Agenda Date: 8/18/11
Agenda Item: 2B

STATE OF NEW JERSEY

Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
Trenton, NJ 08625-0350
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE LETTER PETITION OF NEW JERSEY NATURAL GAS COMPANY TO EXTEND ITS BGSS INCENTIVE PROGRAMS	ORDER APPROVING STIPULATION DOCKET NO. GR11040195

Parties of Record:

Tracey Thayer, Esq. for New Jersey Natural Gas Company
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

As part of its Decision and Order issued on October 3, 2008 in the New Jersey Natural Gas Company's ("NJNG" or "Company") most recent base rate case proceeding, Dkt. No. GR07110899, the New Jersey Board of Public Utilities ("Board") authorized the in-place Basic Gas Supply Service ("BGSS") incentive programs to continue as currently structured through October 31, 2011. The current incentive programs are the Off-System Sales and Capacity Release ("OSS-CR") program, the Financial Risk Management ("FRM") program, and the Storage Incentive ("SI") program described below. The Board further directed the Company to make a filing by no later than June 1, 2011 with respect to the continuation of the current BGSS incentives, and any new BGSS incentives.

On April 1, 2011 NJNG filed a letter petition requesting that the Board extend the Company's existing BGSS incentive programs through October 31, 2016, and permit the Company to propose modifications to the BGSS incentive programs, including new incentives, should performance of the in-place incentives or market conditions warrant re-evaluation of the existing incentive programs.

By this Order the Board considers a stipulation for extension of the BGSS incentive programs.

BACKGROUND

As stated above, the Company's current BGSS incentive programs include the OSS-CR program, the FRM program and the SI program.

The OSS-CR program allows the Company to sell bundled gas supply and off-system capacity to third parties in the market area where the Company has firm transportation and storage assets or capacity that the Company may not need to serve the needs of its firm on-system customers. Through this program, margins generated by off-system sales and released firm capacity are shared, with 85% credited to NJNG customers and 15% retained by the Company.

The FRM program is designed to provide price stability to the Company's gas supply portfolio by encouraging the use of financial instruments to hedge gas costs, subject to spending and volume restrictions. The benefits from the program are shared, with 85% credited to NJNG customers and 15% retained by the Company.

The SI program is designed to provide price stability and gas cost reductions by using financial hedges to establish a benchmark cost for storage injections, against which actual injection costs are measured for the April through October injection season. The difference between the benchmark and the actual cost, gain or loss, is shared between customers and the Company on an 80/20 basis, respectively.

Collectively, from inception through September 30, 2010, these BGSS incentive programs have generated approximately $454 million in BGSS cost-offsets. According to NJNG, these programs are expected to continue to provide substantial savings to customers in coming years given current market conditions.

In the current letter filing, the Company argues that the current BGSS incentive programs have worked well because they motivate and encourage the Company to focus on cost-saving techniques and to minimize market volatility. The Company proposed a 5-year renewal (through October 31, 2016) for the incentive programs, indicating that, absent changing market conditions, frequently re-visiting the reasonableness of the existing BGSS incentive programs is unnecessary.

The Company has responded to all discovery regarding the extension of the current incentive programs. NJNG, the Division of Rate Counsel ("Rate Counsel") and Board staff (collectively, the "Parties"), have reached a settlement.

THE STIPULATION[1]

The Parties stipulate and agree that:

1) the Company's current OSS-CR, FRM and SI incentive programs should be extended for four years through October 31, 2015;

2) the Company will petition the Board at least six months prior to October 31, 2015 if the Company intends to continue the incentive programs;

3) coincident with its annual BGSS filing, the Company will file testimony regarding incentive program performance in light of current and emerging market developments;

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

4) in conjunction with the Company's annual incentive performance testimony (Item 3.), the Company will, if deemed necessary by any of the Parties, initiate and propose a collaborative process to evaluate and discuss possible alternative approaches aimed at enhancing or replacing the Company's BGSS incentive programs;

5) the Company will continue to file monthly reports on each of the BGSS incentive programs with the Board and Rate Counsel.

