



Agenda Date: 7/23/14
Agenda Item: 21

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE BOARD'S ESTABLISHMENT)	DECISION AND ORDER
OF A GENERIC PROCEEDING TO REVIEW THE)	APPROVING STIPULATION
COSTS, BENEFITS AND RELIABILITY IMPACTS OF)	
MAJOR STORM EVENT MITIGATION EFFORTS; AND)	DOCKET NO. AX13030197
)	
IN THE MATTER OF THE PETITION OF NEW JERSEY)	
NATURAL GAS COMPANY FOR APPROVAL OF THE)	
NJ RISE PROGRAM AND ASSOCIATED RATE)	
RECOVERY MECHANISM)	DOCKET NO. GR13090828

Parties of Record:

Tracey Thayer, Esq., Director, New Jersey Natural Gas Company
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel
Steven S. Goldenberg, Esq., Fox Rothschild, LLP on behalf of New Jersey Large Energy Users Coalition

BY THE BOARD:

The Board of Public Utilities ("Board") is empowered to ensure that regulated public utilities provide safe, adequate and proper service to the citizens of New Jersey. N.J.S.A. 48:2-23. Pursuant to N.J.S.A. 48:2-13, the Board has been vested by the Legislature with the general supervision and regulation of and jurisdiction and control over all public utilities, "so far as may be necessary for the purpose of carrying out the provisions of [Title 48]." The courts of this State have held that the grant of power by the Legislature to the Board is to be read broadly, and that the provisions of the statute governing public utilities are to be construed liberally. See, e.g. In re: Public Service Electric and Gas Company, 35 N.J. 358, 371 (1961); Township of Deptford v. Woodbury Terrace Sewerage Corp., 54 N.J. 418, 424 (1969); Bergen County v. Dep't of Public Utilities, 117 N.J. Super. 304 (App. Div. 1971). The Board is also vested with the authority, pursuant to N.J.S.A. 48:2-19, to investigate any public utility, and, pursuant to N.J.S.A. 48:2-16 and 48:2-40, to issue orders to public utilities.

In 2011 and 2012 New Jersey was struck by five unusually damaging major storm events which caused severe damage to the State's utility infrastructure, Hurricane Irene on August 28, 2011, an unseasonal and powerful snowstorm on October 29, 2011, a derecho wind storm on June 20, 2012, Superstorm Sandy on October 29, 2012 and ten days later a powerful nor'easter on November 7, 2012.

On January 23, 2013, the Board issued an Order¹ ("January 23 Order") addressing five categories of potential improvements to be undertaken by New Jersey's electric distribution companies ("EDCs") in response to large-scale weather events. The areas for potential improvements include: 1) Preparedness Efforts; 2) Communications; 3) Restoration and Response; 4) Post Event; and 5) Underlying Infrastructure Issues.

In the January 23 Order, among other actions, the Board directed the EDCs to provide a detailed cost benefit analysis for a variety of utility infrastructure upgrades. The Board further required the EDCs to "carefully examine their infrastructure and use data available to determine how substations can be better protected from flooding, how vegetation management is impacting electric systems, and how Distribution Automation can be incorporated to improve reliability." January 23 Order at 56.

On March 20, 2013, the Board issued an Order² ("March 20 Order"), which initiated a generic proceeding (hereinafter "Storm Mitigation Proceeding") to investigate possible avenues to support and protect New Jersey's utility infrastructure so that it may be better able to withstand the effects of future Major Storm Events,³ and focused on a portion of the January 23 Order-Underlying Infrastructure Issues – but for all utility companies, not exclusively for the EDCs. It also invited all regulated utilities to submit detailed proposals for infrastructure upgrades designed to protect the State's utility infrastructure from future Major Storm Events, pursuant to the terms and level of detail requested in the January 23 Order, and found that all petitions filed in the future should be retained by the Board for review and hearing as authorized by N.J.S.A. 52:14F-8. March 20 Order at 3.

On September 3, 2013, New Jersey Natural Gas ("NJNG" or "Company") petitioned the Board for approval of its NJ Reinvestment in System Enhancement ("NJ RISE") program, and to allow for the recovery of costs incurred to bolster its "gas infrastructure to make it less susceptible to extreme weather conditions in anticipation of these changing weather patterns" and future major storm events. NJNG proposed to implement six investment projects and requested approval of approximately \$102.5 million in infrastructure upgrades and associated operation and maintenance expenses. The Company requested authorization from the Board to utilize the accounting treatment previously approved by the Board and agreed to by the Division of Rate Counsel ("Rate Counsel") and Board staff ("Staff") for NJNG's infrastructure work in the Company's Accelerated Infrastructure Investment Program ("AIP"),⁴ with the costs to be collected from ratepayers through an annual "NJ RISE base rate adjustment" mechanism.

¹ I/M/O the Board's Review of the Utilities Response to Hurricane Irene, Order Accepting Consultants' Report and Additional Staff Recommendations and Requiring Electric Utilities to Implement Recommendations, Docket No. EO11090543 (January 23, 2013).

