



Agenda Date: 03/30/11
Agenda Item: 21

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center, Suite 801
Newark, NJ 07102
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE PETITION OF NEW JERSEY)
NATURAL GAS COMPANY FOR APPROVAL OF AN)
EXTENSION OF THE ACCELERATED ENERGY)
INFRASTRUCTURE INVESTMENT PROGRAM)
PURSUANT TO N.J.S.A. 48:2-23 AND FOR)
APPROVAL OF NECESSARY CHANGES IN THE)
COMPANY'S TARIFF FOR GAS SERVICE PURSUANT) DOCKET NOS. GR07110889
TO N.J.S.A. 48:2-21 ET SEQ.) GR10100793

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

Felicia Thomas-Friel, Esq., Deputy Rate Counsel, **Sarah H. Steindel, Esq.** and **Henry M. Ogden, Esq.**, Assistant Deputy Rate Counsels, Division of Rate Counsel (**Stefanie A. Brand, Esq.**, Director)

Anne Marie Shatto and Alex Moreau, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (**Paula T. Dow**, Attorney General of New Jersey)

BY THE BOARD:

BACKGROUND

In an effort to maintain the reliability and safety of its delivery system, while providing stimulus to New Jersey's economy, on January 20, 2009, New Jersey Natural Gas Company ("NJNG" or "Company") petitioned the New Jersey Board of Public Utilities ("BPU" or "Board"), in Docket Nos. EO09010049, GO09020052 & GR07110889, for approval to accelerate the timing of certain infrastructure projects ("2009 Filing"). NJNG proposed to expedite the planning and construction work related to capital projects that had been in the development stages for future implementation through the Accelerated Energy Infrastructure Investment Program ("AIP").

More specifically, according to the Company, these AIP projects were incremental to its planned fiscal 2009, 2010 and 2011 capital investment programs. Additionally, expediting the work on these projects would assist in mitigating the negative impact of the recession by creating additional job opportunities in the State while enhancing service and reliability for NJNG's existing customers. In the 2009 Filing, NJNG also requested approval of a proposed method for recovering the investment costs associated with the AIP projects.

On April 28, 2009, the BPU issued an Order (the "April 28 Order") which approved a stipulation permitting NJNG to proceed with the design and construction of fourteen AIP projects

("Qualifying Projects") and re-opened the Company's most recent base rate case (Docket No. GR07110889) solely for the purpose of reviewing the prudence of the Qualifying Projects as constructed and of the base rate adjustments that were to be requested by the Company in AIP cost recovery filings to be filed in June 2010 and June 2011 ("Annual Filing"). Based on information available at that time, the Company had estimated that construction costs for the Qualifying Projects, prior to any capitalization of an Allowance for Funds Used During Construction ("AFUDC") related to the Qualifying Projects would approximate \$70.8 million.

NJNG submitted its first Annual Filing on June 1, 2010, and on September 16, 2010 the BPU approved a stipulation in which NJNG, BPU Staff and Rate Counsel agreed on the requested base rate recovery on a provisional basis, subject to refund with interest, an opportunity for a full review at the Office of Administrative Law ("OAL"), if necessary, and final approval by the Board. In accordance with that Order and effective September 16, 2010, NJNG increased its base rates by \$4.17 million.

The Current Filing ("AIP II")

Based on the continued need to stimulate the economy and further foster job retention or creation in NJNG's service territory, the Company sought BPU approval to continue the acceleration of incremental capital spending for additional capital projects. Accordingly, on October 20, 2010, NJNG made a filing for approval of an extension of the AIP including nine proposed projects with overall anticipated construction costs, excluding AFUDC, of \$52.2 million.

On January 24, 2011, NJNG filed an amended petition reflecting a total of nine Qualified Projects with an associated investment of \$60.15 million, excluding AFUDC ("AIP II"). The proposed Qualified Projects are described below:

AIP II Projects [01/24/11 AMENDED PETITION]				Duration	
Name	Type	Scope	Cost (\$Mil.)	Start	Complete
Holmdel Line Replacement	Trans. Main	8.0 miles	\$18.00	Fall 2011	Fall 2012
Monmouth County Reinforcement Old Mill Rd. and 18th Ave. Area Replace.	Dist. Main & Services	4.9 miles	\$4.10	Sum. 2011	Spring 2012
	Dist. Main & Services	3.0 miles	\$2.35	Sum. 2011	Spring 2012
Morris County Reinforcement	Dist. Main & Services	7.9 miles	\$10.45	Sum. 2011	Spring 2012
		4.7 miles		Spring 2011	Spring 2012
Whiting System Loop / Extension	Dist. Main	4.7 miles	\$1.90	Spring 2011	Spring 2012
Unprotected Steel/Cast Iron Main Replace.	Dist. Main & Services	20.0 miles	\$14.00	Sum. 2011	Sum. 2012
Reg. Station Replacement / Expansion	Regulator Station	14 Sites	\$5.75	Spring 2011	Sum. 2012
Remote Valve Installations / Telemetry Sys.	Transmission	16 Sites	\$2.00	Sum. 2011	Sum. 2012
In-Line Inspection Equip. Installation	Transmission	Various	\$1.60	Sum. 2011	Sum. 2012
			\$60.15		

Public hearings were held on February 23, 2011 in Freehold Township and on February 28, 2011 in Rockaway Township. No members of the public attended.

