



New Jersey  
Natural Gas

REDACTED COPY- FOR PUBLIC INSPECTION

September 4, 2013

Hon. Kristi Izzo, Secretary  
New Jersey Board of Public Utilities  
44 South Clinton Ave  
P.O. Box 350  
Trenton NJ, 08625

\*\*\* CONTAINS CONFIDENTIAL INFORMATION \*\*\*

Re: IN THE MATTER OF THE BOARD'S REVIEW OF THE APPLICABILITY AND  
CALCULATION OF A CONSOLIDATED TAX ADJUSTMENT  
GENERIC PROCEEDING  
BPU DOCKET NO. EO1212072

Dear Secretary Izzo:

Please accept, on behalf of New Jersey Natural Gas Company ("NJNG"), the following response to the New Jersey Board of Public Utilities' ("BPU" or "the Board") Notice of Opportunity to Provide Additional Information dated July 25, 2013 ("July Notice"). The July Notice is a request for additional consolidated tax information on behalf of Board Staff.

Some of the information contained in several of the responses, specifically, items c., d., e, f., g. and l. contain confidential proprietary financial information that is of a competitively sensitive nature which if disclosed, would be likely to cause damage to a competitive position of one or more of NJNG's unregulated affiliates. This information is being submitted as Confidential and exempt from public disclosure pursuant to the New Jersey Open Public Records Act, N.J.S.A. 47:1A et seq. specifically, N.J.S.A. 47:1A-1.1 (6) and is also being filed in accordance with the Board's confidentiality rules at N.J.A.C. 14:1-12 et seq. Also attached hereto is an Affidavit attesting to the confidential nature of the information being submitted.

The following are NJNG's responses to the July Notice:

Request a.: A copy of any tax sharing agreement relating to the filing of a consolidated income tax return.

Response a.: A copy of the NJNG Service Agreement by and between NJNG and New Jersey Resources Corporation is attached is included as Attachment a. The Service Agreement includes Exhibit 1 representing the Affiliate Allocation and Billing Procedures, with Section V. Federal Income Tax Allocation.

Request b.: The year in which the utility was first included in a consolidated tax return.

Response b.: The year in which New Jersey Natural Gas Company was first included in the consolidated income tax return was for the period ending September 30, 1982.

Request c.: The total amount paid by the utility to its parent company for federal income taxes in each year since 1991.

Response c.: The total amount paid by New Jersey Natural Gas Company to its Parent company for federal income taxes in each year since 1991 is included in **CONFIDENTIAL** Attachment c. Please note that due to the sensitive nature of this document confidential data will be provided in hard copy only. A redacted version will be sent via email.

Request d.: The total amount paid by all members of the consolidated income tax group to the parent company relating to federal income taxes, in each year since 1991.

Response d.: The total amount paid by all members of the consolidated income tax group to New Jersey Resources Corporation relating to federal income taxes, in each year since 1991 is included in **CONFIDENTIAL** Attachment c.

Request e.: The amount paid to each loss company by the parent, in each year since 1991.

Response e.: The amount paid to each loss company by New Jersey Resources Corporation, in each year since 1991 is included in **CONFIDENTIAL** Attachment c.

Request f.: The total amount paid by the consolidated entity to the IRS for federal income taxes in each year since 1991.

Response f.: The total amount paid by the consolidated entity to the Internal Revenue Service for federal income taxes in each year since 1991 is included in **CONFIDENTIAL** Attachment c.

Request g.: The amount of bonus depreciation taken by each member of the consolidated income tax group in each year since 1991.

Response g.: The amount of bonus depreciation taken by each member of the consolidated income tax group in each year since 1991 is included in **CONFIDENTIAL** Attachment g. Please note that due to the sensitive nature of this document confidential data will be provided in hard copy only. A redacted version will be sent via email.

Request h.: The amount of Alternative Minimum Taxes paid by the consolidated income tax group in each year since 1991.

Response h.: The amount of Alternative Minimum Tax paid by the consolidated income tax group in each year since 1991 includes Year 1991 in the amount of \$(136,000), Year 1992 in the amount of \$891,500 and Year 1993 in the amount of \$968,500.

Request i.: The amount of any tax loss carryforward available to the consolidated group and the period(s) over which these tax loss carryforwards are available to be used by the consolidated group.

Response i.: The amount of any tax loss carryforward available to the consolidated group and the period(s) over which these tax loss carryforwards are available to be used by the consolidated group is \$0.00

Request j.: A brief description of each company included in the consolidated income tax group since 1991 along with an indication of whether each Company is regulated or non-regulated.

Response j.: The description of each New Jersey Resources Corporation entity included in the consolidated income tax return is included in Attachment j. Please see Attachment c for a designation of Active and Inactive entities of New Jersey Resources Corporation. Please note that New Jersey Natural Gas Company is the only regulated entity of New Jersey Resources Corporation.

Request k.: The reason why a company that was previously included in the consolidated income tax group is no longer included in the group.

Response k.: The reason why a company is no longer included in the group is that Inactive entities are no longer in existence under the consolidated group within New Jersey Resources Corporation. Please see Attachment c for the Inactive entities of New Jersey Resources Corporation.

Request l.: All workpapers and calculations relating to the calculation of the CTA as requested in the Notice.

