



Agenda Date: 1/20/10
Agenda Item: 2E

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE PETITION OF SOUTH)	DECISION AND ORDER
JERSEY GAS COMPANY FOR AUTHORITY TO)	APPROVING STIPULATION
IMPLEMENT A CONSERVATION AND USAGE)	
ADJUSTMENT)	DOCKET NO. GR05121019
)	
IN THE MATTER OF THE PETITION OF NEW)	
JERSEY NATURAL GAS COMPANY FOR)	
AUTHORITY TO IMPLEMENT CONSERVATION)	
AND USAGE ADJUSTMENT)	DOCKET NO. GR05121020

(SERVICE LIST ATTACHED)

BY THE BOARD:

On December 12, 2006, the Board issued its Conservation Incentive Program ("CIP") Order, adopting the terms of a stipulation detailing the provisions of the three-year pilot program agreed to by Board Staff, the Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel"), New Jersey Natural Gas Company ("NJNG") and South Jersey Gas Company ("SJG") (collectively, the "Parties"). The CIP is designed to align the interest of the customer and company, eliminating the disincentive for NJNG and SJG (known collectively as "the Companies") to promote conservation and energy efficiency, as the Companies' opportunities to earn margin is not directly linked to customer usage.

On December 4, 2009, the Companies filed a petition ("December 4 Petition") to extend the CIP through September 30, 2013, with no material changes to the program or to the terms and conditions previously approved by the Board. The Companies proposed to maintain the ongoing monitoring requirements adopted in 2006 CIP stipulation, and proposed September 30, 2013 as the date on which the CIP would terminate if the Board does not otherwise issue an order prior to that date.

According to the December 4 Petition, the highlights of the initial years of the CIP are as follows:

- The Companies have used use shareholder, as opposed to ratepayer, monies to finance the agreed upon conservation marketing efforts.
- The Companies have been recompensed for reductions in non-weather related usage only to the extent that those costs are offset by gas supply cost reductions.
- Recovery for non weather related CIP costs is limited by a cap on the earnings of each of the utilities. Both NJNG and SJG represent that neither company has exceeded the cap.
- In order to ensure net savings to the BGSS ratepayers over the course of the CIP, gas supply capacity cost savings were flowed through to BGSS customers before any CIP surcharge was applied.
- The Companies' filings over the past two years show supply cost reductions either equal to or exceeding the CIP surcharge.
- The reductions in use per customer for the initial two years of the pilot program have exceeded expectations. The steep reductions in the first year of the program have not only been maintained but have grown in the second year, even though gas prices dropped, suggesting that the reductions are long term, not transient.
- The CIP required focused conservation efforts by the Companies in an attempt to achieve a long term reduction in gas use.

As stated in the December 4 Petition, Christensen Associates Energy Consulting, LLC ("Christen Associates") was hired by the Companies to assess the CIP pilot program during the initial term since an evaluation was required under the terms of the 2006 stipulation. On March 16, 2009, Christensen Associates issued its independent report ("Report") on the CIP. As cited in the December 4 Petition, the Report noted that "...the utilities [NJNG and SJG] have provided considerable evidence of a culture change that is consistent with the incentives provided by CIP." (Petition at 5). NJNG and SJG have moved away from the more traditional approach of encouraging additional customer consumption and restructured the Companies' focus in a manner that supports the state's overarching energy efficiency goals in current and future initiatives. The Report further notes "that CIP succeeds in delivering benefits associated with eliminating the utilities' previous disincentive to promote conservation and energy efficiency" and states, when discussing decoupling programs, "we have not encountered a better method of removing the utility's disincentive to promote conservation and energy efficiency." (Petition at 6).

The Companies state that from October 2006 through September 2009, NJNG's and SJG's customers have reduced their natural gas consumption, enabling ratepayer savings of \$135 million and \$123.6 million, respectively. (Petition at 4). Additionally, the Companies assert that the CIP supports the Energy Master Plan, and recent efforts on both the State and federal level to promote energy efficiency and conservation. (Petition at 7).

Public hearings for NJNG customers were held in Freehold Borough on January 11, 2010 at 3:30 and 5:30 p.m. No members of the public appeared. Public hearings for SJG customers were held in Voorhees, New Jersey on January 12, 2010 at 4:00 and 6:00 p.m. No members of the public appeared.

The Parties conducted discovery and held meetings to discuss the possible extension of the CIP. As a result of those discussions, the Parties entered into a stipulation on January 14, 2010 ("Stipulation"), agreeing on key elements as follows¹:

- a) The CIP should be extended through September 30, 2013.
- b) The terms of the stipulation approved in the initial CIP Order, dated December 12, 2006, are agreed to in the January 14, 2010 Stipulation, except where inconsistent with the December 12, 2006 stipulation or no longer applicable. A copy of the 2006 stipulation is attached as Exhibit G.
- c) The Companies will not seek recovery of costs associated with programs described in Exhibits A and B attached to the Stipulation.
- d) Annually, from the date of the Board Order approving the Stipulation, through September 30, 2013, \$575,000 and \$400,000 will be made available for the NJNG and SJG CIP programs, respectively.
- e) Under-funding in one year will carry-over to the next.
- f) Under-funding at programs' termination will be credited to the Companies' BGSS clauses.
- g) Should costs for programs described in Exhibits A and B and any future programs , exceed the funding levels established for each company within the Stipulation, the Companies will each support funding for 100% of such program costs during the term of the CIP.
- h) The Companies' previously approved tariff pages and return-on-equity limitations will remain in effect. For NJNG the CIP shall not operate to permit NJNG to earn in excess of its allowed rate of return of 10.3% on common equity, while SJG's allowed return on equity is capped at 10.00%.
- i) If the CIP program terminates on or prior to September 30, 2013, the weather normalization clauses will be re-instated, and any CIP-related customer charges or credits will be applied in the subsequent year.
- j) The Companies may file a separate or joint petition for extension or modification of the CIP by March 1, 2013.
- k) The baseline usage per customer will be re-established in each company's next base rate case.
- l) BGSS savings will offset any recovery of non-weather related margins through the CIP tariffs.