² In the Matter of the Board's Establishment of a Generic Proceeding to Review Costs, Benefits, and Reliability Impacts of Major Storm Event Mitigation Efforts, Docket No. AX13030197 (March 20, 2013) ("March 20 Order").

³ Major Storm Event is defined as sustained impact on or interruption of utility service resulting from conditions beyond the control of the utility that affect at least 10 percent of the customers in an operating area. March 20 Order at 2.

⁴ I/M/O the Proceeding for Infrastructure Investment and a Cost Recovery Mechanism for All Gas and Electric Utilities and I/M/O the Petition of New Jersey Natural Gas Company for Approval of an Accelerated Energy Infrastructure Investment Program and for Approval of Necessary Changes to Gas Rates and Changes to Gas Rates in the Company's Tariff, Docket Nos. EO09010049, GO09010052, GR07110889 and GR10100793.

By Order dated November 22, 2013, the Board retained the matter for hearing, and designated President Solomon as the presiding Commissioner with authority to rule on all motions that arise during the proceeding and set an appropriate schedule. On January 2, 2014, President Solomon issued an Order Setting Bar Date for Motions to Intervene, Manner of Service and Preliminary Schedule. President Solomon issued a prehearing Order along with a procedural schedule for this matter on January 31, 2014. On January 16, 2014, the New Jersey Large Energy Users Coalition ("NJLEUC") filed a motion to participate in this matter, as well as a motion for the admission *pro hac vice* of Paul F. Forshay, Esq. On February 4, 2014, NJNG filed a letter with the Board indicating that it did not oppose NJLEUC's motions. The motions were granted by President Solomon on February 7, 2014. Based on requests of the parties, the schedule was extended at various times by President Solomon after notice.

Public hearings were conducted in this matter, after notice, in Rockaway Borough, New Jersey on February 18, 2014, and in Freehold Township, New Jersey on February 19, 2014. No members of the public attended the public hearings and the Board did not receive any written comments on the proposed NJ Rise Program.

Throughout the course of this matter, the Company, Rate Counsel and Staff have engaged in discovery.

STIPULATION

Following the review of discovery, the parties met to discuss the issues in this matter. As a result, on July 14, 2014, the Company, Rate Counsel, NJLEUC and Staff (collectively, "Signatory Parties") executed a stipulation of settlement ("Stipulation")⁵

The Stipulation provides the following⁷:

- (1) The work associated with the NJ RISE Projects will commence upon receipt of a Final Board Order in this proceeding. Based on current cost levels and available estimates, the Company estimates that the overall construction costs, prior to any capitalization of Allowance for Funds Used During Construction ("AFUDC"), related to the NJ RISE projects will be approximately \$102.5 million. The Signatory Parties agree that the NJ RISE projects proposed are based on a preliminary investment level of up to \$102.5 million, excluding AFUDC.
- (2) The Signatory Parties recognize that the \$102.5 million amount proposed by the Company for the six NJ RISE projects is an estimate based upon a high level, preliminary pre-engineering study basis. Four of the six projects involve water crossings and for two of these four projects, multiple route design possibilities have been identified by the Company, with a final route design chosen only after a detailed engineering study is undertaken. The Parties agree that in this proceeding, the NJ RISE project costs shall not exceed \$102.5 million. NJNG reserves its right to request additional relief in a subsequent proceeding.

⁵ Although described at some length in this Order, should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusions of this Order.

- (3) The estimated construction cost target, pending completion of engineering studies and route selection, for each of the six NJ RISE projects as of this agreement are as follows: 1) Sea Bright Project - \$3.5 million; 2) North Seaside Project - \$6.0 million; 3) South Seaside Project - \$25 million; 4) Long Beach Island Project - \$30.0 million; 5) Long Beach Island Regulator Station - \$3.0 million; and 6) Excess Flow Valve ("EFV") Project - \$35.0 million.
- (4) The Signatory Parties are agreeing in this Stipulation that the portion of the \$102.5 million costs associated with the NJ RISE projects that are in-service, plus associated AFUDC, as of July 31, 2015, will be recovered through the mechanism and filing schedule described in the Stipulation. NJNG has committed to filing a base rate case no later than November 15, 2015 ("November 2015 base rate case") and the investment costs associated with NJ RISE projects incurred after July 31, 2015, up to the rate effective date of the November 2015 base rate case Order will be addressed in that proceeding. Additionally, the actual costs associated with the remaining future NJ RISE investments not included in the first annual filing or the November 2015 base rate case, and the mechanism to be implemented for recovery of said costs, will also be addressed in the November 2015 base rate case.
- (5) NJNG agrees to submit one filing to recover costs incurred pursuant to the schedule provided in the Stipulation. Rate Counsel and Staff will have the opportunity to request discovery on the information provided by NJNG in the filing. The schedule reflected in the Stipulation anticipates public notice, public hearings and base rate adjustments to cover any rate change for NJ RISE stemming from the filing.
- (6) The filing discussed the Stipulation will include a request for recovery in base rates of the costs associated with the NJ RISE projects ("Capital Investment Costs") through July 31, 2015, consisting of prudently-incurred capital expenditures, including actual costs of engineering, design and construction, cost of removal (net of salvage), property acquisition, actual labor, materials overheads and capitalized AFUDC. Capital Investment Costs will be recorded, during construction, in an associated Construction Work in Progress Account ("CWIP") and transferred to a Plant in Service account.
- (7) NJNG uses a "Modified FERC formula" to determine its AFUDC rate, specifically, (1) when the Company's total CWIP balance, including CWIP associated with NJ RISE projects, is less than or equal to the Company's outstanding short-term debt ("S/T debt") balance, the applicable AFUDC rate will be equal to the Company's monthly cost of S/T debt, and (2) when the Company's total CWIP balance, including CWIP associated with NJ RISE projects, is greater than the Company's outstanding S/T debt, the applicable AFUDC rate 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 the Company's overall weighted-average cost of capital ("WACC"), as defined in paragraph 22 of the Stipulation, for the portion of NJ RISE CWIP in excess of NJNG's month-end S/T debt balance, and (3) if NJNG has no S/T debt at month end, the AFUDC rate will be the Company's WACC for NJ RISE. NJNG's Modified FERC formula has been used to calculate AFUDC using the prior month-end investment balance (including prior capitalized AFUDC) multiplied by the current monthly AFUDC rate. This AFUDC method has been applied to capital projects since the approval of NJNG's 2008 base rate case and including AIP I, II and Safety Acceleration and Facility Enhancement

