



Agenda Date: 9/12/08
Agenda Item: IIA

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 NEW JERSEY
NATURAL GAS COMPANY FOR APPROVAL OF AN)
INCREASE IN ITS GAS RATES, DEPRECIATION RATES
FOR GAS PROPERTY, AND FOR CHANGES IN THE
TARIFF FOR GAS SERVICE, PURSUANT TO)
N.J.S.A. 48:2-18, 48:2-21

ORDER OF EXTENSION

) BPU DOCKET NO. GR07110889
) OAL DOCKET NO. PUC12546-07

(SERVICE LIST ATTACHED)

BY THE BOARD:

The Initial Decision of the Administrative Law Judge was received by the Board of Public Utilities (Board) on August 14, 2008; therefore the 45-day statutory period for review and the issuing of a Final Decision will expire on September 29, 2008. Prior to that date, the Board requests a 45-day extension of time for issuing the Final Decision in order that it may thoroughly review the record in this matter.

Good cause having been shown, pursuant to N.J.S.A. 52:14B-10(c) and N.J.A.C. 1:1-18.8, **IT IS ORDERED** that the time limit for the Board of Public Utilities to render a Final Decision is extended until November 13, 2008.

DATED: 9/15/08

BOARD OF PUBLIC UTILITIES
BY:

FREDERICK F. BUTLER
COMMISSIONER

JEANNE M. FOX
PRESIDENT

JOSEPH L. FIORDALISO
COMMISSIONER

NICHOLAS ASSELTA
COMMISSIONER

ELIZABETH RANDALL
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

Date Board mailed Order to OAL: 9-16-08

cc: Service List Attached

DATED: 9/17/08


LAURA SANDERS, DIRECTOR &
CHIEF ADMINISTRATIVE LAW JUDGE

Date OAL mailed executed Order to Board: 9/18/08

Date Board mailed executed Order to Parties: 9/18/08

IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY
FOR APPROVAL OF AN INCREASE IN ITS GAS RATES, DEPRECIATION RATES
FOR GAS PROPERTY, AND FOR CHANGES IN THE TARIFF FOR GAS SERVICE,
PURSUANT TO N.J.S.A. 48:2-18, 48:2-21

BPU DKT. No. GR07110889

OAL DKT No. PUC 12545-07

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CMS
BESLOW
RPA
CAMPBELL, J
VACHIEB, C
NO DEAN, A
~~COOPER, M~~
ELECTRIC
RICH, H



State of New Jersey
OFFICE OF ADMINISTRATIVE LAW

RECEIVED
CASE MANAGEMENT
2008 AUG 14 PM 3:33
BOARD OF PUBLIC UTILITIES
NEWARK, N.J.

INITIAL DECISION

SETTLEMENT

OAL DKT. NO. PUC 12545-07

AGENCY DKT. NO. GR 07110889

**I/M/O THE PETITION OF NEW JERSEY
NATURAL GAS COMPANY FOR APPROVAL
OF AN INCREASE IN ITS GAS RATES
DEPRECIATION RATE FOR GAS
PROPERTY AND FOR CHANGES IN THE
TARIFF FOR GAS SERVICE**

Tracey Thayer, Esq., Director, Regulatory Affairs Counsel, for petitioner
New Jersey Natural Gas Company

Judith Appel, Esq., Henry Ogden, Esq. and Sarah H. Steindel, Esq.,
Assistant Deputy Public Advocates for respondent, Department of
the Public Advocate, Division of Rate Counsel (Ronald K. Chen,
Public Advocate)

Jessica Campbell and Alex Moreau, Deputy Attorney Generals for
Respondent, the Staff of the New Jersey Board of Public Utilities,
(Anne Milgram, Acting Attorney General of New Jersey, attorney)

Andrew Dembia, Esq. and Frances I. Sundheim, Esq. attorneys
for Intervenor, Public Service Electric and Gas Company

**Deborah Franco, Esq. and Kenneth Maloney, Esq. for Intervenor
Hess Corporation (Cullen and Dykman, LCP, attorneys)**

**Michael D'Angelo, Esq., Director Regulatory Affairs for Intervenor,
Intelligent Energy.**

Record Closed: August 14, 2008

Decided: August 14, 2008

BEFORE IRENE JONES, ALJ: ~~Equal Opp.~~

On November 20, 2007, petitioner, New Jersey Natural Gas Company ("NJNG" or "Petitioner") filed a verified petition with the New Jersey Board of Public Utilities (the "Board" or "BPU") seeking an increase in its gas base rates of approximately \$58.36 million or 7.5% to the average residential customer. Included in the proposed increase was a depreciation study that sought to change petitioner's depreciation rates.

On December 24, 2007, the matter was transmitted to the Office of Administrative Law for hearing as a contested case pursuant to N.J.S.A. 52:14F-1 to 13. The parties to this matter are the Petitioner, the Staff of the Board of Public Utilities ("Staff") and the Division of Rate Counsel ("Rate Counsel"). Intervenor status was granted to Public Service Electric and Gas Company, Hess Corporation and Intelligent Energy Corporation. Pre-hearing conferences were held on January 25, 2008 and February 14, 2008 and a procedural schedule was established. A prehearing Order was issued on February 29, 2008. Public hearings were held in the petitioner's franchise service, specifically in Freehold, New Jersey on May 13, 2008 and in Rockaway Township, New Jersey on May 14, 2008.

was in its right

Evidentiary hearings were held on June 18, 19, 24, 30 and July 8, 2008. During the hearings, the parties presented prefiled rebuttal and surrebuttal testimony in support of their respective positions. Additionally, the parties exchanged over 1,250 discovery request and conducted numerous discovery conferences. As a result of this extensive and comprehensive record, the Petitioner and Rate Counsel have agreed to settle this

matter and have filed a written Stipulation of Settlement on revenue requirement which is attached hereto and incorporated herein.

This settlement provides, inter alia, for an increase in gas base revenues of \$32.50 million annually, effective on or about October 1, 2008. The parties agree that an appropriate and fair rate of return on equity is 10.30% and an overall rate of return on rate base of 7.76%. Further, that the overall depreciation rate will be 2.34% which is reduced from its current rate of 3.8%. The parties have further agreed to changes in the company's accumulated depreciation reserve and COR expense.

On August 14, 2008, the Petitioner, Rate Counsel and Staff filed a signed Stipulation of Settlement on Rate Design/Cost of Service. This Stipulation of Settlement incorporates by reference all of the terms and conditions of the revenue requirement Stipulation of Settlement set forth above in paragraph 4 of this Initial Decision. The Intervenor's do not oppose the above Stipulations of Settlement.

I have reviewed the record and terms of the Stipulation of Settlements and **FIND:**

- 1 The parties have voluntarily agreed to the settlements as evidenced by the signatures of the parties or their representatives.
2. The settlements fully dispose of all issues in controversy and are consistent with law.

Therefore, it is **ORDERED** that the parties comply with the settlement terms and that these proceedings be and are hereby concluded.

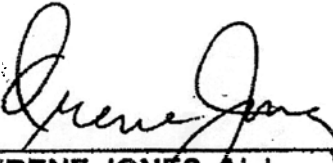
I hereby **FILE** my initial decision with the **BOARD OF PUBLIC UTILITIES** for consideration.

This recommended decision may be adopted, modified or rejected by the **BOARD OF PUBLIC UTILITIES**, which by law is authorized to make a final decision in this matter. If the Board of Public Utilities does not adopt, modify or reject this decision within forty-five (45) days and unless such time limit is otherwise extended, this recommended decision shall become a final decision in accordance with N.J.S.A. 52:14B-10.

8/14/08
DATE

Date of Decision

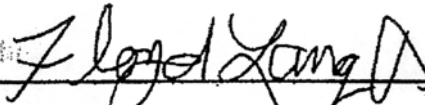
Page 1 of 1


IRENE JONES, ALJ

Date Received at Agency:

8/14/08

Date of Mailing


Mailed to Parties:

DATE

sej

OFFICE OF ADMINISTRATIVE LAW

Date of Decision

Page 1 of 1

Page 1 of 1

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

IN THE MATTER OF THE PETITION OF)	
NEW JERSEY NATURAL GAS COMPANY)	BPU DOCKET NO. GR07110889
FOR APPROVAL OF AN INCREASE)	
IN ITS GAS RATES, DEPRECIATION)	OAL DOCKET NO. PUC 12545-07
RATES FOR GAS PROPERTY AND FOR)	
CHANGES IN THE TARIFF FOR)	
GAS SERVICE PURSUANT TO)	
N.J.S.A. 48:2-18 AND 48:2-21)	

**STIPULATION OF SETTLEMENT ON REVENUE REQUIREMENT, POLICY ISSUES
AND DEPRECIATION RATES**

APPEARANCES:

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

Judith B. Appel, Esq., Henry M. Ogden, Esq., and Sarah H. Steindel, Esq., Assistant Deputy Public Advocates, Department of the Public Advocate, Division of Rate Counsel (Ronald K. Chen, Public Advocate, Stefanie A. Brand, Esq., Director)

Jessica Campbell and Alex Moreau, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (Anne Milgram, Attorney General of New Jersey)

**TO: THE HONORABLE IRENE JONES, ADMINISTRATIVE LAW JUDGE AND THE
NEW JERSEY BOARD OF PUBLIC UTILITIES**

On November 20, 2007, New Jersey Natural Gas Company ("NJNG" or the "Company") filed a petition with the New Jersey Board of Public Utilities (the "Board" or "BPU") seeking an increase in base tariff rates designed to produce approximately \$58.36 million of additional annual revenues, an increase of approximately 7.5 percent to the average residential customer

bill, as well as approval for revisions to its depreciation rates and changes in the tariff for gas services.

The Company's filing was based on a test year consisting of the twelve months ended April 30, 2008 and was accompanied by the testimony of the following eight witnesses: Laurence M. Downes (Policy); Craig A. Lynch (Operations and Engineering); Jay S. Buth (Revenue Requirement/Accounting); Michael P. Moscufo (Cash Working Capital); Joseph P. Shields (Basic Gas Supply Service ("BGSS") Incentives); Paul R. Moul (Cost of Capital); Dr. Ronald E. White (Depreciation); and Daniel P. Yardley (Rate Design). Following the conclusion of the test year, the Company updated its filing for actual results through the end of the test year (the "12+0 Update"). Although the Company claimed that the results of the 12+0 Update demonstrated the Company's need for additional rate relief in the amount of \$79.112 million annually, the Company did not amend its petition to change the original rate relief request.

The Company's filing was transmitted to the Office of Administrative Law as a contested case and assigned to the Honorable Irene Jones. Pre-hearing conferences were held on January 25, 2008 and February 14, 2008, and a procedural schedule was subsequently issued by Judge Jones. Public hearings were held in Freehold, New Jersey on May 13, 2008 and in Rockaway Township, New Jersey on May 14, 2008. No members of the public appeared at either public hearing.

The New Jersey Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel") submitted the testimony of the following witnesses in response to the Company's filing and updated schedules: Richard W. LeLash (Policy) (Direct and Supplemental); Michael Majoros (Depreciation); Matthew I. Kahal (Cost of Capital); David Peterson (Cash Working Capital); Michael McFadden, A.E. Middents and John N. Peters (Operations and Engineering);

Brian Kalcic (Rate Design); Andrea C. Crane (Revenue Requirement/Accounting); James D. Cotton (BGSS Incentives); and Howard Woods (Automated Meter Reading).

The Company also filed rebuttal and supplemental testimony on May 23, June 4, 20 and 27, 2008.

Motions for intervention filed by Public Service Electric & Gas Company ("PSE&G"), Hess Corporation ("Hess") and Intelligent Energy ("IE") were granted by Judge Jones.

Over 1,150 discovery requests were propounded upon the Company by Rate Counsel and BPU Staff, responses to most of which have been provided. Over the period of April 1, 2008 through April 3, 2008, Rate Counsel and BPU Staff participated in meetings, discovery conferences and site visits at the company facilities which included demonstrations of NJNG gas operating systems and processes and accounting depreciation practices. Evidentiary hearings were conducted at the Office of Administrative Law on June 18, 19, 24, 30 and July 8, 2008.