After engaging in settlement negotiations, on March 23, 2011 representatives of NJNG, Board Staff, and Rate Counsel (collectively, the "Parties"), executed a stipulation¹ ("Stipulation") that provides for the following:

- 1) NJNG represents that the nine AIP II projects identified in Appendix 1, will assist NJNG in providing safe, adequate and proper service to its customers, are incremental in nature and will continue to create jobs in New Jersey.
- 2) NJNG expects the design and construction work associated with the AIP II Qualifying Projects will generate sixty to eighty-five direct jobs within the State.
- 3) The \$60.15 million in estimated costs, excluding AFUDC, are to be recovered through the Company's base rates, subject to review.
- 4) The Company will endeavor to use New Jersey contractors.
- 5) Work on the Qualifying Projects will commence as soon as practicable following the date of a Board Order in this proceeding, and no later than December 31, 2011.
- 6) Any costs incurred after October 31, 2012, will be deemed outside of the AIP II Program, and considered for rate treatment in the Company's next base rate case. AIP II projects that are placed into service after October 31, 2012 will begin accruing depreciation and stop AFUDC when they are placed into service and will not accrue a deferred return.
- 7) Any project eliminations or substitutions will only be made with Board approval, given signatory parties consent.
- 8) The Company agrees to make an AIP filing in June 2011 that proposes a base rate change to be effective in October 2011, coincident but separate from the Company's annual BGSS filing, and seek recovery of the remaining AIP program costs and the AIP II program costs up to that point.
- 9) The Company is to seek recovery of the remaining AIP II program costs through an October 2012 AIP filing.
- 10) AIP II-related base rate adjustments will include a revenue requirement that reflects a 7.12 percent rate of return (10.76 percent inclusive of taxes) 9.) The AIP II base rate adjustments will include depreciation expense for Qualifying Projects placed into service prior to August 31, 2011 for the June 2011 filing and prior to October 31, 2012 for the October 2012 filing, based on a composite depreciation rate of 2.34 percent.
- 11) The Company agrees that it will exclude any incremental operation and maintenance expenses in the AIP II filings.
- 12) The details relating to the agreed upon accounting for Construction Work In Progress and AFUDC are as specified in paragraphs 25 and 26 of the Stipulation.
- 13) NJNG will submit the minimum filing requirements set forth in Appendix 2 of this Stipulation in each annual AIP filing.
- 14) The Company will recover the costs approved in each of the AIP II filings on a volumetric basis utilizing the weather-normalized forecast for the up-coming annual October through September BGSS period.
- 15) The Company will provide BPU Staff and Rate Counsel with quarterly progress reports in the format as attached to the Stipulation as Appendix 3.
- 16) NJNG's annual AIP II base rate adjustment filing will be subject to review by the Board Staff and Rate Counsel, prior to the final approval and issuance of an Order by the Board establishing that the proposed rates are just and reasonable.

¹Although summarized in this Order, the detailed terms of the Stipulation control, subject to the findings and conclusions of this Order.

- 17) At the conclusion of the filing to review the June 2012 filing, the reopened base rate case proceedings in Docket No. GR07110899 will close.
- 18) Should NJNG receive any federal, state, county or municipal funds or credits directly applicable to the AIP II projects, the Company will use that funding as a benefit to customers by offsetting the costs for which recovery is sought through the AIP II filing, to the extent permitted by law.

DISCUSSION AND FINDING

In the April 28 Order, the Board recognized that the acceleration of utility infrastructure projects and the treatment of capital expenses on an expedited schedule outside the purview of a rate case is not part of the normal course of utility regulation. However, based on economic conditions at that time, the Board found that it was appropriate and within the Board's authority to allow infrastructure projects which had already been researched and planned by the companies to be accelerated, and that enhanced investments in infrastructure would both increase reliability and promote employment. The Board continues to find those conclusions valid.

Now, as then, the Board takes notice of the fact that the financial markets remain volatile, affecting the utilities' ability to fund incremental infrastructure projects within the usual framework which requires that capital expenditures be recovered through a rate case only after projects are completed. N.J.S.A. 48:2-21. It is within a rate case that the property that is used and useful in the utility's provision of service is evaluated, and the expenses that can become components of just and reasonable rates are determined. In re Investigation of Tele. Cos., 66 N.J. 476 (1975). These difficult economic times continue to require creative responses that respect the law but adapt to extraordinary circumstances. In the past, the Board has found that it has the power to act to meet such challenges. N.J.S.A. 48:2-13; In re Implementation of the Two Bridges/Ramapo Water Diversion Project, BPU Docket No. 8011-870 (March 17, 1981). The Board continues to have that power.

Looking at the proposed infrastructure program extension, the Board is persuaded that the AIP II, if successfully executed, will both increase employment in the State and enhance the reliability of NJNG's distribution system. Only capital projects which enhance the reliability, safety and security of a utility's distribution system are eligible as Qualifying Projects. These are projects originally scheduled for future years which can be brought forward into the 2011--2012 time period because they have already been researched and planned by the Company. In the absence of this program, most of the projects would be completed, but only in future years.

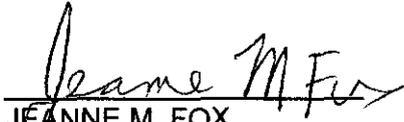
The Company estimates that the increase in customer rates resulting from implementation of AIP II will be approximately 1 percent in the aggregate to the bills of average residential heating customers.

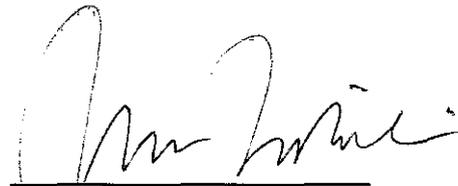
Therefore, after review of the Stipulation and exhibits, the Board HEREBY FINDS the Stipulation to be reasonable, in the public interest, and in accordance with law, and HEREBY APPROVES the attached Stipulation in its entirety and HEREBY INCORPORATES its terms and conditions as though fully set forth herein.

DATED: 3/30/11

BOARD OF PUBLIC UTILITIES
BY:


LEE A. SOLOMON
PRESIDENT

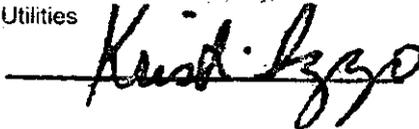

JEANNE M. FOX
COMMISSIONER


JOSEPH L. FIORDALISO
COMMISSIONER


NICHOLAS ASSELTA
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



IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY
FOR APPROVAL OF AN EXTENSION OF THE ACCELERATED ENERGY
INFRASTRUCTURE INVESTMENT PROGRAM PURSUANT TO N.J.S.A. 48:2-23 AND
FOR APPROVAL OF NECESSARY CHANGES IN THE COMPANY'S TARIFF FOR GAS
SEVICE PURSUANT TO N.J.S.A. 48:2-21 ET SEQ.

