



Agenda Date: 8/22/07

Agenda Item: 2F

STATE OF NEW JERSEY

Board of Public Utilities

Two Gateway Center

Newark, NJ 07102

www.bpu.state.nj.us

IN THE MATTER OF THE PETITION OF NEW)
JERSEY NATURAL GAS COMPANY FOR)
AUTHORIZATION THROUGH JULY 31, 2010;
TO ISSUE AND SELL MEDIUM-TERM NOTES)
WITH AN AGGREGATE PRINCIPAL AMOUNT)
OF NOT MORE THAN \$125,000,000

ENERGY

ORDER

DOCKET NO. GF07050343

(SERVICE LIST ATTACHED)

BY THE BOARD:

On May 21, 2007, New Jersey Natural Gas Company ("Petitioner" or "NJNG"), a public utility of the State of New Jersey, filed a petition with the New Jersey Board of Public Utilities (the "Board"), pursuant to N.J.S.A. 48:3-7 and 48:3-9 and N.J.A.C. 14:1-5.9, requesting authority to (a) issue and sell pursuant to N.J.S.A. 48:3-9 Medium-Term Notes ("MTNs") with a maturity of not more than forty (40) years in an aggregate principal amount of not more than \$125,000,000; (b) make, execute and deliver pursuant to N.J.S.A. 48:3-9 a trust indenture, trust indentures or supplements thereto providing for the issuance of such MTNs; (c) make, execute and deliver pursuant to N.J.S.A. 48:3-7 a thirty-second (32nd) supplemental indenture ("Thirty-Second Supplemental Indenture") and additional supplemental indentures providing for the issuance of MTNs in the form of a first mortgage bond or bonds with a maturity or maturities of not more than forty (40) years and, together with any MTNs issued in accordance with (a) above, in aggregate principal amount of not more than \$125,000,000; (d) make execute and deliver pursuant to N.J.S.A. 48:3-7 such other supplemental indentures, and to issue such first mortgage bonds thereunder as shall be necessary to complete the transactions contemplated in this petition; (e) enter into interest rate risk management transactions; and (f) make, execute and deliver purchase agreements and related agreements and instruments with financial institutions (including procuring credit enhancement instruments) in connection therewith as shall be necessary to complete the transactions contemplated in this Petition without further order of the Board. Petitioner alleged that the proposed transactions will allow Petitioner to reduce its short-term debt balance and to fund spending for utility construction and other corporate needs.

Petitioner seeks authorization to engage in a transaction or series of transactions at any time through July 31, 2010, the net result of which will be the issuance of up to \$125 million of MTNs. The net proceeds of this transaction or series of transactions will be utilized to retire short-term debt through the issuance of long-term debt; to fund capital expenditure requirements, including

environmental remediation expenditures; to fund pension and other post-employment benefit programs; and, potentially, to redeem any of Petitioner's indebtedness or debt securities at maturity.

According to Petitioner, the MTNs may be issued as part of one, or as part of several series, and may be issued on a secured or unsecured basis. MTNs will be issued with maturities from one to forty years and with various specified conditions, including redemption provisions. The MTNs will be sold at 100% of principal amount, at a discount, or at a premium.

The Petitioner proposes to issue some or all of the MTNs under an indenture (a "Note Indenture") or under various Note Indentures between the Petitioner and the Bank of New York Trust Company, N.A., or a similar financial institution, as trustee (the "Note Trustee"). MTNs may be issued under the Note Indentures in one or more series from time to time without limit. MTNs issued under the Note Indentures may be secured by the Pledged Bonds, discussed *infra*. Alternatively, the Petitioner may elect to issue MTNs as unsecured MTNs pursuant to the Note Indenture.

Petitioner explains that it may also issue the MTNs as mortgage bonds under its Indenture of Mortgage and Deed of Trust dated April 1, 1952 between NJNG and BNY Midwest Trust Company (successor to Harris Trust and Savings Bank), as Trustee, as amended by thirty-one supplemental indentures (the "Mortgage Indenture"). Said Mortgage Indenture is a first lien upon virtually all of Petitioner's real estate and personal property except certain items including gas inventory, cash and transportation equipment. MTNs issued under the Mortgage Indenture will be issued pursuant to one or more supplemental indentures under the Mortgage Indenture. As a result, it may be necessary for Petitioner to make, execute and deliver the Thirty-Second Supplemental Indenture and supplemental Mortgage Indentures in addition thereto. According to Petitioner, it will choose to issue MTNs under the Note Indenture (in the form of secured MTNs or unsecured MTNs) or under the Mortgage Indenture, or under a different indenture or indentures or both depending upon which structure in Petitioner's judgment allows it to issue MTNs in a financially advantageous manner.