Representatives of the Company, BPU Staff, and Rate Counsel (the "Parties" to this Stipulation) have met to resolve the matters at issue in this proceeding.¹ Notice of these settlement meetings was provided to all parties. As a result of these meetings, the Parties have reached this Stipulation that resolves all revenue requirement, policy and depreciation rate issues in a manner the Parties consider to be fair and reasonable.

Stipulation

Based upon, and subject to the terms and conditions set forth herein, the Parties stipulate and agree as follows:

A. **Rate Increase**. The Company will be permitted to increase its base rates in a manner designed to produce a total annual revenue requirement increase of \$32.50 million, effective on or about October 1, 2008, coincident with rate changes proposed in its 2008 BGSS

PSE&G, Hess and IE did not actively participate in the negotiations related to this settlement document.

proceeding in Docket No. GR08050369. This revenue requirement reflects a rate base of \$943.346 million, a return on equity of 10.30 percent and an overall return on rate base of 7.76 percent. The Company's proposed rate base set forth in its 12 + 0 update of \$965,346,000 has been revised to reflect certain of the recommendations of Rate Counsel relating to cash working capital, gas supply and LNG inventory. The parties also agree that the calculation of rate base in this proceeding includes a reduction for consolidated tax savings. The amount of \$5,196,406 represents NJNG's share of the total consolidated tax savings, reflecting a 68% allocation to NJNG. This calculation was supported by information provided on a confidential basis in an updated response to S-RREV-89 and was calculated using the methodology approved by the Board on Page 64 of its April 20, 2004 Order *In the Matter of Rockland Electric Company for Approval of Changes in Electric Rates, Its Tariff for Electric Service, Its Depreciation Rates, and for Other Relief*, Docket No. ER02100724 and shown on Exhibit 4 of that Order ("ER02100724 RECO Order"). The issue of consolidated tax savings was fully litigated in the above mentioned RECO proceeding. The Company agrees that it will provide, as part of all future distribution rate cases and after the execution of a Confidentiality Agreement, a consolidated tax savings schedule that is calculated using the methodology approved by the Board on Page 64 of the ER02100724 RECO Order and shown on Exhibit 4 of that Order, both of which are attached hereto as Attachment A.

The Parties agree that the following components support the revenue requirement increase agreed to in this Stipulation:

	(\$000)
Rate Base	\$943,346
Rate of Return	
Income Requirement	\$73,204
Pro-Forma Income	<u>\$54,180</u>
Additional Income Requirement	\$19,024
Revenue Factor	
Revenue Requirement	\$32,500

The agreed-upon rate of return is supported by the following capital structure:

	Amount <u>\$000</u>	<u>Ratios</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-term Debt	\$411,344	41.6 %	5.44%	2.27%
Short-term debt	66,000	6.7%	2.90%	0.19%
Customer Deposit	4,447	0.5%	4.79%	0.02%
Common Equity	<u>506,332</u>	<u>51.2%</u>	10.30%	<u>5.28%</u>
Total	\$988,113	100.0%		7.76%

B. Depreciation. The Parties agree that, as part of the settlement in this case, NJNG will reduce the overall depreciation rate from the previously approved 3.0 percent to 2.34 percent (see Attachment B). The Company also agrees to amortize to income the costs associated with the non-legal asset retirement obligation ("ARO") of approximately \$79 million over 48.26 years, which results in an annual amortization of \$1.649 million.

C. Lost Revenues. It is agreed that the Company shall not recover any lost revenues recorded after December 31, 2003 for measures installed up to that date. The amount authorized for recovery in rates is \$352,871 and reflects revenues lost through December 31,

2003. This amount shall be amortized to income, without carrying costs, over a five-year period, resulting in an annual amortization of \$70,574. The difference between the amount originally requested for recovery in this proceeding of \$1,419,267 and the amount of \$352,871 authorized for recovery herein is \$1,066,396 on a pre-tax basis, which amount will be charged to income by the Company and is not recoverable through rates in any future proceeding.

D. CBT Surcharge. The Company agrees to withdraw its request for recovery of a deferred regulatory asset in the amount of \$945,000 related to the 4 percent surcharge to the Corporate Business Tax ("CBT") implemented in 2006. Furthermore, the Company will not seek recovery of this amount in any future rate proceeding and will charge to income the current amount of \$945,000, on a pre-tax basis.

E. AFUDC. The Company's calculation of Allowance for Funds Used During Construction ("AFUDC") beginning October 1, 2007 shall be re-calculated at the Company's annual debt rate of 4.8 percent during the period between October 1, 2007 and the end of the test year in this proceeding which is April 30, 2008. The Company shall reduce the appropriate balance sheet and income statement accounts so that capitalized AFUDC is recorded only at the 4.8 percent annual rate. As a result of this adjustment, the re-calculation of the AFUDC rate results in a reduction to recorded AFUDC in the amount of \$408,000 for the period October 1, 2007 through April 30, 2008, which amount will be charged to income. The Company will not seek recovery or inclusion of that amount in any future rate proceeding. It is agreed that, effective October 1, 2008 or as of the date of the BPU Order in this case, the Company will institute the following methodology for calculating AFUDC: 1) when Construction Work in Progress ("CWIP") balances are greater than the short-term debt level, the AFUDC rate will be the Company's monthly short-term borrowing rate, up to the level of short-term debt, with the

remaining balance of CWIP at the overall cost of capital (7.76 percent) established in this proceeding; and 2) when short-term debt is greater than CWIP, the AFUDC rate will be the monthly short-term debt rate. Furthermore, NJNG agrees not to change this methodology in the future without a formal request to the BPU, with notice to Rate Counsel and BPU Staff.

F. Outside Service Expenses. NJNG agrees to charge to income and not seek recovery in any future rate proceeding of 50 percent of the costs associated with this base rate proceeding incurred through the effective date of new rates. The remaining 50 percent will be amortized to income over a five-year period, without associated interest or carrying costs. Furthermore, the Parties agree that the costs associated with the recently conducted Management Audit, BPU Docket No. GA05100909, will be amortized to income over a six-year period and those related to the Affiliate Standards Audits will be amortized to income over a two-year period.

G. PIM Included in NJNG's test period expenses for the 12+0 period is \$1.4 million of costs associated with the Federal Pipeline Integrity Management ("PIM") program. The Parties agree that it is appropriate to include an annual amount of \$1.4 million in its base rates for reasonable Operation and Maintenance ("O&M") costs associated with compliance with PIM regulations (Transmission and Distribution). Additionally, effective with the fiscal year beginning October 1, 2008, the Company shall record, as either a deferred regulatory asset or a deferred regulatory liability, the difference between the authorized \$1.4 million noted above and the actual PIM O&M costs incurred. NJNG agrees not to charge the deferred regulatory asset for amounts of PIM costs that are greater than \$700,000 in any year and also agrees that the Company will reflect in its entirety any regulatory liability resulting from costs less than the \$1.4 million O&M amount. In the event the accumulated PIM deferred balance results in a regulatory

liability in excess of \$1.0 million on a cumulative basis , the Company will reflect the full reduction in rates in the next annual BGSS filing as a credit to gas costs. The accumulated deferral resulting from this treatment will be tracked and reported in the Company's annual BGSS filings and reconciled in the Company's next base rate case.

H. AMR. Currently, NJNG reads the majority of customer meters on a bi-monthly basis in accordance with its Board approved Tariff. The Parties agree that NJNG will initiate the work necessary to provide meter reading on a monthly basis throughout its service territory. Among the intended benefits of this change are increased bill accuracy and the availability of timelier customer consumption data to be reflected in the Company's existing revenue recognition process. To accomplish the change from bi-monthly to monthly meter reading, NJNG will, among other things, install automatic meter reading (AMR) equipment throughout its Monmouth County service territory and redeploy field forces. In conjunction with the shift that NJNG will make from bi-monthly to monthly meter reading, the Parties agree as follows:

The Company shall report on a monthly basis the progress made in the installation of AMR equipment. The timeline for installation is contained Attachment C to this Stipulation.

ii. In the event that the installation milestones for the periods identified on the timeline in Attachment C (April 30, 2009, July 31, 2009, October 31, 2009 and February 28, 2010) are not met and a variance from that timeline of 15 percent or greater exists, the Company shall credit \$330,000 as a reduction to BGSS costs for that period until the next installation milestone is measured.

iii. Installation of AMR shall be considered complete when the meter is modified and the Encoder-Responder-Transmitter ("ERT") is active. For purposes of calculating the number of installations, inside meter sets will not be included.

iv. NJNG shall prepare quarterly reports evaluating the effects of monthly meter reading, including the number of estimated meter reads, the number of cancelled bills, lost and unaccounted-for gas, and unbilled revenues. The first such quarterly report shall be provided to Rate Counsel and Board Staff at the time that 25 percent of the Company's meter reading cycles are being read on a monthly basis. Additionally, in its June 1, 2010 BGSS filing, NJNG will provide an evaluation of the information available at that time related to the impact of transitioning to monthly meter reading. Such information will be updated during the course of the proceeding. The Company will also provide, by Tariff rate class, adjustments to reconcile billed and unbilled sales to calendarized sales, which are currently utilized to determine calendar month revenues. This information will be provided on a quarterly basis commencing with the BGSS reconciliation period under review in BPU Docket No. GR08050369.

v. Either prior to or after the evaluation that will be provided pursuant to paragraph H(iv) above, Rate Counsel and BPU Staff may provide a proposal based on the data received to recommend changes to the Company's revenue recognized through the calendarized process for implementation on a prospective basis.

I. **BGSS Incentives.** In the filing for this proceeding, NJNG requested the continuation of certain Basic Gas Supply Service ("BGSS") Incentives that were most recently approved in the BPU Order dated October 3, 2007 in Docket No. GR06120871 (the "Incentives Order"). In settlement of this case, the Parties agree that the current BGSS Incentive sharing formulae as described in that Board Order, with the exception of those related to Ocean Peaking Power, will continue as currently structured until October 31, 2011 or as of the date of the BPU Order in a subsequent proceeding related to BGSS incentives. NJNG agrees that the current sharing mechanism related to Ocean Peaking Power will terminate as of the date of the BPU

Order approving this Stipulation. Additionally, the Parties agree to increase the annual Financial Risk Management (“FRM”) transaction cost limitation of \$3.2 million to \$6.4 million and update the FRM volume limitations annually, based on the BGSS purchase requirements set forth in the Company’s BGSS filing each year. The Parties also agree to expand the annual Storage Incentive (“SI”) volume from 18 Bcf to 20 Bcf and retain the existing provision from the Incentives Order which allows the storage quantity included in the SI program to be adjusted upward if additional storage capacity is acquired. The Company will conduct a review of its gas procurement and capacity options with a proposal related to that review to be provided to Rate Counsel and BPU Staff no later than March 1, 2009. NJNG agrees that its proposal for the implementation of the Winter Incentive Program is withdrawn from this case for possible consideration in the above-mentioned gas procurement review and proposal.

The Company shall make a filing with respect to the continuation of current BGSS Incentives and the proposal of any new incentives no later than June 1, 2011

J. Performance Measures. As part of the resolution of this case, NJNG agrees to submit to Rate Counsel and BPU Staff a quarterly report providing results of the Company’s performance related to certain service measures. Specifically, information will be provided in the following areas:

Call Center: Percentage of calls answered within 30 seconds; abandoned call rate; percentage of calls blocked.

Meter Reading and Billing: Percentage of meters read each cycle; number of re-bills per 1,000 customers.

Field Operations: Percentage of leak or odor reports responded to within 60 minutes, including the development of Exception Reporting for those instances in which a leak or odor call is not responded to within 60 minutes; percentage of service appointments met.

Overall Customer Service: Escalated complaints to the BPU per 1000 customers.

K. Effective Date. This Stipulation will become effective as of the date of a Final Board Order approving this Stipulation. The parties hope that the changes can become effective on or about October 1, 2008, coincident with rate changes proposed in NJNG's 2008 BGSS proceeding in Docket No. GR08050369.