BPU DOCKET NO. GR10060793

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

**IN THE MATTER OF THE PETITION OF
NEW JERSEY NATURAL GAS COMPANY
FOR APPROVAL OF AN EXTENSION OF
THE ACCELERATED ENERGY
INFRASTRUCTURE INVESTMENT
PROGRAM PURSUANT TO N.J.S.A. 48:2-23
AND FOR APPROVAL OF NECESSARY
CHANGES TO GAS RATES AND
CHANGES IN THE COMPANY'S TARIFF
FOR GAS SERVICE PURSUANT TO
N.J.S.A. 48:2-21 ET SEQ.**

BPU DOCKET NO. GR10100793

BPU DOCKET NO. GR07110889

STIPULATION

APPEARANCES:

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

Felicia Thomas-Friel, Esq., Deputy Rate Counsel, and **Sarah H. Steindel, Esq.**, Assistant Deputy Rate Counsel, New Jersey Division of Rate Counsel (**Stefanie A. Brand, Esq.**, Director)

Anne Marie Shatto and Alex Moreau, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (Paula T. Dow, Attorney General of New Jersey)

TO: THE NEW JERSEY BOARD OF PUBLIC UTILITIES

1. New Jersey Natural Gas Company ("NJNG" or the "Company") filed a petition in Docket No. GR10100793 on October 20, 2010, requesting that the New Jersey Board of Public Utilities (the "BPU" or "Board") approve an extension to the Accelerated Energy Infrastructure

Investment Program (“AIP II”) pursuant to N.J.S.A. 48:2-23 and simultaneously approve the methodology for the recovery of costs for projects included within AIP II through a previously approved recovery mechanism. The filing included nine proposed projects with overall anticipated construction costs without Allowance for Funds Used during Construction (“AFUDC”) of \$52.2 million. On January 24, 2011 NJNG filed with the BPU an Amended Petition with Supplemental Exhibits I and II reflecting a total of nine projects with an associated investment of \$60.15 million, excluding AFUDC and anticipated job growth of between 60 and 85 positions.

BACKGROUND

2. As part of its ordinary capital spending planning cycle, NJNG continuously plans for the replacement, reinforcement and expansion of its infrastructure, including its property, plant, facilities and equipment, to maintain the reliability of its system and to ensure the continuation of safe, adequate, proper service and the conservation and preservation of the environment. NJNG determined, however, to increase its planned infrastructure capital spending, to enhance the reliability of its system and to support economic development and job growth in New Jersey.

3. On January 20, 2009, NJNG submitted an Accelerated Infrastructure Investment Program (“AIP”) filing (BPU Docket Nos. EO09010049 and GR09010052) with the BPU seeking approval for fourteen proposed projects and base rate treatment for the associated investment costs of those projects where construction commenced no later than December 31, 2010 with anticipated completion dates of no later than August 31, 2011. As of December 31, 2010 all 14 AIP Projects had commenced construction and are now in various stages of completion. NJNG further requested that the Board consider the matter in conjunction with

NJNG's recently finalized base rate case in Docket No. GR07110889 and re-open that case for the sole purpose of considering the AIP proposal and cost recovery approach included therein. NJNG represented that the fourteen projects proposed in the initial AIP filing were accelerated from planned future capital construction and were incremental to the planned capital construction work for the time period covered.

4. On April 28, 2009, the BPU issued an Order (the "April 28 Order") approving a Stipulation that had been entered into among the active parties to the NJNG AIP case: NJNG, BPU Staff and the New Jersey Division of Rate Counsel ("Rate Counsel"). In the April 28 Order, the Board directed NJNG to proceed with the design and construction of the fourteen AIP projects (the "Qualifying Projects") and re-opened the Company's most recent base rate case (Docket No. GR07110889) for the purpose of reviewing the prudence of the Qualifying Projects as constructed and of the base rate adjustments that were to be requested by the Company in AIP cost recovery filings to be filed in June 2010 and June 2011. Based on estimates available at that time, the Company had estimated that the overall construction costs, prior to any capitalization of an AFUDC related to the Qualifying Projects would be approximately \$70.8 million.

5. Pursuant to the terms of the April 28 Order, NJNG was required to make annual filings with the BPU in June 2010 and June 2011 ("Annual Filing"), coincident with but separate from the Company's annual Basic Gas Supply Service ("BGSS) filings. Through these Annual Filings, NJNG requests recovery through base rates of the prudently incurred AIP costs ("Capital Investment Costs") associated with the Qualifying Projects. Capital Investment Costs are defined as all prudently incurred capital expenditures associated with the Qualifying Projects, including actual costs of engineering, design and construction, cost of removal (net of salvage) and property acquisition, including actual labor, materials, overhead, and capitalized AFUDC

associated with the projects. Accordingly, NJNG submitted its first Annual Filing on June 1, 2010 and on September 16, 2010, the BPU approved a Stipulation in which NJNG, BPU Staff and Rate Counsel agreed on the requested base rate recovery on a provisional basis, subject to refund with interest, an opportunity for a full review at the Office of Administrative Law (“OAL”), if necessary, and final approval by the Board. In accordance with that Order and effective September 16, 2010, NJNG increased base rates by \$4.17 million.

6. Based on the continued need to stimulate the economy and further foster job retention or creation in NJNG’s service territory, the Company determined that it was both reasonable and prudent to seek BPU approval to continue the acceleration of incremental capital spending for additional capital projects. Accordingly, a filing for approval of the AIP II projects was submitted on October 20, 2010 (“October 2010 filing”) to the BPU and Rate Counsel. That filing included nine proposed projects with overall anticipated construction costs without AFUDC of \$52.2 million.

7. After providing public notice, NJNG participated in four public hearings on the October 2010 filing at two locations within the Company’s service territory: two hearings were held on Tuesday, December 14, 2010 in Rockaway, New Jersey, and two hearings were held on Wednesday, December 15, 2010, in Freehold Township, New Jersey. No members of the public appeared at any of the hearings.

8. Discovery questions in this proceeding, propounded by BPU Staff and Rate Counsel, were answered with copies provided to all individuals on the service list.

9. The parties to this proceeding are NJNG, BPU Staff and Rate Counsel. Subsequent to the completion and review of discovery and the four public hearings, the Parties met on January 13, 2011 to address discovery-related issues and discuss resolution of this case.