Response l.: All workpapers and calculations relating to the calculation of the CTA would require a copy of each federal income tax return since year 1991. New Jersey Natural Gas Company's and New Jersey Resources Corporation's federal income tax returns are **CONFIDENTIAL** and can be made available for review at the Company's corporate offices in Wall, New Jersey. Please note that the information provided in **CONFIDENTIAL** Attachment c for year 1991 through 2007 have been previously provided to the BPU Staff and Rate Counsel in Docket NO. GR07110889, in **CONFIDENTIAL** ResponseS-RREV-89.

Request m.: The federal income taxes (both current and deferred) reported by the consolidated income tax group on the parent company's Annual Report, by year since 1991.

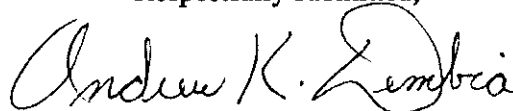
Response m.: The federal income taxes (both current and deferred) reported by the consolidated income tax group on the parent Company's Annual Report, by year since 1991, are included in Attachment m.

Request n.: The federal income taxes (both current and deferred) by the utility, by year since 1991.

Response n.: The federal income taxes (both current and deferred) by the Utility, by year since 1991 are included in Attachment n.

In closing, NJNG appreciates the Board's focus on developing a fair policy for setting a reasonable income tax expense in the rate setting process. We look forward to the next steps in this proceeding.

Respectfully submitted,



Andrew K. Dembia, Esq.  
Regulatory Affairs Counsel

C: Jerome May  
Jackie Galka  
Jake Gertsman  
Mark Beyer  
Rosalie Serapiglia

STATE OF NEW JERSEY :

COUNTY OF MONMOUTH:

MARK R. SPERDUTO, being of full age and duly sworn deposes and says:

1. I am Senior Vice President Regulatory Affairs for New Jersey Natural Gas Company (“NJNG” or the “Company”) and am familiar with the tax related data being submitted by the Company in the New Jersey Board of Public Utilities generic proceeding In The Matter of the Board’s Review of the Applicability and Calculation of a Consolidated Tax Adjustment Generic Proceeding, BPU Docket No. EO1212072 (“CTA Generic Proceeding”).

2. NJNG asserts a claim of confidentiality with regard to certain tax information (“Confidential Information”) requested in the CTA Generic Proceeding, specifically, the federal tax information of NJNG’s affiliates.

3. Pursuant to the New Jersey Open Public Records Act, *N.J.S.A. 47:1A et seq.*, certain information is exempt from public disclosure, specifically, “trade secrets and proprietary commercial or financial information”, as well as “information which, if disclosed, would give an advantage to competitors or bidders”. See, *N.J.S.A. 47:1A-1.1*.


6. The Agreement contains financial and commercially sensitive information, specifically, federal tax information, which if disclosed could provide other competitors of NJNG’s affiliates an unfair competitive advantage. Therefore, the attached Confidential Information should be treated as such and not disclosed in the public domain.

7.. The Company submits the following as the addressee for communications from the custodian for this information under *N.J.A.C. 14:2-12.1. et. seq.* The Company hereby requests that all custodian communications (oral and written), including, without limitation, the notices listed in *N.J.A.C. 14:1-12.7* and 12.9 be directed to the following designee:

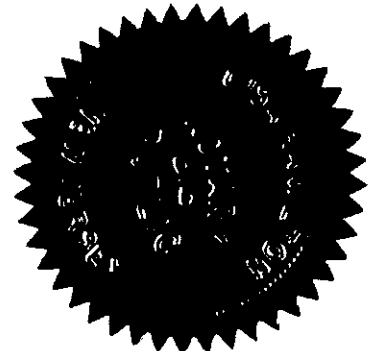
Andrew K. Dembia Esq.  
Regulatory Affairs Counsel  
New Jersey Natural Gas Company  
1415 Wyckoff Road  
P. O. Box 1464  
Wall, New Jersey 07719  
Phone: (732) 938-1073  
Fax: (732) 938-2620

  
Mark R. Sperduto

Sworn to and Subscribed to  
Before me this 3<sup>rd</sup> day of  
September, 2013

  
Lisa Hamilton

LISA HAMILTON  
NOTARY PUBLIC FOR NEW JERSEY  
Commission Expires January 4, 2015



**NEW JERSEY NATURAL GAS COMPANY  
SERVICE AGREEMENT**

**THIS AGREEMENT** is made effective the 4th day of March 2008 by and between **NEW JERSEY NATURAL GAS COMPANY**, a New Jersey corporation with principal offices at 1415 Wyckoff Road, Wall, New Jersey 07719 (“**NJNG**”) and **NEW JERSEY RESOURCES CORPORATION**, a New Jersey corporation with principal offices at 1415 Wyckoff Road, Wall, New Jersey 07719 (“**NJR**”). **NJNG** and **NJR** are referred to herein collectively as the “**Parties.**”

**WITNESSETH:**

**WHEREAS**, **NJNG** and **NJR** each has a staff of employees competent to perform certain services (“**Services**”) for the subsidiaries of **NJR**, including “**Shared Services**” as that term is defined in section 2(1) of the Affiliate Relations, Fair Competition and Accounting Standards and Related Reporting Requirements, N.J.A.C. 14:4-5.1 seq. (“**Affiliate Rules**”) and the Shared Services Guidelines of New Jersey Natural Gas Company’s Compliance Plan on file with the New Jersey Board of Public Utilities and is willing to provide the **Services** to the other Party to this Agreement in accordance with the **Affiliate Rules**; and further

**WHEREAS**, **NJR** is the parent company of **NJNG** and **NJR** desires to retain **NJNG** to provide certain **Services** and **NJNG** desires to retain **NJR** to provide certain **Services**;