L. Rate Design and Tariff Issues. The Parties agree that the revenue requirement set forth in Paragraph A above will be reflected in base rates no later than October 1, 2008, or as of the date of the Board Order approving this Stipulation. Furthermore, the Parties will endeavor to resolve all remaining rate design and tariff issues. In the event a mutually acceptable resolution of such issues is not reached, the Parties will: 1) propose an expedited briefing schedule for all remaining rate design and tariff issues, subject to the approval of Judge Jones, and 2) agree to make good faith efforts to implement an interim rate design that reflects the revenue requirement set forth in Paragraph A, to be effective as of the date of the Board Order approving this Stipulation, but hopefully on or around October 1, 2008.

M. Entirety Of Stipulation. This Stipulation contains mutual balancing and inter-dependent adjustments, and is intended to be accepted and approved in its entirety and to resolve all issues discussed above. In the event that this Stipulation is not accepted and approved in its entirety by the Board, then any party aggrieved thereby shall not be bound by this Stipulation and shall have the right to litigate all issues addressed herein to a conclusion.

More particularly, in the event this Stipulation is not adopted in its entirety by the Administrative Law Judge or the Board in its Order in this matter, then any party hereto is free to pursue all available legal remedies with respect to all issues addressed in this Stipulation, as though this Stipulation had not been signed.

N. **General Reservation.** It is specifically understood and agreed that this Stipulation represents a negotiated agreement, and except as otherwise expressly provided for herein, is intended to be binding as to all matters specifically addressed herein. Except as specifically set forth herein, no party shall be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein. The Parties agree that the resolution of the issues covered in this Stipulation on Revenue Requirements, Policy Issues, and Depreciation Rates does not constitute approval of the cost allocation methodologies and formulas currently being reviewed in the pending Service Agreement proceeding in *In the Matter of the Petition of New Jersey Natural Gas Company for Approval of Service Agreements between NJNG and Affiliated Companies*, BPU Docket No. GO08030145. The Parties reserve all rights as to positions taken or to be taken in that case.

WHEREFORE, the parties hereto do respectfully submit this Stipulation to the Honorable Irene Jones, presiding Administrative Law Judge for the issuance of an Initial Decision and to the Board of Public Utilities, requesting that the Board issue a Decision and Order approving this Stipulation in its entirety in accordance with the terms hereof.

**NEW JERSEY NATURAL GAS
PETITIONER**

**RONALD K. CHEN, PUBLIC
ADVOCATE
DEPARTMENT OF THE PUBLIC
ADVOCATE,
DIVISION OF RATE COUNSEL**

By: 
TRACEY THAYER, ESQ.

By: _____
**JUDITH B. APPEL, ESQ.
ASSISTANT DEPUTY PUBLIC
ADVOCATE**

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

By: _____
**ALEX MOREAU
JESSICA CAMPBELL
DEPUTY ATTORNEYS GENERAL**

Dated: July 30, 2008

WHEREFORE, the parties hereto do respectfully submit this Stipulation to the Honorable Irene Jones, presiding Administrative Law Judge for the issuance of an Initial Decision and to the Board of Public Utilities, requesting that the Board issue a Decision and Order approving this Stipulation in its entirety in accordance with the terms hereof.

NEW JERSEY NATURAL GAS
PETITIONER

RONALD K. CHEN, PUBLIC
ADVOCATE
DEPARTMENT OF THE PUBLIC
ADVOCATE,
DIVISION OF RATE COUNSEL

By: Tracey Thayer
TRACEY THAYER, ESQ.

By: Judith B. Appel
JUDITH B. APPEL, ESQ.
ASSISTANT DEPUTY PUBLIC
ADVOCATE

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

By: Alex Moreau
ALEX MOREAU
JESSICA CAMPBELL
DEPUTY ATTORNEYS GENERAL

Dated: July 30, 2008

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

IN THE MATTER OF THE PETITION OF)	
NEW JERSEY NATURAL GAS COMPANY)	BPU DOCKET NO. GR07110889
FOR APPROVAL OF AN INCREASE)	
IN ITS GAS RATES, DEPRECIATION)	OAL DOCKET NO. PUC 12545-07
RATES FOR GAS PROPERTY AND FOR		
CHANGES IN THE TARIFF FOR		
GAS SERVICE PURSUANT TO		
N.J.S.A. 48:2-18 AND 48:2-21)	

**STIPULATION OF SETTLEMENT ON RATE DESIGN AND TARIFF ISSUES (“Rate
Design Stipulation”)**

APPEARANCES:

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

Judith B. Appel, Esq., Henry M. Ogden, Esq., and Sarah H. Steindel, Esq., Assistant Deputy
Public Advocates, Department of the Public Advocate, Division of Rate Counsel (Ronald K.
Chen, Public Advocate, Stefanie A. Brand, Esq., Director)

Jessica L. Campbell and Alex Moreau, Deputy Attorneys General, for the Staff of the New
Jersey Board of Public Utilities (Anne Milgram, Attorney General of New Jersey)

**TO: THE HONORABLE IRENE JONES, ADMINISTRATIVE LAW JUDGE AND THE
NEW JERSEY BOARD OF PUBLIC UTILITIES**

On November 20, 2007, New Jersey Natural Gas Company (“NJNG” or the “Company”) filed a petition with the New Jersey Board of Public Utilities (the “Board” or “BPU”) seeking an increase in base tariff rates designed to produce approximately \$58.36 million of additional annual revenues, an increase of approximately 7.5 percent to the average residential heating

customer using 100 therms per month, as well as approval for revisions to its depreciation rates and changes in the tariff for gas services.

Public Service Electric & Gas Company ("PSE&G"), Hess Corporation ("Hess") and Intelligent Energy ("IE") each filed for intervention in this proceeding, which was granted by the Honorable Irene Jones, the presiding Administrative Law Judge for this case.

On July 30, 2008, representatives from NJNG and the Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel") executed a Stipulation on Revenue Requirements, Policy and Depreciation Rates ("Revenue Requirement Stipulation"). The terms and conditions of that Stipulation, including the Procedural History, will not be repeated but are incorporated herein by reference and shall be taken and considered as part of this Rate Design Stipulation as if fully set forth herein.

Representatives of the Company, BPU Staff, Rate Counsel and Hess (the "Parties" to this Rate Design Stipulation) have met to resolve the matters at issue in this proceeding.¹ Notice of these settlement meetings and discussions on rate design and tariff related issues was provided to all parties. As a result of these meetings, the Parties have reached this Rate Design Stipulation which resolves all rate design and tariff related issues in a manner that the Parties consider to be fair and reasonable.

I. Stipulation

Based upon, and subject to the terms and conditions set forth herein and incorporating the provisions of the Revenue Requirement Stipulation, the Parties stipulate and agree that the rate design and tariff issues will be resolved as follows:

¹ PSE&G and IE did not actively participate in the negotiations related to this settlement document but were advised of the meetings at which discussions occurred and were present at some.

A. Rate Design. The Parties agree that the Company will recover the \$32.50 million increase in revenue over starting revenues of \$201.1 million through the following modifications to base tariff rates and to charges applicable under existing gas tariffs:

- a. NJNG will apply a residential (“RS”) monthly customer charge of \$ 7.71 pre-tax (\$8.25 on an after-tax basis) and a per-therm base rate of \$0.2913 pre-tax.
- b. The \$32.50 million increase in revenue requirement represents a bill increase of approximately 3.6 percent to the average residential heating customer using 100 therms per month.
- c. The Company will combine all existing General Service-High Load Factor (“GS-HLF”), General Service-Low Load Factor (“GS-LLF”), Comprehensive Transportation and Balancing (“CTB”), Small Commercial Rebundled (“SCR”) and Commercial Air Conditioning (“CAC”) customers with annual loads less than 5,000 annual therms into a new General Service Small (“GSS”) Rate Schedule. The monthly customer charge for the GSS Rate Schedule shall be \$23.36 pre-tax and the per-therm base rate shall be \$0.2472 pre-tax. The rate for summer therms for the CAC class will be \$0.0563 pre-tax.
- d. NJNG will combine all existing GS-HLF, GS-LLF, CTB, SCR and CAC customers with annual loads of 5,000 annual therms or greater into a new General Service Large (“GSL”) Rate Schedule. The monthly customer charge for the GSL Rate Schedule shall be \$37.38 pre-tax and the per-therm base rate shall be \$0.1948 pre-tax. The monthly per-therm demand charge shall be \$1.4019 pre-tax and shall be applied to each GSL customer’s Highest Month Average Day (“HMAD”) as defined in the tariff. The rate for summer therms for the CAC class will be \$0.0563 pre-tax.

- e. The Company will apply a firm transportation (“FT”) monthly customer charge of \$46.73 pre-tax and per-therm base rate of \$0.1028 pre-tax for all high-load factor therms and \$0.1325 pre-tax for all low-load factor therms. The Company will continue to charge the existing FT monthly demand charge of \$1.2776 pre-tax applied to each FT customer’s Maximum Daily Quantity (“MDQ”) as defined in the tariff.
- f. NJNG will apply a monthly distributed generation commercial (“DGC”) customer charge of \$37.38 pre-tax and a per-therm base rate of \$0.0883 pre-tax for winter therms and \$0.0577 pre-tax for summer usage. The monthly per-therm demand charge shall be \$0.56 pre-tax and shall be applied to each DGC customer’s Peak Billing Quantity (“PBQ”) as defined in the tariff.
- g. The proposed tariff sheets in compliance with the terms of this Rate Design Stipulation will be provided within ten days of the date of this Stipulation.

B. Conservation Incentive Program Benchmark The Parties agree that as of the effective date of the rates approved in the Final Board Order in this case, the baseline usage per customer and margin factors will reflect the levels of monthly usage per customer used to derive the new base rates, as set forth in Rider I of the Proposed Gas Tariff attached to this Rate Design Stipulation as Exhibit A

C. Reconnection Charges. In resolution of this case, NJNG agrees that the reconnection charge originally proposed at \$90, as specified in Sections 6.9, 6.16 and 9.6 of the Company’s Tariff, shall be modified to be \$45. The new charges reflecting this agreement are shown on the attached Terms and Conditions Gas Tariff pages.

D. Interruptible Margin Sharing After the Close of Test Period. The Company agrees that it will continue to credit delivery margins for existing Interruptible Services (“IS”)

customers to the Basic Gas Supply Service ("BGSS"). The Company will retain delivery margins associated with GSL or FT customers who switch to IS service after the end of the test year in this case. For customers who switch from IS services to GSL or FT after the end of the test year in this case, the Company will credit the delivery margins to the BGSS. For new customers who commence IS service on or after the end of the test year or for additional investment necessary to serve existing IS customers after the end of the test year, the annual amount retained by the Company shall be equal to twenty percent of the cost of the new facilities required to serve all such customers, less any direct customer contribution toward those costs, and will be used to cover the costs associated with these new customers. The amount retained shall be reset to zero at the conclusion of any future base rate case.

E. Balancing Charges The Parties agree that the Company will continue to apply balancing charges only to Rate Schedules RS, GSL, GSS and Economic Development ("ED") ("Balancing Rate Classes"), as stated in the NJNG Gas Tariff for those rate classes.

The Company will recalculate the balancing charge to include the underlying costs from the Company's June 1, 2008 BGSS filing. The balancing charge will be adjusted in the Company's annual BGSS filing to reflect updated pipeline demand charges, credit adjustments and the percentage of peak day volume related to balancing associated with the pipeline demand portion of the balancing charge. The percentage of the peak day volume related to the storage carrying costs shall not be updated. The firm volumes from which the pipeline demand portion of the balancing charge is determined will also be updated from information in the Company's annual BGSS filing in order to calculate an annual balancing rate. The Company's recalculation will be subject to review as part of the annual BGSS proceedings. In this base rate case, the Company recalculated the storage carrying cost component of its balancing charge by using the Company's

authorized rate of return, including income taxes, of 11.44 percent on a portion of its twelve month average storage inventory balance (Texas Eastern storages and Liquefied Natural Gas). The \$4.846 million related to storage carrying costs included in the balancing charge calculation shall remain fixed, as will the per therm rate of \$.0043 pre-tax, the portion of the balancing charge that is related to the storage carrying costs, until new Board approved rates become effective in the Company's next base rate case. The Company will continue to credit all balancing revenues from transportation customers in the Balancing Rate Classes to its BGSS. For Sales customers in the Balancing Rate Classes, the balancing charge is included as a component of the delivery charge and deducted from the BGSS charge in order to provide a BGSS "Price-to-Compare."