Following that meeting, NJNG determined that it was appropriate to substitute one of the originally proposed projects in the October 2010 filing with a different project to reflect the Parties' discussion and to make modifications to the estimated cost, timing and scope of two other projects. Accordingly, on January 24, 2011, NJNG filed with the BPU an Amended Petition with Supplemental Exhibits I and II (January 2011 filing) reflecting a total of nine projects with an associated investment of \$60.15 million, excluding AFUDC. Simultaneously with that filing, the Company included updated responses to certain discovery requests that addressed the projects and provided the responses to all individuals on the service list.

10. In the January 2011 filing, NJNG proposed the elimination of the Inside High Pressure Meter Move Out Project with an estimated project cost of \$8.85 million and the addition of the Unprotected Steel and Cast Iron Main Replacement Project with an estimated project cost of \$14 million. Moreover, the January 2011 filing reflected an increase in the estimated cost of the Holmdel Line Replacement Project from \$16 million to \$18 million and an increase in the estimated cost, based on increased activity, of the In-line Inspection Equipment project from \$800,000 to \$1.6 million. The detailed listing, including modifications, of the amended projects as submitted in the January 2011 filing is attached hereto as Appendix 1.

11. Since the January 2011 filing included a proposed change in the overall investment level requested, as well as a new project, it was necessary to schedule additional public hearings. Those hearings took place on February 23, 2011 in Freehold Township and on February 28 in Rockaway Township. No members of the public were in attendance.

12. The Parties met on February 14, 2011 to discuss elements of the January 2011 filing and to address resolution of this case. Subsequently, the Parties have agreed to settle this proceeding as discussed below.

Specifically, in consideration of the terms, covenants, conditions and agreements contained herein, it is hereby **STIPULATED AND AGREED** by representatives of NJNG, BPU Staff and Rate Counsel (the “Signatory Parties”) as follows:

STIPULATED MATTERS

Projects

13. NJNG represents that the nine AIP II projects identified in Appendix 1 attached hereto, will assist the Company in providing safe, adequate and proper service to its customers, are incremental in nature and will continue to create jobs in support of ongoing economic development activities in New Jersey. 79.5 jobs¹ were created through December 2010 in support of the AIP. Based on these representations, the Signatory Parties agree that the AIP II projects appear to be prudent and that the costs associated with the Qualifying Projects are to be recovered through NJNG’s base rates, subject to review, as set forth below.

14. Appendix 1 contains descriptions of each AIP II Qualifying Project, the projected annual and aggregate cost for each Qualifying Project, the estimated number of jobs created as a result of each Qualifying Project, and the projected timeline and completion date for each Qualifying Project. NJNG agrees that the work associated with the nine AIP II Qualifying Projects will reflect the estimated construction start and completion dates set forth in Appendix 1 but with completion no later than October 31, 2012.

NJNG anticipates that the design and construction work associated with the AIP II Qualifying Projects will generate 60 – 85 jobs in New Jersey. The Company’s estimate of the workforce necessary for the Qualifying Projects does not include any ancillary job impacts that will increase the overall benefits generated from the Qualifying Projects.

¹ The number of jobs created is based on the calculation of full-time equivalents (“FTEs”) as set forth in the April 28, 2009 Order and stipulation.

The Company agrees that it will endeavor to employ contractors and engineering firms located in New Jersey.

15. For purposes of settlement, NJNG agrees that the work associated with the AIP II Qualifying Projects will commence as soon as practicable following the date of the Board Order in this proceeding. Furthermore, NJNG agrees that work will have started on all AIP II Qualifying Projects no later than December 31, 2011. The Company anticipates that work on all AIP II projects will be completed by October 31, 2012 and, in resolution of this proceeding, NJNG agrees that it will not seek base rate recovery through the AIP II Cost Recovery Mechanism for AIP II costs incurred after October 31, 2012. Any such AIP II projects that enter service after October 31, 2012, will begin to accrue depreciation and cease AFUDC once they enter service and will not accrue a deferred return. Any costs incurred by NJNG after October 31, 2012 and until the related project is placed in service will be excluded from the AIP construction and capital program with said costs to be included in the Company's plant accounts for review and appropriate rate treatment in its next base rate case. The Signatory Parties reserve all rights with respect to said costs in the next base rate case.

16. The Signatory Parties agree that, based on current cost levels and available estimates, the estimated overall construction costs, prior to any capitalization of an AFUDC, related to the AIP II Qualifying Projects will be approximately \$60.15 million.

17. NJNG's current capital budgets contemplate the following levels of capital expenditures for non-Qualifying projects: \$51,668,000 in fiscal year 2011 (including \$433,000 of planned AIP II spending), \$57,331,000 in fiscal year 2012 (including \$10,380,000 of planned AIP II spending) and \$57,221,000 in fiscal year 2013. Those budgeted levels of capital expenditures for non-Qualifying projects include the following levels of expenditures for the replacement of

unprotected steel and cast iron mains: \$5,025,566 in fiscal year 2011, \$5,787,243 in fiscal year 2012 and \$5,398,126 in fiscal year 2013. It also anticipates similar amounts will be spent in future years. NJNG represents that the expenditure related to the Qualifying Projects will be incremental to such planned levels of expenditures for 2011, 2012 and 2013 and incremental to expenditures on the Qualifying Projects approved in the April 28 Order.

18. The Signatory Parties stipulate that NJNG should recover the costs of the nine AIP II Qualifying Projects listed in Appendix 1 through the Company's base rates, subject to a prudence review and Board Order, as provided below.

Substitution of Projects

19. If it is necessary for the Company to eliminate, substitute another project for any of the AIP II Qualifying Projects or modify the scope of any of the AIP II Qualifying Projects during the AIP II term, notice of any such changes and an opportunity for review and comment shall be provided to the Signatory Parties, and any substitutions shall only be made with Board approval. Before seeking such approval, the Company will consult with the Signatory Parties, and consent to the modifications may be manifested in filings with the Board.