¹ While discussed at some length in this Order, should there be any inconsistency between this Order and the Stipulation, the terms of the Stipulation control except where modified by this Order.

- m) The impact of weather will be calculated according to each company's normalization clauses, excluding the dead band.
- n) The total CIP value, including weather and non-weather, is subject to the Return on Equity ("ROE") cap.
- o) By June 1, 2010, each company will make a filing seeking final Board review and approval of its rates with the CIP tariff and will include the following information, which shall be certified:
 - i) a comparative balance sheet for the most recent fiscal three-year period,
 - ii) a comparative income statement for the most recent fiscal three-year period,
 - iii) a balance sheet as of the most recent date,
 - iv) a statement of the amount of revenue derived from intrastate sales and delivery of natural gas (a) in the last fiscal year preceding the filing of this petition and (b) in the CIP operating test year October 1, 2008 through September 30, 2009,
 - v) a pro forma income statement and an explanation of all adjustments thereon, as well as a calculation showing the indicated rate of return on the average net investment for the same period as that covered by the pro forma income statement, that is, investment in plant facilities plus supplies and working capital, less the reserve for depreciation and advances and contributions for facilities,
 - vi) an itemized schedule showing all payments and accruals to affiliated companies or organizations and to those who own in excess of five percent of the utility's capital stock regardless of the form or manner in which such charges are paid or accrued and an explanation of the service performed for such charges during the CIP operating test year October 1, 2008 through September 30, 2009, and
 - vii) a copy of the form of notice to customers.
- p) The CIP will remain in effect until September 30, 2013, or until such time as the Board issues an Order on the filing that the Companies may make by March 1, 2013 to seek approval to extend or modify the CIP or a similar program.

DISCUSSION AND FINDINGS

According to the information provided in the December 4 Petition and as reflected in the terms of the Stipulation, the CIP has been successful in helping the Companies' customers reduce their usage of natural gas. At the same time, the Companies' have maintained earnings sufficient to seek continuation of this pilot program, essentially on the same terms and conditions as the original approval in 2006. Extension of the NJNG and SJG CIP through September 2013 appears to support the Board's support for increased conservation and energy efficiency efforts for the benefit of the State's consumers and the environment. The merits of the initial three year term of the pilot justify continuation of the CIP for an additional term of three years, subject to most of the changes agreed to by the Parties. Therefore, the Board HEREBY ADOPTS the Stipulation, incorporating the terms and conditions as if fully set forth at length herein, subject to the following modification.

As in the 2006 stipulation and Order and as recognized in the December 4 Petition, the CIP is a pilot program that requires a definite end date. Accordingly, the Board HEREBY MODIFIES paragraph 13 of the Stipulation to provide that if the Companies make a filing by March 1, 2013, and if no Board Order on that filing is issued on or prior to September 30, 2013, the CIP may

continue for up to one additional year or until issuance of a Board Order, whichever is earlier, triggering the provisions of paragraph 12 of the Stipulation if the CIP terminates.

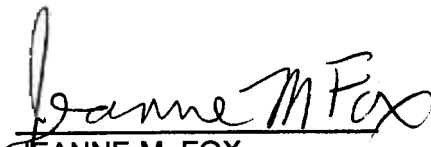
The Board HEREBY DIRECTS that the Companies file revised tariff sheets reflecting the terms of this Order within 10 days of the date below.

DATED: 1/21/10

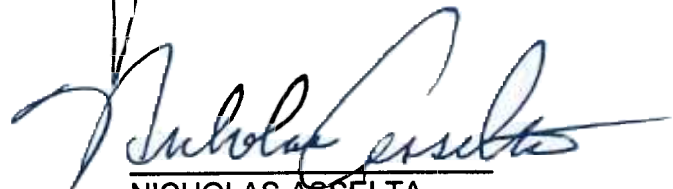
BOARD OF PUBLIC UTILITIES
BY:


ELIZABETH RANDALL
ACTING PRESIDENT

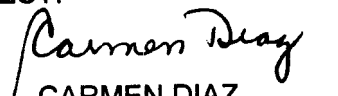

FREDERICK F. BUTLER
COMMISSIONER


JEANNE M. FOX
COMMISSIONER

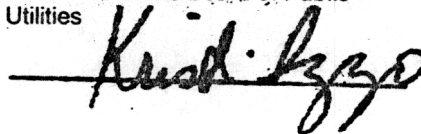

JOSEPH L. FIORDALISO
COMMISSIONER


NICHOLAS ASSELTA
COMMISSIONER

ATTEST:


CARMEN DIAZ
ACTING SECRETARY

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



IN THE MATTER OF THE PETITION OF
SOUTH JERSEY GAS COMPANY (GR05121019) AND
NEW JERSEY NATURAL GAS COMPANY (GR05121020)
CIP EXTENSION

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

**IN THE MATTER OF THE PETITION OF
SOUTH JERSEY GAS COMPANY FOR
AUTHORITY TO IMPLEMENT A
CONSERVATION AND USAGE
ADJUSTMENT**

BPU DOCKET NO. GR05121019

**IN THE MATTER OF THE PETITION OF
NEW JERSEY NATURAL GAS COMPANY
FOR THE IMPLEMENTATION OF A
CONSERVATION AND USAGE
ADJUSTMENT**

BPU DOCKET NO. GR05121020

STIPULATION FOR CIP EXTENSION

APPEARANCES:

Tracey Thayer, Esq., New Jersey Natural Gas Company for the Petitioner, New Jersey Natural Gas Company

Ira G. Megdal, Esq., Cozen O'Connor for the Petitioner, South Jersey Gas Company

Felicia Thomas-Friel, Esq. Deputy Public Advocate, **Judith Appel, Esq.** and **Sarah H. Steindel, Esq.**, Assistant Deputy Public Advocates, Department of the Public Advocate, (**Ronald K. Chen, Esq.**, Public Advocate), Division of Rate Counsel (**Stefanie Brand, Esq.**, Director)

Alex Moreau, Deputy Attorney General, for the Staff of the Board of Public Utilities (**Anne Milgram**, Attorney General of New Jersey)

TO: THE NEW JERSEY BOARD OF PUBLIC UTILITIES

1. On December 4, 2009, New Jersey Natural Gas Company (the "Company" or "NJNG") and South Jersey Gas Company (the "Company" or "SJG")(collectively, the "Companies") filed a petition (the "December 4 Petition") with the New Jersey Board of Public Utilities (the "Board" or "BPU") for an extension until September 30, 2013 of the Conservation Incentive Program ("CIP").

