

In an Order dated June 18, 2012 ("June 2012 Order")¹, the Board approved the CNG Program as modified through the Stipulation giving the Company authority to invest up to \$10.0 million in CNG infrastructure at customer sites. The term for the CNG Program was for the twelve month period ending June 2013. The June 2012 Order permitted the Company to file, at a later date, one cost-recovery/rate adjustment filing for base rate and tariff changes related to the installation of CNG Program investments.

In light of the delays and significant impacts on the Company resulting from Superstorm Sandy, by Order dated August 21, 2013, the Board approved the Company's request for an extension of the CNG Program from the original end date of June 30, 2013 through December 31, 2013 ("Extension Order"). The Extension Order stated that all other provisions of the June 2012 Order were to remain in effect.

On October 4, 2013, the Company filed a letter petition with the Board requesting to change the cost recovery mechanism associated with the Program from the "one cost-recovery/rate adjustment" accounting treatment approved in the June 2012 Order to the same accounting and rate recovery treatment agreed to by Board Staff and Rate Counsel and approved by the Board in the Company's Safety Acceleration and Facility Enhancement ("SAFE") Program² in an Order dated October 23, 2013. According to NJNG, three CNG re-fueling station contracts have been executed under the Program, and no new applications for the construction of CNG re-fueling stations are being accepted. Given the Company's commitment to filing a base rate case by November 2015, the requested revision to the cost recovery mechanism for the Program is reasonable.

On April 9, 2014, Rate Counsel submitted a letter to the Board Secretary stating that it did not object to the requested change in the recovery mechanism given the Company's commitment in connection with the SAFE Program to file a base rate case by November 15, 2015. Rate Counsel reserved its rights to review all costs and revenues attributable to the Program in the base rate case.

STIPULATION

On April 4, 2014, the Company and Board Staff reached a stipulation³ of settlement ("2014 Stipulation") agreeing that:

The Company's CNG Program investment costs should be subject to the same rate recovery treatment agreed to by Board Staff and Rate Counsel and approved by the Board in the SAFE Program.⁴

¹In re the Petition of New Jersey Natural Gas Company for Approval of a Pilot Program for the Installation of Compressed Natural Gas Infrastructure and an Associated Recovery Mechanism with the Approval of Changes in the Company's Tariff for Gas Service Pursuant to N.J.S.A. 48:2-21 and 48:2-23 et seq. Docket No. GR11060361.

²In re the Petition of New Jersey Natural Gas Company for Approval of the Safety Acceleration and Facility Enhancement Program Pursuant to N.J.S.A. 48:2-23, and for Approval of the Associated Recovery Mechanism Pursuant to N.J.S.A. 48:2-21 and 2-21.1. Docket No. GO12030255.

³ Although summarized in this Order, should there be a conflict between this summary and the 2014 Stipulation, the terms of the 2014 Stipulation control, subject to the findings and conclusions of this Order.

⁴ In re the Petition of New Jersey Natural Gas Company for Approval of the Safety Acceleration and Facility Enhancement Program Pursuant to N.J.S.A. 48:2-23, and for Approval of the Associated Recovery Mechanism Pursuant to N.J.S.A. 48:2-21 and 2-21.1. Docket No. GO12030255.

As of December 31, 2013, the Company was no longer accepting new applications for the construction of additional CNG re-fueling stations.

All reasonable and prudently incurred CNG Program costs are to be tracked in separate work orders subject to the following treatment for rate making purposes:

During construction, the Allowance for Funds Used During Construction ("AFUDC") rate will be based on the Federal Energy Regulatory Commission modified formula currently in use by NJNG.

AFUDC will be accrued on a monthly basis.

At the time a CNG Project is in-service, the AFUDC rate will be 7.10 percent.

CNG Projects that are in-service will include a ratable monthly deduction for Accumulated Deferred Income Taxes ("ADIT") prior to calculating the monthly AFUDC.

The calculation of ADIT will include the U.S. Internal Revenue Service repair allowance deduction for 50 percent of the tax basis, if applicable, with Modified Accelerated Cost Recovery System depreciation for the remainder of the balance for these investments.