**NOW THEREFORE**, in consideration of the mutual covenants and agreements contained in this Agreement, the **Parties** agree as follows:

**1. SCOPE**

**1.1** **NJNG** shall provide the **Services** described in the New Jersey Natural Gas Company Affiliate Allocation and Billing Procedures (“**Allocation and Billing Procedures**”) attached to and made a part of this Agreement as Exhibit 1. In addition to the services described in the **Allocation and Billing Procedures**, **NJNG** may also provide **NJR** with additional services, which **NJNG** concludes it is able to perform and which are permitted under law and regulation to be provided. In supplying such services, **NJNG** may arrange, where it deems appropriate, for the services of such experts, consultants, advisers and other persons with necessary qualifications as are required for or pertinent to the performance of such services. **NJNG** warrants that all services shall be performed in full conformity with the Agreement with the skill and care which would be exercised by those who perform similar services at the time the **Services** are performed, and in accordance with accepted industry practice.

**1.2** **Services Selected.** **NJR** shall make its selection of the **Services** described in Section 1.1 above that it agrees to receive from **NJNG** by providing **NJNG** an executed

service request in the form set forth in Exhibit 2-Service Request, which is attached to and made a part of this Agreement. NJNG shall provide the selected Services on a fiscal year basis beginning October 1 through September 30.

**1.3 Changes in Scope.** NJR shall have the right from time to time to change or rescind any activity, project, program or work order provided that (a) such change, which results in a material change in the scope of the Services, is agreed to by NJNG; (b) the cost of the Services covered by any activity, project, program or work order shall include any expense incurred by NJNG as a direct result of such change or rescission of the activity, project, program or work order; and (c) no change or rescission of an activity, project, program or work order shall release NJR from liability for all costs already incurred by or contracted for by NJNG pursuant to the activity, project, program or work order, regardless of whether the Services associated with such costs have been completed. Any request made by NJR pursuant to this Section 1.3 shall be in writing to NJNG and shall take effect on the first day of the first calendar month which is at least thirty (30) days after the day that NJR sent the written notice to NJNG.

**1.4** NJR shall provide the Services described in the New Jersey Resources Corporation Affiliate Allocation and Billing Procedures (“Allocation and Billing Procedures”) attached to and made a part of this Agreement as Exhibit 3. In addition to the services described in the Allocation and Billing Procedures, NJR may also provide NJNG with additional services, which NJR concludes it is able to perform and which are permitted under law and regulation to be provided. In supplying such services, NJR may arrange, where it deems appropriate, for the services of such experts, consultants, advisers and other persons with necessary qualifications as are required for or pertinent to the performance of such services. NJR warrants that all services shall be performed in full conformity with the Agreement with the skill and care which would be exercised by those who perform similar services at the time the Services are performed, and in accordance with accepted industry practice. NJR shall provide such services to NJNG pursuant to the same terms and conditions of this Agreement that apply to NJNG’s provision of services to NJR, including those outlined in this Article 1.

## **2. TERM AND TERMINATION**

This Agreement shall become effective on the date first set forth above and shall continue unless and until it is terminated upon thirty (30) days prior written notice by either Party. This Agreement shall also be subject to termination or modification at any time, without notice, if and to the extent performance under this Agreement may conflict with any rule, regulation or order of the New Jersey Board of Public Utilities adopted before or after the date of this Agreement, or if it is disapproved by the New Jersey Board of Public Utilities subsequent to the effective date.



### **3. FEES**

**3.1** NJNG shall be paid in accordance with Exhibit 1 — New Jersey Natural Gas Company Affiliate Allocation and Billing Procedures and NJR shall be paid in accordance with Exhibit 3 — New Jersey Resources Corporation Affiliate Allocation and Billing Procedures.

**3.2** It is the intent of the Parties that the fees for the Services rendered by NJNG and NJR will cover all costs of doing business. All of the Services rendered under this Agreement will be charged using a fully allocated cost methodology in compliance with the Affiliate Rules. Direct charges will be made where possible. The cost allocation/assignment methodology associated with each of the Services to be provided under this Agreement is set forth on the Allocation and Billing Procedures. The cost allocation/assignment methodology will be reviewed periodically as deemed appropriate by the Parties and in compliance with all applicable laws and regulations. Such cost allocations/assignment methodology may be modified by NJNG or NJR, as applicable, provided that, in each instance, all services rendered under this Agreement will be charged and allocated in conformance with all applicable laws and regulations. NJNG or NJR, when the billing party for Services, shall advise the other party of any changes to such cost allocation/assignment methodology, as applicable.

#### **3.3 Invoices.**

(a) NJR or NJNG may review fees charged by the billing Party monthly through the designated NJNG inter-company account in the J.D. Edwards Enterprise System during the monthly closing process, by no later than the 25<sup>th</sup> day of each month. NJNG shall issue an itemized statement on a quarterly basis by the 25<sup>th</sup> day of the month following the end of the quarter. Where estimates are used for initial billing, periodic true-ups will adjust all provisional amounts to actual.

(b) Payment shall be made through an inter-company transfer of cash to or from the NJNG designated account by the 25<sup>th</sup> day of the month following the date of the monthly invoice.

**3.4 Audit.** NJNG and NJR shall keep complete and accurate accounting records, in accordance with generally accepted accounting principles, to substantiate their charges and expenses under this Agreement. NJNG and NJR shall open their respective records to examination during regular business hours by the other Party.