2. The CIP was approved by the Board in an Order dated December 12, 2006 in Docket Nos. GR05121019 and GR05121020 ("CIP Order"). The CIP provides a rate design and recovery mechanism for NJNG and SJG that separate margin recoveries from the overall amount of gas sold (throughput). The CIP also includes a gas supply incentive requirement and the provision, without recovery through customer rates, of customer conservation and energy efficiency programs. As noted in the December 4 Petition, from October 2006 through September 2009, NJNG's and SJG's customers have reduced their natural gas consumption, enabling customer savings of \$135 million and \$123.6 million, respectively.

3. Prior to the implementation of the CIP, both NJNG and SJG had Board-approved weather normalization clauses in effect and the original filings sought an expansion of those clauses. Pursuant to the CIP Order, the weather normalization clause tariff pages were suspended for each Company during the effectiveness of the CIP.

4. In the December 4 Petition, the Companies proposed to extend the current CIP for another three years, from October 1, 2010 through September 30, 2013, with no material changes to the program or to the terms and conditions previously approved by the Board. Doing so will preserve the essential components of the CIP and maintain the balance of interests that was achieved under the prior CIP Stipulation approved by the Board. The Companies also proposed to retain the ongoing CIP monitoring requirements and establish September 30, 2013 as the date on which the CIP would terminate if the Board does not otherwise issue an order prior to that date.

5. Public hearings for NJNG customers were held in Freehold Borough on January 11, 2010 at 3:30 and 5:30 p.m. and Bethany Rocque-Romaine, BPU Legal Specialist presided. _____ members of the public appeared. Public hearings for SJG customers were held in Voorhees, New Jersey on January 12, 2010 at 4:00 and 6:00 p.m. and Samuel A. Wolfe, BPU Chief Counsel presided. _____ members of the public appeared.

6. Representatives of the Companies, Board Staff and the Department of the Public Advocate, Division of Rate Counsel, ("Rate Counsel"), the only Parties to these proceedings (the "Parties"), have conducted discovery and held meetings to discuss the extension of the CIP. As a result of those discussions, the Parties have reached this Stipulation.

Specifically, the Parties **STIPULATE AND AGREE** that the term of the CIP shall be extended for three (3) years through September 30, 2013 and the terms of the Stipulation approved in the abovementioned CIP Order are incorporated herein, except where inconsistent with this Stipulation or no longer applicable.

7. NJNG and SJG each will continue to offer information and conservation programs designed to aid customers in reducing their costs of natural gas and to reduce each utility's peak winter and design day system demand. The programs include customized customer communications and outreach, enhanced use of online tools, and will specifically not replicate existing programs of the BPU Office of Clean Energy. A description of the current and proposed CIP Customer programs is provided in Exhibit A for NJNG and in Exhibit B for SJG, attached hereto.

8. The Companies will not seek recovery from rate-payers for the program costs and expenses associated with the CIP programs described in Exhibits A and B attached hereto.. Each Company will continue to provide quarterly reports to the BPU Staff and Rate Counsel documenting expenditures for these programs. From the date of the Board order approving this settlement through September 30, 2013:

- a. Annually \$550,000 will be made available for the NJNG CIP program costs and expenses on an incurred basis.
- b. Annually \$350,000 will be made available for the SJG CIP program costs and expenses on an incurred basis.

If a Company does not expend the entire annual amount in a year, the difference between the annual amount and the actual amount spent will be added to the amount to be spent in the following year (the "carry-over balance"). Any carry-over balance from this CIP program funding remaining at the termination of the CIP program will be transferred as a credit to each Company's BGSS clause. In the event that the CIP is terminated prior to September 30, 2013, the Companies will not be responsible for any future contributions to CIP program expenditures beyond the level of program costs that were incurred as of the termination date, and any carry-over balance will be credited to the BGSS clause.

9. Should CIP costs for the programs described in Exhibits A and B, and any other future programs herein, exceed the funding levels established for each Company within this Stipulation,

NJNG and SJG will each continue to provide funding for 100 percent of such program costs during the term of the CIP.

10. The Companies will continue to make annual CIP filings based upon seven months of actual data and five months of projected data (June 1 filing date) in conjunction with the annual Basic Gas Supply Service ("BGSS") filing. The filings will document actual results, perform the required CIP revenue tests, and propose the new CIP rate. Any variances from the annual filings will be trued up in the subsequent year. As part of the annual CIP filing, the Board may review any aspect of the Companies' CIP programs including, but not limited to, the sufficiency of program funding. The Board may take such actions as it determines to be necessary and appropriate.

11. The CIP Tariff Pages for NJNG and SJG, as previously approved by the Board, as reflected in Exhibits C and D respectively attached hereto will continue to remain in effect, including the return-on-equity ("ROE") limitations on recoveries from customers.

12. The Board retains full authority to extend, modify or terminate the CIP program during its term. If the CIP program terminates on or prior to October 1, 2013, the following actions will occur as a result of the termination:

a. Reinstatement of Weather Normalization Clauses. In the event the CIP is terminated, the Weather Normalization Clause of each Company will be reinstated as of the date of the CIP's termination, in the same form as existed immediately prior to the implementation of the CIP Tariffs including the incorporation of a dead band. Upon reinstatement, the Weather Normalization Clauses will reflect a rate of \$0.0000.

b. CIP Surcharge or Credit. Any credit or surcharge associated with the operation of the CIP Tariffs for the final year or portion thereof of the CIP program will be applied to customer bills in the subsequent year.

13. The Parties agree that NJNG and SJG can submit a separate or joint filing with the Board seeking approval for the extension or modification of the CIP, or a similar program, by March 1, 2013. The CIP will remain in effect until such time as the Board issues an Order on the March 1, 2013 filing.