Program ("SAFE")⁶ projects. Notwithstanding the aforementioned AFUDC compounding treatment, for purposes of settling this matter, the Signatory Parties agree that the NJNG Modified FERC formula shall continue and will be further modified to include the compounding of AFUDC on a semi-annual basis for NJ RISE. It is further agreed to by the Parties that when NJ RISE projects are transferred from CWIP to Utility Plant in Service, the booking of AFUDC shall cease and the booking of depreciation shall commence.

- (8) Costs to be recovered will include the return on the net plant as of the end of the annual period described in Paragraph 18 of the Stipulation. Net plant will be calculated as gross plant in service less accumulated depreciation less deferred income taxes. Depreciation will be included at 2.34 percent. The revenue requirement will also include federal and state income taxes, as well as a Revenue Factor for the gross up of BPU and Rate Counsel assessments. Operation and Maintenance expenses will not be included in the calculation of the annual revenue requirement nor will such costs be deferred.
- (9) NJNG agrees that the return on the NJ RISE incremental investments associated with the cost recovery outlined in Paragraph 18(a) of the Stipulation will be at a weighted average cost of capital of 6.74 percent including a 9.75 percent return on equity. This WACC is based upon the capital structure utilized the Company's SAFE Program accounting treatment as agreed to by the Parties and approved by the Board in that proceeding. The Signatory Parties agree that no determinations of the prudence of the costs associated with the projects undertaken in NJ RISE will take place prior to or during the filing described in Paragraph 18(a) herein. As such, NJNG agrees that the base rate adjustments established in the NJ RISE filing prior to the November 2015 base rate case will be provisional and subject to refund solely based on a future finding by the Board that NJNG imprudently incurred capital expenditures through NJ RISE. The associated prudence review will take place in the November 2015 base rate case. The level of and associated recovery mechanism of subsequent NJ RISE costs incurred following the rate effective date in the November 2015 base rate case will be addressed in the November 2015 base rate case.
- (10) The Signatory Parties agree that any and EFV costs incurred under the Company's SAFE Program, previously approved by the Board⁷, will be separately tracked and not recorded under the Company's NJ RISE Program. NJNG will provide a bi-annual report to Staff and Rate Counsel identifying the municipalities in the NJNG service territory where EFVs are installed. The first bi-annual report will be submitted six months from the date of the Board's Order in this matter.

⁶ I/M/O 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, BPU Docket No. GO12030255.

⁷ I/M/O the Proceeding for Infrastructure Investment and a Cost Recovery Mechanism for All Gas and Electric Utilities and I/M/O the Petition of New Jersey Natural Gas Company for Approval of an Accelerated Energy Infrastructure Investment Program and for Approval of Necessary Changes to Gas Rates and Changes to Gas Rates in the Company's Tariff, Docket Nos. EO09010049, GO09010052, GR07110889 and GR10100793.

- (11) The Company will provide to the Signatory Parties, as part of its cost recovery filing described in Paragraph 18 of the Stipulation entitled Minimum Filing Requirements ("MFRs"). The MFRs are attached to the Stipulation as Exhibit A and incorporated therein by reference.
- (12) The Signatory Parties agree that there is no rate impact on customers at this time. The Signatory Parties further agree that NJNG will recover the costs associated with NJ RISE Projects by adjusting, on a volumetric basis, the then-current rate for all customer classes, allocated in the manner prescribed in the Company's last base rate case⁸ and specified in the October 2008 Order. Accordingly, the impact of the NJ RISE base rate adjustments will reflect an across-the-board adjustment to customer classes that will impact natural gas revenues for each class by the same percentage. The volumes used to determine base volumetric revenues for each customer class will be based on the sales forecast for NJNG's upcoming annual Basic Gas Supply Service period.
- (13) The Signatory Parties further stipulate and agree that the NJ RISE project costs for the remaining years to complete the NJ RISE projects, and the future rate treatment of the NJ RISE Program, not agreed to herein, will be addressed in the November 2015 base rate case and will be subject to a prudence review and consideration by the Board in that proceeding.