In the event a generic proceeding is initiated by the Board regarding the applicability of future balancing charges to FT and IS service, the Company is willing to participate actively in such a proceeding and consider alternative approaches, based on the information it has available.

F. Penalty Provisions. The penalty applicable to third party suppliers for 1) minimum daily volume delivery shortfalls for RS, GSS, and GSL classes, 2) delivery shortfalls during an operational flow orders ("OFO") for the FT class and 3) gas used by IS customers in excess of the quantity delivered during a daily balancing period or any gas used by IS customers during an interruption called by NJNG shall be ten times the highest price of daily ranges for delivery in Texas Eastern Zone M-3 as stated in *Gas Daily*.

NJNG is also willing to participate actively in any generic proceeding initiated by the Board regarding the penalty amount to be charged third party suppliers for gas delivery shortfalls.

G. Other Tariff Issues. The Company has revised the Terms and Conditions portion of the proposed Gas Tariff in light of discussions with the parties. These revisions and modifications

are reflected in the revised Terms and Conditions attached to this document in Exhibit B.

H. Cost of Service Study In addition to filing and supporting a Company Allocated Cost of Service Study ("COSS") in its next base rate case petition, the Company also agrees to provide COSSs using a peak and average methodology as prescribed in the Staff discovery request S-NJNG-RD-45 in this proceeding, attached hereto as Exhibit C. Associated workpapers will be provided for all methodologies. The Company and any signatory to this agreement will have the right to file and support any COSS method it considers appropriate. Each party reserves its right to request that adjustments be made to the Cost of Service Studies submitted in that proceeding.

I. Effective Date. This Rate Design Stipulation will become effective as of the date of a Final Board Order approving this Rate Design Stipulation. The parties hope that the changes can become effective on or about October 1, 2008, coincident with rate changes proposed in NJNG's 2008 BGSS proceeding in Docket No. GR08050369.

J. Entirety Of Stipulation. This Rate Design Stipulation contains mutual balancing and inter-dependent adjustments, and is intended to be accepted and approved in its entirety and to resolve all issues discussed above. In the event that this Rate Design Stipulation is not accepted and approved in its entirety by the Board, then any party aggrieved thereby shall not be bound by this Rate Design Stipulation and shall have the right to litigate all issues addressed herein to a conclusion.

More particularly, in the event this Rate Design Stipulation is not adopted in its entirety by the Administrative Law Judge or the Board in its Order in this matter, then any party hereto is free to pursue all available legal remedies with respect to all issues addressed in this Rate Design Stipulation, as though this Rate Design Stipulation had not been signed.

K. **General Reservation.** It is specifically understood and agreed that this Rate Design Stipulation represents a negotiated agreement and, except as otherwise expressly provided for, is intended to be binding as to all matters specifically addressed herein. Except as specifically set forth herein, no party 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 Rate Design Stipulation to the Honorable Irene Jones, presiding Administrative Law Judge for the issuance of an Initial Decision and to the Board of Public Utilities, requesting that the Board issue a Decision and Order approving this Rate Design Stipulation in its entirety in accordance with the terms hereof.

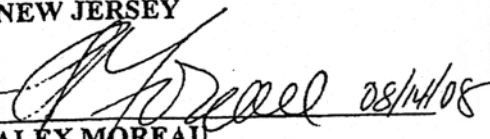
NEW JERSEY NATURAL GAS
PETITIONER

RONALD K. CHEN, PUBLIC
ADVOCATE
DEPARTMENT OF THE PUBLIC
ADVOCATE,
DIVISION OF RATE COUNSEL

By: 
TRACEY THAYER, ESQ.

By: _____
JUDITH APPEL, ESQ.
ASSISTANT DEPUTY PUBLIC
ADVOCATE

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

By:  08/14/08
ALEX MOREAU
JESSICA L. CAMPBELL
DEPUTY ATTORNEYS GENERAL

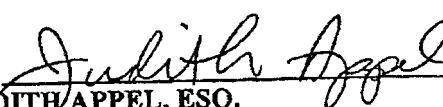
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ANNE MILGRAM, ATTORNEY GENERAL
OF NEW JERSEY

By: _____
ALEX MOREAU
JESSICA L. CAMPBELL
DEPUTY ATTORNEYS GENERAL

Dated:

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

1. 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.

Date of Issue:

Issued by: Mark R. Spurduto, Vice President
Wall, NJ 07719

Effective for service rendered on
and after

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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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>	Group I: RS <u>Non-Heating</u>	Group II: RS <u>Heating</u>	Group III: GSS, ED using less than 5,000 therms <u>annually</u>	Group IV: GSL, ED using 5,000 therms or <u>greater annually</u>
Oct.	19.6	51.0	79.6	1,059.1
Nov.	24.4	97.4	99.9	2,026.2
	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
	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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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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RIDER "I"CONSERVATION INCENTIVE PROGRAM – CIP (Continued)

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

Group I (RS non-heating):	\$0.0126
Group II (RS heating):	\$0.0261
Group III (GSS, ED using less than 5,000 therms annually):	\$0.0248
Group IV (GSL, ED using 5,000 therms or greater annually):	\$0.0248

For the recovery of the October 2006 through September 2007 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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STANDARD TERMS AND CONDITIONS**DEFINITIONS**

- A. "Board" means the Board of Public Utilities of the state of New Jersey. Customers can contact the Board Division of Customer Assistance by calling 1-973-648-2350 or 1-800-624-0241 and at their Web site, www.nj.gov/bpu/.
- B. "Company" means New Jersey Natural Gas Company, or any legal successor.
- C. "Customer" means a person that is an end user, a customer of record, or both, as these terms are defined in this section.
- D. "Customer of record" means the person that applies for utility service and is identified in the account records of a public utility as the person responsible for payment of the public utility bill. A customer may or may not be an end user, as defined herein.
- E. "End user" means a person who receives, uses, or consumes gas service. An end user may or may not be a customer of record, as defined in this section.
- F. "Month" is used for billing purposes to designate a period of 26 to 34 days.
- G. "Year" is used to designate a period of twelve consecutive "months".
- H. "MCF" is used to designate one thousand (1,000) cubic feet of gas.
- "BTU" (British Thermal Unit) is used to designate the amount of heat required to raise the temperature of one (1) pound of water @ 60°Fahrenheit, 1° Fahrenheit.
- J. "Therm" is used to designate a unit of heating value equivalent to 100,000 BTUs.
- K. "FERC" means the Federal Energy Regulatory Commission.
- L. "Tampering" means the unauthorized connecting, disconnecting, or causing to be connected or disconnected, or in any other manner interfering with the operation of the Company's meters, pipes, conduits, other equipment or attachments,; or as otherwise provided by this Tariff (see Sections 6.6, 6.13, and 6.15).
- M. "Point of Delivery" shall be that point where the Company delivers metered gas (outlet of Company gas meter) to the Customer's installation unless otherwise specified in the service agreement. The gas supplied by Company becomes the property of the Customer at the Point of Delivery.

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STANDARD TERMS & CONDITIONS

1. GENERAL

1.1 INTRODUCTION

These Standard Terms and Conditions, filed as part of the Tariff of New Jersey Natural Gas Company (referred to as "the Company" or "Company"), set forth the terms and conditions under which service is rendered and will be supplied. They govern all classes of service, to the extent applicable, and are made a part of all agreements for the supply of gas service, unless specifically modified by the terms of a particular service classification, or by special terms written in and made a part of a contract for service.

Failure by the Company to enforce any provisions, terms or conditions set forth in this Tariff shall not be deemed a waiver of such provisions, terms or conditions.

1.2 APPLICATION OF TARIFF

This Tariff applies to all persons, partnerships, corporations or others herein designated as Customers who are lawfully receiving gas service from the Company, under the prescribed service classification whether service is based upon contract, agreement, or accepted signed application. If any terms and conditions contained in this Tariff are in conflict with the New Jersey Administrative Code, the New Jersey Administrative Code shall prevail. The Tariff will not be construed to be in conflict with the New Jersey Administrative Code if the Tariff provides for a more liberal treatment of Customers than that provided for in the New Jersey Administrative Code.

1.3 FILING AND POSTING OF TARIFF

A copy of this Tariff is filed with the Board of Public Utilities (referred to as "the Board" or "Board"), of the state of New Jersey. Copies are posted and open for inspection at the offices of the Company and on the Company's Web site at www.njng.com/regulatory/tariff.asp.

1.4 REVISION OF TARIFF

This Tariff may be revised, amended, supplemented or otherwise changed from time to time in accordance with the rules of procedure determined by the Board.

Date of Issue:

Issued by: Mark R. Spurduto, Vice President
Wall, NJ 07719

*Effective for service rendered on
and after*

STANDARD TERMS & CONDITIONS

1. GENERAL (continued)

1.5 TARIFF CHARGE

Copies of the complete Tariff may be found at www.njng.com/regulatory/tariff.asp or it may be obtained at a cost of \$25 per copy (\$40 for overnight service). The Company will provide a Tariff update service for an additional \$50 per year. Customers may be provided copies of the Tariff sheets for the applicable service classifications free of charge. In addition, all of the Company's offices have a copy of the current Tariff which may be reviewed during business hours.

1.6 STATEMENTS BY AGENTS

No representative of the Company has authority to modify any provision contained in this Tariff or bind the Company by any promise or representation contrary thereto, and the Company shall not be bound thereby.

Date of Issue:

Issued by: Mark R. Sperduto, Vice President
Wall, NJ 07719

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STANDARD TERMS & CONDITIONS**2. OBTAINING SERVICE****2.1 APPLICATION FOR SERVICE**

Application for gas service may be made in person at any customer service office of the Company, by mail, by telephone, by facsimile transmission or electronic mail, where available. The applicant shall state, at the time of making application for service, the conditions under which service will be required, and may be required to sign an agreement covering special circumstances for the supply of gas service. The applicant also may be required to supply proof of identification, in accordance with N.J.A.C. 14:3-3.2(e) and (h), as may be amended or superseded.

2.2 ACCOUNT OPENING CHARGE

The applicant will be required to pay a \$15.00 account opening charge each time service is turned on at a new or existing location.

SERVICE INFORMATION FROM COMPANY

Upon receipt of application from the prospective Customer, the Company will advise the Customer of the type and character of gas service which will be furnished, the point at which service will be delivered and the location to be provided for the Company's metering and regulating equipment.

All customers shall be given a copy of the "Customer Bill of Rights" approved by the Board, effective at the time of service initiation. The copy shall be presented no later than at the time of the issuance of the customer's first bill or 30 days after the initiation of service, whichever is later.

FORM OF APPLICATION

Standard applications or agreements to supply gas service shall be in accordance with the particular service classification. The Company, in its sole discretion, reserves the right to require contributions toward the investment required for such service and to establish such minimum charges and facilities charges as may be appropriate.

Additionally, the Company may require a special service agreement and/or charge when: 1) large or special investment is necessary to supply service, 2) special facilities are required to serve a Customer, or 3) the hourly capacity of the Company's facilities, necessary to serve the Customer's demand, may be out of proportion with the monthly or annual use of gas service for occasional, intermittent, or low load factor purposes.

When a Customer signs a main and/or service extension agreement, and subsequently does not install any or all of the indicated equipment within a reasonable time, not to exceed six (6) months, or does not purchase the volumes of gas included in the service agreement, the Company reserves the right to charge the Customer for the full cost of providing the main and/or service.

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STANDARD TERMS & CONDITIONS**2. OBTAINING SERVICE (continued)****SELECTION OF RATE SCHEDULE**

Upon the request of a Customer, the Company will assist in the selection of the available rate most desirable to the Customer. Any advice given by the Company will be based on the Customer's oral or written statements as to the class of service desired and the manner in which it is intended to be used. However, by giving such advice, the Company assumes no responsibility related to the customer selection for class of service.

CHANGE OF RATE SCHEDULE

The Customer may, by writing to the Company within three months after service has begun, elect to change the service classification under which they are billed. However, no further change of rate schedule will be allowed during the next 12 months. Any change in schedule, if permitted, will be applicable to the next regular billing subsequent to such notification.