14. The Parties agree that Baseline Usage per Customer will be reestablished in SJG's next base rate case as provided for in Paragraph (d) of SJG's Rider "M" to its Tariff. In that

proceeding, any Party may assert that all or a portion of pre-existing BGSS savings may be ineligible to offset a post-rate case Recovery of a Deficiency, but only to the extent that SJG has previously utilized such savings to support a Recovery of a prior Deficiency.

15. The Parties agree that reductions in customer usage provide opportunities to reduce peak-related demand costs and to utilize lower cost commodity supplies. As such, BGSS savings will offset any recovery of non-weather related margins through the CIP Tariffs.

16. The Parties agree that NJNG and SJG will limit the eligibility of non-weather related CIP recoveries to the level of verified BGSS savings as described below in paragraph 17.

17. For purposes of calculating the non-weather CIP value, the margin impact of weather will first be deducted from the total CIP surcharge or credit. Deducting the margin impact of weather will result in a reduction to the CIP value for warmer-than-normal weather or an increase to the CIP value for colder-than-normal weather. The impact of weather will be calculated in a manner consistent with the methodology of each of the Companies' existing Weather Normalization Clauses, excluding the impact of a dead band. The weather-related component of the CIP surcharge or credit will be reflected in the CIP Tariff rate in the subsequent period. The total CIP value, including both weather and non-weather factors, is subject to the ROE cap, as discussed in Paragraph 11 herein. The weather-related component of the CIP surcharge or credit will not be subject to the BGSS Gas Cost Savings eligibility test that follows.

18. NJNG and SJG agree to initiate contract restructurings and/or purchasing practices designed to benefit customers through lower BGSS costs. The resulting BGSS gas cost savings will be verified on an annual basis and be available to offset non-weather-related CIP surcharges. Categories of potential BGSS gas cost savings may include, but are not limited to: (i.) reductions in the fixed capacity cost of citygate capacity effectuated through the release of capacity to an affiliate or non-affiliate and/or other means of reducing citygate capacity on a long-term basis, i.e. for periods of at least one-year; (ii.) fixed cost savings associated with avoided increases to citygate deliverability; and (iii.) reductions in the

commodity cost of gas supply effectuated through purchasing strategies implemented as a result of reductions on peak day and winter demand.

19. The Companies will provide supporting documentation regarding the terms and merits of any future transactions that generate BGSS savings and that are to be considered for the savings calculation. Additional savings pursuant to Paragraph 17 will only be counted within the BGSS savings calculation after agreement is reached with Rate Counsel and BPU staff about BGSS savings transactions. The Parties agree that such savings calculation and the eligibility of such savings for determining non-weather related CIP recovery will be further evaluated in the immediately succeeding BGSS proceeding for each Company and be subject to Board approval.

20.. For each year of the CIP program, the non-weather related CIP surcharge, if any, will be compared to the BGSS gas cost savings during the period that the surcharge would be in effect. Specifically, the impact of non-weather related changes in customer usage for the period October 1, 2010 through September 30, 2011 will be eligible for recovery if the BGSS savings to be realized for the period beginning October 1, 2011 is equal to or greater than the non-weather value of the CIP surcharge amount. Similar comparisons would be made for the subsequent years. If the non-weather related CIP recovery is less than or equal to the level of available BGSS savings, the amount will be eligible for recovery through the CIP Tariffs. Any portion of the non-weather CIP value that exceeds the available gas cost savings will not be recovered in the current period and will be deferred during the CIP program and subject to an eligibility test in the subsequent period. CIP surcharges may be deferred for up to three years. Deferred CIP surcharges may be recovered in a future period to the extent that available BGSS savings are available to offset the deferred amount. Amounts deferred for three years and not yet recovered, due to insufficient BGSS savings, will not be recovered from ratepayers. If the CIP is terminated prior to September 30, 2013 by the BPU, or pursuant to the provisions of this Stipulation, any remaining deferred CIP surcharges will not be recovered. The value of any BGSS savings during one year in excess of the non-weather CIP value can not be carried forward for use in future year calculations.

21. Exhibits E and F for NJNG and SJG, respectively, identify the pre-established stipulated BGSS savings.

22. The Parties further agree that this Stipulation fully disposes of all issues in controversy in this proceeding. This Stipulation represents a mutual balancing of interests, contains interdependent provisions and, therefore, is intended to be accepted and approved in its entirety. In the event any provision of this Stipulation is not accepted and approved in its entirety by the Board, any Party aggrieved thereby will not be bound to proceed with this Stipulation and will have the right to litigate all issues addressed herein to a conclusion. More particularly, in the event the Board, in any applicable order(s), does not adopt this Stipulation in its entirety then any Party hereto is free to pursue its then available legal remedies with respect to all issues addressed in this Stipulation as though this Stipulation had not been signed.

23. It is the intent of the Parties that the provisions hereof be approved by the Board as being in the public interest. The Parties further agree that they consider the Stipulation to be binding on them for all purposes herein.

24. It is specifically understood and agreed that this Stipulation represents a negotiated agreement and has been made exclusively for the purpose of these proceedings. Except as expressly provided herein, neither NJNG, SJG, the Board, its Staff, nor Rate Counsel will be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein.

WHEREFORE, the Parties hereto do respectfully submit this Stipulation and request that the Board issue a Decision and Order approving it in its entirety, in accordance with the terms hereof, as soon as reasonably possible.

**NEW JERSEY NATURAL GAS
PETITIONER**

By: _____
TRACEY THAYER, ESQ.
New Jersey Natural Gas

**DEPARTMENT OF THE PUBLIC
ADVOCATE, DIVISION OF RATE
COUNSEL**
STEFANIE BRAND, ESQ.
DIRECTOR

By: _____
JUDITH B. APPEL, ESQ.
SARAH H. STEINDEL, ESQ.
ASSISTANT DEPUTY
PUBLIC ADVOCATES

**SOUTH JERSEY GAS COMPANY
PETITIONER**

By: _____
IRA G. MEGDAL, ESQ.
Cozen O'Connor

**STAFF OF THE NEW JERSEY BOARD
OF PUBLIC UTILITIES**
ANNE MILGRAM,
ATTORNEY GENERAL
OF NEW JERSEY.

By: _____
ALEX MOREAU
DEPUTY ATTORNEY GENERAL

Date: January. 2010

SOUTH JERSEY GAS COMPANY

B.P.U.N.J. No. 9 - GAS

Original Sheet No. 97c

RIDER "M"

