts.

1 Under Option 1, the TPS is responsible for remitting to New Jersey Natural the  
2 customer's payment for distribution service provided by the Company. Under Option 2,  
3 New Jersey Natural currently purchases the TPS's receivables. However, as discussed  
4 further in the testimony of Barbara Alexander, the Ratepayer Advocate believes that gas  
5 utilities should be prohibited from purchasing the receivables of suppliers and collecting  
6 the competitive portion of the bill through the Company's regulated collection methods.  
7 In the electric restructuring proceedings, the Board declared that a customer's regulated  
8 service should not be used as a collection device for unregulated and competitive charges.

9 In the Global Settlement, New Jersey Natural agreed to separate the variable billing  
10 costs and to credit any avoidable costs to customers whose TPS renders the entire bill.  
11 New Jersey Natural claims it is currently developing the credit and will file it shortly.

12 Q. ARE THESE OPTIONS CONSISTENT WITH THE RATEPAYER ADVOCATE'S  
13 GENERIC POLICY RECOMMENDATIONS WITH RESPECT TO BILLING  
14 OPTIONS AND CREDITS?

15 A. No. Although the choice of billing options and purposed credit policies are consistent with  
16 the Ratepayer Advocate's recommendations, the Company's current policy of purchasing  
17 TPSs' receivables is contrary to the Ratepayer Advocate's recommendation and Board  
18 policy. Because the Company has not yet filed its billing credit proposal, the  
19 reasonableness of the balance of NJN's proposal cannot be assessed. The Company  
20 should file this information as part of its rebuttal testimony.

21 Q. HAS NEW JERSEY NATURAL PROPOSED TO ASSESS TRANSFER  
22 CHARGES ON CUSTOMERS WHO SWITCH THIRD-PARTY SUPPLIERS OR  
23 SERVICE CLASSIFICATIONS?

24 A. Yes. Customers served under Billing Options 1 and 2 who seek to transfer to another  
25 service classification and who give the Company 30 days notice would be assessed a \$10

1 transfer charge, and those served under Billing Option 3 would be charged \$13.50.  
2 Customers served under Billing Options 1 and 2 who provide thirty days notice to the  
3 Company and who seek to switch their marketer affiliation would be assessed a \$10  
4 transfer charge. If they also wish to switch to Billing Option 3, they would be charged  
5 \$13.50.

6 Q. ARE THESE TRANSFER CHARGES PERMITTED UNDER THE ACT?

7 A. Counsel informs me that switching fees such as New Jersey Natural's proposed transfer  
8 charges are prohibited under the Act for residential customers..

9 **VIII. Societal Benefits Charge ("SBC")/Universal Service Fund ("USF")**

10 Q. WHAT DOES NEW JERSEY NATURAL PROPOSE WITH RESPECT TO THE  
11 SOCIETAL BENEFITS CHARGE?

12 A. The Act specifies four types of costs that could be recovered through the SBC by gas  
13 utilities. These are: (1) the costs of social programs; (2) demand-side management  
14 ("DSM") programs; (3) manufactured gas plant remediation costs ("MGP"); and (4)  
15 consumer education. New Jersey Natural has proposed an SBC charge of \$.0021 per  
16 therm, which reflects its existing charges for DSM and MGP costs of \$0.0000 and \$.0021  
17 per therm, respectively. The Company has asserted that the Board will determine the  
18 appropriate level of any consumer education and funding to be recovered through the  
19 SBC. New Jersey Natural has stated that it will reflect any Board determination  
20 concerning these matters in its SBC.

21 Q. WHAT ARE THE RATEPAYER ADVOCATE'S GENERIC POLICY  
22 RECOMMENDATIONS CONCERNING SOCIETAL BENEFITS CHARGE?

23 A. As explained in the generic testimony of Rick LeLash, the Ratepayer Advocate  
24 recommends that the Board adopt the following generic provisions for implementation of  
25 the SBC:

- 1 1. The gas utilities should be required to quantify their costs under existing social  
2 programs, including uncollectibles attributable to low-income consumers, and include  
3 them in the SBC. They should also be directed to specify and quantify the costs of  
4 specific consumer education activities they are proposing to include in the SBC.
- 5 2. The gas utilities should not incorporate costs associated with implementing the  
6 provisions of the Act, transition costs, lost revenues, or claimed stranded costs or  
7 uncollectible amounts, other than those related to low-income customers, as none of  
8 these are authorized by the Act.
- 9 3. Consistent with current Board policy, there should be no interest on under-recovered  
10 balances.
- 11 4. All components of the SBC should apply uniformly to all customers, as required by  
12 the Act. The exemptions and special rates that exist under the utilities' currently  
13 effective DSM and MGP clauses are superseded by the Act..
- 14 5. The SBC recovery mechanism should have annual reconciliations and rate revisions as  
15 part of the gas utilities' procurement reviews. In such proceedings, the gas utilities  
16 should be required to justify any costs which are to be recovered through the SBC  
17 and they should have to obtain Board approval to implement deferred accounting for  
18 any of the SBC components.