DEPOSIT AND GUARANTEE

Before the Company renders service, a deposit or other guarantee satisfactory to the Company may be required as security for the payment of future and final bills from any new or existing Customer who has not established credit with the Company. A deposit also may be required from a Customer whose credit has become impaired. A new Customer, who provides the Company with a letter of reference from another utility or source acceptable to the Company, may have the deposit waived. The deposit shall be in accordance with the provisions set forth in N.J.A.C. 14:3-3.4, as may be amended or superseded.

If a Customer's service has been terminated for non-payment of bills, the Company may not condition restoration of service on payment of the deposit, unless the deposit has been included on prior bills, or notice has been provided to the Customer.

2.8 AMOUNT OF GUARANTEE DEPOSIT

The Company may require a deposit to guarantee payments of bills equivalent to the estimated gross bill for any single billing period plus an additional billing period.

2.9 INTEREST ON GUARANTEE DEPOSIT

The Company will credit simple interest at the applicable interest rate established annually by the Board on customer deposits provided such amount remains on deposit for not less than three (3) consecutive months.

Interest shall be payable annually and/or when the deposit is refunded or applied in accordance with N.J.A.C. 14:3-3.5, as may be amended or superseded.

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NEW JERSEY NATURAL GAS COMPANY

Original Sheet No. 14

BPU No. 8 - Gas

STANDARD TERMS & CONDITIONS

2. OBTAINING SERVICE (continued)

2.10 RETURN OF GUARANTEE DEPOSIT

The Company shall review residential Customer accounts at least once every year and non-residential Customer accounts at least once every two years. If the review indicates that a Customer has established good credit, the Company will apply the deposit, plus any interest, to the outstanding balance on the Customer's account and will send a refund check to the Customer for any amount over and above the outstanding balance. Upon termination of service, the Customer will receive the balance of the deposit, plus interest, less any unpaid charges in accordance with N.J.A.C. 14:3-3.5, as may be amended or superseded.

2.11 PERMITS

The Customer shall obtain or cause to be obtained all legally-required permits and certificates necessary to give the Company or its representatives access to the Customer's equipment and to enable its mains to be connected with the Customer's equipment. If the Company makes application for any permits, the Customer will be required to pay the charge, if any. The Company shall not be obliged to furnish service unless and until such permits and certificates have been delivered to the Company.

When the Customer is not the owner of the premises or the owner of the property lying between the premises and the Company's mains, the Customer may be required to obtain from the proper owner(s) the necessary consent to install and maintain all necessary equipment to supply gas at the Customer's premises.

2.12 TEMPORARY SERVICE

Temporary service is available, for a limited period, to any Customer who can be served from the Company's existing lines or facilities, when and where the Company is permitted to provide such service. The Customer shall pay the total cost of connecting and disconnecting the gas service, including any piping, metering equipment, or other facilities that may be necessary. The Company may require an advance payment covering the estimated cost of construction or gas supplied, or both.

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STANDARD TERMS & CONDITIONS**2. OBTAINING SERVICE (continued)****2.13 SERVICE TO FORMER CUSTOMERS**

Service will not be supplied by the Company to former Customers until such time as any and all amounts or outstanding balances owed to the Company for previous service have been paid or otherwise discharged in accordance with N.J.A.C. 14:3-3A.5, as may be amended or superseded. Customers qualifying for Winter Termination Protection who have a prior outstanding balance due from their existing service location may have service restored upon the establishment of satisfactory payment arrangements. The Company may refuse to initiate service, or may discontinue service after proper notice and in accordance with N.J.A.C. 14:3-3A.2, as may be amended or superseded, to a residential applicant, or a member of the household then indebted to the Company for services provided by the Company at any location, if the Company reasonably determines that substantially the same household occupies the premises to be or being served. The Company may refuse to initiate service or may discontinue service after proper notice and in accordance with N.J.A.C. 14:3-3A.2, as may be amended or superseded, to a commercial applicant, or an officer, director, general or limited partner, business associate, or other agent, of an entity then indebted to the Company for services provided by the Company at any location, if the Company has reason to believe that substantially the same entity occupies the premises to be or being served.

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STANDARD TERMS & CONDITIONS**3. CHARACTERISTICS OF SERVICE****3.1 GENERAL**

Gas service supplied by the Company in the entire territory served shall be straight natural gas, or any mixture of straight natural gas and substitute gas. The volume of gas to be delivered shall be measured in accordance with the published recommendation of the American Gas Association, as amended or superseded from time to time.

The basic unit of volume or one standard cubic foot shall be one cubic foot of gas at a temperature of 60° Fahrenheit (F) and an absolute pressure of 14.73 pounds per square inch. The average atmospheric pressure shall be assumed to be 14.73 pounds per square inch irrespective of variations in atmospheric pressure from time to time. The volume of gas measured, other than at the standard temperature and/or pressure shall be adjusted in accordance with Boyle's Law for measuring gas at varying pressures and the Charles Law for measuring gas at varying temperatures.

SINGLE POINT OF DELIVERY

The Company will furnish, install and maintain a single meter for each service classification under which a Customer receives service unless, in the sole and final judgment of the Company, the volume of the Customer's requirements, economic considerations, conditions on its distribution system, or other reasons make it desirable to install additional meters.

CONTINUITY OF SERVICE

The Company will use reasonable diligence to provide a regular and uninterrupted supply of service, but should the supply be suspended, curtailed or discontinued by the Company for any of the reasons set forth in Section 9 of these Standard Terms and Conditions, or should the supply of service be interrupted, curtailed, deficient, defective or fail by reason of any Act of God, accident, strike, legal process, governmental interference, or other cause whatsoever beyond its control, the Company shall not be liable for any loss or damage, direct or consequential, resulting from any such suspension, discontinuance, defect, interruption, curtailment, deficiency or failure.

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STANDARD TERMS & CONDITIONS

3. CHARACTERISTICS OF SERVICE (continued)

3.4 UNUSUAL CONDITIONS

The Company reserves the right to place limitations on the amount and character of gas service it will supply; to refuse service to new Customers or existing Customers for additional load if unable to obtain sufficient supply for such service; to reject applications for service or additional service where such service is not available, or where such service might affect the supply of gas to other Customers; or for other good and sufficient reasons subject to the orders or rules of the Board.

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STANDARD TERMS & CONDITIONS**4. GAS DISTRIBUTION MAIN AND SERVICE EXTENSIONS****4.1 GENERAL PROVISIONS**

The Company will construct, own, and maintain gas mains located on streets and highways and on rights-of-way acquired by the Company. The formulae for the extension of utility service set forth below shall not serve to prevent the parties hereto from exercising their rights under the N.J.S.A. 48:2-27 and the applicable New Jersey Administrative Code provisions.

Where it is necessary to provide additional facilities to serve the requirements of either existing customers or new applicants, the Company may require a deposit or a contribution in aid of construction according to the conditions specified below. The Company, in its sole discretion, will determine the appropriate amount of such deposit or contribution in aid of construction. The Extension cost for which the Company receives a deposit or a non-refundable contribution shall include the tax consequences incurred by the Company. Where an extension provides service to both a Designated Growth Area and an Area Not Designated for Growth, the cost of the Extension shall be apportioned between the Areas based on the projected loads to be served in each Area, as determined by the Company.

4.2 RESIDENTIAL AND FIRM COMMERCIAL CUSTOMER - MAIN EXTENSION AND SERVICE LINE CONNECTION**Formula Within Designated Growth Areas**

The Company will install facilities and make gas main extensions and service line connections to serve individual permanent residential customers and firm commercial customers without alternate fuel capacity free of charge where the Extension Cost does not exceed ten (10) times the annual distribution revenue at the baseline usage per customer volume for the Customer's respective Conservation Incentive Program (CIP) group. For residential customers, the Extension Cost shall not include the cost of the meter. For any applicant's project that is located within a municipality that is within Planning Area 1 and for which the municipality has received appropriate formal endorsement from the State Planning Commission, the formula for the review of the Extension Cost shall be based upon 20 times annual distribution revenue at the baseline usage per customer volume for the Customer's respective CIP group as a Smart Growth Infrastructure Investment Program participant.

An applicant shall be required to provide an Extension Cost Deposit for the value of any Extension Cost that is greater than ten (10) times the annual distribution revenue at the baseline usage per customer volume for the Customer's respective CIP group or twenty (20) times the annual distribution revenue at the baseline usage per customer volume for the Customer's respective CIP group for Smart Growth Infrastructure Investment Program participants; however, the Company shall waive a required deposit of less than \$500.

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STANDARD TERMS & CONDITIONS**4. GAS DISTRIBUTION MAIN AND SERVICE EXTENSIONS (continued)**

The Extension Cost Deposit, as defined above, shall remain, without interest, in the possession of the Company unless additional customers connect to the particular extension. At such time there will be refunded to the depositor, the annual baseline distribution revenue value for the additional connecting Customer's respective CIP group based upon the ratio in effect when the deposit was made. Once a portion of the deposit has been refunded to the applicant, the calculation shall only be reviewed for subsequent additional customers connecting to the particular extension. No further calculation shall be performed when accumulated refunds are equal to the sum deposited and in no event shall refunds exceed the initial deposit.

All deposits not returned to the applicant within a period of ten (10) years after the Company first makes gas service available shall remain the property of the Company with no further obligation of refund. Within Designated Growth Areas, the Company and applicant may agree upon a satisfactory revenue guarantee in lieu of a deposit or contribution.

Formula Outside of Designated Growth Areas

The Company shall not be permitted to contribute to any extension outside designated growth areas.

An applicant shall be required to provide a contribution, not subject to refund, for the value of any Extension Cost.

For the following exceptions, the terms applicable to the Designated Growth Area shall apply in determining the deposit and/or contribution in aid of construction and refunds:

- a) Where the new Gas Company facilities are installed solely to furnish service to an agricultural building or structure whose sole use is the production, storage, packing or processing of agricultural or horticultural products, provided that a majority of these products were produced on a New Jersey commercial farm, as defined in N.J.S.A. 4:1C-3, or
- b) A premise where a written commitment and statement of charges for such service has been provided by the Company prior to March 20, 2005.
- c) Other premises as authorized by the New Jersey Board of Public Utilities in accordance with the provisions of N.J.A.C. 14:3-8.8 where it would provide a significant public good or where compliance would cause an extraordinary hardship.
- d) Existing and occupied structures as of March 20, 2005 that seek to convert to natural gas.

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STANDARD TERMS & CONDITIONS**4. GAS DISTRIBUTION MAIN AND SERVICE EXTENSIONS (continued)****Regardless of Area**

Where it is necessary to provide additional facilities to serve increased requirements of an existing Customer, the Company reserves the right to require the Customer to contribute or deposit an amount equal to the cost of such additional facilities. This amount shall be subject to refund as outlined earlier in this section except that refunds shall be a function of the incremental distribution revenue generated by the increased requirements over a predetermined base.

Additionally, any existing Customer within a non-Designated Growth area that requires an upgrade for an existing location may be considered for treatment in accordance with the Designated Growth Area formula, provided the expansion of service expands its use within its same type of business and/or if for a different type of business when such facilities are no more than three and half (3.5) times the existing facilities' square footage.

4.3 LAND DEVELOPMENT - MAIN EXTENSION AND SERVICE LINE CONNECTIONS

Where applications for extensions into newly developed tracts of land in Designated Growth Areas are made by individuals, partnerships, or corporations interested in the development and sale of land but not as ultimate residents, the Company may require a deposit from the applicant covering the entire cost of installing the necessary mains, services and common distribution facilities to serve the tracts.

Such deposits are to be returned to the depositor, without interest, if during a ten-year period from the date of the original deposit, when and as new services abutting on such mains are completed, the prospective Customer's gas equipment is installed, and the dwellings are occupied by bona-fide owners or responsible tenants who have entered into an agreement for use of gas service. Upon such completion and occupation, there shall be returned to the depositor an amount equal to the product of residential customer ratio in effect in paragraph 4.2 when the deposit was made and the annual baseline distribution revenue for each of the dwellings as described above but not in excess of the amount deposited. In no event shall more than the original deposit be returned to the depositor. All deposits not returned to the applicant within a period of ten (10) years for Designated Growth Areas after the Company first made gas service available to the tract of land shall remain the property of the Company with no further obligation of refund. Within Designated Growth Areas, the Company may agree upon a satisfactory revenue guarantee in lieu of a deposit or contribution.

