



Agenda Date: 10/03/07
Agenda Item: 2E

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

ENERGY

IN THE MATTER OF THE LETTER PETITION OF) ORDER APPROVING
NEW JERSEY NATURAL GAS COMPANY TO) STIPULATION
EXTEND ITS INCENTIVE PROGRAMS) BPU DOCKET NO. GR06120871

(SERVICE LIST ATTACHED)

BY THE BOARD:

On December 15, 2006, New Jersey Natural Gas Company ("NJNG" or "Company") filed a letter petition requesting approval by the Board of Public Utilities ("Board" or "BPU") of an extension of the Company's Basic Gas Supply Service ("BGSS") related incentive programs. These programs were originally approved by the Board in an Order dated November 13, 2003 in BPU Docket No. GR02100760. The incentive programs (as expanded) were most recently approved for extension by Board Order dated April 13, 2006 in Docket No. GR05060488. The incentive programs include; a) Off-system Sales and Capacity Release; b) Financial Risk Management; c) Storage Incentive; and d) On-system Interruptible Sales and Transportation and Sales to Electric Generation Plants.

BACKGROUND

In its December 15, 2006 letter petition, the Company sought authorization to extend the incentive programs to a date coincident with the end of the NJNG pilot program for the Conservation Incentive Program ("CIP") approved by the Board on October 12, 2006. The Company's position was that such an extension would serve to preserve the status quo through the end of the agreed upon initial term of the CIP pilot. The current status of the incentive programs are as follows:

- a) Off-system Sales and Capacity Release: Through this program margins generated by off-system sales and released firm capacity are shared with 85% credited to NJNG customers and 15% retained by the Company.
- b) Financial Risk Management Program: This program provides customers with the benefits of financial risk management tools through the acquisition of risk management expertise and the application of risk management techniques. The benefits from the program are shared with 80% credited to NJNG customers and 20% retained by the Company.
- c) Storage Incentive Program: A multi-year program applicable to storage injections. NJNG customers receive 80% and the Company retains 20% of storage related gains or losses; the gains or losses are measured as the difference between the

actual cost of storage incurred by the Company and an agreed-upon storage inventory benchmark established through the use of NYMEX forward prices applicable to the April through October injection season, plus estimated transportation costs:

- d) On-System Interruptible sales and Transportation and Sales to Electric Generation Plants: These programs are applicable to: (1) sales of gas to the Sayreville and Forked River Electric Generation Plants, pursuant to which margins are shared with 90% credited to NJNG customers and 10% retained by the Company, after an initial contribution to customers of \$0.01 per therm; (2) on-system interruptible sales of gas, pursuant to which margins are shared with 90% credited to NJNG customers and 10% retained by the Company; and (3) on-system interruptible transportation, pursuant to which margins are shared with 95% credited to NJNG customers and 5% retained by the Company.

As a result of discussions between the Company, Board Staff and Rate Counsel, the parties to this proceeding ("the Parties") reached a stipulation concerning NJNG's incentive programs currently in effect resulting in the Stipulation dated September 12, 2007. In addition to the incentive programs that were the subject of the Company's December 15, 2006 filing, the Stipulation addresses the sharing mechanism to be used with respect to the Company's Service Agreement ("the Agreement") with Ocean Peaking Power. The Agreement, approved by the Board in an Order dated June 20, 2003, established a sharing mechanism whereby gross revenues were shared with 50% credited to the BGSS Service and 50% retained by the Company for the first four years of the Agreement which ended May 31, 2007. Since June 1, 2007 the Company has credited 80% of the gross revenues to BGSS customers and retained 20%. The attached Stipulation modifies these existing gas supply mechanisms as set forth below:

