Agenda Date: 10/15/15
Agenda Item: 2G

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 PETITION OF NEW JERSEY NATURAL GAS COMPANY TO CONTINUE ITS BGSS INCENTIVE PROGRAMS	)))))	ORDER APPROVING STIPULATION DOCKET NO. GR15030392

Parties of Record:

Andrew K. Dembia, 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 dated October 3, 2008 in New Jersey Natural Gas Company's ("NJNG" or "Company") most recent base rate case proceeding, Docket. No. GR07110899, the New Jersey Board of Public Utilities ("Board") authorized the in-place Basic Gas Supply Service ("BGSS") incentive programs to continue as then currently structured through October 31, 2011. The Company's BGSS 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 (collectively, "BGSS Incentive Programs"). These incentives were subsequently extended with modifications through October 31, 2015.

On March 27, 2015, NJNG filed a letter petition with the Board seeking approval to continue the BGSS Incentive Programs ("2015 Letter Petition"). As part of its proposal, the Company also proposed a structure where the Company would, if deemed necessary by any of the Parties, initiate and or propose a process in the Company's annual BGSS filing to review and evaluate alternative approaches aimed at enhancing or replacing the Company's BGSS Incentive Programs. As proposed by the Company, this structure would permit consideration of modifications to the BGSS Incentive Programs should performance of the incentives or market conditions warrant re-evaluation of the existing programs.

By this Order the Board considers a stipulation for extension of the BGSS Incentive Programs.

BACKGROUND

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 eighty-five (85) percent credited to NJNG customers and fifteen (15) percent retained by the Company.

The FRM program encourages the use of financial instruments to hedge gas costs, subject to spending and volume restrictions. The benefits from the program are shared, with eighty-five (85) percent credited to NJNG customers and fifteen (15) percent retained by the Company.

The SI program uses 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 eighty-twenty (80/20) percent basis, respectively.

Collectively, from inception through September 30, 2014, the BGSS Incentive Programs have generated approximately $712 million in savings. According to NJNG, these programs are expected to continue to provide substantial savings to customers in coming years given current market conditions.

In the 2015 Letter Petition, the Company claims 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. To continue these benefits, the Company is requesting that the Board extend the 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 programs.

STIPULATION[1]

Subsequent to discovery and substantive discussions of the issues, on September 30, 2015 the Company, Rate Counsel and Board Staff (collectively, "the Parties") executed a stipulation ("Stipulation") intended to address all issues raised by the 2015 Letter Petition.

The key terms of the Stipulation are as follows:

1. The Company's FRM Program will no longer be part of the Company's BGSS Incentive Programs and will be terminated on the effective date of the Board's Order in this matter.

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

2. The Company can continue its remaining BGSS Incentive Programs, specifically, the OSS-CR and SI programs, as modified by this stipulation.

3. Regarding the SI program, the Company will modify the benchmark for storage injections. The Company agrees to modify the variable transportation and fuel components of the SI benchmark as follows: to include fifty (50) percent of the intra-zone tariff transportation rates for service on Texas Eastern Transmission ("TETCO") from zone M2 to zone M2 tariff rates, and fifty (50) percent of the inter-zone tariff transportation rates for TETCO zone M2 to zone M3, calculated at the time the benchmark is set for the commodity component using the New York Mercantile Exchange Henry Hub price. This change will be instituted for Storage Incentive year 2015 and reduces Company margin by approximately $634,000 through October 31, 2015.

4. Regarding the OSS-CR Program, the Company will retain an incentive limited to three (3) years after the event for (i) contracts that are terminated or allowed to expire at the end of the contract term and/or (ii) early termination and/or (iii) restructuring transactions. When capacity is added in relation to the expiration, termination, or restructuring of a contract, only the value of any net reduction in capacity costs will be included in the capacity release sharing mechanism.

5. The Company will, if deemed necessary by any of the Parties, initiate and or propose a process in the Company's annual BGSS filing to review and evaluate alternative approaches aimed at enhancing or replacing the Company's BGSS Incentive Programs. This structure permits proposals regarding modifications to the BGSS Incentive Programs should performance of the incentives or market conditions warrant re-evaluation of the existing structure. The Company would implement any changes to the BGSS Incentives Programs following approval by the Board.