DISCUSSION AND FINDINGS

In evaluating a proposed settlement, the Board must review the record, balance the interests of the ratepayers and the shareholders, and determine whether the settlement represents a reasonable disposition of the issues that will enable the Company to provide its customers in this State with safe, adequate and proper service at just and reasonable rates. In re: Petition of Pub. Serv. Elec. & Gas, 304 N.J. Super. 247 (App. Div.), cert. denied, 152 N.J. 12 (1997). The March 20 Order found that it was appropriate to invite all regulated utilities to submit detailed proposals for infrastructure upgrades designed to protect the State's utility infrastructure from future Major Storm Events, pursuant to the terms and level of detail requested in the January 23 Order. The March 20 Order required Board Staff to review the efficacy of the measures proposed by the utilities and examine the costs to be potentially incurred by the utilities in association with efforts to protect utility infrastructure in from future Major Storm Events, as well as any potential benefits .

The Signatory Parties agree that the natural gas infrastructure, related facilities investments and associated costs proposed by the NJ RISE Program are appropriate and in the public interest. The Board is persuaded that the NJ RISE Program, if successfully executed, will help protect NJNG's infrastructure from future Major Storm Events. The program provides for reporting by the Company and oversight by Staff and Rate Counsel, with improvements to be made where found to be needed based on the effectiveness of the methods, plans and processes used by the Company before, during and after a qualifying event. Based on the Board's review of the petition and Stipulation, Board is persuaded that the current proposal satisfies those goals as well as the directives contained in the March 20 Order.

⁸ I/M/O the Petition of New Jersey Natural Gas Company for Approval of an Increase in Gas Rates, Depreciation Rates for Gas Property, and for Changes in the Tariff for Gas Service Pursuant to N.J.S.A. 48:2-18 and N.J.S.A. 48:2-21, Docket No. October 3, 2008 ("October 2008 Order").

With respect to cost recovery, the Board is persuaded that the May 2015 filing for the revenue requirements associated with NJ RISE investments allows the Company rate recovery for all expenditures related to facilities that have been completed and placed in service as of July 31, 2015. These costs will be subject to review for reasonableness and prudence in the base rate case that Company has agreed to file on or before November 1, 2015.

Based on the Board's careful review and consideration of the record in this proceeding, the Board **HEREBY FINDS** the Stipulation to be reasonable and in accordance with the law, striking an appropriate balance between the needs of customers and of the Company.

Accordingly, the Board **HEREBY ADOPTS** the Stipulation in its entirety, and **HEREBY INCORPORATES** its terms and conditions as though fully set forth herein.

The Board **HEREBY RATIFIES** the decisions of President Solomon rendered during the proceedings for the reasons stated in her Orders.

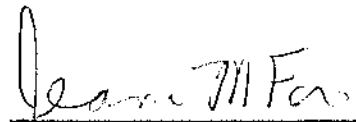
The Company's costs will remain subject to audit by the Board. This Decision and Order shall not preclude, nor prohibit, the Board from taking any actions determined to be appropriate as a result of any such audit.

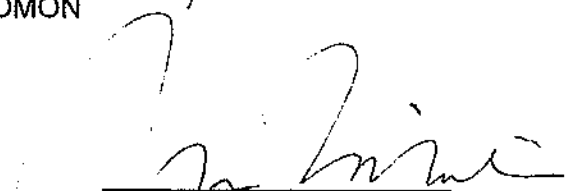
This Order shall be effective on August 1, 2014.

DATED: 7/23/14

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 BOARD'S ESTABLISHMENT OF A GENERIC PROCEEDING TO REVIEW THE COSTS, BENEFITS AND RELIABILITY IMPACTS OF MAJOR STORM EVENT MITIGATION EFFORTS; AND

IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY FOR APPROVAL OF THE NJ RISE PROGRAM AND ASSOCIATED RATE RECOVERY MECHANISM

DOCKET Nos. AX13030197 and GR13090828

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July 18, 2014

VIA FEDERAL EXPRESS & ELECTRONIC MAIL

Hon. Kristi Izzo, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
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Re: The Board's Establishment of a Generic Proceeding to Review Costs, Benefits
and
Reliability Impacts of Major Storm Event Mitigation Efforts
BPU Docket No. AX13030197

New Jersey Natural Gas Company for Approval of the NJ RISE Program and
Associated Rate Recovery Mechanism
BPU Docket No. GR13090828

Dear Secretary Izzo:

On behalf of New Jersey Natural Gas Company, enclosed for filing please find ten copies
of a fully executed Stipulation of Settlement in the above referenced dockets.