DISCUSSION AND FINDINGS

The Board, having reviewed the record to-date in this proceeding and the attached Stipulation, HEREBY FINDS that, subject to the terms and conditions set forth below, the Stipulation is reasonable, in the public interest and in accordance with the law. Accordingly, the Board HEREBY ADOPTS the Stipulation as its own, as if fully set forth herein.

This Order does not address the Company's annual BGSS rate filing of June 1, 2011 in Docket No. GR11060331. Accordingly, nothing in this Order implies Board acceptance of the proposed BGSS rate in that filing.

The Board further FINDS that the Company's gas costs and hedging practices will remain subject to audit by the Board. This Decision and Order shall not preclude the Board from any such actions deemed appropriate as a result of any Board-ordered audit.

This Order shall be effective ten days from the date indicated below.

DATED: 8/18/11

BOARD OF PUBLIC UTILITIES
BY:

LEE A. SOLOMON
PRESIDENT

JEANNE M. FOX
COMMISSIONER

JOSEPH L. FIORDALISO
COMMISSIONER

NICHOLAS ASSELTA
COMMISSIONER

ATTEST:

CARMEN DIAZ
ACTING SECRETARY

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

In the Matter of the Letter Petition of New Jersey Natural Gas Company Its Basic Gas Supply Service ("BGSS") Incentive Programs - Docket No. GR11040195

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE LETTER PETITION OF NEW JERSEY NATURAL GAS COMPANY TO EXTEND ITS BGSS INCENTIVE PROGRAMS	))))	BPU DOCKET NO. GR11040195

STIPULATION

APPEARANCES:

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

Henry M. Ogden, Esq., Assistant Deputy Rate Counsel, and **Felicia Thomas-Friel, Esq.**, Deputy Rate Counsel, (**Stefanie A. Brand, Esq.**, Director)

Alex Moreau, Esq. and **Veronica Beke, Esq.**, 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 letter petition on April 1, 2011 in Docket No. GR11040195 ("Letter Petition") requesting that the New Jersey Board of Public Utilities ("BPU" or the "Board") accept NJNG's request for an extension of its current Basic Gas Supply Service ("BGSS") incentive programs.

2. The Company's current BGSS incentive programs are the Off-System Sales and Capacity Release ("OSS-CR") program;[1] the Financial Risk Management ("FRM") program;

[1] Off-system sales refer to the bundling of supply and capacity for sales to third parties in the market area where the Company has firm transportation and storage assets or capacity. Capacity releases are the short-term or long-term sale of available firm pipeline capacity from a releasing shipper to a replacement shipper under Federal Energy Regulatory Commission ("FERC") guidelines.

and the Storage Incentive ("SI") program. The salient features of these BGSS incentive programs are as follows:

a) The OSS-CR program generates benefits for customers by allowing third parties to utilize and pay for transportation or storage capacity the Company occasionally may not need to serve the requirements of its firm on-system customers. The sale of bundled supply and capacity off-system, and the release of firm capacity pursuant to FERC guidelines, enable the Company to mitigate the cost impact of fixed pipeline demand charges the Company would otherwise incur. The Board-approved sharing formula for the OSS-CR incentive is 85 percent and 15 percent between customers and the Company, respectively.

b) The FRM program provides customers with the benefits of financial risk management tools through the acquisition of continued risk management expertise and the application of risk management techniques. The FRM program is designed to provide price stability to the Company's natural gas supply portfolio by encouraging the use of financial instruments to hedge NJNG's natural gas costs. Total program dollars related to FRM transactions cannot exceed $6.4 million at any time during each applicable BGSS period; similarly, the FRM program is also subject to volume guidelines which limit the amount the Company may hedge at any given time under the FRM program in relation to pricing against the approved benchmarks, and relative to the Company's total monthly BGSS market purchases. The Board-approved sharing formula for the FRM program is 85 percent and 15 percent between customers and the Company, respectively.