The MTNs which Petitioner proposes to issue will have differing maturity dates and will bear interest at different rates, and may contain other terms that vary from series to series. Petitioner intends, through a bidding process, to sell the MTNs either to or through agents who will be "accredited investors," as defined in rules promulgated under the Securities Act of 1933, as amended (the "Securities Act"). The successful bidder or bidders, in turn, may resell the MTNs to "qualified institutional buyers" pursuant to Rule 144A under the Securities Act or to any eligible purchasers under an applicable exemption under the Securities Act. The sale will be made to or through the agent or agents whose bid or bids result in the most financially advantageous terms to Petitioner. The agents to be utilized by Petitioner may change from offering to offering.

Petitioner proposes that the interest rates to be borne by the MTNs will be set within maximum coupon spreads over U.S. Treasury securities as provide in the Market Yield Spread Table set forth below:

<u>Range of Maturities</u>	<u>Maximum Coupon Spread (Basis Points)</u>
1 year to less than 18 months	60
18 months to less than 2 years	70
2 years to less than 3 years	75
3 years to less than 4 years	80
4 years to less than 5 years	85
5 years to less than 7 years	90
7 years to less than 10 years	95
10 years to less than 15 years	100
15 years to less than 20 years	110
20 years to 30+ years	120

The coupon spreads set forth above are based upon the difference between market yield of corporate debt securities having ratings comparable to the Petitioner's first mortgage bonds and U.S. Treasury securities with like maturities. These maximum coupon spreads are designed to allow for differences in redemption provisions as well as for ordinary market volatility. If market conditions change materially, the Petitioner will deliver an updated yield spread schedule to the Board.

In order to provide it with the opportunity to take advantage of changing financial market conditions and advantageously manage its cost of capital and meet competitive conditions, Petitioner has requested authority, as appropriate market opportunities arise, to issue and sell MTNs in one or more offerings without further approval by this Board. The terms and the timing of the proposed MTN offerings will be dependent upon market and other conditions beyond Petitioner's control. Such determinations will depend upon the market conditions at the time of issuance and sale. However, Petitioner states it will select the form of instrument which in the judgment of Petitioner would allow the issuance and sale of MTNs in a financially advantageous manner.

If MTNs are issued under a Note Indenture or Note Indentures, they may be secured with a bond (a "Pledged Bond") or Pledged Bonds that will be one or a series of bonds issued under the Mortgage Indenture. The Pledged Bond or Pledged Bonds, if any, issued to secure MTNs, will be issued under the Mortgage Indenture, as supplemented and amended, and as to be supplemented by the Thirty-Second Supplemental Indenture or further supplemental indentures providing for the issuance of the Pledged Bond or Pledged Bonds. The terms and conditions for the Thirty-Second Supplemental Indenture and other supplemental indentures will be * determined prior to the issuance of the Pledged Bond or Pledged Bonds. Petitioner may also execute additional supplemental indentures and issue additional mortgage bonds as a Pledged Bond or Pledged Bonds or provide for the issuance of MTNs as mortgage bonds.

According to Petitioner, the Pledged Bond or other Pledged Bonds shall be issued in a principal amount up to \$125 million. The Pledged Bond or Pledged Bonds shall be issued and pledged by Petitioner and delivered to the Note Trustee or the Note Trustees in accordance with the Note Indenture or Note Indentures. The Pledged Bond or Pledged Bonds will secure the payment of the principal of, and interest on, secured MTNs issued under the Note Indenture or the Note Indentures. The principal amount of Pledged Bond or Pledged Bonds deemed outstanding will at all times be equal to the outstanding principal amount of the secured MTNs issued under the Note Indenture or the Note Indentures. No increase in the amount of long-term debt will be outstanding due to the issuance of up to \$125 million of Pledged Bonds. Petitioner states that because the MTNs may be secured by the Pledged Bonds, such an issuance does not result in any additional long-term debt becoming outstanding, and therefore, Petitioner requests that the potential issuance of up to \$125 million principal amount of Pledged Bonds to secure MTNs not be treated as using any of the authority to issue long-term debt otherwise approved by the Board.

Interest on the Pledged Bond or Pledged Bonds shall accrue at a rate to be determined prior to the issuance thereof. The amount of interest due and payable on the Pledged Bonds from time to time will equal the amount of interest due under all outstanding secured MTNs issued under the Note Indenture or the Note Indentures. As a result, Petitioner shall be entitled to credit on the Pledged Bond equal to the amount paid on the secured MTNs.