19 Q. DO NEW JERSEY NATURAL'S SBC PROPOSALS COMPLY WITH THE  
20 PROVISIONS OF THE ACT AND THE RECOMMENDATIONS OF THE  
21 RATEPAYER ADVOCATE?

22 A. Generally, yes. The SBC is to be applied to all classes of customers. The Company has  
23 properly reflected the DSM and MGP components of the SBC, although, as stated above,  
24 it has not included costs of social programs or consumer education. The Act states that  
25 "the societal benefits charge shall be set to recover the same level of social program costs

1 as is being collected in the bundled rates ...” New Jersey Natural did not comply with this  
2 provision in its filing. The Company therefore should be required to quantify its annual  
3 social program costs and derive a per unit charge to be added to the other components of  
4 the SBC to be provided in the Company’s rebuttal testimony. The Company should also  
5 be required to specify and quantify the consumer education costs proposed to be  
6 recovered through the SBC.

7 Q. WHAT ARE THE RATEPAYER ADVOCATE’S RECOMMENDATIONS  
8 CONCERNING THE ESTABLISHMENT OF THE USF?

9 A. As discussed in the testimony of Rick LeLash, it is the recommendation of the Ratepayer  
10 Advocate that:

11 (1) The USF should be funded by existing resources as well as through a volumetric  
12 distribution charge. The use of a volumetric charge keeps the USF funding  
13 competitively neutral for the gas utilities and TPSs and is, therefore, the most  
14 practical funding mechanism; and

15 (2) The Board should define the USF to meet the objectives recommended by Mr. Colton  
16 and establish a specific timetable and proceeding for its development, ideally, before  
17 the startup of the full unbundling programs.

18 Q. WHAT IS NEW JERSEY NATURAL’S PROPOSAL WITH RESPECT TO THE  
19 UNIVERSAL SERVICE FUND?

20 A. New Jersey Natural has not made a specific proposal with respect to the USF, proposing  
21 only that the funding and the content of the USF be addressed by the Board.

22 Q. WHAT IS THE RATEPAYER ADVOCATE’S RECOMMENDATION  
23 CONCERNING NEW JERSEY NATURAL’S PARTICIPATION IN THE  
24 DEVELOPMENT OF THE UNIVERSAL SERVICE FUND?

1 A. New Jersey Natural should address the scope and funding for the USF in this proceeding.  
2 The Ratepayer Advocate recommends that New Jersey Natural be required to file a USF  
3 proposal conforming to the precepts set forth in the testimony of Ratepayer Advocate  
4 witness Roger Colton.

5 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

6 A. Yes, it does.

NEW JERSEY NATURAL GAS COMPANY

Analysis of Gas Supply-Related Costs  
Embedded in Transportation Rates

5	<u>Gas in Storage Inventory</u>	
6	Balance <sup>(a)</sup>	\$ 20,024,000
7	Carrying Charge <sup>(b)</sup>	<u>13.84</u> percent
8	Revenue Requirement	\$ 2,771,322
9	Gas Supply Allocation <sup>(c)</sup>	<u>50</u> percent
10	Gas Supply Revenue Requirement	\$ 1,385,661
11	NJNG Sales Volume (Therms) <sup>(d)</sup>	<u>489,089,386</u>
12	Per Unit Gas Supply Charge	\$ <u>0.003</u>
13	<u>Other Gas Supply-Related Expenses</u>	
14	Amount <sup>(e)</sup>	\$ 4,252,000
15	PSE&G Sales Volume (Therms)	<u>2,021,160,000</u>
16	Per Unit Gas Supply Charge	\$ <u>.002</u>
17	Estimate of Gas Supply-Related Costs Embedded	\$ <u>.005</u>
18	in Transportation Rates (Therm)	

19 Notes:

- 20 (a) Company response to RAR-N-UN-11, Schedule B, page 19
- 21 (b) PSE&G Schedule GWS-9, page 5.
- 22 (c) PSE&G Schedule GWS-8.
- 23 (d) Company response to Shell-9.
- 24 (e) PSE&G 1998 LGAC Filing, Schedules 1 and 2.