### **4. FORCE MAJEURE**

Neither Party shall be liable to the other Party for any loss, damage, delay or failure of performance resulting directly or indirectly from any cause which is beyond its reasonable control, including, but not limited to acts of God, riots, civil disturbances, wars, acts of public enemy, strikes, work stoppages, or the laws, regulations, acts or failures to act of any governmental authority. Under such circumstances, the Parties shall

engage in good faith negotiations to arrange achievement of this Agreement's purposes through alternative methods.

## **5. DISPUTE RESOLUTION**

**NJNG and NJR** commit to take specific steps to prevent and settle all disputes that may arise in relation to this Agreement as follows:

**5.1 Prevention of Claims.** It is in the best interest of both Parties to this Agreement to prevent any misunderstandings or differences. Both Parties shall make a good faith effort to identify in advance and discuss potential causes of disputes. The Parties agree that each shall make a good faith effort to jointly and regularly review compliance with this Agreement. The Parties further agree to promptly resolve any issues as provided in Section 5.2 and Section 5.3 below.

**5.2 Voluntary Settlement - Direct and Mediated Negotiations.** The Parties agree that, should differences of interpretation or any other disagreement or claim arise out of this Agreement, they shall immediately make a good faith effort to negotiate and document a voluntary resolution of the matter. If the matter remains unsettled for thirty days after formal notification that a dispute exists, the Parties shall immediately enlist the aid of a mutually-agreed upon neutral mediator who is a member of senior management.

**5.3 Arbitration of Disputes.** The Parties agree that if the dispute remains unsettled for an additional thirty days, then they shall submit the dispute to three neutral members of senior management for discussion and resolution. Such resolution shall be documented and the necessary changes, if any, made to this Agreement.

## **6. MISCELLANEOUS**

**6.1 Amendments.** No amendment or waiver of any provision of this Agreement shall be effective unless the same shall be in writing and signed by authorized representatives of both Parties. In addition, no course of dealing or failure of a Party to strictly enforce any term, right or condition of this Agreement shall be construed as a waiver of such term, right or condition.

**6.2 No Assignment.** Neither Party may assign this Agreement without the other Party's prior written consent.

**6.3 Independent Contractor Status.** NJNG acknowledges that it is an independent contractor and nothing herein constitutes a joint venture or partnership. Neither Party has the right to bind or act for the other as agent or in any other capacity.

**6.4 Third Party Beneficiaries.** Nothing in this Agreement is intended to confer upon any other person except the Parties any rights or remedies hereunder or shall create any third party beneficiary rights in any person.

**6.5 Severability.** Should any provision of this Agreement be held to be void or unenforceable, the remaining provisions shall remain in full force and effect, to be read and construed as if the void or unenforceable provisions were originally deleted.

**6.6 Waiver.** The waiver or failure of either Party to exercise any right in any respect provided for herein shall not be deemed a waiver of any further right hereunder.

**6.7 Headings.** The headings used in this Agreement are for convenience of reference only and are not intended to affect the meaning or interpretation of this Agreement.

**6.8 Applicable Law.** This Agreement and performance under this Agreement shall be governed by the laws of the State of New Jersey, excluding any conflicts of law principles that would make applicable the laws of another state.

**6.9 Survival.** Termination of this Agreement shall be without prejudice to the rights and obligations of the Parties accrued prior to the date of termination. All provisions, which by their terms should survive termination of this Agreement, shall survive termination.

**6.10 Termination of Existing Service Agreement.** NJNG currently provides services to NJR pursuant to the terms and conditions of the Service Agreement dated September 15, 2006, on file with the New Jersey Board of Public Utilities. That agreement shall automatically terminate upon the receipt of any required regulatory approvals of this Agreement and the subsequent execution of this Agreement.

**7. ENTIRE AGREEMENT**

This Agreement (including Exhibit 1-Affiliate Allocation and Billing Procedures; and Exhibit 2-Service Request; and Exhibit 3-New Jersey Resources Corporation Affiliate Allocation and Billing Procedures) embodies the entire understanding between NJNG and NJR for the subject matter of this Agreement and any prior or contemporaneous representations, either oral or written, are hereby superseded and canceled.

**IN WITNESS WHEREOF**, the Parties hereto have executed this Agreement by their duly authorized officers, whose signatures are conclusive evidence of such authority.

**NEW JERSEY  
NATURAL GAS COMPANY**

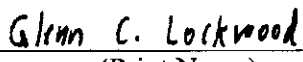
  
\_\_\_\_\_  
(Signature)

  
\_\_\_\_\_  
(Print Name)

  
\_\_\_\_\_  
(Print Title)

**NEW JERSEY RESOURCES  
CORPORATION**

  
\_\_\_\_\_  
(Signature)

  
\_\_\_\_\_  
(Print Name)

  
\_\_\_\_\_  
(Print Title)

**NEW JERSEY NATURAL GAS COMPANY  
AFFILIATE ALLOCATION AND BILLING PROCEDURES  
EXHIBIT 1**

**I. INTRODUCTION**

New Jersey Natural Gas Company ("NJNG"), as of January 1982, is a subsidiary of New Jersey Resources Corporation ("NJRC"). The purpose of this document is to describe the services provided by NJNG to NJRC and other affiliates and the cost assignment/allocation methodologies utilized by NJNG to allocate and bill the costs of such services.

**II. DESCRIPTION OF SERVICES AND COST ASSIGNMENT/ALLOCATION METHODOLOGIES**

Whenever possible, services are directly charged. Where direct charging is not possible, allocation methods are used as described below.