c) The SI program provides benefits to customers through added price stability and cost reductions by using financial hedges, plus related transportation costs, to establish a benchmark cost for storage injections against which actual storage injection costs are measured for the April through October storage injection season. The SI program yields cost savings by promoting innovative purchasing strategies that take advantage of market opportunities and the options inherent to storage operations. The actual costs of storage injections include commodity costs, actual transportation costs and any gains or losses associated with the trading of program-related financial hedges. The difference between the benchmark and actual costs (positive or negative) is shared between customers and the Company on an 80 percent and 20 percent basis, respectively.

3. These BGSS incentive programs have generated approximately $453.9 million in savings for the Company's customers since inception through BGSS year 2010, with nearly $224 million in the last five years; they are projected to generate more than $42 million for the current BGSS year; and they are expected to continue to provide substantial savings for customers in the coming years given current market conditions.

4. As part of its "Decision and Order" issued on October 3, 2008 in the Company's most recent base rate case proceeding in BPU Docket No. GR07110899, the Board authorized these BGSS incentive programs to continue as currently structured until October 31, 2011, or as of the date of a Board Order in a subsequent proceeding relating to the BGSS incentive programs.

5. In its Letter Petition, the Company asked the Board to authorize an extension of the current BGSS incentive programs for a period of five (5) years, through October 31, 2016. The Company also proposed to add a program feature to its BGSS incentive mechanisms that would permit the Company to propose modifications to the BGSS incentive programs, including new incentives, should market conditions or the performance of the BGSS incentive programs warrant a re-examination and re-evaluation of the existing BGSS incentives structure. The

Company proposed to seek to implement any mutually agreed-upon changes to the BGSS incentive programs after review by the parties and following approval by the Board.

6. NJNG has received and responded to all discovery that has been propounded.

7. Representatives of NJNG, Board Staff and the Division of Rate Counsel ("Rate Counsel") (collectively, the "Parties") have met to discuss the extension of these BGSS incentive mechanisms. As a result of those discussions, the Parties have reached this settlement.

8. Specifically, the Parties **STIPULATE AND AGREE** that the Company's OSS-CR, FRM and SI programs, all as-previously approved by the Board, will be extended for four (4) years through October 31, 2015. The Company will file a Petition at least six (6) months prior to the expiration of the extension if the Company intends to continue the programs.

9. The Parties further agree that NJNG will file annually, with its BGSS filing, testimony regarding the performance of the Company's BGSS incentive programs, current market conditions, and new or emerging market developments. In conjunction with the filing the Company will, if deemed necessary by any of the Parties, initiate and propose a collaborative process to evaluate and discuss possible alternative approaches to enhancing or replacing the Company's BGSS incentive programs to ensure that the Company's customers will continue to benefit under then-prevailing market conditions. The Company will continue to file monthly reports on each of the BGSS incentive programs with the Board and Rate Counsel.

10. The Parties agree that this Stipulation fully disposes of all issues in controversy in this proceeding concerning the Company's BGSS incentive programs. The Parties further acknowledge that a Board Order approving this Stipulation will become effective upon the service of said Board Order, or upon such date after the service thereof as the Board may specify, in accordance with N.J.S.A. 48:2-40.

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

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

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

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

NEW JERSEY NATURAL GAS
PETITIONER

By: ______________________
TRACEY THAYER, ESQ.
NEW JERSEY NATURAL GAS

DIVISION OF RATE COUNSEL
STEFANIE A. BRAND, ESQ.
DIRECTOR

By: ______________________
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STAFF OF THE NEW JERSEY BOARD OF PUBLIC UTILITIES
PAULA T. DOW
ATTORNEY GENERAL OF NEW JERSEY

By: ______________________
ALEX MOREAU
DEPUTY ATTORNEY GENERAL

Date: July 25, 2011