



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

AUDITS

IN THE MATTER OF NEW JERSEY NATURAL) ORDER
GAS COMPANY AUDIT OF THE LEVELIZED)
GAS ADJUSTMENT CLAUSE AUDIT NO. A-2872) DOCKET NO. GA06050394

(SERVICE LIST ATTACHED)

BY THE BOARD:

Pursuant to N.J.S.A. 48:2-16.1, and in accordance with the Board of Public Utilities' ("Board") established audit program, the Division of Audits, Bureau of Financial Audits, ("Staff"), conducted an audit ("Audit") of New Jersey Natural Gas Company's ("NJNG" or "Company") Levelized Gas Adjustment Clause ("LGAC")¹ for the period October 1, 1993 through September 30, 1999.

On May 4, 2007, Staff and the Company entered into a Stipulation ("Stipulation") in settlement of all audit issues, a copy of which is attached hereto. The terms and conditions of the Stipulation are incorporated as if fully set forth herein.

The Division of Rate Counsel has advised that it has no objection to the settlement.

The major provisions of the Stipulation are as follows²:

COMPANY USE GAS

Staff and the Company had differing positions as to the appropriate accounting treatment for Company Use Gas; i.e. natural gas consumed by the Company for business, office and non-

¹Pursuant to the Board's generic BGSS Order in Docket No. GX01050304, December 18, 2002, the annual reconciliation filing for gas costs made by all New Jersey natural gas utilities is now referred to as Basic Gas Supply Service (BGSS) filing, and was formerly referred to as the Levelized Purchased Gas.

²This is only a summary; the full settlement document controls, subject to the Board's findings and conclusions contained herein.

production related purposes, including Company owned property and buildings, rentals, leased and/or subleased buildings. Staff's position is that these expenses are currently in base rates and should not be recovered through the LGAC. NJNG's position is that their most current base rate case did not include an allowance for Company Use Gas in rates and that was consistent with treatment in previous base rate cases wherein there was no specific adjustment included for Company Use Gas (Dkt. No. GR93030114; approved by the Board on January 4, 1994). As such, the Company's position was that Company Use Gas was recoverable through the LGAC.

Staff and the Company desire to fully resolve this issue. Accordingly, as of March 1, 2005, NJNG agrees to include all costs associated with Company Use Gas within base rates during its next and all future base rate case filings. NJNG also agrees that it will not include any costs for Company Use Gas within the Basic Gas Supply Service ("BGSS") clause on a going forward basis from March 1, 2005.

NJNG has agreed to make a one-time adjustment of \$1,000,000 as a credit to the current BGSS clause.

NGV VEHICLES

Staff found that NJNG included natural gas costs associated with Natural Gas Vehicles ("NGV") as Company Use Gas and recovered these expenses through the LGAC. This was a repeat finding from Staff's prior audit. As a result of this current audit, NJNG agreed to remove the NGV gas costs from Company Use Gas and from the LGAC. Accordingly, NJNG made a corresponding adjusting entry totaling \$198,585.65, for the period from February 1992 through the end of September 2001. Staff reviewed all documents supporting this adjustment and noted no exceptions. Audit staff recommends no further action.


As set forth in Exhibits A and B to the Stipulation, the Stipulation also resolved other audit issues related to improving NJNG's accounting and recordkeeping, as well as improving the accuracy of documents submitted to the Board. The other audit issues included: Over/Under Recovery Calculation, Pipeline Purchases, Off System Sales, Storage Injection and Supplier Refunds.

Based upon its review of the Stipulation and exhibits attached thereto, the Board is satisfied that the Stipulation provides for a resolution of the outstanding audit issues in this case which is just and reasonable. Accordingly, the Board HEREBY APPROVES the provisions of the Stipulation between Staff and NJNG as an appropriate resolution of the audit issues and incorporates the terms and conditions of the approved resolution as if fully set forth herein.

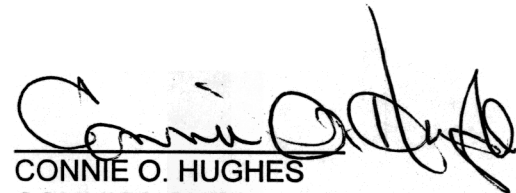
The Board HEREBY ORDERS NJNG to file proof of compliance with this Order with the Board's Division of Audits, within fifteen days of the date of this Order, whereupon this Audit will be considered closed.