**1. Building Expense Pool**

**a. Description of Services**

- i. Provide internal maintenance services
- ii. Provide external maintenance services
- iii. Arrange and monitor improvements and replacement of facilities and systems.
- iv. Coordinate services such as: janitorial, landscaping, snow removal, security, utilities and refuse
- v. Administration of facility rental and leasing agreements

**b. Direct Charges** – Whenever possible, services expenses are directly charged to affiliate accounts.

**c. Allocation of Expenses** – All labor, payroll taxes, fringes and overheads are allocated to affiliates and departments on the basis of square footage utilized by the affiliate or business unit.

**2. Vehicles and Transportation**

**a. Description of Services**

- i. Mechanic repair services for cars, light trucks, medium trucks and other motor, trailer and related equipment
- ii. Coordination of outside service repairs on all vehicles for services not handled by the internal repair facilities. These may include: transmission, painting, collision and major engine repair.
- iii. Coordination of vehicle fueling for gasoline, diesel and natural gas powered vehicles

- iv. Installation of natural gas powered capabilities into gasoline powered vehicles
  - v. On the road pickup and repair services for fleet vehicles
  - vi. Coordination of the purchase or leasing replacement and salvage of fleet vehicles and equipment
- b. **Direct Charges** – Whenever possible, service expenses are charged directly to affiliate accounts.
- c. **Allocation of Expenses** – All vehicle expenses, except those allocated to the NJR Home Services affiliate, are allocated to other affiliates and business units based on the proportion of vehicles and related services utilized by the affiliate or business unit. The sub pools used for vehicles are: cars, light trucks and medium trucks.

### **3. Radio Tie-line Expense Pool**

- a. **Description of Services**
- i. Radio tower rental fees
  - ii. Radio tie line communication charges
  - iii. Radio maintenance – time and materials
  - iv. Radio equipment communication charges
- b. **Direct Charges** – Whenever possible, services parts and repairs are charged directly to affiliate accounts.
- c. **Allocation of Expenses** – Expenses consist of outside, vouchers, communications, installations, and repair charges. Expenses are allocated to affiliates and business units based on the number of radios in the control of the affiliate or business unit.

### **4. Inserter Room Expense Pool**

- a. **Description of Services**
- i. Labor and expenses for operation of the inserter room
- b. **Direct Charges** – Whenever possible, service expenses are directly charged to affiliate or business unit accounts.
- c. **Allocation of Expenses** – Allocations of all expenses are based on prior year actual operation usage, modified for known significant future differences in levels of support.

### **5. Hardware/Software Maintenance Expense Pool**

- a. **Description of Services**
- i. Maintain operation and control of centralized main network computer hardware & software
  - ii. Maintain security and licensing for users
  - iii. Arrange and maintain periodic leasing controls for hardware and software

- iv. Maintain hardware & software, licensing, leasing for all PC users and commercial equipment
- v. Maintain hardware & software, licensing, and maintenance for field order dispatch system (FODS) computers in field vehicles
- b. **Direct Charges** – Whenever possible, service expenses are directly charged to affiliate accounts.
- c. **Allocation of Expenses** – Expenses include labor, fringes, and overheads allocated from the NJR Service Company into the NJNG Hardware/Software maintenance cost pool. The pool also includes outside purchases for various vouchered expenses for leasing, maintenance contracts, and other overhead expenses, that are initially booked in NJNG. The allocation process uses a three factor weighted calculation to arrive at the allocation to affiliates and business units. The three factors and their specific bases are:
  - Central Processing Unit (AS400 – CPU) costs are allocated based on prior year CPU usage statistics
  - Personal Computer (PV) costs are allocated based on the proportion of PC computers in the control of the affiliate or business unit
  - Field Order Dispatch System (FODS) computer costs are based on the proportion of FODS computers in the control of the affiliate or business unit

The three allocations above are blended into a weighted average rate for allocation to each affiliate or business unit.

## 6. **Application Development**

- a. **Description of Services**
  - i. Analysis of computer system needs
  - ii. Coordination with affiliate or business unit management in developing best approach
  - iii. System prototype, development, testing and training of users and implementation of new and modified computer systems
  - iv. Troubleshooting and correction of software problems
  - v. Maintenance of a help desk for user support
  - vi. Periodic training of users for all systems
  - vii. Research and development of new systems
- b. **Direct Charges** – Whenever possible, service expenses are directly charged to other affiliates
- c. **Allocation of Expenses** – All expenses of the Application Development pool including labor, fringes, payroll taxes and overheads are allocated to affiliates and business units based on current month actual timesheets.

## 7. **Communications Equipment Cost Pool**

- a. **Description of Services**

- i. Date communications line fees – local and long distance
  - ii. Maintenance and support for PC & network, related communications equipment
  - b. **Direct Charges** – Whenever possible, service expenses are directly charged to affiliate accounts.
  - c. **Allocation of Expenses** – Expenses are made up of outside service fees for PC and network computers. Costs are allocated based on the proportion of PCs in the control of the affiliate or business unit.
- 8. Energy Services (Department 410)**

- a. **Description of Services**
  - i. Senior Vice President executive leadership, control, tactical and strategic planning.
  - ii. Nomination and scheduling
  - iii. Volumetric accounting
  - iv. Invoice preparation and customer payment processing
  - v. Review of interstate pipeline tariffs and associated filings
  - vi. Track deal confirmations and provide administrative support
- b. **Direct Charges** – Whenever possible, service expenses are directly charged. Labor is initially charged to specific affiliate object accounts based on a predetermined allocation for each individual. Labor is subsequently trued up quarterly from employee monthly timesheets submitted by department personnel.
- c. **Allocation of Expenses** – A predetermined overhead and fringe rate applies these costs on the basis of labor dollar transfers. The predetermined overhead rate is calculated by dividing the department overhead cost by the base direct labor dollars. This predetermined rate and the resulting allocation is trued up on an annual basis.