CONSERVATION INCENTIVE PROGRAM ("CIP")

APPLICABLE TO:

Rate Schedule RSG - Residential Service
Rate Schedule GSG - General Service
Rate Schedule GSG-LV - General Service - Large Volume

- (a) This Rider "M" shall be known as the Conservation Incentive Program ("CIP"). It shall be utilized to adjust the Company's revenues in cases wherein Actual Usage per Customer experienced during an Annual Period varies from the Baseline Usage per Customer ("BUC"). This adjustment will be effectuated through a credit or surcharge applied to customers' bills during the Adjustment Period. The credit or surcharge will also be adjusted to reflect prior year under recoveries or over recoveries pursuant to this CIP.
- (b) The BUC in therms for each Customer Class Group by month is as follows:

<u>Month</u>	<u>Group I: RSG Non-Heating</u>	<u>Group II: RSG Heating</u>	<u>Group III: GSG</u>	<u>Group IV: GSG-LV</u>
Oct.	15.3	43.4	337.2	8,558.1
Nov.	18.1	87.5	448.9	13,556.8
Dec.	24.9	147.5	658.9	20,191.8
Jan.	32.0	176.1	984.4	26,533.7
Feb.	35.7	144.5	703.6	30,073.6
Mar.	32.8	121.9	653.5	23,001.2
Apr.	19.1	75.8	346.6	20,191.8
May	18.0	35.7	228.2	14,189.6
Jun.	15.6	25.2	111.8	10,484.0
Jul.	12.8	21.2	158.5	7,116.5
Aug.	12.7	20.2	129.2	6,952.8
Sep.	<u>11.0</u>	<u>15.0</u>	<u>113.6</u>	<u>6,896.5</u>
Total Annual	248.0	914.0	4,874.7	187,746.3

The BUC shall be reset each time new base rates are placed into effect as the result of a base rate case proceeding.

- (c) At the end of the Annual Period, a calculation shall be made that determines for each Customer Class Group the deficiency ("Deficiency") or excess ("Excess") to be surcharged or credited to customers pursuant to the CIP

Issued June 30, 2006
by South Jersey Gas Company,
E. Graham, President

Effective with service rendered
on and after October 1, 2006

Filed pursuant to Order in Docket No. GR05121019 of the Board of
Public Utilities, State of New Jersey, dated December 12, 2006

SOUTH JERSEY GAS COMPANY**B.P.U.N.J. No. 9 - GAS****Third Revised Sheet No. 97d
Superseding Second Sheet No. 97d****CONSERVATION INCENTIVE PROGRAM
(Continued)**

mechanism. The Deficiency or Excess shall be calculated each month by multiplying the result obtained from subtracting the Baseline Usage per Customer from the Actual Usage per Customer by the actual number of customers, and then multiplying the resulting therms by the Margin Revenue Factor.

- (d) Recovery of any Deficiency in accordance with Paragraph (c), above, associated with non-weather related changes in customer usage will be limited to the level of BGSS savings achieved as provided for in the 2006 Order of the Board of Public Utilities in Docket No. GR05121019. The value of the weather-related changes in customer usage shall be calculated in accordance with Rider F to this tariff.
- (e) Except as limited by Paragraph (d), above, the amount to be surcharged or credited to the Customer Class Group shall equal the aggregate Deficiency or Excess for all months during the Annual Period determined in accordance with the provisions herein, divided by the FAU for the Customer Class Group.
- (f) The currently effective CIP Factor by Customer Class Group are as follows:

	Group I: RSG Non-Heating	Group II: RSG Heating	Group III: GSG	Group IV: GSG-LV
CIP Factors Per Therm	\$0.1328	\$0.0367	\$0.0744	(\$0.0011)
Applicable Revenue Tax Factor	1.0019	1.0019	1.0019	1.0019
CIP Factors Per Therm	\$0.1331	\$0.0368	\$0.0745	(\$0.0011)
Applicable NJ Sales Tax Factor	<u>1.07</u>	<u>1.07</u>	<u>1.07</u>	<u>1.07</u>
CIP Factors Per Therm with NJ Sales Tax	<u>\$0.1424</u>	<u>\$0.0394</u>	<u>\$0.0797</u>	<u>(\$0.0012)</u>

- (g) The CIP shall not operate to cause the Company to earn in excess of its allowed rate of return on common equity of 10.00% for any twelve month period ending September 30; any revenue which is not recovered will not be deferred. For purposes of this paragraph (f), the Company's rate of return on common equity shall be calculated by dividing the Company's net income for such annual period by the Company's average 13 month common equity balance for such annual period, all data as reflected in the Company's monthly reports to the Board of Public Utilities. The Company's net income shall be calculated by subtracting from total net income the Company's share of margins from: (1) Interruptible Sales; (2) Interruptible Transportation; (3) On-System Capacity Release; (4) Off-System Sales and Capacity Release; and (5) the Storage Incentive Mechanism.
- (h) As used in this Rider "M", the following terms shall have the meanings ascribed to them herein:

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SOUTH JERSEY GAS COMPANY

B.P.U.N.J. No. 9 - GAS

Original Sheet No. 97e

CONSERVATION INCENTIVE PROGRAM (CIP)
(Continued)

- (i) **Actual Number of Customers** – the Actual Number of Customers (“ANC”) shall be determined on a monthly basis for each of the Customer Class Groups to which the CIP Clause applies. The ANC shall equal the aggregate actual booked number of customers for the month as recorded on the Company’s books, plus any Incremental Large Customer Count Adjustment for the Customer Class Group.
- (ii) **Actual Usage per Customer** – the Actual Usage per Customer (“AUC”) shall be determined in terms on a monthly basis for each of the Customer Class Groups to which the CIP applies. The AUC shall equal the aggregate actual booked sales for the month as recorded on the Company’s books divided by the Actual Number of Customers for the corresponding month.
- (iii) **Adjustment Period** – shall be the calendar year beginning immediately following the conclusion of the Annual Period.
- (iv) **Annual Period** – shall be the twelve consecutive months from October 1 of one calendar year through September 30 of the following calendar year.
- (v) **Baseline Usage per Customer** – the Baseline Usage per Customer (“BUC”) shall be the average normalized consumption per customer by month derived from the Company’s most recent base rate case, and stated in terms on a monthly basis for each Customer Class Group to which the CIP applies. The BUC shall be rounded to the nearest one tenth of one therm.
- (vi) **Customer Class Group** – For purposes of determining and applying the CIP, customers shall be aggregated into four separate recovery class groups. The Customer Class Groups shall be as follows:
 - Group I: RSG (non-heating customers only)
 - Group II: RSG (heating customers only)
 - Group III: GSG customers
 - Group IV: GSG-LV customers

Forecast Annual Usage – the Forecast Annual Usage (“FAU”) shall be the projected total annual throughput for all customers within the applicable Customer Class Group. The FAU shall be estimated based on normal weather.