Cost Recovery Mechanism

20. The Signatory Parties agree that NJNG's base rate case in Docket No. GR07110889 will remain open for the sole purpose of considering NJNG's requests for base rate increases associated with the AIP and AIP II Qualifying Projects. In order to accommodate recovery of the AIP II capital costs with as few filings as possible, NJNG agrees that Annual Filings will be made in June 2011 and October 2012. The June 2011 filing, proposing a base rate change to be effective in October 2011 coincident with but separate from its annual BGSS filing, will include the remaining AIP I investment costs and AIP II investment costs incurred prior to the resolution of

that case. Subsequently, NJNG will make an Annual Filing in October 2012 to accommodate recovery of the remaining AIP II investment costs, subject to the terms of Paragraph 15 above.

21. The Annual Filings will include requests for recovery in base rates of the Capital Investment Costs, as defined in Paragraph 5 herein, associated with the AIP and AIP II Qualifying Projects. Capital Investment Costs will be recorded, during construction, in an associated Construction Work in Progress Account ("CWIP") or in a Plant In Service Account upon the respective project being deemed used and useful. Additionally, if NJNG submits a base rate case filing with the BPU prior to the resolution of either upcoming Annual Filing, any pending request for rate relief associated with the AIP and AIP II Qualifying Projects will be withdrawn.

22. The Parties agree that the Company's AIP II base rate adjustments proposed in the Annual Filings will include a revenue requirement that reflects a rate of return on AIP II investments calculated as follows: the Company's current CWIP balance associated with the AIP II Qualifying Projects as of August 2011 for the June 2011 filing and as of October 31, 2012 for the October 2012 filing, including any previously capitalized AFUDC. The Company's Revenue Requirement will also include Qualifying Project plant-in-service investment balances as of August 2011 for the June 2011 filing and as of October 31, 2012 for the October 2012 filing, multiplied by a rate of return of 7.12 percent for all AIP II Projects (10.76 percent inclusive of income taxes).

23. The AIP II base rate adjustments will also include depreciation expense for Qualifying Projects placed into service in the 12 month period ending August 31, 2011 for the June 2011 filing and in the 14 month period ending October 31, 2012 for the October 2012 filing, based on a composite depreciation rate of 2.34 percent commencing with the AIP Order implementing

base rate adjustments. NJNG agrees that it will not include incremental operation and maintenance expenses in AIP II Annual Filings.

24. The Qualifying Projects, and any Board-approved substituted projects, and the associated investment costs included in each Annual Filing will be subject to review by BPU Staff and Rate Counsel prior to the issuance of a Board Order establishing that the Company's proposed annual base rate adjustment is just and reasonable. Such review will be conducted as a contested case in accordance with the New Jersey Administrative Procedure Act N.J.S.A. 52:14B-1 et seq. At the conclusion of the proceedings to review the October 2012 Annual Filing, the base rate case in Docket No. GR07110899 will be closed.

Accounting Methodology for AIP

25. The Company will separately track Capital Investment Costs, as defined in Paragraph 5 herein, for each of the Qualifying Projects by work order in a separate AIP II CWIP account and will record a monthly accrual of AFUDC which will be capitalized or included in the CWIP balance as follows:

- (a) when NJNG's total CWIP balance, including CWIP associated with AIP II Qualifying Projects, is less than or equal to NJNG's outstanding short-term debt ("S/T debt") balance at each month-end, the applicable AFUDC rate will be equal to NJNG's monthly cost of S/T debt; or
- (b) when NJNG's total CWIP balance, including CWIP associated with AIP II Qualifying Projects, is greater than NJNG's outstanding S/T debt, the applicable AFUDC rate for AIP II Projects will result in a blended monthly AFUDC calculation. The blended AFUDC rate calculation will include a S/T debt rate for that portion of the CWIP balance equal to the month-end S/T debt balance and rates of 7.76 percent (0.6467 per

month) and 7.12 percent (0.5933 percent per month) for those portions of AIP and AIP II CWIP, respectively, in excess of NJNG's month-end S/T debt balance. The rate of 7.12 percent (0.5933 per month) will be multiplied by the CWIP balance (not currently included in rates) in excess of NJNG's month-end S/T debt balance and that result is then multiplied by the proportion of the AIP II CWIP balance (not currently in rates) to the total CWIP balance (not currently included in base rates). If NJNG has no short-term at month end, the AFUDC rate will be 7.12 percent (0.5933 percent per month) for AIP II projects. This blended AFUDC calculation is consistent with NJNG's current accounting methodology for AIP.

- (c) an AIP II Qualifying Project that is placed into service, but not yet reflected in customer base rates, will accrue a deferred return equal to 7.12 percent per annum (0.5933 percent per month). This will not apply to projects entering service after October 31, 2012.

26. In determining the CWIP base upon which to apply the monthly AFUDC rate, a deduction will be made for any AIP II CWIP amount currently approved by the BPU and included in NJNG's base rates. This exclusion of CWIP for determining the base also applies to the calculation of the blended AFUDC rate.

Rate Design

27. NJNG will recover the costs approved in each of its AIP II Annual Filings by adjusting, on a volumetric basis, the then-current base rate for all customer classes, allocated in the manner prescribed in the October 3 Order. Accordingly, the effect of the AIP II base rate adjustments, consistent with the October 3 Order, will reflect an across-the-board adjustment to customer classes that will impact natural gas revenues for each class by the same percentage. No

change will be requested in any of the AIP II filings for the current customer charges approved by the Board in the October 3 Order.

28. The volumes used to determine base volumetric revenues for each customer class and for the AIP II-related base rate changes will be based on the weather-normalized forecast, included in the upcoming annual BGSS filings, of October through September for the June 2011 filing and January through December for the October 2012 filing.

Rate Impact

29. The Company estimates that the increase in customer rates resulting from the AIP II will be approximately 1 percent in the aggregate to the bills of an average residential heating customer based on the Company's current rates and anticipated sales volumes.

Minimum Filing Requirements ("MFR")

30. The Signatory Parties agree that NJNG will provide the information set forth in the list of MFRs attached hereto as Appendix 2 and made a part of this Stipulation in each Annual Filing. The Company will also provide in each filing a detailed description, along with corresponding plant accounts, of the expenditures that are reflected in each blanket project in Appendix 1, if any, together with measurable parameters, such as line-feet or number of installations, associated with each blanket project, if any.