### **III. TRANSFER OF SERVICES**

To the extent that there is any transfer of services between NJNG and a retail affiliate, the transfer will be priced in accordance with the Affiliate Rules. Current transactions primarily fall under either a tariffed service, which is automatically deemed to be priced at Fair Market Value, or a shared corporate support service, which would not be available for sale on the open market and is accordingly priced at a fully allocated cost.

### **IV. INTERCOMPANY BILLING AND PAYMENT**

Direct charges to other affiliates and allocations to other affiliates are charged to specific affiliate inter-company accounts on the books of the affiliate experiencing the initial accumulation of cost. Period end balances in the specific affiliate inter-company account are communicated to the specific affiliate. The charged affiliate posts the payable to a corresponding, specific affiliate inter-company account on their books. Net funds



due between affiliates are transferred on a monthly basis. Where estimates are used for initial billing/charging, periodic true-ups adjust all provisional amounts to actual.

## **V. FEDERAL INCOME TAX ALLOCATION**

The following tax allocation procedures outline the inter-company Federal Income Tax Calculation of NJNG with NJR as the parent holding company.

As in prior years, NJR intends to file a consolidated Federal income tax return for itself and its subsidiaries. NJNG consents to be included in the consolidated return. NJR and NJNG therefore agree to the following method of allocating the consolidated Federal tax liability and for compensating NJNG for the use of its net operating losses and/or tax credits, if any, in arriving at such tax liability. The agreement also applies to claims, alternate minimum tax prepayments, and the carryback of net operating and/or tax credits.

The primary goal of this method is, to the maximum extent possible, to allocate to NJNG the tax liability or savings for the consolidated group which are generated by NJNG. Therefore, the Parties hereto agree as follows:

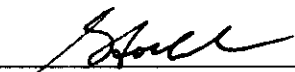
1. NJNG shall compute its liability on a stand alone basis solely by reference to its respective items of income, gain, loss, deduction and credit.
2. If NJNG generates a net tax liability on a stand alone basis, it shall pay the amount of such separate return liability to NJR.
3. If NJNG incurs a net operating loss, alternative minimum tax prepayments, and/or tax credits, on a stand along basis, NJNG shall receive the tax savings to the extent such savings can be utilized by NJR.
4. The tax allocation procedures shall be administered by the Tax Department of NJR Service Corporation.
5. All tax payments or refunds, including estimated tax payments, as calculated by the Tax Department, shall be paid by NJR to NJNG or by NJNG to NJR no later than the day payments are made or received by a taxing authority. The amounts due each company may be paid either by the actual remittance of cash or via inter-company accounts, as determined from time to time the NJR.
6. Adjustments to consolidated Federal income tax liability or refunds made by the Internal Revenue Service on audit of the consolidated return shall be determined in accordance with paragraphs 1 through 3.
7. This agreement shall apply to all tax years beginning with the year 1999 unless NJR and NJNG agree in writing to terminate this agreement.

**NEW JERSEY NATURAL GAS COMPANY  
SERVICE REQUEST  
EXHIBIT 2**

The undersigned requests from New Jersey Natural Gas Company, the services selected below:

<u>Service</u>	<u>Yes</u>	<u>No</u>
Building Expense Pool	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vehicle Transportation	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Radio Tie-Line Expense Pool	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Inserter Room Expense Pool	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Hardware/Software Maintenance Expense Pool	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Application Development	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Communications Equipment Cost Pool	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Energy Services	<input type="checkbox"/>	<input checked="" type="checkbox"/>

**NEW JERSEY RESOURCES  
CORPORATION**

  
\_\_\_\_\_  
Glenn C. Lockwood  
Executive Vice President and Chief  
Financial Officer

**NEW JERSEY RESOURCES CORPORATION  
AFFILIATE ALLOCATION AND BILLING PROCEDURES  
EXHIBIT 3**

**I. INTRODUCTION**

New Jersey Resources Corporation (“NJR”) provides corporate support services to its subsidiaries as listed in Exhibit A of New Jersey Natural Gas Company’s Affiliate Rules Compliance Plan. Services performed on behalf of any Retail Affiliates of New Jersey Natural Gas Company (“NJNG”) will be limited to services that are permissible under the Affiliate Relations, Fair Competition and Accounting Standards and Related Reporting Requirements (“Affiliate Rules”). The purpose of this document is to describe the services provided by NJR and the cost assignment/allocation methodologies utilized by NJR to allocate and bill the costs of such services provided.

**II. DESCRIPTION OF SERVICES AND  
COST ASSIGNMENT/ALLOCATION METHODOLOGIES**

Whenever possible, services are directly charged. Where direct charging is not possible, allocation methods are used as described below.

