BEFORE THE STATE OF NEW JERSEY

BOARD OF PUBLIC UTILITIES

OFFICE OF ADMINISTRATIVE LAW

I/M/O THE PETITION OF NEW	)	
JERSEY NATURAL GAS	)	
COMPANY FOR APPROVAL OF AN	)	**BPU DOCKET NO. GR07110889**
INCREASE IN ITS GAS RATES,	)	
DEPRECIATION RATES FOR GAS	)	**OAL DKT. NO. PUC 12545-07**
PROPERTY, AND FOR CHANGES IN	)	
THE TARIFF FOR GAS SERVICE,	)	
PURSUANT TO N.J.S.A. 48:2-18 AND	)	
48:2-21		

DIRECT TESTIMONY OF JAMES D. COTTON
ON BEHALF OF THE
NEW JERSEY DEPARTMENT OF THE PUBLIC ADVOCATE
DIVISION OF RATE COUNSEL

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NEW JERSEY NATURAL GAS COMPANY
DOCKET NO. GR07110889
TESTIMONY OF JAMES D. COTTON

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I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is James D. Cotton and my business address is 199 Ethan Allen Highway, Ridgefield, Connecticut, 06877. My mailing address is P.O. Box 810, Georgetown, Connecticut 06829.

Q. What is your occupation?

A. I am a Principal and Chairman of The Columbia Group, Inc, a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings and testify in utility rate proceedings. I also undertake special projects in the areas of finance, utility regulation, and other utility-related topics.

Since 1976, I have testified on utility regulatory and financial matters in over 125 major utility rate proceedings before state commissions in the states of New Jersey, Arizona, California, Connecticut, Delaware, Georgia, Kansas, Louisiana, Maine, Maryland, Massachusetts, New Mexico, New York, Ohio, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont and Virginia. In New Jersey, I have submitted testimony in rate cases on behalf of the Division of Rate Counsel ("Rate Counsel") on accounting, revenue requirements and restructuring issues. A list of my testimonies may be found at Appendix "A".

Q. Please summarize your professional experience in the utility.

A. I have diverse experience in the utility industry, having worked for a utility company, served as a consultant to municipal utilities, counties, and state agencies, and served as a controller for a cable television division of a major corporation. Prior to my current position, I was a Principal of The Georgetown Consulting Group, Inc. ("GCG"). My duties and responsibilities at that firm were similar to those I now have. Prior to my association with GCG, I was an employee of Citizens Utilities Company. During my first two years at Citizens, I prepared, reviewed and summarized operating and capital budgets for all types of utility services except telephone. I also prepared various operating reports for management review. During that time, I also analyzed acquisitions for the firm. I was then promoted to the position of rate economist with the responsibility for preparing rate cases.

Q. What did you do prior to joining Citizens?

A Prior to joining Citizens, I spent one year with the New York News as its corporate financial analyst. In that capacity, I prepared operating budgets, analyzed operating variances, and prepared state and federal tax returns. Prior to my position with the New York News, I spent 2½ years with Time, Inc. Initially, I worked as Time, Inc.'s consolidations accountant. I advanced through various assignments until I was promoted to business manager of the cable television division, a controllership position.

II. PURPOSE OF TESTIMONY

Q. Please explain the purpose of the testimony you are providing in this case.

A. The purpose of my testimony is to give some background and history to New Jersey Natural Gas Company's ("NJNG" or "Company's") Basic Gas Supply Service ("BGSS") shared incentive program mechanisms ("Incentive Programs"). I will also seek to address the Company's current request for: 1) additional current dollar and volume limitations in two of its existing incentive programs; 2) the Company's request for a Winter Incentive Program; 3) Extension of all of the existing BGSS Incentive Programs; and 4) Review of the Incentive Programs.

III. SUMMARY OF CONCLUSIONS

Q. Please summarize your conclusions.

A. My conclusions are as follows:

1. The current NJNG Incentive Programs have worked well for the NJNG's ratepayers. For various reasons, I recommend continuation of all the existing programs for NJNG, except for the Ocean Peaking Power program.

2. The Company's proposal to increase the Financial Risk Management ("FRM") transaction cost limitation of $3.2 million to $6.4 million should be approved by the Board of Public Utilities ("BPU" or "Board").
3. The Company's proposal to increase the FRM volume limitations to a level based upon the annual BGSS purchase requirements set out in the Company's BGSS annual filings should be approved by the Board.
4. The Company's proposal for a Winter Storage Incentive Plan should be denied at this time. I believe this should not be approved now for various reasons that I will discuss later in this testimony.
5. The Company's Storage Incentive ("SI") Program maximum limitation of 18 Bcf should be allowed, with Board approval to increase to 20 Bcf, and the Company should be allowed to adjust this amount upwards if additional firm storage capacity is acquired.
6. A base rate case is a good time for evaluating whether NJNG's Incentive Programs should be continued, modified, or discontinued in accordance with certain stipulations. Previously, these have been reviewed periodically. Reconciliation of the BGSS clauses should be continued to be reviewed annually.
7. All of the Incentive Programs do not have to be re-evaluated each and every year. I would suggest that programs and any proposals by the Company for increased limitations and any other changes be

reviewed no less than every three years from the time of the previous incentive review or when the Company petitions for a change or amendment to an incentive program.