All Extension Costs for applications within Areas not Designated for Growth must be paid in advance and shall not be subject to refund.

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STANDARD TERMS & CONDITIONS

4. GAS DISTRIBUTION MAIN EXTENSIONS AND SERVICE EXTENSIONS (continued)

4.4 ALTERNATE FUEL CUSTOMER - MAIN EXTENSION

The Company reserves the right to require any alternate fuel customer to make a contribution in aid of construction of an amount equal to the entire cost of the new facilities required to provide service. Where it is necessary to provide additional facilities to serve the increased requirements of any existing Customer, the Company reserves the right to require the Customer to contribute an amount equal to the cost of such additional facilities and shall include the tax consequences incurred by the Company.

The Company is under no obligation to refund any of the contribution but, for Designated Growth Areas, the Company reserves the right in its sole judgment to do so where economics and revenue conditions warrant said action. In lieu of a contribution, the Company may agree upon a satisfactory revenue guarantee.

For non-Designated Growth Areas, no such consideration can be granted.

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STANDARD TERMS & CONDITIONS

5. SERVICE LINE CONNECTIONS

5.1 GENERAL PROVISIONS

Gas service will normally be supplied to each premise through a single service line, except where, in the judgment of the Company, it is deemed desirable to install more than one service line. The Company may also choose to install multiple meters on one service line providing service to several premises. If more than one service line is installed for the convenience of the Customer, each location will be considered as a separate Customer.

5.2 FIRM CUSTOMERS

The Company shall furnish and place, a service line in accordance with the terms described in paragraphs 4.2 (a) above, measured at right angles from the nearest curb line to Customer's building, at the point of service entrance designated by the Company. Should the Customer request a service entrance at a location other than that designated by the Company, the Customer shall pay the additional cost associated with said change in point of service entrance and shall include the tax consequences incurred by the Company.

5.3 ALTERNATE FUEL CUSTOMERS

The Company shall provide a service line connection at the Customer's expense.

5.4 CHANGE IN EXISTING INSTALLATIONS

Any change in the location of the existing service line requested by the Customer and approved by the Company shall be made at the Customer's expense and shall include the tax consequences incurred by the Company.

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STANDARD TERMS AND CONDITIONS**6. METERING AND MEASURING EQUIPMENT****6.1 GENERAL**

A suitable meter or meters will be installed, owned and maintained by the Company for the purpose of measuring the quantity of gas service delivered to the Customer. The type and make of metering equipment will be in accordance with the Company's specification which, from time to time, may be changed or altered. It is the sole obligation of the Company to furnish meters that provide adequate and accurate records for billing purposes in accordance with N.J.A.C. 14:3-4.1, as may be amended or superseded.

METER LOCATION

The Customer shall provide on the premises, at a location satisfactory to the Company, proper space for metering and associated equipment. The meter location shall be kept free and clear of obstructions so that properly authorized representatives of the Company may gain easy access to the meter location for the purpose of operating valves, reading meters, or emergencies in accordance with N.J.A.C. 14:3-4.2, as may be amended or superseded.

6.3 CHANGE OF METER LOCATION

Any change requested by the Customer in the point of location of the meter or service facilities, if approved by the Company, shall be made at the expense of the Customer and shall include the tax consequences incurred by the Company.

CUSTOMER'S RESPONSIBILITY

The Customer shall be responsible for the protection and safekeeping of the equipment and facilities of the Company while it is on the Customer's premises. The Customer shall permit access to the Company's equipment to duly authorized representatives of the Company or duly authorized governmental officials.

ACCESS TO CUSTOMER'S PREMISES

Properly identified and authorized representatives of the Company shall have free access to the Customer's premises at all reasonable times for the purpose of reading meters, for inspection and repairs, for investigation of emergencies or hazardous conditions, for removal of the Company's property or for any other purposes incident to the supply of gas service, in accordance with N.J.A.C. 14:3-3.6, as may be amended or superseded. The Customer is requested to contact the Company immediately if a question arises regarding the authority or credentials of any person claiming to represent the Company.

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STANDARD TERMS AND CONDITIONS**6. METERING AND MEASURING EQUIPMENT (continued)****6.6 AUTHORIZATION TO TURN ON GAS**

No person other than a duly authorized employee or representative of the Company shall turn gas service on or into any new system of piping or into any old system of piping from which the use of gas has been discontinued. Disconnections, reconnections, or meter removals performed by persons other than authorized Company personnel are prohibited and shall constitute Tampering.

6.7 UNAUTHORIZED USE

The use of service in excess of 30 days without the Company's express authorization may be terminated by the Company without notice. The use of natural gas service, without notice to the Company, shall render the user liable for any amount reasonably determined by the Company to be due for gas service supplied to the premises since the last meter reading recorded and billed by the Company.

6.8 OWNERSHIP AND REMOVAL

All equipment supplied by the Company shall remain its exclusive property and the Company shall have the right to remove its equipment from the premises of the Customer at any time after termination of service.

6.9 PAYMENT FOR REPAIRS OR LOSS

The Customer shall pay the Company for any necessary repairs for damage to or any loss of the Company's property located on the Customer's premises, and for the reconnection of service interrupted by such damage or loss, when the damage or loss is caused by negligence or willful misconduct on the part of Customer, or the Customer's family members, employees or agents, or by the failure of the Customer or foregoing persons to comply with the Standard Terms and Conditions and applicable service classifications under which service is furnished. The reconnection charge shall be \$45.00 per Customer interruption. This charge will be waived when the appropriate Company personnel are on site at the time of the repair and able to reconnect the Customer safely.

6.10 REMOTE METER READING EQUIPMENT

The Company, in its sole discretion and as a condition of service, may install at the Company's expense a remote meter reading device to monitor a Customer's gas consumption. When such device requires attachment to telephone and/or electric utilities, the Customer shall provide suitable connections.

When a remote meter reading device is requested by the Customer, it shall be installed at the Customer's expense if the installation is deemed feasible by the Company. All equipment remains the sole property of the Company.

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STANDARD TERMS AND CONDITIONS**6. METERING AND MEASURING EQUIPMENT (continued)****6.11 SUB-METERING**

Sub-metering, the practice in which the customer of record buys gas from the company and resells it through some metering device to tenants at a profit, is not permitted in any form. Gas service supplied by the Company shall not be resold by the Customer to others except where the Customer is another publicly regulated gas utility company, or when check-metering as defined below is being used by the Customer.

6.12 CHECK-METERING

Check-metering is defined as the practice in which a Customer, through the use of a gas check meter, monitors or evaluates his own consumption or the consumption of a tenant for accountability or conservation purposes.

Gas check meters are devices that measure the volume of gas being delivered to particular locations in a system after measurement by a utility-owned meter. Gas check meters provide the Customer the means to apportion among the end users the cost of gas service being supplied through the Company meter.

Check-metering is permitted in new or existing buildings or premises where the basic characteristic of use is industrial or commercial. Check metering is not permitted in new or existing buildings or premises where the basic characteristic of use is residential, except for condominiums or cooperative housing, or where such buildings or premises are publicly financed or government owned or are charitable in nature.

If the Customer charges the tenant for usage incurred by the tenant, reasonable administrative expenses may be included, but such charges shall not exceed the amount the Company would charge if the tenant was served and billed directly by the Company.

Prior to the installation of any gas check metering devices, the Customer is required to contact the Company in order to ascertain whether the affected premises are located within a utilization pressure area of the Company's distribution system and whether or not the installation of a check metering device will cause any significant pressure drop within the affected premises.

All gas-consuming devices in any tenant unit must be metered through a single gas check-meter.

The ownership of all check-metering devices is that of the Customer, along with all incidents in connection with said ownership, including accuracy of the meter reading and billing, liability arising from the presence of the equipment and the maintenance and repair of the equipment. Any additional costs which may result from and are attributable to the installation of check-metering devices shall be borne by the Customer.

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STANDARD TERMS AND CONDITIONS**6. METERING AND MEASURING EQUIPMENT (continued)****6.13 TAMPERING & OTHER DECEPTIVE PRACTICES**

When it is established that Tampering has occurred and the Customer has caused or knowingly benefited from such Tampering, the Customer shall be required to bear all of the costs incurred by the company including, but not limited to, the following: (a) investigations, (b) inspections, (c) costs related to administrative, civil or criminal proceedings, (d) attorneys' fees, (e) installation of any protective equipment deemed necessary by the Company, and (f) actual costs of damage to equipment.

Furthermore, when Tampering with Company facilities results in incorrect measurement, correctly measured service used without Company authorization or the omission of measurement of the service supplied, and the Customer has benefited from such Tampering, the Customer shall pay for such service as the Company may estimate from available information, to have been used on the premises.

If persons other than the Customer are identified as beneficiaries of service obtained at the Customer's premises by Tampering, or have created or contributed to the Tampering, the Company shall elect to hold such persons liable for all of the aforesaid costs incurred and the value of service (metered or unmetered) received. A "beneficiary" is any person who benefits from such Tampering.

The foregoing remedies against the Customer and other beneficiaries arising from Tampering shall also apply to gas service obtained by fraudulent means, imposture, theft of identity, impersonation, theft of service, theft by deception or other unlawful methods.

6.14 DIVERSION OF SERVICE

Diversion is an unauthorized connection to pipes by which the gas service registers on the Customer's meter, even if such service is being used by other than the Customer of record without his or her knowledge or cooperation. When a Customer alleges, or it is established, that service has been diverted outside of the Customer's premises, the Customer shall not be required to pay for such service without his or her consent. The definitions, procedures, investigations and determination of N.J.A.C. 14:3-7.8, as may be amended or superseded, shall apply.

6.15 SEALING OF METERS AND LOCKING DEVICES

For safety purposes, it is the practice of the Company to seal meters and regulators, and to install locking devices when needed. Removal of seals or locking devices by persons other than authorized Company personnel is prohibited and shall constitute Tampering.

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STANDARD TERMS AND CONDITIONS

6. METERING AND MEASURING EQUIPMENT (continued)

6.16 INABILITY TO ACCESS CUSTOMER LOCATION

If a Customer has requested that the Company perform work related to the installation of a meter set on Customer property and the Company is unable to complete that work due to the Customer not being available at the scheduled time or the required work not being completed by the Customer and/or contractor, the Customer shall be charged \$45.00.

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NEW JERSEY NATURAL GAS COMPANY

Original Sheet No. 28

BPU No. 8 - Gas

STANDARD TERMS AND CONDITIONS

7. CUSTOMER'S INSTALLATION

7.1 INSTALLATION RULES

Customer's appliances, piping, and installation shall be made and maintained in accordance with the standards of the Fuel Gas Subcode of the Uniform Construction Code and such other regulations as may be determined from time to time by any governmental agency having jurisdiction over the Customer's installations.

7.2 ADEQUACY AND SAFETY OF INSTALLATION

The Company shall not be required to supply gas service until the Customer's installation has been approved by the authorities with jurisdiction. The Company also reserves the right to withhold its service, or to discontinue its service, whenever such installation or part thereof is deemed by the Company to be unsafe, inadequate, or unsuitable for receiving service, or interferes with or impairs the continuity or quality of service to the Customer or to others.

7.3 FINAL CONNECTION

In all cases, no final connection between the Company's equipment and the Customer's installation shall be made without final inspection from the Department of Community Affairs or its designee.

7.4 CHANGE IN CUSTOMER'S INSTALLATION

The Customer shall give immediate notice to the Company of any: 1) proposed additions in connected appliances or equipment, 2) change in demand or other conditions of use, or 3) change of purpose or location of the installation. Changes in service conditions shall not be made effective until the Customer notifies the Company and receives the Company's approval of same. Failure to give notice of additions or changes in load or location shall render Customer liable for any damages to the meters or other apparatus and equipment of the Company caused by the additional or changed installation.

7.5 COMPANY'S LIABILITY

The Company shall not be liable for any claim for damages resulting from the supply, use, care or handling of the gas or from the presence or operation of the Company's structures, equipment, pipes, or devices, except for general or direct damages that follow from the Company's negligence, recklessness, or willful misconduct. The Company shall not be liable for special or consequential damages.