The depreciation expense for CNG Projects will be based upon NJNG's depreciation rates. During the deferral period when CNG Projects are closed to Plant in Service, depreciation expense will be charged (debited) with a corresponding credit to the accumulated depreciation reserve. The recorded depreciation expense will then be deferred in a separate regulatory asset account by charging (debiting) a regulatory asset and crediting the depreciation expense. At the time CNG Projects are recognized in rate base within a regulatory proceeding, the regulatory asset related to the deferred depreciation expense that had been created pursuant to the accounting treatment set forth herein will be eliminated by crediting the balance with a corresponding charge (debit) to the accumulated depreciation reserve and, therefore, the regulatory asset related to the depreciation expense and the accumulated depreciation reserve related to the CNG investments that were created for this purpose will have no impact on income or rate base. As a result of these entries there will be no recovery of depreciation expense or adjustments to rate base associated with the accumulated depreciation reserve until the deferred CNG Project investments are included in rate base within a regulatory proceeding.

The rate to be used for calculating AFUDC accruals for book accounting purposes after construction applicable to CNG Projects, will be 7.10 percent per annum.

There should be no change to the \$10.0 million investment level approved in the June 2012 Order.

There is no rate impact on ratepayers at this time.

A \$0.20 per therm charge is to be included on all CNG provided at a host facility. The resulting revenues received by the Company are to be used to off-set the CNG Program revenue requirements through the operation of the Company's Compressed Natural Gas Credit, Rider "G". The Company agrees to delay implementation of the Rider "G" credit until the resolution of the Company's upcoming November 2015 base rate case. Specifically, the rate credit will not be implemented as a result of this Stipulation; rather, the rate credit resulting from any

application of Rider G will be recorded and deferred with the full deferred amount returned to customers at the resolution of the Company's November 2015 base rate case.

The Company will continue to submit quarterly reports to Board staff and Rate Counsel and also submit a Final Report to Board Staff and Rate Counsel no later than December 31, 2014, that is to include data on facility utilization.

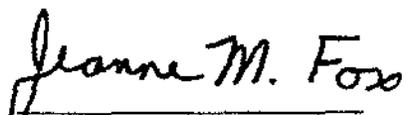
DISCUSSION AND FINDING

The Board **HEREBY FINDS** that the 2014 Stipulation modifying only the methodology for recovery of Program costs is reasonable, and in accordance with the law as it allows the Company to track and defer the Program investments during construction but preserves review and rate recovery for the November 2015 base rate case. Therefore, the Board **HEREBY ADOPTS** the 2014 Stipulation as its own, as if fully set forth therein, and **HEREBY APPROVES** the proposed capital investment cost recovery methodology and deferred accounting treatment as described herein.

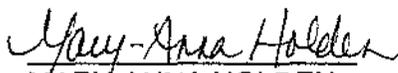
DATED: 4/24/14

BOARD OF PUBLIC UTILITIES
BY:


DIANNE SOLOMON
PRESIDENT

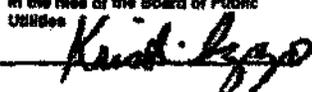

JEANNE M. FOX
COMMISSIONER


JOSEPH L. FIORDALISO
COMMISSIONER


MARY-ANNA HOLDEN
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 A PILOT PROGRAM FOR THE INSTALLATION OF COMPRESSED
NATURAL GAS INFRASTRUCTURE AND AN ASSOCIATED RECOVERY MECHANISM WITH
THE APPROVAL OF CHANGES IN THE COMPANY'S TARIFF FOR GAS SERVICE
DOCKET NO. GR11060361 - SERVICE LIST

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CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

STEFANIE A. BRAND
Director

April 9, 2014

Via Hand Delivery & Electronic Mail

Honorable Kristi Izzo, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
CN 350
Trenton, New Jersey 08625-0350

Re: In the Matter of the Matter of the Petition of New Jersey Natural Gas Company for Approval of a Pilot Program for the Installation of Compressed Natural Gas Infrastructure and an Associated Recovery Mechanism with the Approval of Changes in the Company's Tariff for Gas Service.
BPU Docket No. GR11060361

Dear Secretary Izzo:

The New Jersey Division of Rate Counsel ("Rate Counsel") hereby submits an original and ten (10) copies of this letter concerning the above-mentioned matter. We are enclosing one additional copy of this letter. Please stamp and date the extra copy as "filed" and return to us in the self-addressed prepaid postage stamped envelope.

By letter dated October 4, 2103, New Jersey Natural Gas ("NJNG", the "Company") filed a letter with the Board requesting a change in the previously-approved accounting treatment for its pilot program for the construction and operation of compressed natural gas ("CNG") refueling facilities for CNG-fueled vehicles ("CNG Program"). Specifically, NJNG seeks approval to apply the accounting treatment approved for its Safety Acceleration and Facility Enhancement ("SAFE") program to its CNG Program. Currently, pursuant to a Board Order, the CNG Program is subject to the same accounting treatment approved by the Board for the Company's Accelerated Infrastructure Investment ("AIP", "AIP II") programs.