Kindly acknowledge receipt of this filing by date stamping the enclosed copy of this letter
and returning same in the self-addressed, stamped envelope.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Andrew K. Dembia'.

Andrew K. Dembia, Esq.
Regulatory Affairs Counsel

Enclosure

C: Service List (electronically only)

THE BOARD'S ESTABLISHMENT OF A GENERIC PROCEEDING TO REVIEW COSTS,
BENEFITS AND RELIABILITY IMPACTS OF MAJOR STORM EVENT MITIGATION EFFORTS
BPU DOCKET NO. AX13030197

NEW JERSEY NATURAL GAS COMPANY FOR APPROVAL OF THE
NJ RISE PROGRAM AND ASSOCIATED RATE RECOVERY MECHANISM
BPU DOCKET NO. GR13090828

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7/18/14

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

IN THE MATTER OF THE BOARD’S ESTABLISHMENT)	
OF A GENERIC PROCEEDING TO REVIEW COSTS,)	BPU Docket No.
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NJ RISE PROGRAM AND ASSOCIATED RATE RECOVERY)	GR13090828
MECHANISM)	

STIPULATION OF SETTLEMENT

APPEARANCES:

Andrew K. Dembia, Esq., New Jersey Natural Gas Company for the Petitioner, New Jersey Natural Gas Company

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

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TO: THE NEW JERSEY BOARD OF PUBLIC UTILITIES

On September 3, 2013, New Jersey Natural Gas Company (“the Company” or “NJNG”) filed a petition (the “Petition”) with the New Jersey Board of Public Utilities (the “Board” or “BPU”) requesting approval of its NJ Reinvestment In System Enhancement (“NJ RISE”) program. The Petition also included a mechanism for the recovery of costs invested through NJ RISE. The Petition was filed pursuant to the Board’s March 20, 2013 Order, BPU Docket No.

AX13030197 (“March 2013 Order”) which initiated a generic proceeding to investigate possible avenues to support and protect New Jersey’s utility infrastructure so that it may be better able to withstand the effects of future Major Storm Events.

1. Through NJ RISE, the Company proposed to implement six investment projects with an associated investment level of approximately \$102.5 million, excluding an Allowance for Funds Used During Construction (AFUDC). These project costs included capital investment related to the infrastructure upgrades and the associated operation and maintenance (O&M) expenses, with a proposed mechanism for the costs to be collected from its ratepayers through an annual NJ RISE base rate adjustment.

BACKGROUND AND PROCEDURAL HISTORY

2. On November 22, 2013, the Board issued an Order retaining the Petition and designating President Solomon as Presiding Officer.

3. On January 16, 2014, the New Jersey Large Energy Users Coalition (“NJLEUC”) filed a Motion to Participate in this matter. NJNG submitted a letter dated February 4, 2014 stating that it did not oppose NJLEUC’s status as a Participant in this matter.

4. On January 31, 2014, President Solomon issued a Prehearing Order setting forth the procedural schedule in this matter.

5. By letter dated March 28, 2014, NJNG submitted a letter to President Solomon on behalf of BPU Staff, NJLEUC, the New Jersey Division of Rate Counsel (“Rate Counsel”) and the Company (the “Parties”), seeking an adjournment of the date established in the Prehearing Order by which direct testimony for Rate Counsel’s witnesses had to be pre-filed. The Parties had agreed to a one month extension, specifically to April 28, 2014, and notice was provided on April 3, 2014 that the request was approved.

6. By letter dated April 24, 2014, NJNG represented on behalf of the Parties that settlement discussions were ongoing and an additional 30-day extension for the pre-filing of Rate Counsel's testimony was requested. That request was approved by President Solomon on April 28, 2014. President Solomon subsequently extended the period within which Rate Counsel is to file its testimony to June 6, 2014 to allow the Parties to continue working towards settlement.

7. After appropriate public notice, public hearings on the Petition were held on February 18, 2014 in Rockaway Borough and on February 19, 2014 in Freehold Township. No members of the public appeared at either public hearing and no written comments regarding the Petition were received by the BPU, NJNG or Rate Counsel.

8. NJNG has received and responded to all discovery requests that have been propounded in this proceeding by BPU Staff and Rate Counsel.

NJ RISE PROGRAM

9. In the Petition, NJNG identified six capital investment projects that will enhance its natural gas distribution system in response to major storm events. NJNG represents that NJ RISE is consistent with and meets the goals of the Board set forth in the March 2013 Order. Specifically, New Jersey utilities were to submit detailed proposals for projects that were designed to mitigate the impacts to utility systems and customers from future major storm events. The selected projects were chosen because they were areas either directly impacted by Superstorm Sandy or the project would mitigate the potential impact during a future major storm event thereby mitigating the potential for outages, improve service reliability and provide for the creation of incremental jobs in New Jersey. The six NJ RISE projects are as follows:

Sea Bright Project: The Sea Bright Project involves the installation of approximately 1.5 miles of natural gas distribution main into the upper portion of the Sea Bright Peninsula in order

to provide a secondary feed to that area from the Borough of Rumson. The secondary main will improve reliability and integrity while aiding in future restoration efforts through redundancy to an isolated area of the system. The pre-engineering study, high level, preliminary estimated cost of the Sea Bright Project is \$3.5 million, excluding AFUDC.