Incremental Large Customer Count Adjustment – the Company shall maintain a list of incremental commercial and industrial customers added to its system on or after October 1, 2005 whose connected load is greater than that typical for the Company’s average commercial and industrial customer in the GSG or GSG-LV rate schedules. For purposes of the CIP, large incremental customers shall be those GSG customers whose connected load exceeds 1,200 cubic feet per hour (“CFH”) and those GSG-LV customers whose connected load exceeds 50,000 CFH. A new customer at an existing location previously connected to the Company’s facilities shall not be considered an incremental customer. The Actual Number of Customers for the Customer Class Group shall be adjusted to reflect the impact of all such incremental commercial or industrial customers. Specifically, the Incremental Large Customer Count Adjustment for the GSG customer class for the applicable month shall equal the aggregate connected load for all new active customers that exceed the 1,200 CFH threshold divided by 600 CFH,

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SOUTH JERSEY GAS COMPANY

B.P.U.N.J. No. 9 - GAS

Original Sheet No. 97f

CONSERVATION INCENTIVE PROGRAM (CIP)
(Continued)

rounded to the nearest whole number. Similarly, the Incremental Large Customer Count Adjustment for the GSG-LV customer class for the applicable month shall equal the aggregate connected load for all new active customers that exceed the 50,000 CFH threshold divided by 25,000 CFH, rounded to the nearest whole number.

- (ix) **Margin Revenue Factor** – the Margin Revenue Factor (“MRF”) shall be the base rate, as reflected in Appendix A to this Tariff, applicable to the Customer Class Groups to which the CIP applies, net of any applicable Riders, including taxes. The MRFs by Customer Class Group are as follows:

Group I (RSG non-heating):	\$0.3062 per therm
Group II (RSG heating):	\$0.3062 per therm
Group III (GSG):	\$0.2183 per therm
Group IV (GSG-LV):	\$0.1533 per therm

- (i) The annual filing for the adjustment to the CIP rate shall be concurrent with the annual filing for BGSS. The CIP factor shall be credited/collected on a per therm basis within the Delivery Charge for all service classifications stated above. The level of BGSS savings referenced in Special Provision (d) to this Rider “M” shall be identified in the annual CIP filing, and serve as an offset to the non-weather related portion of the CIP charge provided in Special Provision (g) to this Rider “M”. The Periodic and Monthly BGSS rates identified in Rider “A” to this tariff shall include the BGSS savings, as applicable.

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NJNG CIP Phase II Proposed Program Sheet

Continuation of the following CIP programs:

- **On-line audit/integrated billing system analysis.** Our current Dashboard service allows residential customers to analyze their bills, perform online audits, and access other energy saving tools and guidelines. NJNG has approximately one year left on the contract with the existing vendor and will commit to providing a comparable service for the term of the CIP. As part of this commitment, NJNG will review other potential services from another leading vendor, including the potential for an integrated online service for commercial customers. NJNG will also develop and distribute promotional materials for the service.
- **Conserve to Preserve Business Online.** This comprehensive online resource for commercial customers features industry-specific information, emerging technologies and business applications in one, well-organized location. It includes links to financial and technical assistance for NJCEP programs, benchmarking and energy audit recommendation by sector, a monthly energy newsletter and other tools. NJNG will also develop and distribute promotional materials for the service.
- **Community Rewards.** This is the school/not-for-profit fundraising program where community groups can raise money by directly referring our customers to the Dashboard. Participating groups register to drive activity to the service and promote it within the community. They get paid \$5 for each successful referral and earn bonus incentives for achieving certain thresholds.
- **Miscellaneous community outreach.** This includes expenses related to the production of pocket tip cards promoting NJNG's programs, certain exhibit fees, expenses for the Energy Hog Road Show and other customer contests.

E-tips. This includes expenses related to the external service used to distribute E-tips, our optional conservation e-mail newsletter, and other minor promotional expenses.

- **Employees/contractors as champions.** This includes expenses related to the production of supporting promotional material, primarily information pads to be carried by NJNG field employees and contractors that provide information directly to targeted customers, and for some employee incentive drawings. Also includes expense for contractor forums and communications with contractors- mailings, conferences, etc.

NJNG CIP Phase II Proposed Program Sheet

Possible Expansion of Loan and Learn Under this pilot program a local library is provided with kits including a customer friendly thermal heat detector and a Kill A Watt device to loan to residents. All borrowers also receive a background package on NJNG and NJCEP programs, as well as Energy Assistance information. This is currently being tested with Long Branch library. If expanded NJNG will pay for the cost of the initial equipment and the recurring cost for the information packages.

Develop and implement a new CIP program designed to address the needs of customers who exceed the income levels for traditional state and federal energy assistance programs. This program would target customers in the 225%-400% of the poverty level range.

- **Automatic entry into Assisted Home Performance with Energy Star.** Through NJCEP, the state currently offers more generous financial incentives to customers within this defined income criteria and who proactively arrange to have an HPES audit performed on their home. Rather than enrich those incentives or expend resources trying to identify this target customer segment, NJNG would contract with a qualified HPES contractor to offer free audits to our customers who receive an NJSHARES grant. Under NJSHARES grant eligibility criteria, the customer must fall in this income range and demonstrate they are currently in financial distress. After the audit is completed, these customers would be eligible for the full rebate and financing incentives available through NJCEP. Details are being developed but with contractor input NJNG will consider whether the HPES audit could be adapted slightly to include the free installation of some efficiency measures at the time of the audit (CFLs, outlet covers, etc) and the provision of some educational materials on conservation to provide immediate energy savings for these customers.