Quarterly Reporting

31. The Signatory Parties agree that the Company will provide the BPU Staff and Rate Counsel with a report ("Quarterly Report"), reflecting capital expenditures and the job growth resulting from the implementation of each Qualifying Project on a quarterly basis, in the format attached hereto as Appendix 3 and made a part of this Stipulation. The Quarterly Report should also include a Gantt Chart showing the status of the projects, tasks completed, percentage of

projects completed, the actual investment costs to date, etc. Additionally, the Company will include in the Quarterly Report planned/budgeted and actual capital expenditures by budget type for non-Qualifying Projects, other than new business. This reporting will continue on the schedule incorporated in the April 28 Order.

32. The Company agrees to track the number of incremental contractor or other positions associated with the Qualifying Projects and will include that information with each Quarterly Report and Annual Filing submitted to the Board Staff and Rate Counsel, in the format set forth in Appendix 3.

Calculation of Jobs Created

33. The Parties agree that job creation is an integral part of the economic stimulus goals underlying the AIP II Qualified Projects. For purposes of reporting jobs associated with the AIP II Qualified Projects, the Company will define a Full-Time Equivalent (“FTE”) job as 1,820 hours per year.

Government Funding

34. On February 17, 2009, the Federal American Recovery and Reinvestment Act of 2009 (“ARRA”) (Pub. L. No. 111-5) was signed into law by President Barack Obama. Subject to any restrictions set forth in the ARRA and other applicable law, if the Company gets federal funds or credits through the ARRA, the Company agrees to utilize that money to offset the Qualifying Projects’ costs. If funding or credits from the ARRA or any subsequent state or federal action become available to the Company through the State of New Jersey, a County or Municipality project reimbursement, the Company agrees that any such funds or credits directly applicable to work related to the Qualifying Projects will be used to benefit customers by offsetting the costs for which recovery will be sought to the extent permitted by law.

Further Provisions

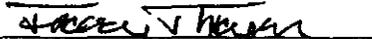
35. This Stipulation represents a mutual balancing of interests, contains interdependent provisions and, therefore, is intended to be accepted and approved in its entirety. In the event any particular aspect of this Stipulation is not accepted and approved in its entirety by the Board, any Party aggrieved thereby shall not be bound to proceed with this Stipulation and shall have the right to litigate all issues addressed herein to a conclusion. More particularly, in the event this Stipulation is not adopted in its entirety by the Board in any applicable Order(s), then any Party hereto is free to pursue its then available legal remedies with respect to all issues addressed in this Stipulation as though this Stipulation had not been signed.

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

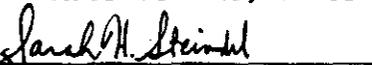
37. It is specifically understood and agreed that this Stipulation represents a negotiated agreement and has been made exclusively for the purpose of these proceedings. Except as expressly provided herein, NJNG, Board Staff, or Rate Counsel shall not be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein and, in total or by specific item. This Stipulation is in no way binding upon them in any other proceeding, except to enforce the terms of this Stipulation.

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

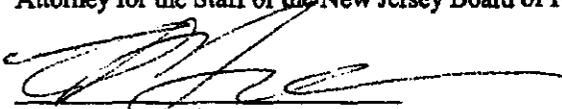
**NEW JERSEY NATURAL GAS
PETITIONER**

By: 
TRACEY THAYER, ESQ.
Director, Regulatory Affairs Counsel

**NEW JERSEY DIVISION OF RATE COUNSEL
STEFANIE A. BRAND, DIRECTOR**

By: 
SARAH H. STEINDEL, ESQ.
Assistant Deputy Rate Counsel

**PAULA T. DOW
ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the New Jersey Board of Public Utilities**

By: 
ALEX MOREAU
Deputy Attorney General

Date:

**New Jersey Natural Gas
Proposed Accelerated Infrastructure Program II Projects
Docket No. GR10100793**

MONMOUTH COUNTY:

Project: Holmdel Line Replacement

Estimated Cost: \$18.0 million

Description: Replacement of 8 miles of 10" pre-1971 Electric Resistance Welded (ERW) steel 525 psig transmission pipeline with 16" steel pipe, due to age (1965, 1968) and to increase supplier diversity while improving reliability to the Monmouth County system. This line replacement will also allow for the in-line inspection of this transmission line, as the current line cannot utilize smart pig technology in its current configuration. The replacement pipeline runs from Route 36, Hazlet Township, south primarily along Laurel Avenue, Holland Road, and Holmdel Road, ending at Route 520, Holmdel Township, Monmouth County.

Estimated Start Date: Fall 2011

Estimated Complete Date: Summer/Fall 2012

Estimated FTE Impact: 20.9

Project: Monmouth County Reinforcement Project

Estimated Cost: \$4.1 million

Description:

Route 34 Reinforcement - Replacement of approximately 1.5 miles of existing 8" steel 250 psig trunk line with 12" steel to improve system pressure / reliability to the southeastern area of Monmouth County. The existing main was installed in 1965, and is cathodically protected.

Seven Bridges Road Replacement - Replacement of approximately 1.4 miles of existing 6" & 8" steel 60 psig distribution main and services with 12" steel to improve system pressure / reliability to the peninsula area of Little Silver, Fair Haven and Rumson. The existing main was installed in sections in 1958, 1962 and 1968. Approximately two-thirds of this existing main is cathodically unprotected. The main runs in segments on Seven Bridges Road, from Rumson Road to Little Silver Point Road, Little Silver Borough, and from Silverside Avenue, Little Silver to Monmouth Boulevard, Oceanport Borough; and on Myrtle Avenue, from Port-Au-Peck Avenue, through Monmouth Park, ending at McClellan Street, Oceanport Borough.

Shafto Road Reinforcement Loop - Installation of approximately 2 miles of 8" plastic 60 psig distribution main along Shafto Road, Tinton Falls, from just south of Wardell Road south to Route 34, Wall Township, Monmouth County, to backfeed and reinforce the existing system by connecting two systems and improving low system pressures in the area.