- a. The Off-System Sales and Capacity Release Program shall continue as currently structured through October 31, 2008.
- b. The Financial Risk Management Program shall continue through October 31, 2008; as of November 1, 2007, the sharing between NJNG customers and the Company will be 85% credited to customers and 15% retained by the Company. If the Company has not filed a base rate case by September 1, 2008, the sharing mechanism will change, as of that date, to 90% credited to customers and 10% retained by the Company.
- c. The incentive programs related to On-System Interruptible Sales, On-System Interruptible Transportation Sales and Sales to the Sayreville and Forked River Electric Generation Plants will continue as currently structured through October 31, 2007. These programs will terminate as of November 1, 2007.
- d. The Storage Incentive Program will be extended through October 31, 2008 as currently structured. The Company will purchase NYMEX hedge positions for the summer of 2009 as part of this agreed upon extension.
- e. The Ocean Peaking Power mechanism shall be modified as of September 1, 2007 with 85% of gross revenues credited to customers and 15% retained by the Company. This sharing mechanism will terminate on September 1, 2008 if the Company has not filed a base rate case by that date.
- f. All incentive programs in effect as of November 1, 2007 will be subject to review in the Company's next based rate case and the Parties reserve their rights relative to their positions concerning these incentive programs. If the Company has filed a base rate case on or before December 28, 2007 and if an Order is not issued in that case before October 31, 2008 the incentive programs will continue with the sharing mechanisms agreed to until a Board Order is issued. If a base rate case is not filed by December 28, 2007, the

incentive programs (except for the Ocean Peaking Program) will terminate as of October 31, 2008 unless the Board has issued an Order extending such programs.

DISCUSSION AND FINDINGS

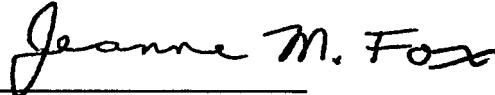
The Board has carefully reviewed the record to date in this proceeding. The Board HEREBY FINDS the Stipulation to be consistent with the law, reasonable and in the public interest. Accordingly, the Board HEREBY ADOPTS the Stipulation in its entirety and HEREBY INCORPORATES the terms of the Stipulation as if fully set forth herein.

This Order does not address the BGSS rate approved on a provisional basis by the Board on September 29, 2006. Accordingly, nothing in this Order shall be interpreted or construed to alter the provisional status of that rate.

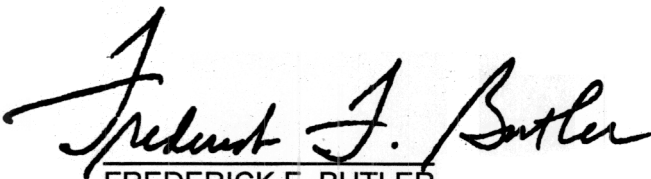
Nothing in this Order shall be interpreted to preclude the Board from taking actions determined to be necessary as a result of any Board analysis of the gas hedging practices of NJNG. Additionally, the Company's gas costs and hedging practices will remain subject to audit by the Board. Additionally, the Company has an obligation to conduct internal audits of its gas costs and hedging practices, similar to its other expenses. This Decision and Order shall not preclude the Board from taking any such actions deemed to be appropriate as a result of any Board Ordered audit.

DATED: 10/3/07

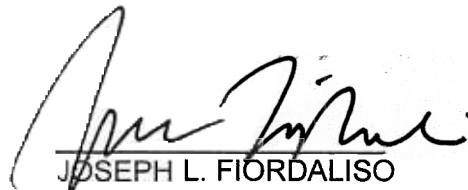
BOARD OF PUBLIC UTILITIES
BY:



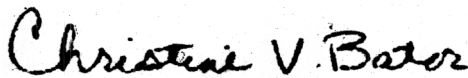
JEANNE M. FOX
PRESIDENT



FREDERICK F. BUTLER
COMMISSIONER




JOSEPH L. FIORDALISO
COMMISSIONER



CHRISTINE V. BATOR
COMMISSIONER

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

ATTEST:



KRISTI IZZO
SECRETARY

**LETTER PETITION OF NEW JERSEY NATURAL GAS COMPANY TO EXTEND ITS
INCENTIVE PROGRAMS
BPU DOCKET NO. GR06120871**

NJNG

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

IN THE MATTER OF THE LETTER)	
PETITION OF NEW JERSEY NATURAL)	
GAS COMPANY TO EXTEND ITS)	
INCENTIVE PROGRAMS)	BPU DOCKET NO. GR06120871
)	
)	

STIPULATION

APPEARANCES:

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

Felicia Thomas-Friel, Esq., Deputy Public Advocate, and **Sarah H. Steindel, Esq.**, Assistant Deputy Public Advocate, Department of the Public Advocate, Division of Rate Counsel, (**Kimberly K. Holmes, Esq.**, Acting Director)

Babette Tenzer and Anne-Marie Shatto, Deputy Attorneys 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. New Jersey Natural Gas Company ("NJNG" or the "Company") filed a letter petition on December 15, 2006 in Docket No. GR06120871 ("Letter Petition") requesting that the New Jersey Board of Public Utilities ("BPU" or the "Board") accept NJNG's request for an extension of its current Basic Gas Supply Service ("BGSS") incentive programs. These BGSS related incentive programs were most recently approved for an extension through October 31, 2007 in a Board Order dated April 13, 2006 in Docket No. GR05060488.

2. The current gas supply incentive mechanisms include the following:

a) **Off- System Sales and Capacity Release:** Through the Company's current off-system sales and capacity release incentive program, margins generated by off-system sales and released firm capacity are shared with 85% credited to NJNG customers and 15% retained by the Company;

b) **Financial Risk Management (FRM) Program:** This program provides customers with the benefits of financial risk management tools through the acquisition of continued risk management expertise and the application of risk management techniques. The benefits from the FRM are shared with 80% credited to NJNG customers and 20% retained by the Company;

c) **Storage Incentive Program:** A multi-year Storage Incentive Program applicable to storage injections was initiated by the Company subsequent to an agreement reached among the parties in Docket No. GR02100760 and approved by the Board in an order dated November 13, 2003. Pursuant to this program, NJNG customers receive 80% and the Company retains 20% of storage-related gains and losses, as measured by the difference between the actual cost of storage incurred by the Company (including the cost of the physical commodity, transportation costs and financial hedging costs) and an agreed-upon storage inventory cost benchmark established through NYMEX forward prices applicable to the April through October injection season, plus projected transportation costs. Speculative trading activity is not permitted under NJNG's current Risk Management Guidelines (Guidelines). If those Guidelines change such that speculative trading is permitted, NJNG will notify the Parties. The Parties agreed that if any such speculative trading should occur, any losses thereto will be absorbed one hundred percent by the Company. Any gains from such trading will be shared with customers as outlined above. The

storage capacity included in the program shall not be increased from 18 bcf during this time frame; and

d) **On-System Interruptible Sales and Transportation and Sales to electric generation plants¹:** The Company's current incentive programs for on-system interruptible sales and transportation and electric generation plants are: (1) sales of natural gas to the Sayreville and Forked River Electric Generation Plants, pursuant to which margins are shared with 90% credited to NJNG customers and 10% retained by the Company, after an initial contribution to customers of \$0.01 per therm; (2) on-system interruptible sales of natural gas, pursuant to which margins are shared with 90% credited to NJNG customers and 10% retained by the Company; and (3) on-system interruptible transportation sales of natural gas, pursuant to which margins are shared with 95% credited to NJNG customers and 5% retained by the Company.

3. The customer benefit from these incentive mechanisms is expected to be approximately \$35 million for fiscal year 2007.

4. In its Letter Petition, NJNG sought BPU authorization to extend the incentives listed above to a date coincident with the end of the NJNG pilot program for the Conservation Incentive Program ("CIP") approved by the Board on October 12, 2006 in Docket No. GR05121020. It was the position of the Company that such an extension would serve to preserve the *status quo* through the end of the agreed upon initial term of the CIP pilot program.

5. NJNG has received and responded to all discovery that has been propounded by the Board Staff and the Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel").

6. Representatives of NJNG, Board Staff and Rate Counsel (collectively, the "Parties") have met to discuss these incentive mechanisms and, as a result of those discussions, the Parties have reached this settlement concerning the NJNG incentive programs currently in effect. This Stipulation does not address the BGSS rate approved on a provisional basis on September 29, 2006 in Docket No. GR06060415 and does not alter the provisional status of that rate.