Additionally, NJNG is working with NJCEP now and has agreed to cover the utility specific set-up costs for the OPower pilot program, expected to be implemented in 2010. NJNG will provide approximately \$37,500 for the OPower program as part of the existing CIP budget. The 2010 OPower pilot will combine billing information with customer demographic information to provide customized outreach materials to consumers. Unlike our existing Dashboard which requires the customer to record some initial information through an on-line application, OPower's service can be provided to customers without any initial action on their part. The customized letters sent through this program seek to capitalize on positive peer pressure by providing comparison of a customer's usage to 100 similar neighbors and the top 20 percent of the most energy-efficient neighbors.

NJNG will also continue to fund a portion of the salary and benefit expenses for several employees whose full salary/benefits were not included in base rates since an identifiable portion of their time was allocated to CIP during the test year.

SJG CIP Phase II Proposed Program Sheet

Continuation of the following CIP programs:

- **On-line audit/integrated billing system analysis.** Our current Dashboard service allows residential customers to analyze their bills, perform online audits, and access other energy saving tools and guidelines. SJG has approximately one year left on the contract with the existing vendor and will commit to providing a comparable service for the term of the CIP. As part of this commitment, SJG will review other potential services from another leading vendor, including the potential for an integrated online service for commercial customers. SJG will also develop and distribute promotional materials for the service.
- **The Living Wise Program** This program promotes energy conservation to sixth grade students in selected schools throughout the Company's service territory. These kits are distributed by sixth grade teachers and include lesson plans that entail installing many of the items in the kit through family involvement. The program promotes the issue of climate change, while fostering family enrollment and participation in statewide energy saving programs. We are proposing to double the number of schools participating in this program on an annual basis.
- **The Public Outreach Program** Through this program, the Company will utilize various media outlets to promote the Company's energy efficiency programs, as well as the NJ Clean Energy Program. This includes expenses relating to television and radio advertising, exhibits at local energy related events and the production of energy related materials.
- **Employee and Contractor Outreach,** This program will be focused on expanding and educating the SJG 'Energy Efficiency Sales Force' to include all employees, as well as contractors who perform energy audits and other energy efficiency improvements in our service territory. This program will include expenses relating to the production of supporting promotional materials for employees and contractors, as well as expenses to conduct employee education sessions, employee incentive programs, and contractor workshops and communication to our contractor base. This program creates an effective synergy between the CIP program and the Energy Efficiency Tracker that was approved in July 2009.

Additionally, SJG is working with NJCEP and has agreed to cover the utility specific set-up costs for the OPower pilot program, expected to be implemented in 2010. SJG will provide approximately \$37,500 for the OPower program as part of the existing CIP budget. The 2010 OPower pilot will combine billing information with customer demographic information to provide customized outreach materials to consumers. Unlike our existing Dashboard which requires the customer to record some initial information through an on-line application, OPower's service can be provided to customers without any initial action on their part. The customized letters sent through this program seek to capitalize on positive peer pressure by providing comparison of a customer's usage to 100 similar neighbors and the top 20 percent of the most energy-efficient neighbors.

NEW JERSEY NATURAL GAS COMPANY

BPU No. 8 - Gas

Original Sheet No. 178

RIDER "I"

CONSERVATION INCENTIVE PROGRAM – CIP

Applicable to the following service classifications:

RS Residential Service
GSS General Service - Small
GSL General Service - Large
ED Economic Development

I. DEFINITION OF TERMS AS USED HEREIN

- Actual Number of Customers** – The Actual Number of Customers (“ANC”) shall be determined on a monthly basis for each of the Customer Class Groups to which the Conservation Incentive Program (“CIP”) Clause applies. The ANC shall equal the aggregate actual booked number of customers for the month as recorded on the Company’s books, plus any Incremental Large Customer Count Adjustment.
2. **Actual Usage per Customer** – the Actual Usage per Customer (“AUC”) shall be determined in terms on a monthly basis for each of the Customer Class Groups to which the CIP applies. The AUC shall equal the aggregate actual booked sales for the month as recorded on the Company’s books divided by the Actual Number of Customers for the corresponding month.
3. **Adjustment Period** - shall be the year beginning immediately following the conclusion of the Annual Period.
4. **Annual Period** – shall be the twelve consecutive months from October 1 of one calendar year through September 30 of the following calendar year.
5. **Average 13 Month Common Equity Balance** - shall be the common equity balance at the beginning of the Annual Period (i.e., October 1) and the month ending balances for each of the twelve months in the Annual Period divided by thirteen (13).
6. **Baseline Usage per Customer** – the Baseline Usage per Customer (“BUC”) shall be stated in terms on a monthly basis for each of the Customer Class Groups to which the CIP applies. The BUC shall be rounded to the nearest one tenth of one therm.

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NEW JERSEY NATURAL GAS COMPANY

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Original Sheet No. 179

RIDER "I"

CONSERVATION INCENTIVE PROGRAM – CIP (Continued)

7. **Customer Class Group** – For purposes of determining and applying the CIP, customers shall be aggregated into four separate recovery class groups. The Customer Class Groups shall be as follows:

Group I: RS (non-heating customers only)
Group II: RS (heating customers only)
Group III: GSS, ED using less than 5,000 therms annually
Group IV: GSL, ED using 5,000 therms or greater annually

8. **Forecast Annual Usage** – the Forecast Annual Usage (“FAU”) shall be the projected total annual throughput for all customers within the applicable Customer Class Group. The FAU shall be estimated based on normal weather.
9. **Incremental Large Customer Count Adjustment** – the Company shall maintain a list of incremental commercial and industrial customers added to its system on or after May 1, 2008 whose connected load is greater than that typical for the Company’s average commercial and industrial customer. For purposes of the CIP, large incremental customers shall be those customers whose connected load exceeds 2,000 cubic feet per hour (“CFH”). A new customer at an existing location previously connected to NJNG’s facilities shall not be considered an incremental customer. The Actual Number of Customers for the Customer Class Group shall be adjusted to reflect the impact of all such incremental commercial or industrial customers. Specifically, the Incremental Large Customer Count Adjustment for the applicable month shall equal the aggregate connected load for all active customers that exceed the 2,000 CFH threshold divided by 1,000 CFH, rounded to the nearest whole number.
10. **Margin Revenue Factor** – the Margin Revenue Factor (“MRF”) shall be the weighted-average margin rate as quoted in the individual service classes to which the CIP applies. The MRFs by Customer Class Group are as follows:

Group I (RS non-heating):	\$0.2913
Group II (RS heating):	\$0.2913
Group III (GSS, ED using less than 5,000 therms annually)	\$0.2472
Group IV (GSL, ED using 5,000 therms or greater annually)	\$0.1948

The MRF shall be reset each time new base rates are placed into effect.