Estimated Start Date: Summer 2011

Estimated Complete Date: Spring 2012

Estimated FTE Impact: 6.8

Project: Old Mill Road / 18th Avenue Area Replacement Project

Estimated Cost: \$2.35 million

Description: Replacement of approximately 3.0 miles of 12", 8", 6" & 3" bare steel 60 psig distribution main and associated services with 12" steel and 8" & 4" plastic due to age and maintenance concerns. The existing bare steel main was installed between 1928 and 1932. The replacement mains and services will include Old Mill Road, from Route 138, Wall Township, to Allaire Road, Spring Lake Heights Borough; on 18th Avenue, from New Bedford Road to M Street, Wall Township; and Marconi Road from Route 138 to Belmar Boulevard, Wall Township, Monmouth County.

Estimated Start Date: Summer 2011

Estimated Complete Date: Spring 2012

Estimated FTE Impact: 3.3

MORRIS COUNTY:

Project: Morris County Reinforcement Project

Estimated Cost: \$10.45 million

Description:

Route 46 Replacement - Replacement of approximately 3.0 miles of 6" steel 125 psig distribution main and services with 12" steel due to age and to improve pressure in the existing system. The existing main was installed primarily in 1953, a majority of which is not cathodically protected. About one-quarter of the main was installed in 1958 and is cathodically protected. The pipeline runs from our interstate supply line on Vail Road, west along Route 46 to just west of Parsippany Blvd, in Parsippany-Troy Hills Township, Morris County.

Thatcher Line Extension - Extension of the 12" steel 230 psig trunk system main for approximately 2.4 miles from the current end of the Thatcher Line at Washington Street & North Main Street, Wharton Borough, west along West Pine Street, West Central Avenue, and West Dewey Avenue to Berkshire Valley Road, ending at the Roxbury regulator station (see related project in the Integrity Support section – Regulator Stations). This will allow for improved supplier diversity and pressure reinforcement to the existing 230 psig backbone system, by looping the system that supplies gas to the entire central and western regions of the Morris County franchise, currently fed by the Tennessee, Columbia, and Texas Eastern interstate pipeline systems.

Lake Hiawatha Reinforcement Loop - Installation of approximately 2.5 miles of 6" & 4" plastic 60 psig distribution main to loop the Lake Hiawatha area within the Parsippany distribution system. Primary segment follows Lake Shore Drive from Vail Road north onto River Road, to Oneida Avenue, ending at North Beverwyck Road. A secondary segment is on Lake Shore Drive / Greenbank Road from north of Tories Lane southeast to Hiawatha Boulevard at Roosevelt Avenue. This project connects several one-way fed systems and improves overall pressure and reliability in the Parsippany, Boonton and Montville area systems.

Estimated Start Date: Summer 2011

Estimated Complete Date: Summer 2012

Estimated FTE Impact: 15.9

OCEAN COUNTY:

Project: Whiting System Loop / Extension Project

Estimated Cost: \$1.9 million

Description: Installation of 4.7 miles of 6" & 8" plastic pipe in the Whiting area of Manchester Township to ensure adequate gas supply and reliability by installing 60 psig distribution main looping within a currently one-way fed system. The proposed 8" main runs along Wranglebrook Road from Manchester Boulevard east to Schoolhouse Road, then south ending at Route 530. The proposed 6" main runs from Route 539 along Harry Wright Boulevard, Elizabeth Avenue, Pershing Avenue, Lake Avenue to Lacey Road.

Estimated Start Date: Spring 2011

Estimated Complete Date: Spring 2012

Estimated FTE Impact: 5.1

INTEGRITY SUPPORT PROJECTS:

Project: Unprotected Steel & Cast Iron Main Replacement

Estimated Cost: \$14 million

Description: Replacement of approximately 20 miles of bare steel, wrought iron, cast iron, and unprotected coated steel distribution main, and associated services, with plastic, due to age and maintenance concerns. Facilities to be included in this project are located throughout various areas of Asbury Park, Neptune, Neptune City, Interlaken, and Ocean in Monmouth County, and Pine Beach, Ocean Gate, Beachwood, and Berkeley in Ocean County.

Estimated Start Date: Summer 2011

Estimated Complete Date: Summer 2012

Estimated FTE Impact: 10.4

Project: Regulator Station Replacement / Expansion Project

Estimated Cost: \$5.75 million

Description: Replacement of twelve distribution regulator stations due to age and to improve capacity throughout Monmouth, Ocean and Morris counties to ensure system reliability. The project also includes the replacement and relocation of the existing Marlboro regulator station due to age and for capacity improvements, and to allow for the installation of gas heating and filtering equipment at that location, and the expansion of the Roxbury Station to improve capacity, diversity of delivery options, and to replace the gas heating and filtering equipment that will accommodate additional volumes of product associated with the Thatcher Line Expansion project.

Estimated Start Date: Spring 2011

Estimated Complete Date: Summer 2012

Estimated FTE Impact: 9.4

Project: Remote Control Valve Installations / Telemetry System Improvements

Estimated Cost: \$2.0 million

Description: Installation of remote control valve actuators at multiple sites along the existing Jamesburg, Tennessee, Route 34 transmission systems and Englishtown station, including remote control / battery charging equipment and valve installations in order to improve the response and make-safe times should there be incidents within the system.

Estimated Start Date: Summer 2011

Estimated Complete Date: Summer 2012

Estimated FTE Impact: 4.5

Project: In-Line Inspection Equipment Installation

Estimated Cost: \$1.6 million

Description: Installation of transmission in-line inspection equipment on the 20" Lakewood, 20" Oyster Creek and 12" Lakehurst pipelines, as well as the Monmouth-Ocean and Whitesville Valve Sites to allow for the future "smart pig" technology of those lines.