Honorable Kristi Izzo, Secretary

April 9, 2014

Page 2

Rate Counsel was not a signatory party to the Stipulation adopted by the Board which initiated the CNG Program. Rate Counsel set forth its objections to the Stipulation in a letter filed with the Board on May 18, 2012. As expressed in a letter filed on January 31, 2012 and referenced in its May 18, 2012 letter, Rate Counsel objected to what amounts to ratepayer subsidies for the CNG Program under the proposed rate recovery mechanism. Rate Counsel believed that CNG customers should bear the cost of this program. Without relinquishing any rights with respect to the CNG program in NJNG's next base rate case, Rate Counsel did not object to a subsequent letter filing by NJNG which sought an extension of the time period to complete the CNG Program.

Rate Counsel does not object to NJNG's request for a change in the accounting treatment for the Company's CNG Program. The Board Order ("NJNG SAFE Order") approving NJNG's SAFE Program (I/M/O NJNG, BPU Dkt. GO12030255, 10/23/12) requires NJNG to file a base rate case no later than November 15, 2015. Rate Counsel reserves its right to review all costs and revenues attributable to the CNG Program in the Company's next base rate case, as provided for in the Board's June 18, 2012 Order approving the CNG Program. Furthermore, Rate Counsel's position with respect to the requested accounting change does not prejudice its right to raise issues related to the CNG Program in NJNG's next base rate case.

Thank you for your consideration in this matter.

Respectfully Submitted,

Stefanie A. Brand
Director, Division of Rate Counsel

By:



Kurt S. Lewandowski, Esq.
Assistant Deputy Rate Counsel

c: Service List (by e-mail, and by hand delivery or regular mail)



April 4, 2014

SENT VIA EMAIL

Kristi Izzo, Secretary
N.J. Board of Public Utilities
44 South Clinton Avenue, 9th floor
P.O. Box 350
Trenton, NJ 08625-0350

Re: In The Matter of the Petition of
New Jersey Natural Gas Company for
Approval of a Pilot Program for the Installation of
Compressed Natural Gas Infrastructure and an
Associated Cost Recovery Mechanism
BPU Docket No. GR11060361

Dear Ms. Izzo:

Enclosed with this letter is a PDF copy of the fully executed Stipulation in the above captioned matter. The original hard copy will be mailed to you when the separate signature pages for each signatory been received.

Please do not hesitate to contact me at (732) 919-8025 if you need any additional information.

Very truly yours,

A handwritten signature in blue ink that reads 'Tracey Thayer'.

Tracey Thayer
Director, Regulatory Affairs Counsel

C: Service List

**IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY
FOR APPROVAL OF A PILOT PROGRAM FOR THE INSTALLATION OF
COMPRESSED NATURAL GAS INFRASTRUCTURE AND AN ASSOCIATED
RECOVERY MECHANISM WITH THE APPROVAL OF CHANGES IN THE
COMPANY'S TARIFF FOR GAS SERVICE
DOCKET NO. GR11060361**

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**IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY
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COMPRESSED NATURAL GAS INFRASTRUCTURE AND AN ASSOCIATED
RECOVERY MECHANISM WITH THE APPROVAL OF CHANGES IN THE
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DOCKET NO. GR11060361**

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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 A PILOT PROGRAM)	
FOR THE INSTALLATION OF COMPRESSED)	BPU DOCKET NO.
NATURAL GAS INFRASTRUCTURE AND AN)	
ASSOCIATED RECOVERY MECHANISM)	GR11060361
WITH THE APPROVAL OF CHANGES)	
IN THE COMPANY'S TARIFF FOR GAS SERVICE,)	
PURSUANT TO N.J.S.A. 48:2-21 AND 48:2-23 <u>ET SEQ.</u>)	

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 **Kurt Lewandowski, Esq.,** Assistant Deputy Rate Counsel, New Jersey Division of Rate Counsel (**Stefanie A. Brand, Esq.,** Director)

Alex Moreau and Veronica Beke, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (**John J. Hoffman,** Acting Attorney General of the State of New Jersey)

TO: THE NEW JERSEY BOARD OF PUBLIC UTILITIES

Background

In an Order dated June 18, 2012 ("June 2012 Order") in the above captioned matter, the New Jersey Board of Public Utilities (the "Board" or "BPU") approved a program through which New Jersey Natural Gas Company (the "Company" or "NJNG") received the authority to invest up to \$10 million in compressed natural gas ("CNG") infrastructure at customer sites ("CNG

Program”). The initial term for this CNG Program was for the twelve-month period ending June 2013. At the time of the CNG Program approval, there was no associated impact on NJNG’s base tariff rates for gas service since the June 2012 Order permitted the Company to file, at a later date, one cost-recovery/rate adjustment filing for base rate and tariff changes related to the installation of CNG Program investments.