DATED: 6/20/07

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER


CONNIE O. HUGHES
COMMISSIONER

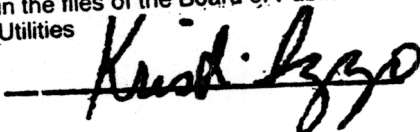

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
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


KRISTI IZZO

IN THE MATTER OF NEW JERSEY NATURAL GAS COMPANY
AUDIT OF THE LEVELIZED GAS ADJUSTMENT CLAUSE
AUDIT NO. A-2872
DOCKET NO. GA06050394

SERVICE LIST

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New Jersey
Natural Gas

May 4, 2007

2007 MAY -9 AM 11:11
AUDIT DIVISION

Kristi Izzo, Secretary
N.J. Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Re: In the Matter of New Jersey Natural
Gas Company (NJNG)
BPU Audit A-2872

Dear Ms. Izzo:

Enclosed with this letter is a fully executed stipulation dated May 4, 2007 in the above captioned matter that includes a faxed signature page. I will forward the original signature page once it is received in this office. A copy of this has been provided to Walter Szymanski, Director, Division of Audits and Babette Tenzer, DAG.

Very truly yours,

Tracey Thayer
Director, Regulatory Affairs Counsel

TT:pg

C: Walter Szymanski, BPU
Robert Catona, BPU
Babette Tenzer, DAG

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

**IN THE MATTER OF
NEW JERSEY NATURAL GAS
COMPANY**

**BPU AUDIT NO.
A-2872**

STIPULATION

WHEREAS, the Audit Staff (Staff) of the New Jersey Board of Public Utilities (BPU) has completed an audit and examination (Audit No. A-2872) of the Levelized Gas Adjustment Clause¹ (LGAC) filings for the period October 1993 through September 1999 (LGAC Audit) for New Jersey Natural Gas (NJNG or the Company); and

WHEREAS, the Staff issued discovery requests to which NJNG has provided responses, and the Staff and NJNG, the only parties to this matter (the Parties), have participated in various discovery and settlement discussions; and

WHEREAS, the Parties hereto desire to fully and finally resolve all issues raised in Audit No. A-2872 including, but not limited to, the categorization of natural gas consumed by the Company for business, office and non-production related purposes, including Company owned property and buildings, rentals, leased and/or subleased buildings (referred to herein as Company Use Gas) as a business expense, and the categorization of natural gas used by the Company in the process of preparing natural gas for distribution including that used by regulator stations and by LNG vaporization operations (referred to herein as Production-related Gas) as included for recovery through the annual Basic Gas Supply Service (BGSS) proceedings; and

¹ Pursuant to the Board's generic BGSS Order in Docket No. GX01050304, December 18, 2002, the annual reconciliation filing for gas costs made by all New Jersey natural gas utilities is now referred to as Basic Gas Supply Service (BGSS) filing, and was formerly referred to as the Levelized Purchase Gas

WHEREAS, the Parties agree that NJNG has been including Company Use Gas within its annual LGAC/BGSS filings; and

WHEREAS, it has been Staff's position that:

1. The Stipulation and Agreement dated May 23, 1988, resolving Audit No. 2767 LPGA specifically states that "with respect to the issue of how company use gas is to be recorded and reported to the Board, the Company agrees that gas consumed for business office and franchise purposes should not be included as a cost of gas in LPGA filings and as such will be expensed to operating costs;" and

2. On July 5, 1984 the Company signed a Stipulation closing the LPGA clause audit for the period October 1, 1980 to September 30, 1981 (A-2718) and in that Stipulation, agreed to include in its next base rate case, and to exclude from LPGA consideration, the cost of gas used at the Company's Commercial and General offices as an operating expense; and

3. As such, the costs for Company Use Gas should have been built into the NJNG's last base rate case, BPU Docket GR93030114, which was approved on January 4, 1994; and

4. The actual costs related to all Company Use Gas, including Company owned non-production related property and buildings, rentals, leased and/or subleased buildings, should not be included as a cost of gas recovered through the LGAC (now BGSS). All Company Use Gas, as described herein, should be measured and accounted for by separate metering or by allocation formula approved by the Board and should reflect tariffs currently in effect; and

WHEREAS, it has been NJNG's position that:

Adjustment (LPGA) and subsequently the Levelized Gas Adjustment Clause (LGAC).