Given volatility in the financial markets, Petitioner requests authority in connection with the issuance and sale of the MTNs to enter into one or more interest rate risk management transactions, including interest rate swaps, treasury rate locks, derivative products, interest rate caps, floors and collars. According to Petitioner, the purpose of these types of transactions is to better manage interest costs and provide protection in the event of significant changes in financial market conditions by locking in or capping favorable interest rates. Petitioner also requests authority to enter into one or more forward rate agreements. The purpose of these types of transactions is to allow Petitioner to take advantage of favorable interest rates by agreeing to an interest rate that would be effective sometime in the future.

Petitioner proposes to amortize the cost of issuances of the MTNs by monthly charges to account number 428, Amortization of Debt Discount and Expense.

Petitioner proposes to issue the MTNs in a program of a maximum duration of approximately three (3) years, ending July 31, 2010. Petitioner makes this proposal because at this time it does not intend to issue MTNs in amounts approximating the amounts for which authorization is sought in the Petition, over a period that would exceed 3 years, ending July 31, 2010. Petitioner asserted that utilization of such duration of time will result in cost savings to Petitioner and its customers because the up-front costs of instituting an MTN program will only be incurred once during this period of time. The result will be a lower all-in cost for each individual issuance of MTNs under the program. Petitioner has submitted a schedule of anticipated capital expenditures to demonstrate the expected level of capital expenditures through fiscal year 2009. Petitioner asserts that the issuance of MTNs will allow Petitioner to reduce its short-term debt balance and to fund spending for utility construction and other corporate needs. Petitioner stated that its objective is to achieve the best all-in cost for each issuance of MTNs.

The Division of Rate Counsel has reviewed this matter and is not opposed to its approval subject to the conditions stated below.

The Board, after review, having considered the petition and exhibits submitted in this proceeding, as well as supplemental information provided by the Petitioner, subject to the provisions set forth below, FINDS that the proposed transaction is in accordance with the law, is in the public interest and approving the purposes thereof, HEREBY ORDERS that Petitioner be and is HEREBY AUTHORIZED through July 31, 2010 to (a) issue and sell pursuant to N.J.S.A. 48:3-9 Medium-Term Notes with a maturity of not more than forty (40) years in an aggregate principal amount of not more than \$125,000,000; (b) make, execute and deliver pursuant to N.J.S.A. 48:3-9 a trust indenture, trust indentures or supplements thereto providing for the issuance of such MTNs; (c) make, execute and deliver pursuant to N.J.S.A. 48:3-7 a thirty-second (32nd) supplemental indenture ("Thirty-Second Supplemental Indenture") and additional supplemental indentures providing for the issuance of MTNs in the form of a first mortgage bond or bonds with a maturity or maturities of not more than forty (40) years and, together with any MTNs issued in accordance with (a) above, in aggregate principal amount of not more than \$125,000,000; (d) make execute and deliver pursuant to N.J.S.A. 48:3-7 such other supplemental indentures, and to issue such first mortgage bonds thereunder as shall be necessary to complete the transactions contemplated in this petition; (e) enter into interest rate risk management transactions; and (f) make, execute and deliver purchase agreements and related agreements and instruments with financial institutions (including procuring credit enhancement instruments) in connection therewith as shall be necessary to complete the transactions contemplated in this Petition without further order of the Board.

This Order and the authorization herein is subject to the following additional provisions:

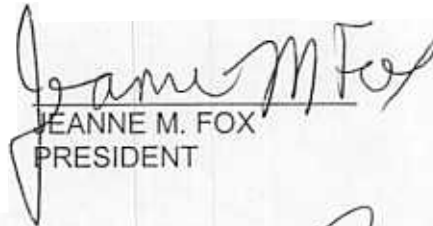
- 1 With respect to each issue of MTNs, the Petitioner shall provide the following material for information purposes as soon as it is available and in no event later than forty-eight (48) hours prior to the anticipated time for the pricings: (1) a statement with respect to the indicative pricing for the MTNs and the terms thereof which shall specify (i) the anticipated date and timing for the pricing of the MTNs, (ii) the aggregate principal amount of the MTNs, (iii) the terms and conditions upon which the MTNs may be redeemed, whether at the option of the Petitioner, pursuant to any mandatory provision, or otherwise, and (iv) such other provisions as may be established by the Petitioner with respect to the terms and conditions of the MTNs and the market pricing therefor; (2) an assessment of the then current financial market applicable to the MTNs, including, (i) data with respect to recent sales of comparable securities of other utilities, if any, (ii) data with respect to current yields on certain outstanding debt of the Petitioner, (iii) anticipated compensation to and names of the underwriters of the MTNs, (iv) the anticipated range of the yield on the MTNs based upon current market conditions, and (v) such other information the Petitioner deems relevant to access the expected sale of the MTNs and the reasonableness of the effective cost of any rate thereof.