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STANDARD TERMS AND CONDITIONS**7. CUSTOMER'S INSTALLATION (continued)**

All Customer Equipment shall be suitable for the use of natural gas and shall be installed, inspected, repaired and maintained solely by the Customer and solely at the Customer's expense in a manner approved by the public authorities having jurisdiction over the same, and in good and safe condition in accordance with all applicable codes. The Customer shall be solely responsible for the selection of the Customer Equipment and the Company shall have no duty or responsibility for the design, selection, installation, operation or repair of said Equipment. The Customer shall be responsible for the design of the venting and piping associated with the Customer Equipment downstream of the Point of Delivery. The Company does not, by inspection, non-rejection or any other way, give any warranty, express or implied, as to the adequacy, safety or other characteristics of the Customer Equipment. The Company shall not be liable for damages to the Customer Equipment or for injuries sustained by the Customer or others, due to the condition or character of the Customer Equipment. The Company shall not be responsible for the use, care or handling of the gas delivered to the Customer after it passes beyond the point at which the Company's service facilities connect to the Customer Equipment.

The Company may, but need not, conduct a limited inspection of the appliances, venting system and leak integrity of the Customer's piping and venting downstream of the Point of Delivery as a courtesy to the Customer at the time of the initiation of service or thereafter at the request of the Customer. In no event, however, shall the Company have any duty to inspect Customer Equipment or be responsible for any failure of the Customer Equipment or any harm arising from the operation of the Customer Equipment, even if, the Company undertakes, as a courtesy to the Customer, to conduct a limited inspection at the time of initiation of service or otherwise. The Customer shall, at all times, be solely responsible for the inspection, integrity and safety of all Customer Equipment.

7.6 BACK PRESSURE AND SUCTION

When the nature of the Customer's gas equipment is such that it may cause back pressure or suction in the piping system, meters, or other associated equipment of the Company, suitable protective devices subject to approval by the Company, shall be furnished, installed, and maintained by the Customer.

When the Customer uses an alternate fuel that is gas, a three-way valve (a check valve is not permissible) is required to be installed at the Customer's expense subject to the Company's approval.

7.7 LEAKAGE

The Customer shall give notice immediately of any escape of gas on or about premises to the Company.

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STANDARD TERMS & CONDITIONS**8. METER READING AND BILLING****8.1 EVIDENCE OF CONSUMPTION**

The quantities of service delivered to the Customer as recorded by the Company's meter or meters, subject to any necessary adjustments for pressure and temperature in accordance with Section 3.1 of this Tariff, shall be final and conclusive except when the metering equipment fails to register or is determined to be in error.

ESTIMATED USAGE

Where the Company is unable to read the meter, the Company may estimate the amount of gas supplied and submit an estimated bill. An adjustment of the Customer's estimated use to actual use will be made after an actual meter reading is obtained in accordance with N.J.A.C. 14:3-7.2(e), as may be amended or superseded.

8.3 ADJUSTMENT FOR INACCURATE METER RECORDING

When it is determined that the Company's meter is inaccurate or defective, the use of gas service shall be determined by a test of the meter, or by registration of the meter set in its place during the period next following, or after due consideration of previous or subsequent properly measured deliveries. Whenever a meter is found to be registering fast by 2% or more, an adjustment of charges shall be made. When a meter is found to be registering slow by more than 2% due to progressive inaccuracy, an adjustment of charges may be made except for residential accounts, where no adjustment shall be made. An adjustment may be made on any account with a meter that is determined by a Company test of the meter to be defective or non-registering. A defective or non-registering meter is any meter not properly functioning due to a physical inability to meet original manufacturing standards. Any adjustment to the Customer's account resulting from the terms in this section will be billed or applied to the account, as the case may be. If the adjustment results in a credit, such amount may be refunded upon request from the Customer in accordance with N.J.A.C. 14:3-4.6, as may be amended or superseded.

If a meter is found to be registering less than 100% of the service provided, the Company shall only adjust the charges retrospectively and/or require the Customer to repay the amount undercharged if: 1) the meter was tampered with; 2) the meter failed to register at all; or 3) the circumstances are such that the Customer should reasonably have known that the bill did not reflect the actual usage. In rebilling a Customer under this Section, the Company may perform a load analysis or degree day analysis.

BIMONTHLY METER READING

The Company may read meters on a bimonthly schedule and render an estimated bill for the billing period between meter readings. When the meter reading is obtained, the prior month's bill(s) shall be adjusted accordingly. The Company will use reasonable efforts to read the meters so that there will not be estimated bills for consecutive months. Nothing in this section shall be deemed to limit the applicability of Section 8.2 above.

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STANDARD TERMS & CONDITIONS**8. METER READING AND BILLING (continued)****THERM CONVERSION FACTOR**

For billing purposes, the reading of the Customer's meter in cubic feet first will be converted to standard cubic feet, then converted to therms by multiplying the use in cubic feet by the weighted average of the BTU content of all gas purchased from all pipeline suppliers for the second preceding calendar month and divided by 100,000. Such calculation shall be to the closest 1/100 of a therm.

BILLING PERIOD

When the billing interval is substantially greater or less than one month, bills will be computed by prorating charges provided under the applicable Service Classification on the basis of the relationship between the time covered by the billing period and a full month.

8.7 PAYMENT OF BILLS

Bills normally will be rendered monthly and may be paid at any business office of the Company during its regular office hours, at any of its collecting agencies during regular office hours of such agencies, on the Company's Web site at www.njliving.com, by phone {1-800-221-0051}, or by mail.

8.8 PAYMENT OBLIGATION

Unless otherwise specified all bills are net and payable within ten (10) days from the date the bill is sent. Failure to make payment may be deemed sufficient reason for the Company to consider the Customer's account delinquent. The Company may discontinue service for nonpayment of bills provided it gives the customer at least ten days written notice of its intention to discontinue. The notice of discontinuance shall not be served until the expiration of the said 10 day period. However, in cases of fraud, illegal use, or when it is clearly indicated that the customer is preparing to leave, immediate payment of account may be required.

The Company shall apply the regulations set forth in N.J.A.C. 14:3-3A.2, as may be amended or superseded, and shall discontinue service for nonpayment only if one or both of the following criteria are met: 1) the customer's arrearage is more than \$100.00; 2) the customer's account is more than three months in arrears.

LATE PAYMENT CHARGE

A late payment charge at the rate of 1.5% per monthly billing period shall be applied to all non-residential customers. The charge will be applied to all amounts previously billed including late payment charges and accounts payable that are not paid at the time the next monthly bill is prepared. Service to governmental entities will not be subject to a late payment charge. The amount of the late payment charge to be added to the unpaid balance shall be calculated by multiplying the unpaid balance by the late charge rate. When payment is received by the Company from a Customer who has an unpaid balance which includes charges for late payment, the Customer's payment shall be applied first to such late payment charges and then to the remainder of the unpaid balance.

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8. METER READING AND BILLING (continued)

8.10 FINAL BILL

A Customer intending to discontinue service must give the Company reasonable notice thereof. Within forty-eight (48) hours of said notice, the Company shall discontinue service or obtain a meter reading for the purpose of calculating a final bill, unless a holiday or weekend intervenes. Where such notice is not received by the utility, the customer shall be liable for service until the final reading of the meter is taken. Notice to discontinue service will not relieve a customer from any minimum or guaranteed payment under any contract or rate. The bill for service rendered up to the date of the final meter reading is due and payable within ten (10) days from the date of the bill.

8.11 RETURNED CHECK CHARGE

The Company will charge \$10.00 to process Customer checks that are uncollectible and returned by the Company's bank.

8.12 FIELD COLLECTION CHARGE

A charge of \$15.00 may be made when the Company makes a collection visit to the Customer or premises.

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9. DISCONTINUANCE OF SERVICE

9.1 COMPANY CAUSES

The Company shall, upon reasonable notice, when it reasonably can be given, have the right to suspend, curtail, or discontinue its service for any of the following reasons:

- a. For the purpose of making repairs, changes, replacements, or improvements in any part of its system.
- b. For compliance in good faith with any governmental order or directive, whether Federal, State, Municipal, or otherwise, even if such order or directive subsequently is held to be invalid.
- c. In the event of an emergency threatening the integrity of its system if, in the Company's sole judgment, such action will prevent or lessen the emergency condition.

9.2 CUSTOMER ACTS OR OMISSIONS

The Company also shall have the right to suspend, curtail or discontinue its service for any of the following act(s) or omission(s) on the Customer's part:

- a. Nonpayment of any bill due for service furnished at the present or any previous location, in accordance with N.J.A.C. 14:3-3A.1, as may be amended or superseded. However, nonpayment for business service shall not be a reason for discontinuance of residential service, except in cases of diversion of service pursuant to N.J.A.C. 14:3-7.8, as may be amended or superseded and service shall not be discontinued for nonpayment of appliance repair, installation charges, service contracts, and other services unrelated to gas service.
- b. Tampering with any facility of the Company.
- c. Fraudulent representation in relation to the use of gas service.
- d. Customer moving from the premises unless that Customer requests that service be continued.
- e. Delivering gas service to others without written approval of the Company except as permitted under 6.11 and 6.12 Sub-Metering and Check-Metering.

Failure to make or increase an advance payment or deposit when required by the Company.

- g. Refusal to contract for service where a contract is required.
- h. Connecting and operating equipment in such a manner as to produce disturbing effects on the service of the Company or other Customers.

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STANDARD TERMS & CONDITIONS**9. DISCONTINUANCE OF SERVICE (continued)**

- i. Where the conditions of the Customer's installation presents a hazard to life or property.
- j. Failure of the Customer to repair any faulty equipment or lines.
- k. Failure to comply with any of these Standard Terms and Conditions or with any of the terms of the service classification or contract under which gas service is furnished.

Failure to provide reasonable access to the premises, and to the Company's meter and other service facilities on the premises, for the purposes of meter installation, reading, testing, inspection, maintenance, removal, or replacement of meters or other service facilities.

Reasonable access means that premises shall not become obstructed or hazardous, and that the Customer shall not construct, pave over, or otherwise obstruct the Company's service line or other facilities. In the event reasonable access, as described here, is not complied with, the Company may, upon reasonable notice, discontinue service and remove its equipment from the Customer's premises.

Any costs of protecting or relocating such service line or facilities shall be borne by the Customer.

- m. In the event a writ of execution is issued against a Customer, or in case the premises to which service is supplied is levied upon, or in the case of assignment or act of bankruptcy on the part of the Customer.
- n. Service to a residential customer shall only be discontinued between the hours of 8:00 a.m. and 4:00 p.m. Monday through Thursday, unless there is a safety related emergency. There shall be no involuntary termination of service on Fridays, Saturdays, and Sundays or on the day before a holiday or on a holiday, absent such emergency.

9.3 CHARGES PAYABLE UPON TERMINATION

If gas service is terminated for any of the above reasons where the Customer is under written contract, the minimum charge for the unexpired portion of the term shall become due and payable immediately, provided, however, that if satisfactory arrangements are subsequently made by Customer for reconnection of the service, the immediate payment of the minimum charge for the unexpired portion of the contract term may be waived or modified as the circumstances indicate would be just and reasonable.

9.4 NON-WAIVER

Failure of the Company to exercise its rights to suspend, curtail or discontinue service, for any of the above reasons, shall not be deemed a waiver of the Company's rights.

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9. DISCONTINUANCE OF SERVICE (continued)

9.5 RESTORATION OF SERVICE

The Company shall not reconnect service to the Customer's premises, where service has been discontinued by reason of any act or default of the Customer, until such time as the Customer has rectified the condition or conditions causing discontinuance of service. Service shall not be reconnected until the Customer has met all financial requirements including satisfactory payment arrangements called for under these Standard Terms and Conditions and the applicable Service Classification, or if the Board so directs when a complaint involving such a matter is pending before the Board in accordance with N.J.A.C. 14:3-3A.9, as may be amended or superseded.

The Company shall treat the restoration of service and the turn-on of new accounts on a first come, first serve basis during periods outside of the winter moratorium. The Company shall give priority to the restoration of service during the winter moratorium.