North Seaside Project: The North Seaside Project is being designed to reconfigure the natural gas distribution system by moving a regulator station off the barrier island and installing a secondary high pressure main into the upper portion of the Seaside Peninsula in the Borough of Mantoloking. The new main will provide natural gas service from the mainland distribution system in Brick Township. There are two potential route designs for this new line that will be assessed in a feasibility and route selection study following approval by the Board. Relocating the regulator station and relying on an additional new high pressure main will improve reliability and integrity for this portion of the distribution system that serves approximately 20,000 customers. Additionally, any future restoration work following a major storm or an extreme weather event will be expedited. The pre-engineering study, high level, preliminary estimated cost of the North Seaside Project is \$6.0 million, excluding AFUDC.

South Seaside Project: The South Seaside Project consists of the installation of a secondary feed from either Toms River or Berkeley Townships to the South Seaside Peninsula of the barrier islands. Since there are five alternative routes for the new main, NJNG will assess those options in a feasibility and route selection study following approval by the Board. This secondary main includes a bay crossing and will improve reliability, integrity and future restoration efforts through redundancy to an isolated area of the system that serves approximately 20,000 customers. The pre-engineering study, high level, preliminary estimated

cost of the South Seaside Project which will involve approximately 4–6 miles of new main is \$25 million, excluding AFUDC.

Long Beach Island Project: The Long Beach Island Project involves the installation of approximately 6 miles of new distribution main in order to provide a secondary main to the southern portion of Long Beach Island from the mainland distribution system in Eagleswood or Stafford Township. This secondary line requires a bay crossing and is being designed to improve reliability and integrity of the system, while aiding future restoration efforts, by providing redundancy to an isolated area of the system that serves approximately 10,000 customers. The pre-engineering study, high level, preliminary estimated cost of the Long Beach Island Project is \$30.0 million, excluding AFUDC.

Long Beach Island Regulator Station Project: The Long Beach Island Regulator Station Project allows NJNG to fortify and reinforce the existing distribution regulator station in the Borough of Ship Bottom in order to reduce the impact of flooding from a future major storm or extreme weather event. NJNG will redesign the station and also install necessary communications equipment. These improvements will enhance system reliability by securing the regulator station that is essential to providing service to approximately 20,000 customers serving Long Beach Island. The pre-engineering study, high level, preliminary estimated cost of the Long Beach Island Regulator Station Project is \$3 million, excluding AFUDC.

Excess Flow Valve (“EFV”) Project: The EFV Project involves the installation of approximately 35,000 EFVs in potential storm-affected areas of NJNG’s waterfront communities. The installation of EFVs in these areas provides important safety benefits by reducing the potential for gas venting to the atmosphere when storm damage impacts dwellings or if other service disruptions occur. The installation of EFVs improves the safety and reliability

of service to the thousands of customers in these communities. The pre-engineering study, high level, preliminary estimated cost of the EFV Project is \$35 million, excluding AFUDC.

10. In the Petition, the Company requested that the Board authorize NJNG to utilize the accounting treatment previously approved by the Board and agreed to by Rate Counsel and Board Staff for NJNG's infrastructure work in the Company's Accelerated Infrastructure Investment Program ("AIP")¹.

11. Following settlement discussions among the Parties to address resolution of the Petition, the following agreement has been reached.

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

STIPULATED ISSUES

13. The work associated with the NJ RISE Projects will commence upon receipt of a Final Board Order in this proceeding. Based on current cost levels and available estimates, the Company estimates that the overall construction costs, prior to any capitalization of AFUDC, related to the NJ RISE Projects will be approximately \$102.5 million. The Signatory Parties agree that the NJ RISE projects proposed are based on a preliminary investment level of up to \$102.5 million, excluding AFUDC.

14. The Parties recognize that the \$102.5M amount proposed by the Company for the six NJ RISE projects is an estimate based upon a high level, preliminary pre-engineering study

¹ I/M/O/ the Proceeding for Infrastructure Investment and a Cost Recovery Mechanism for All Gas and Electric Utilities and I/M/O/ the Petition of New Jersey Natural Gas Company for Approval of an Accelerated Infrastructure Investment Program and for Approval of Necessary Changes to Gas Rates and Changes in the Company's Tariff of Gas Service, BPU Docket Nos. EO09010049, GO09010052, GR07110889, and GR10100793.

basis. Four of the six projects involve water crossings and for two of these four projects, multiple route design possibilities have been identified by the Company, with a final route design chosen only after a detailed engineering study is undertaken. The Parties agree that in this proceeding, the NJ RISE project costs shall not exceed \$102.5 million. NJNG reserves its right to request additional relief in a subsequent proceeding.