By letter dated July 9, 2013, the Company requested an extension of the initial twelve-month term for the CNG Program, thus continuing the applicable time frame from June 2013 through December 31, 2013. This request was made in light of the delays and significant impacts on NJNG and many of its customers, including those interested in the CNG Program, resulting from Superstorm Sandy. By Order dated August 21, 2013, the Board approved the request for an extension of the CNG Program through December 31, 2013 (“Extension Order”). The Extension Order stated that all other provisions of the June 2012 Order remain in effect.¹

Three CNG re-fueling station contracts have been executed and station designs have been developed for locations in Middletown Township (the Middletown Township Department of Public Works), Freehold (Shore Point Distributing) and Toms River (Waste Management, Inc.).

Letter Petition

On October 4, 2013, the Company filed a letter petition with the BPU requesting approval of a change in the previously-approved Board accounting treatment (“Letter Petition”). The June 2012 and Extension Orders provided that the Company would make one cost recovery/rate adjustment filing for base rate and tariff changes related to the installation of CNG Program investments. The June 2012 Order authorized NJNG to utilize an accounting treatment

¹ The New Jersey Division of Rate Counsel (“Rate Counsel”) objected to and was not a signatory party to the Stipulation approved in the June 2012 Order. However, Rate Counsel did submit a letter not objecting to the extension request.

for the CNG Program similar to that approved by the Board for NJNG's Accelerated Infrastructure Investment Programs ("AIP" and "AIP II"), including a weighted average cost of capital ("WACC") of 7.1 percent.² In the Letter Petition, the Company requested that its CNG Program investment costs instead be subject to the same accounting and rate recovery treatment agreed to by Board Staff and the New Jersey Division of Rate Counsel ("Rate Counsel") and approved by the Board in the Company's Safety Acceleration and Facility Enhancement ("SAFE") Program³ in an Order dated October 23, 2013.

This proposed change to the CNG Program accounting and rate recovery mechanism is tied to several factors. First, NJNG agreed to file a base rate case by November 15, 2015 with CNG Program costs included in that case for review and final approval. Second, the delays in CNG Program marketing and customer participation caused by Superstorm Sandy resulted in a lower level of expenditures to date such that any resulting rate change sought in the next few months would be relatively minor.⁴ Third, since the initial approval of the CNG Program, NJNG has received approval to implement the SAFE program and the associated accounting and rate recovery mechanism.

Approval of this modification to the accounting and rate recovery methodology for CNG investments will have no rate impact at this time. Instead, the investments made will be included for rate recovery in the Company's upcoming November 2015 base rate case and not effective until the Board issues its final order in that proceeding. Such prospective base rate case review will be

² NJNG's AIP was approved in an April 28, 2009 Board Order in Docket Nos. GR07110889 and GR09020052 and AIP II was approved in an Order dated March 30, 2011 in Docket Nos. GR07110889 and GR10100793.

³ In The Matter Of The Petition Of New Jersey Natural Gas Company For Approval Of The Safety Acceleration And Facility Enhancement Program Pursuant To N.J.S.A. 48:2-23, And For Approval Of The Associated Recovery Mechanism Pursuant To N.J.S.A. 48:2-21 and 2-21.1, Docket No. GO12030255.

⁴ As set forth in the Company's Amended Quarterly Report dated February 18, 2014, NJNG has issued work orders totaling \$2.85 million as of December 31, 2013.

conducted as a contested case in accordance with the New Jersey Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq.

As noted in its Amended BPU Quarterly Report dated February 18, 2014 for the period October 1, 2013 through December 31, 2013, the Company's efforts to market the CNG Program ended as of December 31, 2013 and NJNG is not promoting the program nor is it accepting any new applications for the construction of additional CNG re-fueling stations.

Pursuant to the June 2012 Order, a \$0.20 per therm charge is included on all CNG provided at the Host Facility. The resulting revenues received by the Company are to be used to off-set the CNG Program revenue requirements through the operation of the Company's Compressed Natural Gas Credit, Rider "G". In the Letter Petition, the Company proposed to delay implementation of its Rider "G" credit until the conclusion of its upcoming November 2015 base rate case. While the rate credit will not be implemented currently, Rider "G" operates in such a manner that all sales made under the CNG Program will be recorded and deferred with the full deferral amount to be returned to customers in the future.