7. Specifically, the Parties **STIPULATE AND AGREE** to modify the existing gas supply incentives mechanisms as set forth below and depicted on Attachment A to this Stipulation:

- a. Off-System Sales and Capacity Release Incentive Program shall continue as currently structured through October 31, 2008;
- b. Financial Risk Management (FRM) shall continue through October 31, 2008; as of November 1, 2007, the sharing between NJNG customers and the Company will be 85% credited to customers and 15% retained by the Company. If the Company has not filed for a base rate case by September 1, 2008, the FRM customer/Company sharing mechanism will change as of that date to 90% credited to customers and 10% retained by the Company.
- c. On-System Interruptible Sales, On-System Interruptible Transportation Sales and Sales to the Sayreville and Forked River Electric Generation Plants The Parties agree that these incentive programs will continue through October 31, 2007 as currently structured. As of November 1, 2007, these incentive programs will terminate.

¹ NJNG did not propose to revise or eliminate the margin sharing related to Ocean Peaking Power as authorized in the June 20, 2003 order in Docket No. GR02120947 and incremental pool heat margins as included in the May 13, 2005 order in Docket No. GR04111412.

d. Storage Incentive: The Parties agree that the Storage Incentive will be extended through October 31, 2008 as currently structured. Additionally, the Company will purchase NYMEX hedge positions for the Summer of 2009 during this agreed to extension.

e. Ocean Peaking Power: In an Order dated June 20, 2003, the Board approved a Service Agreement between NJNG and Ocean Peaking Power which established, among other things, a sharing mechanism of the gross revenues with 50% credited to the BGSS clause and 50% retained by the Company for the first four years of the Agreement, through May 31, 2007. Since June 1, 2007, the Company has credited 80% of the gross revenues to customers and retained 20%. The Parties agree that the sharing mechanism between NJNG customers and the Company related to Ocean Peaking Power will be modified as of September 1, 2007 with 85% credited to customers and 15% retained by the Company. Additionally, this sharing mechanism will terminate on September 1, 2008 if the Company has not filed a base rate case by that date.

8. All incentive programs in effect as of November 1, 2007 are subject to review in the Company's next base rate case and the Parties reserve their rights relative to their positions concerning these incentives. If the Company files its next base rate case on or before December 28, 2007 and if an Order is not issued in that case before October 31, 2008, the incentives as agreed to in this Stipulation will continue with the same sharing mechanisms for each program until the base rate case is resolved and a Board order is issued. Except with respect to Ocean Peaking Power, which is governed by 7(e) above, if a base rate case is not filed by December 28, 2007, the incentives programs discussed in this Stipulation will terminate as of October 31, 2008 unless the Board has issued an Order extending such programs.

9. The Parties further agree that this Stipulation fully disposes of all issues in controversy in this proceeding concerning the Incentive Programs for NJNG.

10. 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 shall not be bound to proceed with this Stipulation and shall 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.

11. The Parties further agree that they consider the Stipulation to be binding on them for all purposes herein.

12. 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, Board Staff, nor Rate Counsel, shall 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
RONALD K. CHEN, PUBLIC ADVOCATE
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By: 
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STAFF OF THE NEW JERSEY BOARD OF PUBLIC UTILITIES
ANNE MILGRAM, ATTORNEY GENERAL OF NEW JERSEY

By: 
BABETTE TENZER,
DEPUTY ATTORNEY GENERAL

Date: September 12, 2007

Attachment A

**New Jersey Natural Gas Company
BGSS Incentive Programs**

Program	Current Sharing (Customer/NJNG)	Future Sharing (Customer/NJNG)	Future Sharing Effective Date
Off System Sales	85% / 15%	85% / 15%	11/1/07
Capacity Release	85% / 15%	85% / 15%	11/1/07
Financial Risk Management	80% / 20%	85% / 15%	11/1/07
Storage Incentive	80% / 20%	80% / 20%	11/1/07
Ocean Peaking Power	80% / 20%	85% / 15%	9/1/07
Interruptible Sales	90% / 10%	100% / 0% Sharing terminated 10/31/07	11/1/07
Interruptible Transportation	95% / 5%	100% / 0% Sharing terminated 10/31/07	11/1/07
Sayreville	90% / 10% after initial contribution of \$0.01 per therm	100% / 0% Sharing terminated 10/31/07	11/1/07
Forked River	90% / 10% after initial contribution of \$0.01 per therm	100% / 0% Sharing terminated 10/31/07	11/1/07

August 21, 2007