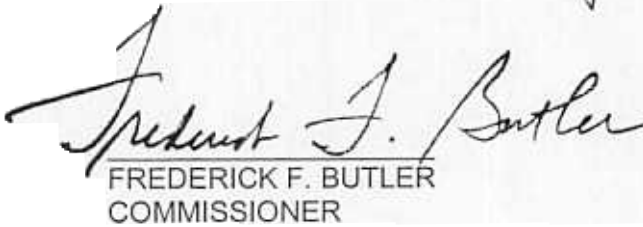
2. If (1) the interest rate on any series of MTNs, in relation to U.S. Treasury securities does not exceed the range set forth in the table above, and (2) the compensation to the underwriters with respect to any series does not exceed 1.0% of the aggregate principal amount of the MTNs issued and sold, the Petitioner may effect MTN transactions without further Order of the Board. If either the interest rate of the compensation to the underwriters exceeds such amount, the proposed issuance and sale of such MTNs shall not be consummated until further Order of the Board authorizing such MTNs transactions has been entered.
3. The Petitioner shall, as promptly as is practical after acceptance of an offer for, and the pricing of, any MTNs, notify the Board's Office of the Chief Economist and Rate Counsel in writing of the action to be taken and include a statement setting forth the compensation to and names of all the underwriters, and, as applicable, the aggregate principal amount of the MTNs, the interest rate of the MTNs and any other provision with respect to the terms and conditions of the MTNs.
4. The Company shall furnish the Board with copies of executed documents filed with other regulatory agencies relating to the MTNs simultaneously with the filing to the other regulatory agencies.
5. The MTNs authorized herein shall not be redeemed at a premium prior to maturity without further Board approval, unless the estimated present value savings derived from the difference between interest or dividend payments on the new issue of comparable securities and those securities refunded is on an after-tax basis greater than the estimated present value of all redemption, tendering and issuing costs, assuming an appropriate discount rate. Petitioner shall furnish the Board with sufficient evidence to support the estimated present value savings prior to redemption.
6. The Petitioner shall furnish the Board with copies of all executed supplements to the Mortgage Indenture.
7. The Petitioner shall semi-annually file with the Board, with a copy to Rate Counsel, reports required in N.J.A.C. 14:1-5.9(b) setting forth the terms and conditions of all the MTNs issued during that period together with a calculation of the cumulative principal amount, and the manner in which the proceeds thereof have been disbursed.
8. This Order shall not be construed as certification that the securities authorized to be offered for sale will be represented by tangible or intangible assets of commensurate value or investment costs.
9. This Order shall not be construed as directly or indirectly fixing for any purpose whatsoever any value of tangible or intangible assets now owned or hereafter to be owned by the Company.

10. This Order shall not affect or in any way limit the exercise of the authority of the Board or of the State in any future petition with respect to rates, franchises, services, financing, accounting, capitalization, depreciation, or any other matters affecting Petitioner.
11. The authority granted under this Order shall become null and void and of no effect with respect to any portion thereof that is not exercised by December 31, 2010.
12. The Order shall not constitute pre-approval of any cost of authorization for rate recovery. Petitioner's regulated capital structure and capital costs are subject to review in NJNG's next base rate case or other appropriate proceeding.

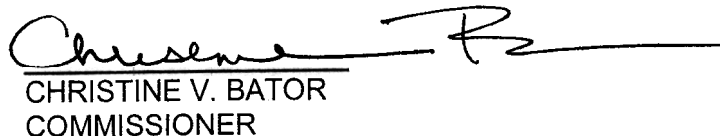
DATED: 8/22/07

BOARD OF PUBLIC UTILITIES
BY:

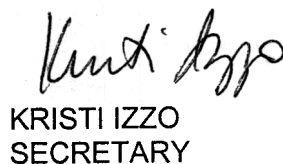

JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER

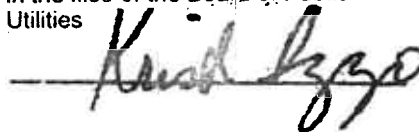

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

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



SERVICE LIST

In the Matter of the Petition of New Jersey Natural Gas Company for Authorization through July 31, 2010; to issue and sell Medium-Term Notes with an Aggregate Principal Amount of not more than \$125,000,000

Docket No. GF07050343

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