15. The estimated construction cost target, pending completion of engineering studies and route selection, for each of the six NJ RISE projects as of this agreement are as follows: 1) Sea Bright Project - \$3.5 million; 2) North Seaside Project - \$6.0 million; 3) South Seaside Project - \$25 million; 4) Long Beach Island Project - \$30.0 million; 5) Long Beach Island Regulator Station - \$3.0 million; and 6) EFV Project - \$35.0 million.

COST RECOVERY

16. The Signatory Parties are agreeing in this Stipulation that the portion of the \$102.5 million costs associated with the NJ RISE projects that are in-service, plus associated AFUDC, as of July 31, 2015 will be recovered through the mechanism and filing schedule described in Paragraph 18 herein. NJNG has committed to filing a base rate case no later than November 15, 2015 ("November 2015 base rate case") and the investment costs associated with NJ RISE projects incurred after July 31, 2015, up to the rate effective date of the November 2015 base rate case Order will be addressed in that proceeding. Additionally, the actual costs associated with the remaining future NJ RISE investments not included in the first annual filing or the November 2015 base rate case, and the mechanism to be implemented for recovery of said costs, will also be addressed in the November 2015 base rate case.

17. NJNG agrees to submit one filing to recover costs incurred pursuant to the schedule provided herein. Rate Counsel and BPU Staff will have the opportunity to request

discovery on the information provided by NJNG in the annual filing. The schedule below anticipates public notice, public hearings and base rate adjustments to cover any rate change for NJ RISE stemming from the filing:

- a. Revenue requirements associated with NJ RISE investments that are placed into service through and including July 31, 2015 shall go into base rates as of November 1, 2015. NJNG shall make the initial filing for such rates in May 2015 and update the information for actual data through July 31, 2015 by September 15, 2015; and
- b. NJ RISE investments subsequent to July 31, 2015 will be included in the November 2015 base rate case.
- c. During the November 2015 base rate case, the remaining project costs and the associated recovery mechanism to be utilized will be addressed.

18. The filing discussed in Paragraph 17(a) herein will include a request for recovery in base rates of the costs associated with the NJ RISE projects (“Capital Investment Costs”) through July 31, 2015, consisting of prudently-incurred capital expenditures, including actual costs of engineering, design and construction, cost of removal (net of salvage), property acquisition, actual labor, materials overheads and capitalized AFUDC. Capital Investment Costs will be recorded, during construction, in an associated Construction Work in Progress Account (“CWIP”) and transferred to a Plant in Service account.

19. NJNG uses a “Modified FERC formula” to determine its AFUDC rate, specifically, (1) when the Company’s total CWIP balance, including CWIP associated with NJ RISE projects, is less than or equal to the Company’s outstanding short-term debt (“S/T debt”) balance, the applicable AFUDC rate will be equal to the Company’s monthly cost of S/T debt, and (2) when the Company’s total CWIP balance, including CWIP associated with NJ RISE projects, is greater than the Company’s outstanding S/T debt, the applicable AFUDC rate 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 the Company's overall weighted-average cost of capital ("WACC"), as defined in paragraph 22 herein, for the portion of NJ RISE CWIP in excess of NJNG's month-end S/T debt balance, and (3) if NJNG has no S/T debt at month end, the AFUDC rate will be the Company's WACC for NJ RISE. NJNG's Modified FERC formula has been used to calculate AFUDC using the prior month-end investment balance (including prior capitalized AFUDC) multiplied by the current monthly AFUDC rate. This AFUDC method has been applied to capital projects since the approval of NJNG's 2008 base rate case and including AIP I, II and Safety Acceleration and Facility Enhancement Program ("SAFE")² projects. Notwithstanding the aforementioned AFUDC compounding treatment, for purposes of settling this matter, the Parties agree that the NJNG Modified FERC formula shall continue and will be further modified to include the compounding of AFUDC on a semi-annual basis for NJ RISE. It is further agreed to by the Parties that when NJ RISE projects are transferred from CWIP to Utility Plant in Service, the booking of AFUDC shall cease and the booking of depreciation shall commence.

20. Costs to be recovered will include the return on the net plant as of the end of the annual period described in Paragraph 18 herein. Net plant will be calculated as gross plant in service less accumulated depreciation less deferred income taxes. Depreciation will be included at 2.34 percent. The revenue requirement will also include federal and state income taxes, as well as a Revenue Factor for the gross up of BPU and Rate Counsel assessments. O&M expenses will not be included in the calculation of the annual revenue requirement nor will such costs be deferred.

² 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. BPU Docket No. GO12030255

21. NJNG agrees that the return on the NJ RISE incremental investments associated with the cost recovery outlined in paragraph 18(a) will be at a weighted average cost of capital of 6.74 percent including a 9.75 percent return on equity. This WACC is based upon the capital structure utilized the Company's SAFE Program accounting treatment as agreed to by the Parties and approved by the Board in that proceeding. The Signatory Parties agree that no determinations of the prudence of the costs associated with the projects undertaken in NJ RISE will take place prior to or during the filing described in Paragraph 18(a) herein. As such, NJNG agrees that the base rate adjustments established in the annual NJ RISE filing prior to the November 2015 base rate case will be provisional and subject to refund solely based on a future finding by the Board that NJNG imprudently incurred capital expenditures through NJ RISE. The associated prudence review will take place in the November 2015 base rate case. The level of and associated recovery mechanism of subsequent NJ RISE costs incurred following the rate effective date in the November 2015 base rate case will be addressed in the November 2015 base rate case.