Estimated Start Date: Summer 2011

Estimated Complete Date: Summer 2012

Estimated FTE Impact: 20.9

**New Jersey Natural Gas Company
AIP II Capital Investment Projects**

Infrastructure Project	Project Type	Estimated Quantity	Estimated Cost
<u>MONMOUTH COUNTY</u>			
Holmdel Line Replacement	Transmission Main	8 miles	\$ 18,000,000
Monmouth County Reinforcement Project	Distribution Main & Service	4.9 miles	\$ 4,100,000
Old Mill Rd & 18th Av Area Replacement	Distribution Main & Service	3 miles	\$ 2,350,000
<u>MORRIS COUNTY</u>			
Morris County Reinforcement Project	Distribution Main & Service	7.9 miles	\$ 10,450,000
<u>OCEAN COUNTY</u>			
Whiting System Loop / Extension Project	Distribution Main	4.7 miles	\$ 1,900,000
<u>INTEGRITY SUPPORT</u>			
Unprotected Steel & Cast Iron Main Replacement	Distribution Main & Service	20 miles	\$ 14,000,000
Regulator Station Replacement / Expansion	Regulator Station	14	\$ 5,750,000
Remote Valve Installations / Telemetry System	Transmission	16 sites	\$ 2,000,000
In-Line Inspection Equipment Installation	Transmission	Various	\$ 1,600,000
		TOTAL	\$ 60,150,000

APPENDIX B**MINIMUM FILING REQUIREMENTS**

1. The Company's income statement for the most recent 12 month period, as filed with the New Jersey Board of Public Utilities ("BPU").
2. The Company's balance sheet for the most recent 12 month period, as filed with the BPU.
3. The Company's overall capital budget broken down by major categories, including distribution and incremental capital expenditures for the Qualifying Projects, both budgeted and actual amounts.
4. For each Qualifying Project or proposed new project:
 - a. The original project summary for each Qualifying Project;
 - b. Capital expenditures incurred to date;
5. Anticipated project timeline with updates and expected changes.
6. A spending schedule detailing the Qualifying Projects and Non-Qualifying Projects to date as compared to the Company's original approved capital spending plans.
7. A summary of expenditures for each of the Qualifying Projects that identify each expenditure from project inception through the end of the current quarter.
8. A calculation of the proposed rate adjustment based on details related to Qualifying Projects included in Plant in Service.
 - a. A calculation of the associated depreciation expense, based on those projects closed to Plant in Service during the period.
9. A list of FTE equivalent jobs created and their duration associated with each Qualifying Project.
10. A list of any and all funds or credits received from the United States government, the State of New Jersey, a county or a municipality, for work related to any of the Qualifying Projects, such as relocation, reimbursement or stimulus money.
 - a. An explanation of the financial treatment associated with the receipt of the government funds or credits.
11. A revenue requirement calculation showing the actual capital expenditures for the period ending August 31 for the year in which the filing is made, as well as supporting calculations.
12. Actual revenues, by month, collected from ratepayers pursuant to the tariff(s).

APPENDIX C

New Jersey Natural Gas

Quarterly Report on Capital Expenditures and Job Creation Related to Qualifying Projects

Proposed Infrastructure Project (a)	Project Type (b)	Estimated Quantity (c)	Tasks Completed (d)	Quantity Completed (e)	Percent of Quantity/Tasks Completed (f)	Total Estimated Actual Cost (g)	Percent of Actual Cost Incurred (h)	Project Completion Date (i)	Total Jobs To Be Created (j)	Jobs Created To Date (k)	Traditional Budget		Actual Spending For The Quarter (q)	
											Budgeted Spending For The Budget Year (m)	Actual Spending For The Quarter (n)		

Notes: 1. For column c & d-if the project cannot be quantified with numbers then it should be broken down into major tasks to be completed, e.g. design phase, material procurement, permit gathering, phases of construction etc.

2. For column N & O the amounts includes only normal spending for the budget year and do not include any spending associated with the qualified projects in Exhibit A.

3. See Attached Gantt Charts (or equivalent) for each project



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center, Suite 801
Newark, NJ 07102
www.bpu.state.nj.us

MINUTES

In the Matter of the Petition of New Jersey Natural Gas Company
 For Approval of an Extension of the Accelerated Energy
 Infrastructure Investment Program and for Approval of Necessary
 Changes in the Company's Tariff for Gas Service
 BPU Docket No. GR10100793

On September 16, 2010 in Docket No. GR10060384, the Board approved provisional cost recovery associated with the Company's Accelerated Infrastructure Investment Program ("AIP"). AIP identified fourteen qualified capital projects costing an estimated \$70.8 million and expecting to generate between 75 and 100 direct jobs. Construction was to begin no later than December 31, 2010 and be completed no later than August 31, 2011. Through December 2010, \$56.0 million of the \$70.8 million has been spent.

The Board, in GR10100793, has approved the extension of AIP to an additional nine qualified projects ("AIP II") costing an estimated \$60.15 million to seamlessly continue the support of economic development and job growth in New Jersey, while bolstering service reliability, system integrity and safety. Construction is to start as soon as practicable following the date of a Board Order in this proceeding, but no later than December 31, 2011, and be completed no later than October 31, 2012. It is anticipated that work on the AIP II projects will create between 60 and 85 direct jobs. The Qualifying Projects and their scope are as follows:

Projects [01/24/11 AMENDED PETITION]				Duration	
Name	Type	Scope	Cost (\$Mil.)	Start	Complete
Holmdel Line Replacement	Trans. Main	8.0 miles	\$18.00	Fall 2011	Fall 2012
Monmouth County Reinforcement	Dist. Main & Ser.	4.9 miles	\$4.10	Sum. 2011	Spring 2012
Old Mill Rd. and 18th Ave. Area Replace.	Dist. Main & Ser.	3.0 miles	\$2.35	Sum. 2011	Spring 2012
Morris County Reinforcement	Dist. Main & Ser.	7.9 miles	\$10.45	Sum. 2011	Spring 2012
Whiting System Loop / Extension	Dist. Main	4.7 miles	\$1.90	Spring 2011	Spring 2012
Unprotected Steel/Cast Iron Main Replace.	Dist. Main & Ser.	20.0 miles	\$14.00	Sum. 2011	Sum. 2012
Reg. Station Replacement / Expansion	Regulator Station	14 Sites	\$5.75	Spring 2011	Sum. 2012
Remote Valve Installations / Telemetry Sys.	Transmission	16 Sites	\$2.00	Sum. 2011	Sum. 2012
In-Line Inspection Equip. Installation	Transmission	Various	\$1.60	Sum. 2011	Sum. 2012
			\$60.15		