1 The most recent NJNG base rate case² did not include an allowance for Company Use Gas in rates, and the format used in the base rate case was consistent with treatment in previous base rate cases wherein there was no specific adjustment included for Company Use Gas; and

2. As such, the costs for Company Use Gas are not built into the base rates stemming from that case; and

3. Accordingly, there has been no double counting of the associated costs; and

4. The Company's understanding of the settlement language in previous audit No. 2767 LPGA related to the Company's use of the terms "Business Office and Franchise" at that time. "Business office" referred to the Company locations that were maintained as customer payment centers. The last of these offices (Toms River) was closed in 1992. Accordingly the credit for such expenses stopped at that time. "Franchise purposes" referred to conditions from the original franchise agreements that the Company had with Asbury Park, Belmar, Bradley Beach and Wall. Per these original franchise agreements, the Company had to provide free gas to certain named municipal buildings. This special treatment ceased in 1990. Accordingly, the credit for such expenses stopped at that time. While these expenses were being incurred, the Company complied with its understanding of the audit agreement and excluded them. Credits for these purposes ceased in 1992 when the final Business Office closed. All franchise agreement provisions had been eliminated by that time; and

5. The Company's on-going treatment of Company Use Gas, other than for the treatment of Natural Gas Vehicles, was not raised in the subsequent BPU audit of the LGA; and

2 NJNG's last base rate case, BPU Docket GR93030114, was approved by the BPU on January 4, 1994.

WHEREAS, the Parties agree that the resolution of this Audit provides an opportunity for the Parties to clarify this issue and agree that, going forward, Company Use Gas should be included as a base rate item, and that Production-related Gas should continue to be recovered through the BGSS.

NOW, THEREFORE, based upon and subject to the terms and conditions set forth below, the Parties hereby stipulate and agree as follows:

A. Final Resolution.

1. This Stipulation constitutes a final resolution of any and all issues arising out of all matters under review in Audit No. A-2872 (LGAC for October 1993 - September 1999) as more fully discussed herein. This Stipulation supersedes the Stipulation dated April 5, 2006 which shall be considered null and void upon approval by the BPU of this March 2007 Stipulation.

2. Upon approval of this Stipulation by the BPU and the issuance of a final order:

(a) Audit No. A-2872 shall be closed; and

(b) All issues relating to the recoverability of natural gas costs incurred and payments made by NJNG for the time period of October 1993 through September 1999 as covered by this Audit shall be deemed resolved.

B. Reservation of LGAC Rights. Other than as set forth herein, the Parties reserve all their rights with respect to any substantive positions they may choose to assert in any future LGAC/BGSS proceeding before the BPU concerning NJNG's gas and other LGAC/BGSS costs.

C. Treatment of Company Use Gas.

1. As of March 1, 2005, NJNG will include all costs related to Company Use Gas within base rates during its next and all future base rate case filings.

2. As of March 1, 2005, NJNG also agrees that it has not included any costs for Company

Use Gas as defined herein within the BGSS clause and will continue to do so on a going forward basis. The actual costs related to Company Use Gas, including that used for Company owned non-production related property and buildings, rentals, leased and/or subleased buildings, will be expensed as a normal operating cost by NJNG on a going forward basis. The Company further agrees that all Company Use Gas, as described herein, shall be measured and accounted for by separate metering or by allocation formula approved by the Board, and shall reflect tariffs currently in effect.

3. In furtherance of the terms of this Stipulation and to resolve all issues related to Company

Use Gas through March 1, 2005, NJNG will make a one-time adjustment of \$1,000,000 as a credit to the current BGSS clause. Such credit will be applied on the first day of the month subsequent to the final BPU order approving this stipulation.

4. Within 15 days of the application of the credit required under paragraph 3 herein, NJNG shall file proof of compliance with the adjustment in Paragraph 3 above reflecting a journal entry for a one time application of the \$1,000,000 as a credit to the current BGSS clause.