DISCUSSION AND FINDINGS

The Board, having reviewed the record 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, and should more closely align the BGSS Incentive Programs with current market conditions. Accordingly, the Board **HEREBY ADOPTS** the Stipulation as its own, as if fully set forth herein.

The Company's gas costs 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.

The effective date of this Order is November 1, 2015.

DATED: October 15, 2015

BOARD OF PUBLIC UTILITIES
BY:

RICHARD S. MROZ
PRESIDENT

JOSEPH L. FIORDALISO
COMMISSIONER

MARY-ANNA HOLDEN
COMMISSIONER

DIANNE SOLOMON
COMMISSIONER

UPENDRA J. CHIVUKULA
COMMISSIONER

ATTEST:

IRENE KIM ASBURY
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 TO CONTINUE ITS BGSS INCENTIVE PROGRAMS
DOCKET NO. GR15030392

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF	)	
NEW JERSEY NATURAL GAS COMPANY	)	
TO CONTINUE ITS BGSS INCENTIVE	)	BPU DOCKET NO.: GR15030392
PROGRAMS	)	

STIPULATION

APPEARANCES:

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

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Alex Moreau and Christopher Psihoules, 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

1. On March 27, 2015, New Jersey Natural Gas Company ("NJNG" or "the Company") filed a Letter Petition with the Board of Public Utilities ("BPU" or "Board") seeking BPU approval to continue its Basic Gas Supply Service ("BGSS") Incentive Programs. The Company's current Board approved BGSS 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 (collectively, the "BGSS Incentive Programs").

2. In the Board's Order issued on August 18, 2011 in BPU Docket No. GR11040195, the Board authorized these BGSS Incentive Programs to continue as currently structured until October 31, 2015. The Board further directed the Company to make a filing at least six months prior to October 31, 2015 if the Company intends to continue the incentive programs. Lastly, the Board further ordered that in the Company's annual BGSS filing, the Company will, if deemed necessary by any of the Parties, initiate and propose a collaborative process to evaluate and discuss alternative approaches aimed at enhancing or replacing the Company's BGSS programs.

3. In NJNG's June 1, 2012 BGSS filing, Docket No. GR12060472, NJNG proposed, based on changes in market dynamics, changes to the Company's Capacity Release program in order to include additional types of transactions. Following settlement discussions, the Parties agreed to include the following types of transactions that generate benefits for customers:

- Capacity management transactions with counterparties where NJNG receives a reservation charge for the release of capacity to a counterparty;
- Supply transactions with counterparties where NJNG receives a reservation charge for the commitment to purchase supply from a counterparty; and
- Restructuring, including termination, of capacity with various pipeline and storage providers to update NJNG's assets with the value of the reduction being included in the Capacity Release sharing mechanism.

On June 21, 2013, the Board approved the foregoing Capacity Release enhancements with eligible margin sharing through October 31, 2015.

4. Pursuant to the terms of the BGSS Stipulation of Settlement approved by the BPU in the Company's 2013-2014 BGSS/CIP annual rate filing, BPU Docket No. GR13050425, the Parties agreed to the initiation of a collaborative process to evaluate the Company's Storage Incentive program to assure that the incentives reflect benefits to ratepayers. NJNG agreed to initiate the collaborative process by no later than August 1, 2014. In July 2014, the Company contacted Board Staff and the New Jersey Division of Rate Counsel ("Rate Counsel") to initiate the collaborative process. A meeting was held during August 2014 wherein the Storage Incentive program was discussed. In October 2014, the Company provided Board Staff and Rate Counsel with informal responses to questions that arose during the collaborative meeting. Several teleconferences were subsequently conducted over the last several months to discuss various issues and settlement proposals.

5. The Company believes that its BGSS customers will continue to benefit under prevailing market conditions by continuing the BGSS Incentive Programs in their current form including the Capacity Release enhancement. According to the Company, its existing BGSS Incentive Programs have generated approximately $712 million in savings for the Company's customers since inception in 1992 through BGSS year 2014, including $38.6 million in savings resulting from the Demand Reduction and Portfolio Enhancement incentive that was in effect from 1998 through 2004. The Company projects that its incentive programs will generate more than $70 million in customer savings for the current BGSS year. The Company maintains that its BGSS Incentive Programs are an essential part of the Company's overall gas supply, capacity and portfolio management strategy and

that they continue to play an important role in enabling the Company to provide BGSS price stability and cost savings for its customers.