9.6 RECONNECTION CHARGE

The Customer shall pay a reconnection charge of \$20.00 for the restoration of service when service has been suspended for any of the reasons cited in this Section 9 of these Standard Terms and Conditions. In the event more than two reconnection charges are applied to a Customer's account within a 12-month period, the Customer shall pay a reconnection charge of \$45.00.

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STANDARD TERMS & CONDITIONS**10. FOR CUSTOMERS PURCHASING GAS SUPPLY FROM A MARKETER OR BROKER****10.1 CONDITIONS PRECEDENT**

The Customer shall designate a marketer or broker who will act as the customer's agent with the Company for purposes of receiving nominations, satisfying delivery obligations, daily and monthly balancing, selection of billing option and all related charges. The marketer or broker must be certified by the Company and is subject to the service requirements of the Marketer and Broker Requirements ("MBR") Service Classification. The Customer is responsible for payment of any costs if additional facilities are necessary to provide service. The Company reserves the right to limit new customers served under this service, if it determines that service expansion is detrimental to existing firm customers.

10.2 RETURN TO FIRM SALES SERVICE

Returning customers must give two (2) months notice before returning to full sales service. The Company will return the customer to sales service after the Customer's regularly scheduled bill date has taken place. Transport customers who terminate such service, who are in compliance with the minimum term and two months notice provisions of this Tariff, and who wish to return to firm sales service, will be viewed as new applicants for such firm sales service. Such service will be offered subject to the conditions contained in Section 3.4 of the Company's Standard Terms and Conditions in its Tariff.

10.3 WARRANTY

NJNG warrants that at the time of delivery to the Customer at the Delivery Point said gas quantities shall be free and clear of all liens, encumbrances and claims whatsoever which may result solely from NJNG's possession or transportation of gas hereunder and, further, that it will indemnify and hold the Customer harmless from all suits, actions, debts, accounts, damages, costs, losses, and expense arising from or out of adverse claims of any or all persons to said gas quantities, arising out of, relating to or resulting from such possession or transportation.

10.4 CONTRACT

Written application on Company's Standard Application Form may be required.

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NEW JERSEY NATURAL GAS COMPANY

BPU No. 8 - Gas

Original Sheet No. 37

STANDARD TERMS & CONDITIONS

10. FOR CUSTOMERS PURCHASING GAS SUPPLY FROM A MARKETER OR BROKER

10.5 REGULATORY APPROVALS

The Customer is responsible for securing approvals from all regulatory bodies having jurisdiction and making any filings or reports, as required, pertaining to the acquisition of the gas and/or the transportation of the gas from the Customer's source to the Company's city gate station.

The Company reserves the right, in its sole reasonable judgment, to deny service hereunder if it determines that the underlying contracts or transportation agreements do not comply with all applicable Federal or State laws, rules or regulations, including those of all appropriate regulatory agencies; or if it determines that the requested transportation service is not operationally feasible.

10.6 SERVICE PERIOD

The initial term of service will be for a minimum of one year. Customers shall be permitted to switch suppliers or return to sales service subject to prevailing Board policy.

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Increase in its Gas Rates, Depreciation Rates, for Gas Property, and for Changes in
the Tariff for Gas Service, Pursuant to N.J.S.A. 48:2-18, 48:2-21

BPU Docket No. GR07110889
Staff Discovery Requests

S- NJNG-RD-45

RE: Yardley Testimony at Exhibit DPY-5: Average and Peak COSS

Please provide a full cost of service study, including Schedules A through D, which incorporates the following modifications to the average and peak study submitted as DPY-5. Changes not specified below indicate that the original account classification and allocation factors depicted in DPY-5 should be retained. Automatic changes to internal classification and allocation factors should continue to flow from the specific modifications listed below, as is the case within the original DPY-5 COSS. Classification and allocation of Accumulated Reserve for Depreciation and O&M accounts should track attendant plant accounts.

- a) Eliminate the existing customer classification and allocation of rate base accounts 301 through 303. Classify and allocate these costs using the total plant classification factor ("PLANT") and allocation factors ("PLANT_D", "PLANT_C", AND "PLANT_E") used to classify and allocate General Plant accounts 393-396.
- b) Modify the "PEAK_AVERAGE" allocator to affect a 57.8 percent weighting to the average (throughput) component and a 42.2 percent weighting to the design peak demand component. If practicable, separately depict allocated class commodity costs on the "commodity" line and demand allocated costs on the "demand" line appearing under the affected accounts in Schedule B. Apply the modified classification regime and the modified "PEAK_AVERAGE" allocator throughout the COSS in place of the original "PEAK_AVERAGE" allocator and to the additional accounts specified below.
- c) For all plant accounts classified as "DIST_PLANT", separately depict the demand, customer, and commodity allocated costs based upon the introduction of the partial commodity classification and allocation of costs prescribed in (b) above.
- d) Regarding account 376- Distribution Mains, replace the current demand/customer classification and allocation with the demand/commodity classification prescribed in (b) above. Allocate costs to the classes using the modified "PEAK_AVERAGE" allocator described above.

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- e) Regarding account 380- Services, execute the following classification and allocation steps for each of the classes RSG-Heating, RSG-Non- Heating, General Service-Small, General Service-Large:
- (1) Retain the interclass allocators for Services derived/depicted at DPY-3, Schedule D, p.1, along with the resulting interclass allocations of Services costs depicted at S-NJNG-RD-35, Schedule B-1, Services;
 - (2) For the allocated costs depicted at the response to S-NJNG-RD-35, Schedule B-1, Services, classify to the customer component the cost equivalent to the product of the average embedded cost of the smallest size service *currently connecting existing customers times the average service length* (data from the response to S-NJNG-RD-40. If the average embedded cost is not available, deflate the marginal (replacement) cost of the smallest size service currently being installed utilizing the average service life for these services (data from the response to S-NJNG-40 and the most recent bulletin of the Handy-Whitman Index of Public Utility Construction Costs, at Section G-1. Classify the balance of allocated Services investment to the demand component.
- f) Regarding accounts 381.1 – Meters and 381.2 – Remote Metering Devices, execute the following classification and allocations steps for each of the classes.: RSG-Heating, RSG-Non-Heating, General Service-Small, General Service-Large:
- (1) Modify the “METERS” allocator for Meters and Remote Metering Devices derived/depicted at DPY-3, Schedule D, p. 1, by excluding the replacement meter costs for those classes whose customer meter installations are industrial in nature and booked to account 385-Industrial Measuring and Regulating Equipment. Utilize the modified “METERS” allocator to derive the revised interclass allocations of Meters costs, replacing those depicted at S-NJNG-RD-35, Schedule B-1;
 - (2) For the allocated costs depicted at the response to S-NJNG-RD- 35, Schedule B-1, Meters and Remote Metering Devices, classify to the customer component the cost equivalent to the product of the average embedded cost of the smallest size meter *currently connecting existing customers* (data from

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response to S-NJNG-RD-41 times the number of customers. If the average embedded cost is not available, deflate the marginal (replacement) cost of the smallest size meter *currently being installed* utilizing the *average service life* for these meters (data from the response to S-NJNG-RD- 41 and the most recent bulletin of the Handy-Whitman Index of Public Utility Construction Costs, at Section G-1. Classify the balance of allocated Meters investment to the demand component.

- g) Regarding accounts 382.1- Meter Installations and 382.2- Remote Metering Device Installations, execute the following classification and allocation steps for each of the classes RSG- Heating, RSG-Non-Heating, GSG-Small and GSG-Large:
- (1) Retain the "METER_INSTALLATION" allocator for Meter Installations and Remote Metering Device Installations costs derived/depicted at DPY-3, Schedule D, p.1, along with the resulting interclass allocations of related plant depicted at S-NJNG-RD-35, Schedule B-1.
 - (2) For the allocated costs depicted at the response to S-NJNG-RD-35, Schedule B-1, Meter Installations and Remote Metering Device Installations, classify to the customer component the cost equivalent to the product of the average embedded cost for installations of the smallest size meter *currently connecting existing customers* (data from the response to S-NJNG-RD-41) times the number of customers. If the average embedded cost is not available, deflate the marginal (replacement) cost for installation of the smallest size meter *currently being installed* utilizing the *average service life* for these meters (data from the response to S-NJNG-RD-41) and the most recent bulletin of the Handy-Whitman Index of Public Utility Construction Costs, at G-1. Classify the balance of allocated Meter Installation investment to the demand component.
- h) Regarding account 383- House Regulators, follow the classification and allocation prescriptions outline in (f), above, for Meters – account 381.1. That is, retain the interclass allocation but revise the classification to provide for the customer/demand split developed pursuant to (f), 2, above.

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- i) Regarding account 384- House Regulator Installations, follow the classification and allocation prescriptions outlined in (g), above, for Meter Installations – account 382.1. That is, retain the interclass allocation but revise the classification to provide for the customer/demand split developed pursuant to (g), 2, above.
- j) Account 385- Industrial Measuring and Regulating Station Equipment should be classified and allocated as follows:

Costs allocated to classes under the “LARGE_CUSTOMERS” should be classified on a customer/demand split. Rather than employing the replacement cost of the smallest size meter to define the customer component, utilize the quotient of the average meter cost divided by the total meter cost of each class (spec study, p. 24) to derive the customer component; classify to the demand component the balance of costs allocated to these classes.
- k) General Plant accounts 389-Land and Land Rights, 390- Structures and Improvements, 391- Office Furniture and Equipment, 392- Transportation, 397- Communication Equipment, and 398- Miscellaneous Equipment should be classified using the “PLANT” classification factor and allocated utilizing the “PLANT_D” “PLANT_C” AND “PLANT_E” allocators used to classify and allocate General Plant accounts 393-396.
- l) Distribution Operations account 876- Metering and Regulating Station Equipment- Industrial should be classified and allocated consistent with the plant account 385 outlined in (j) above.
- m) Distribution Operations account 878- Meter and House Regulator expenses should follow the classification and allocation prescription for Meters- account 381 and House Regulators- account 383 as outlined above.
- n) Customer Installations expenses- account 879 should be modified to be consistent with the approach used for accounts 382.1 and 382.2, detailed in (g), above.

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- o) Maintenance of Measurement and Regulating Station Equipment- Industrial- account 890 should be classified and allocated consistent with the treatment of account 385, detailed in (j) above.
- p) Customer Accounts 901-905 should be classified and allocated as follows.
 - (1) Account 901-Supervision should be classified to the demand, customer, and commodity components utilizing a new indirect classification factor ("CUSTOMER_ACCOUNTS") reflecting the aggregate demand, customer, and commodity classification of costs for accounts 902 through 904, outlined below. The resulting demand, customer, and commodity classified expenses should be allocated on a design day peak demand, number of customers, and throughput ("CUSTOMER_ACCOUNTS_D,C, and E"), respectively.
 - (2) Account 902- Meter Reading Expenses should be classified utilizing the "DIST-PLANT" classification factor and allocated using the "DIST-PLANT_C" "DIST-PLANT_D" and "DIST-PLANT_E" allocators.
 - (3) Account- 903- Customer Records and Collection expenses should be classified utilizing the "DIST-PLANT" classification factor and allocated utilizing the "DIST-PLANT_C," "DIST-PLANT_D", and "DIST-PLANT_E" allocators.
 - (4) Account 904- Uncollectibles should be classified and allocated consistent with the "PEAK_AVERAGE" prescription detailed in (b), above.
 - (5) Miscellaneous Customer Accounts expenses should be classified and allocated utilizing the new classification and allocation factors prescribed in (p) (1), above.
- q) Customer Service and Information accounts 908-910 should be classified and allocated consistent with the "PEAK_AVERAGE" prescription detailed in (b), above.
- r) Sales Promotion expense accounts 911 through 916 should be classified and allocated consistent with the "PEAK_AVERAGE" prescription detailed in (b), above.

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- s) Regarding Administrative and General Expense Accounts 920-932, replace the "LABOR" and "ADMIN" classification and allocation of accounts 920, 921, 930, and the expenses denoted "PIM Expenditures", "Plant Additions", and "OPP Investment" with the "PLANT" classification and allocation approach referenced in (k) above.