22. The Signatory Parties agree that any and all EFV costs incurred under the Company's SAFE Program, previously approved by the Board³, will be separately tracked and not recorded under the Company's NJ RISE Program. NJNG will provide a bi-annual report to BPU Staff and Rate Counsel identifying the municipalities in the NJNG service territory where EFVs are installed. The first bi-annual report will be submitted 6 months from the date of the Board's Order in this matter.

³ I/M/O/ of the Petition of NJNG's AIP; BPU Docket Nos. EO09010049, GO09010052, GR07110889, and GR10100793.

MINIMUM FILING REQUIREMENTS (“MFRs”)

23. The Company will provide to the Parties, as part of its cost recovery filing described in Paragraph 18 above, MFRs. The MFRs are attached hereto as Exhibit A and incorporated herein by reference.

RATES

24. There is no rate impact on customers at this time. The Signatory Parties agree that NJNG will recover the costs associated with NJ RISE Projects by adjusting, on a volumetric basis, the then-current rate for all customer classes, allocated in the manner prescribed in the Company’s last base rate case⁴ and specified in the October 2008 Order. Accordingly, the impact of the NJ RISE base rate adjustments will reflect an across-the-board adjustment to customer classes that will impact natural gas revenues for each class by the same percentage. The volumes used to determine base volumetric revenues for each customer class will be based on the sales forecast for NJNG’s upcoming annual BGSS period.

25. The Signatory Parties further stipulate and agree that the NJ RISE project costs for the remaining years to complete the NJ RISE projects, and the future rate treatment of the NJ RISE Program, not agreed to herein, will be addressed in the November 2015 base rate case and will be subject to a prudence review and consideration by the Board in that proceeding.

FURTHER PROVISIONS

26. 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

⁴ 1/M/O the Petition of New Jersey Natural Gas Company for Approval of an Increase in Gas Rates, Depreciation Rates for Gas Property, and for Changes in the Tariff for Gas Service Pursuant to NJSA 48:2-18 and NJSA 48:2-21, Order dated October 3, 2008 (“October 2008 Order”)

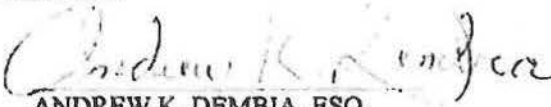
by the Board, any Signatory Party aggrieved thereby will not be bound to proceed with this Stipulation and will have the right to litigate all issues addressed herein to a conclusion. More particularly, in the event the Board, in any applicable order(s), does not adopt this Stipulation in its entirety then any 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.

27. 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.

28. 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, NJLEUC, the Board, its Staff, nor Rate Counsel 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**

By: 
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By:  07/16/2014
ALEX MOREAU
DEPUTY ATTORNEY GENERAL

NJLEUC
Participant

By: 
STEVEN S. GOLDENBERG, Esq.,
Fox Rothschild, LLP

Date: July 11, 2014

NJ RISE MINIMUM FILING REQUIREMENTS

Schedule NJNG-1	NJNG Income Statement as of the current quarter.
Schedule NJNG-2	NJNG Balance Sheet as of the current quarter.
Schedule NJNG-3	NJNG's overall capital budget broken down by major categories, including distribution and incremental capital expenditures for NJ RISE Projects, both budgeted and actual amounts to be reported per fiscal year.
Schedule NJNG-4	For each NJ RISE Project: <ol style="list-style-type: none">1. The original project summary for each Qualifying Project;2. Actual capital expenditures incurred through the most recent quarter.
Schedule NJNG-5	Anticipated project timelines with updates and expected changes.
Schedule NJNG-6	Planned and forecasted spending schedule detailing the NJ RISE Projects for Year 2015 as compared to originally approved capital spending plans.
Schedule NJNG-7	Summary of actual expenditures for each NJ RISE Projects, identifying each capital expenditure from project inception through the current quarter.
Schedule NJNG-8	A calculation of the proposed rate adjustment based on details related to NJ RISE Projects included in Plant in Service, including a calculation of the associated depreciation expense, based on projects closed to Plant in Service during the most recent quarter.
Schedule NJNG-9	A list of full time equivalent ("FTE") jobs created and the duration associated with each NJ RISE Project as of the current quarter.
Schedule NJNG-10.	An explanation of the financial treatment associated with the receipt 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 NJ RISE Projects, such as relocation, reimbursement or stimulus money.

- Schedule NJNG-11.** Revenue requirement calculation showing the actual capital expenditures and the forecasted spending, as well as supporting calculations; a schedule of base rate revenues at present and proposed rates; and Tariff Sheets reflecting the proposed rates.
- Schedule NJNG-12** Draft form of Public Notice.
- Schedule NJNG-13** Projected Bill Impact.