6. In its Letter Petition, NJNG asked the Board to authorize the continuation of the existing BGSS Incentive Programs. The Company maintains that these programs have a proven and successful track record of consistently providing customer benefits and that the requested continuation is reasonable. The proposal included continuation of the current provisions allowing Board Staff and Rate Counsel to review NJNG's incentive program performance in NJNG's annual BGSS filings. Additionally, the Company proposed to continue to provide detailed and regular reporting of the results under each of its BGSS Incentive Programs to Board Staff and Rate Counsel for their review.

7. As part of its proposal to continue its BGSS Incentive Programs, the Company also proposed a structure where the Company would, if deemed necessary by any of the Parties, initiate and/or propose a process in the Company's annual BGSS filing to review and evaluate alternative approaches aimed at enhancing or replacing the Company's BGSS Incentive Programs. As proposed by the Company, this structure would permit proposals regarding modifications to the BGSS Incentive Programs should performance of the incentives or market conditions warrant re-evaluation of the existing structure.

8. Upon review of the filing, discussing the facts and issues in settlement and reviewing responses to discovery, the BPU Staff, Rate Counsel, and NJNG, the only parties to this proceeding (collectively, the Parties), stipulate and agree as follows:

STIPULATED ISSUES

9. The Parties agree that the Company's FRM Program will no longer be part of the Company's BGSS Incentive Programs and will be terminated on the effective date of the Board's Order in this matter.

10. The Parties agree that the Company can continue its remaining BGSS Incentive Programs, specifically, the OSS-CR and SI programs, as modified herein.

11. Regarding the SI program, the Company will modify the benchmark for storage injections. The Company agrees to modify the variable transportation and fuel components of the SI benchmark as follows: for the transportation and fuel components, to use fifty (50) percent of the volume at intra-zone tariff transportation rates for service on Texas Eastern ("TETCO") from TETCO zone M2- to zone M2 tariff rates, and fifty (50) percent of the volume at the inter-zone tariff transportation rates for TETCO zone M2 to zone- M3, calculated at the same time the benchmark is set for the commodity component which uses the NYMEX Henry Hub price. This change will be instituted for Storage Incentive year 2015 and reduces Company margin by approximately $634,000 through October 31, 2015.

12. Regarding the OSS-CR Program, the Company will retain an incentive limited to three years after the event for (i) contracts that are terminated or allowed to expire at the end of the contract term and/or (ii) early termination and/or (iii) restructuring transactions. When capacity is added in relation to the expiration, termination, or restructuring of a contract, only the value of any net reduction in capacity costs will be included in the capacity release sharing mechanism.

13. The parties agree and understand that the structure detailed above was the result of compromise, and that the BGSS Incentive Programs will be subject to continuing review and modification as part of the Company's annual BGSS filing to assure that they provide benefits to ratepayers. The Company will, if deemed necessary by any of the Parties, initiate and/or propose a process in the Company's annual BGSS filing to review and evaluate proposed modifications to the Company's BGSS Incentive Programs. Any party shall have the right to propose modifications to the BGSS Incentive Programs based on performance, market changes, or other factors warranting an evaluation of the existing structure. The Company would implement any changes to the BGSS Incentive Programs following approval by the Board.

14. The Parties agree that, as a result of this settlement, the collaborative process initiated by the Company in August 2014 to address its SI program is concluded to the satisfaction of the Parties.

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

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

17. It is specifically understood and agreed that this Stipulation represents a negotiated agreement and has been made exclusively for the purpose of these proceedings. Except as expressly provided herein, NJNG, Board Staff, and Rate Counsel shall not be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein. All rates are subject to audit by the Board. 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.

WHEREFORE, the 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 in order to implement these modified BGSS Incentive Programs as of October 31, 2015, the date when the BGSS Incentive Programs are set to expire.

NEW JERSEY NATURAL GAS
PETITIONER

By: Andrew K Dembia

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Date: September30,2015