STIPULATED ISSUES

Based upon discussions between Board Staff and the Company ("the Signatory Parties"), the Signatory Parties **STIPULATE AND AGREE** to the following:

1. The Signatory Parties agree that the same accounting treatment agreed to by Board Staff and Rate Counsel, and approved by the Board in the Company's SAFE Program, be utilized by the Company for its CNG Program. Therefore, all reasonable and prudently-incurred investment costs associated with the CNG Projects including, but not limited to, the costs of engineering, design and construction, including labor, materials and other overheads, will be tracked in separate work orders subject to the following accounting treatment for ratemaking purposes:

- (i) During construction, the AFUDC rate will be based on the Federal Energy Regulatory Commission ("FERC") modified formula currently in use by NJNG.
- (ii) AFUDC will be accrued on a monthly basis.
- (iii) At the time a CNG Project is in-service, the AFUDC rate will be 7.10 percent.
- (iv) CNG Projects that are in-service will include a ratable monthly deduction for Accumulated Deferred Income Taxes ("ADIT") prior to calculating monthly AFUDC.
- (v) The calculation of ADIT will include the U.S. Internal Revenue Service repair allowance deduction for 50 percent of the tax basis, if applicable, with Modified Accelerated Cost Recovery System depreciation for the remainder of the balance for these investments.
- (vi) The depreciation expense for CNG Projects will be based upon NJNG's depreciation rates. During the deferral period when CNG Projects are closed to Plant in Service, depreciation expense will be charged (debited) with a corresponding credit to the accumulated depreciation reserve. The recorded depreciation expense will then be deferred in a separate regulatory asset account by charging (debiting) a regulatory asset and crediting the depreciation expense. At the time CNG Projects are recognized in rate base within a regulatory proceeding, the regulatory asset related to the deferred depreciation expense that had been created pursuant to the accounting treatment set forth herein will be eliminated by crediting the balance with a

corresponding charge (debit) to the accumulated depreciation reserve and, therefore, the regulatory asset related to the depreciation expense and the accumulated depreciation reserve related to the CNG investments that were created for this purpose will have no impact on income or rate base. As a result of these entries there will be no recovery of depreciation expense or adjustments to rate base associated with the accumulated depreciation reserve until the deferred CNG Project investments are included in rate base within a regulatory proceeding.

(vii) The rate to be used for calculating AFUDC accruals for book accounting purposes after construction applicable to CNG Projects, will be 7.10 percent per annum.

2. The Signatory Parties agree that there will be no change through this agreement to the \$10 million investment level approved in the June 2012 Order. There is no rate impact on customers at this time.

3. NJNG agrees to delay implementation of the Company's Compressed Natural Gas Credit Rider "G" credit until the resolution of the Company's upcoming November 2015 base rate case. Specifically, the rate credit will not be implemented as a result of this Stipulation; rather, the rate credit resulting from any application of Rider G will be recorded and deferred with the full deferred amount returned to customers at the resolution of the Company's November 2015 base rate case.

4. NJNG will continue to submit reports to Board Staff and Rate Counsel on a quarterly basis ("Quarterly Reports") with the final Quarterly Report to be filed after the close of the fourth quarter of 2014 when all CNG Projects are in service. The June 2012 and Extension Orders

provided that the Company would submit a Final Report to Board Staff and Rate Counsel no later than three months after the Program's termination. Due to Host facility station design and permitting delays, the Signatory Parties agree that NJNG will submit a Final Report to Board Staff and Rate Counsel no later than December 31, 2014 which will provide final numbers for the categories set forth in the Quarterly Reports, along with data on the utilization of the CNG re-fueling infrastructure.

5. The Signatory Parties further agree that this Stipulation fully disposes of all issues in controversy in this proceeding. 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, either Signatory Party aggrieved thereby will not be bound to proceed with this Stipulation and will 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 either Signatory 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.

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

7. 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 nor Board Staff will be deemed to have

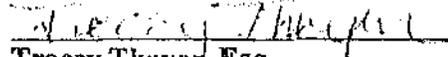
approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein.

WHEREFORE, the 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.

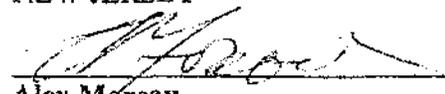
**NEW JERSEY NATURAL GAS
PETITIONER**

**STAFF OF THE NEW JERSEY BOARD
OF PUBLIC UTILITIES
JOHN J. HOFFMAN
ACTING ATTORNEY GENERAL
OF NEW JERSEY**

By:


Tracy Thayer, Esq.
New Jersey Natural Gas

By:


Alex Moreau
Deputy Attorney General

Date: April 4/2014