**1. General and Administrative Expenses Pool**

- a. **Description of Services**
  - i. Provide overall corporate executive leadership, control, tactical and strategic planning
  - ii. Provide corporate financial executive leadership, control, tactical and strategic planning
  - iii. Provide general and administrative corporate executive support service leadership, control, tactical and strategic planning
  - iv. Provide corporate legal executive leadership, control, tactical and strategic planning
  - v. Provide Corporate Governance via Board of Director leadership, control, tactical and strategic planning
- b. **Direct Charges** – Whenever possible, services expenses are directly charged to affiliate accounts.
- c. **Allocation of Indirects** – Allocation of all indirect expenses are based on actual employee timesheets and calendars.
- d. **Cost Retained at the Corporate Level** -When applicable, new business development costs that are not specifically identified for a particular subsidiary company will be retained by NJR at the corporate level or charged to a non-utility affiliate. If such costs are specifically identifiable to a subsidiary, those costs will be directly charged to the benefiting affiliate.

### **III. FEDERAL INCOME TAX ALLOCATION**

The following tax allocation procedures outline the inter-company Federal Income tax Calculation of NJNG with NJR as the parent holding company.

As in prior years, NJR intends to file a consolidated Federal income tax return for itself and its subsidiaries. NJNG consents to be included in the consolidated return. NJR and NJNG therefore agree to the following method of allocating the consolidated Federal tax liability and for compensating NJNG for the use of its net operating losses and/or tax credits, if any, in arriving at such tax liability. The agreement also applies to claims, alternate minimum tax prepayments, and the carryback of net operating and/or tax credits.

The primary goal of this method is, to the maximum extent possible, to allocate to NNG the tax liability or savings for the consolidated group which are generated by NJNG. There, the Parties hereto agree as follows:

1. NJNG shall compute its liability on a stand alone basis solely by reference to it respective items of income, gain, loss, deduction and credit.
2. If NJNG generates a net tax liability on a stand alone basis, it shall pay the amount of such separate return liability to NJR.
3. If NJNG incurs a net operating loss, alternative minimum tax prepayments, and/or tax credits, on a stand along basis, NJNG shall receive the tax savings to the extent such savings can be utilized by NJR.
4. The tax allocation procedures shall be administered by the Tax Department of NJR Service Corporation.
5. All Federal tax payments or refunds, including estimated tax payments, as calculated by the Tax Department, shall be paid by NJR to NJNG or by NJNG to NJR no later than the day payments are made or received by a taxing authority. The amounts due each company may be paid either by the actual remittance of cash or via inter-company accounts, as determined from time to time by NJR.
6. Adjustments to consolidated Federal income tax liability or refunds made by the Internal Revenue Service on audit of the consolidated return shall be determined in accordance with paragraphs 1 through 3.
7. This agreement shall apply to all tax years beginning with the year 1999 unless NJR and NJNG agree in writing to terminate this agreement.



**NEW JERSEY RESOURCES CORPORATION  
BONUS DEPRECIATION**

<b>Regulated Company</b>	<b>Fiscal Year 2012</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>	<b>Fiscal Year 2009</b>	<b>Fiscal Year 2008</b>	<b>Fiscal Year 2007</b>	<b>Fiscal Year 2006</b>	<b>Fiscal Year 2005</b>	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2003</b>	<b>Fiscal Year 2002</b>	<b>Fiscal Year 2001</b>
New Jersey Natural Gas Company	\$ 38,107,323	\$ 67,894,376	\$ 14,068,921	\$ 13,952,862	\$ 6,701,533	\$ -	\$ -	\$ 8,068,381	\$ 25,852,862	\$ 14,410,030	\$ 12,300,000	\$ -
<u>Unregulated Companies</u>												
Redacted	-	-	1,292	-	-	-	-	14,098	100,370	30,542	-	-
Redacted	-	127,327	-	-	43,006	-	-	37,496	18,990	15,775	-	-
Redacted	-	97,978	1,096,551	-	-	-	-	3,077	32,194	125,129	-	-
Redacted	-	36,590,838	-	-	-	-	-	-	-	-	-	-
<b>Total Bonus Depreciation</b>	<b>\$ 38,107,323</b>	<b>\$ 104,710,519</b>	<b>\$ 15,166,764</b>	<b>\$ 13,952,862</b>	<b>\$ 6,744,539</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,123,052</b>	<b>\$ 26,004,416</b>	<b>\$ 14,581,476</b>	<b>\$ 12,300,000</b>	<b>\$ -</b>

**NEW JERSEY RESOURCES CORPORATION – ACTIVE ENTITIES**

1. New Jersey Resources Corporation (NJRC or the Company) is a New Jersey corporation formed in 1982 pursuant to a corporate reorganization. The Company is an energy services holding company providing (through various subsidiaries) retail and wholesale energy services to customers in New Jersey, in states from the Gulf Coast to New England and Canada. The Company is an exempt holding company under section 1263 of the Energy Policy act of 2005. NJRC's subsidiaries and businesses include:
2. New Jersey Natural Gas - a natural gas distribution company that provides regulated retail natural gas service to approximately 500,000 residential and commercial customers in central and northern New Jersey and participates in the off-system sales and capacity release markets. NJNG is regulated by the New Jersey Board of Public Utilities (BPU).
3. NJRC Energy Services (NJRES) – NJRES is a non-regulated entity that maintains and trades around a portfolio of physical assets consisting of natural gas storage and transportation contracts. NJRES also provides wholesale energy management services to other energy companies.
4. NJRC Clean Energy Ventures – an unregulated company that invests, owns and operates renewable energy projects located in the State of New Jersey and owns a minority interest in an on-shore wind project developer.
5. Retail and Other operations, includes the following companies:
  - NJRC Retail Holdings, formed in November 2001 as an unregulated affiliate to consolidate the company's unregulated retail operations. Retail Holdings includes the following wholly owned subsidiary:
    - a. NJRC Home Services, a company formed in August 1998 to provide heating, ventilation and cooling (HVAC) service repair and contract services.
    - b. NJRC Plumbing Services, a subsidiary of NJRHS formed in 2001 to provide plumbing services for our HVAC business.
    - c. Commercial Realty and Resources, a company that holds and develops commercial real estate.
  - NJRC Energy Investments, formerly known as NJRC Capital Services, formed as an unregulated affiliate to consolidate the Company's unregulated energy-related and real estate investments. NJREI includes the following wholly owned subsidiaries:
    - d. NJRC Energy Holdings, including NJRC Energy which invests primarily in energy related ventures through its subsidiary, NJNR