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NEW JERSEY NATURAL GAS COMPANY

BPU No. 8 - Gas

Original Sheet No. 180

RIDER "I"

CONSERVATION INCENTIVE PROGRAM – CIP (Continued)

II. BASELINE USAGE PER CUSTOMER

The BUC for each Customer Class Group by month are as follows:

<u>Month</u>	<u>Group I: RS Non-Heating</u>	<u>Group II: RS Heating</u>	<u>Group III: GSS, ED using less than 5,000 therms annually</u>	<u>Group IV: GSL, ED using 5,000 therms or greater annually</u>
Oct.	19.6	51.0	79.6	1,059.1
Nov.	24.4	97.4	99.9	2,026.2
Dec.	21.1	168.3	214.1	2,591.6
Jan.	22.0	190.4	254.6	3,012.6
Feb.	17.5	166.3	235.2	2,687.9
Mar.	17.3	136.9	187.6	2,090.8
Apr.	7.6	77.6	96.8	1,251.1
May	8.3	41.2	47.2	803.7
Jun.	12.7	25.4	24.9	564.1
Jul.	19.4	24.1	27.4	541.0
Aug.	17.6	23.6	38.0	485.2
Sep.	<u>19.4</u>	<u>26.1</u>	<u>14.7</u>	<u>631.3</u>
Total Annual	206.9	1,028.3	1,320.0	17,744.6

The BUC shall be reset each time new base rates are placed into effect.

III. DETERMINATION OF THE CONSERVATION INCENTIVE PROGRAM RATE

- A. At the end of the Annual Period, a calculation shall be made that determines for each Customer Class Group the deficiency or excess to be surcharged or credited to customers pursuant to the CIP mechanism. The deficiency or excess shall be calculated each month by multiplying the result obtained from subtracting the Baseline Usage per Customer from the Actual Usage per Customer by the Actual Number of Customers and then multiplying the resulting therms by the Margin Revenue Factor.

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NEW JERSEY NATURAL GAS COMPANY

BPU No. 8 - Gas

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RIDER "I"

CONSERVATION INCENTIVE PROGRAM – CIP (Continued)

- B. Recovery of margin deficiency associated with non-weather related changes in customer usage will be limited to the level of BGSS savings achieved as provided for in the Stipulation of the parties which was authorized by the 2006 Board Order in Docket No. GR05121020. For the purposes of this calculation, the value of the weather related portion shall be calculated as set forth in Section IV of Rider D of this Tariff.
- C. In addition, the CIP shall not operate to permit the Company to recover any portion of a deficiency that will cause the Company to earn in excess of a 10.3% return on common equity for the Annual Period; any portion which is not recovered shall not be deferred. For purposes of this section, the Company's rate of return on common equity shall be calculated by dividing the Company's regulated jurisdictional net income for the Annual Period by the Company's average 13-month common equity balance for such Annual Period, all as reflected in the Company's monthly reports to the Board of Public Utilities. The Company's regulated jurisdictional net income shall be calculated by subtracting from total net income (1) margins retained by the Company from non-firm sales and transportation services, net of associated taxes, (2) net income derived from unregulated activities by New Jersey Natural Gas Company and (3) margins retained from the FRM Program and Storage Incentive Program, net of associated taxes. The Company's average thirteen-month common equity balance for any Annual Period shall be the Company's average total common equity less the Company's average common equity investment in unregulated subsidiaries.
- D. The amount to be surcharged or credited shall equal the eligible aggregate deficiency or excess for all months during the Annual Period determined in accordance with the provisions herein, divided by the Forecast Annual Usage for the Customer Class Group.

IV. TRACKING THE OPERATION OF THE CONSERVATION INCENTIVE PROGRAM

The revenues billed, or credits applied, net of taxes and assessments, through the application of the Conservation Incentive Program Rate shall be accumulated for each month of the Adjustment Period and applied against the CIP excess or deficiency from the Annual Period and any cumulative balances remaining from prior periods.

In accordance with P.L. 1997, c. 192, as amended by P.L. 2006, c. 44, the charges applicable under this Rider include provision for the New Jersey Sales and Use Tax ("SUT") and when billed to customers exempt from this tax, as set forth in Rider "B", shall be reduced by the amount of such tax included therein.

The annual filing for the adjustment to the CIP rate shall be concurrent with the annual filing for BGSS. The CIP factor shall be credited/collected on a basis within the Delivery Charge for all service classifications stated above.

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NEW JERSEY NATURAL GAS COMPANY

BPU No. 8 - Gas

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Superseding Original Sheet No. 182*

RIDER "I"

CONSERVATION INCENTIVE PROGRAM – CIP (Continued)

The currently effective CIP factor by Customer Class Group are as follows:

Group I (RS non-heating):	\$0.0435
Group II (RS heating):	\$0.0079
Group III (GSS, ED using less than 5,000 therms annually):	\$0.0184
Group IV (GSL, ED using 5,000 therms or greater annually):	\$0.0260

For the recovery of the October 2008 through September 2009 CIP margin deficiency, the recovery of the margin deficiency associated with non-weather related change in customer usage included in the above factors are offset by the BGSS savings component, as set forth in Rider A. The BGSS savings component is embedded within the Periodic BGSS Charge and the Monthly BGSS Charge.

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