5. The Company has developed the appropriate procedure to implement the tracking of Company Use Gas and that process is reflected in accounting entries effective as of March 1, 2005. Attached and made a part of this document is Exhibit B detailing the appropriate procedures in place. The Company shall comply with the terms of this settlement for the future until the issue is addressed and modified by the Board in a rate case proceeding.

D. Other Audit Issues. The parties agree that any other issues raised as a result of

Audit No. A-2872 have been resolved either through accounting adjustments already implemented or through a commitment to improved reporting procedures. Exhibit A summarizes the status of each finding.

E. Entirety of Stipulation. This Stipulation is intended to be accepted and approved in its entirety. In the event any particular provision of this Stipulation is not accepted and approved in its entirety by the Board, then 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 its Order in this matter, 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.

F. Binding Effect. It is the intent of the Parties that the provisions hereof be approved by the Board as being in the public interest. The Parties further agree that upon the Board's approval of this Stipulation without modification, the Parties will consider this Stipulation to be binding on them for all purposes herein.

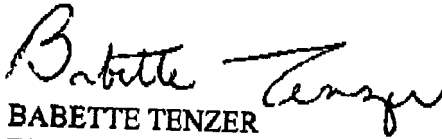
G. General Reservation. It is specifically understood and agreed that this Stipulation represents a negotiated agreement, and has been made exclusively for the purposes of these proceedings. Except as expressly provided for herein, the Parties shall not be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein. Accordingly, by executing this Stipulation, no Party waives any rights it possesses under any prior Stipulation, except as specifically provided therein or herein.

WHEREFORE, the Parties respectfully request the Board of Public Utilities to issue a Decision and Order approving this Stipulation in its entirety in accordance with the terms hereof.

**NEW JERSEY NATURAL GAS COMPANY
NEW JERSEY RESOURCES CORPORATION**


TRACEY THAYER, ESQ.

**STAFF OF THE BOARD OF PUBLIC UTILITIES
STUART RABNER
ATTORNEY GENERAL OF NEW JERSEY**


BABETTE TENZER
DEPUTY ATTORNEY GENERAL

Dated: ~~April~~ 4, 2007
May

Status of Findings for LGAC Audit A-2872

March 2005

In response to the October 3, 2003 letter which presented the Findings and Recommendations in LGAC Audit A-2872:

No. 1 Over/Under recovery
Company agrees and has worked to improve reporting.

No. 2 Pipeline Purchases
Already resolved.

No. 3 LPGA LGAC Costs
Company agrees and has worked to improve reporting.

Storage Injection
Already resolved.

No. 5 Off-System Sales

The Company is willing to make the referenced documents (Risk Management Committee Guidelines and Procedures; Description of Purchase Gas Controls; and Month End Closing Procedures) more official and will provide approved copies of these documents within 30 days of the date of the Final Board Order in this proceeding.

No. 6 Refunds
Company agrees and has worked to improve reporting.

Company Use Gas
Resolved through this March 2007 stipulation.

NGV Vehicles
Already resolved.

Exhibit "B"

**New Jersey Natural Gas Company
Company Use Gas
Accounting Procedures**

"Company Use Gas" is that natural gas consumed by the Company for business, office and non-production related purposes.

- NJNG has excluded all costs related to Company Use Gas from the Basic Gas Supply Service (BGSS) clause effective March 1, 2005.
- The Company Use Gas costs originally billed in March 2005 and April 2005 were excluded from the May 2005 BGSS costs as a true-up adjustment through Journal Entry 114-1 in May 2005.
- Each monthly BGSS report for May 2005 and after has excluded the monthly Company Use Gas.
- For the May 2005 through September 2005 monthly BGSS reports, the 'Natural Gas – Commodity Line' in the 'Cost of Gas - Current Period' section of Schedule 2a includes a reduction for the amount of Company Use Gas. The net effect removes Company Use Gas from the gas costs applicable to BGSS.
- For the October 2005 and future monthly BGSS reports the Company will send to the BPU, the Company will include the gross amount of gas costs in the 'Natural Gas – Commodity Line' in the 'Cost of Gas – Current Period' section of Schedule 2a and a separate line item for Company Use Gas in the 'Reductions to Cost of Gas' section of Schedule 2a. The net effect removes Company Use Gas from the gas costs applicable to BGSS.
- All production-related gas (natural gas used for all production purposes) used by the Company will continue to be recovered through BGSS