Pipeline, which holds the Company's 5.53% interest in Iroquois Gas and Transmission System, LP.

- e. NJR Steckman Ridge Storage Company, which holds the company's 50 percent combined interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively Steckman Ridge), a natural gas storage facility that is being developed with a partner in western Pennsylvania.
  - f. NJR Investment, a company that makes and holds certain energy related investments, primarily through equity instruments or public companies.
6. NJR Service (Service Corp) an unregulated company that provides shared administrative services, including corporate communications, financial and administrative, internal audit, legal, human resources and technology for NJR and all subsidiaries of NJR.

#### **NEW JERSEY RESOURCES - INACTIVE ENTITIES**

- 7. New Jersey Natural Resources Company – formerly involved in oil and natural gas development, production, transportation, storage and other energy-related ventures.
- 8. Paradigm Power, Inc. – formerly involved in developing and investing in natural gas-fueled cogeneration and independent power production projects.
- 9. Lighthouse One, Inc. – formerly involved in investment opportunities in natural gas-fueled cogeneration and independent power production projects.
- 10. Lighthouse II, Inc. – formerly involved in investment opportunities in natural gas-fueled cogeneration and independent power production projects.
- 11. NJR Storage Corporation – formed to develop, own and operate a system of five natural gas market centers with high deliverability salt cavern storage facilities in Texas, Louisiana, Mississippi, Michigan and Pennsylvania.
- 12. Natural Resources Compressor Company – formerly involved in development of natural gas compressor stations.
- 13. NJR Computer Technologies, Inc. – formerly involved with investment in certain information technologies and marketing of computer software.
- 14. NJR Power Services Corporation – formerly involved in investments in distributed generation.
- 15. NJR Natural Energy Company – formerly involved in the unregulated marketing of natural gas and fuel and capacity management services



**NEW JERSEY RESOURCES CORPORATION  
CURRENT AND DEFERRED INCOME TAXES**

<b>Calendar Year</b>	(\$000)		(\$000)	
	<b>Income Taxes Current - Federal</b>	<b>Income Taxes Current - State</b>	<b>Income Taxes Deferred - Federal</b>	<b>Income Taxes Deferred - State</b>
1991	\$ 1,480	\$ -	\$ 4,559	\$ -
1992	2,153	-	10,086	-
1993	7,685	-	5,741	-
1994	7,610	-	8,822	-
1995	11,561	-	4,995	-
1996	26,643	-	(7,588)	-
1997	3,314	-	18,050	-
1998	11,097	4,209	9,218	499
1999	28,854	9,385	(8,522)	(2,547)
2000	6,512	4,976	15,703	2,404
2001	13,694	10,838	10,844	(3,067)
2002	9,339	3,811	18,321	4,801
2003	16,358	7,848	16,225	2,379
2004	22,560	8,547	12,850	2,310
2005	45,142	14,327	(7,660)	(2,574)
2006	37,631	11,636	878	199
2007	36,846	12,282	5,758	1,633
2008	28,534	4,750	29,972	6,470
2009	26,860	7,603	(17,713)	(5,052)
2010	(7,343)	(981)	65,258	8,527
2011	14,566	6,618	30,932	(1,301)
2012	14,983	4,025	18,757	4,361

Source: New Jersey Resources Annual Report / SEC Form 10-K

**NEW JERSEY NATURAL GAS COMPANY**  
**CURRENT AND DEFERRED INCOME TAXES**

---

<b>Calendar Year</b>	<b>Income Taxes Federal (\$000)</b>	<b>Income Taxes Other State (\$000)</b>	<b>Deferred Income Taxes (\$000)</b>	<b>Deferred Income Taxes State (\$000)</b>
1991	\$ 2,493		\$ 4,044	
1992	4,064		8,367	
1993	7,791		6,768	
1994	10,259		6,795	
1995	12,615		3,503	
1996	15,906		2,494	
1997	3,741		16,432	
1998	9,978	3,944	9,217	499
1999	25,336	8,640	(5,792)	(2,155)
2000	5,865	4,304	15,263	2,405
2001	10,167	10,252	12,310	(3,067)
2002	4,758	2,572	18,554	4,650
2003	11,685	5,936	14,329	2,324
2004	12,040	5,557	14,803	2,880
2005	31,917	10,584	(6,687)	(2,609)
2006	26,048	8,220	(4,475)	(1,320)
2007	11,144	4,071	8,834	2,607
2008	3,026	92	17,730	7,314
2009	6,877	5,350	24,003	3,821
2010	(4,612)	(429)	37,181	6,599
2011	19,649	8,967	13,219	(1,191)
2012	13,186	2,268	18,936	4,067

Source: NJNG Annual Report