IV. DISCUSSION OF THE ISSUES

A. General Background

Q. What has been the Incentive Sharing Program history for New Jersey Natural Gas?

A. I have provided the history of the Company's Incentive Sharing Program at Appendix "B", including the total amounts, the amounts to customers, and the amounts to NJNG. This information was provided by the Company in response to RCR-A-6, Attachment, Page 1 of 1.

Since 1992, total customer sharing from BGSS Incentive Sharing Programs has amounted to $338,267,000, and the Company has received $78,931,000, for a grand total of $417,198,000. Both Company and Customer sharing amounts show a steady trend of increase, particularly since the Storage Incentive (SI) Program started in 2004.

Q. What are the benefits to the Company and to ratepayers as a result of NJNG's incentive programs?

A. For the Company there has been additional profitability. This additional profitability has served as an incentive to NJNG to reduce the cost of the

BGSS and, therefore, to stabilize the cost of the BGSS to ratepayers. For the ratepayers, the incentive mechanism programs have allowed reductions in the annual BGSS, or the amounts that are charged directly to ratepayers for the cost of gas. For example, in the fiscal year ending June 30, 2007, the reduction in the BGSS was $36,817,000 due to the shared margins made on these incentive mechanisms.[1]

Q. How large is the BGSS?

A. The current BGSS amounts to approximately $500 million per annum of revenues net of BGSS incentives.[2] Therefore, based on the most recent incentive savings to ratepayers of approximately $38.8 million (Shields Testimony, page 8), current ratepayers save approximately 7.75% of BGSS costs using incentive mechanisms. This is a substantial savings.

Q. What are the existing Incentive Mechanisms or programs?

A. There are five existing BGSS Incentive Sharing Programs, including: 1) the Off System Sales program; 2) the Capacity Release program; 3) the Financial Risk Management program; 4) the Storage Incentive program; and the 5) Ocean Peaking Power program ("Existing Incentive Programs"). Incentive Programs were last evaluated in connection with a December 2006 Petition in which the Company asked for an extension

[1] Response to Interrogatory RCR-A-6, Attachment, Page 1 of 1.
[2] From Informal Discovery with Joseph Shields at NJNG Corporate Headquarters in Wall, New Jersey on April 9, 2008.

of its then current BGSS incentive programs. A Stipulation in September 2007 resolved this proceeding, resulting in the elimination of four small sharing programs and the continuation of the five Existing Incentive Programs. In this regard, the Stipulation stated that the "Off-System Sales and Capacity Release Incentive Program shall continue as currently structured through October 31, 2008"; that the "Financial Risk Management (FRM) shall continue through October 31, 2008"; that "…the Storage Incentive will be extended through October 31, 2008 as currently structured"; and for Ocean Peaking Power that "Additionally, this sharing mechanism will terminate on September 1, 2008 if the Company has not filed a base rate case by that date."[3] The Company filed this base rate case on November 20, 2007, so the issue of continuing the incentives at all and for how long appears to be a timely one for this base rate case.

Q. Would you please briefly describe each of these BGSS Incentive Programs?

A. Yes.[4]

1) Capacity Release - The Capacity Release program provides an incentive for NJNG to sell capacity that is not needed by NJNG's firm customers. Therefore, one example of this BGSS incentive might be for NJNG to sell unused pipeline capacity from firm capacity contracts it

[3] Stipulation in BPU Docket No. 06120871, para. 7, Sept. 12, 2007.
[4] The information in this section was drawn from the Company's response to RCR-INC-4.

currently holds. Another example is to allow other companies to purchase pipeline capacity from one pipeline that serves NJNG, and at the same time NJNG could buy pipeline capacity from another existing pipeline at a better price. The difference between the amount to buy the capacity at a better price and sell it at a higher price or margin is divided between the customers and NJNG using a ratio of 85%/15%, respectively.

2) Off System Sales are exactly that. They represent sales to customers that are not on the NJNG system. The difference between the revenues and the cost of gas results in a gross margin that is shared between customers and the Company 85%/15%.

3) Financial Risk Management (FRM) calculates the projected NYMEX futures prices based on the *Natural Gas Monthly*[5] using quarterly reports as the FRM benchmark. NJNG buys options contracts to beat this benchmark price. The difference between the benchmark price and the strike price of the option, adjusted for any premium price and fees, is the margin. The resulting gain is shared between ratepayers and the Company 85%/15%.

[5] Published by Global Insight, Inc.

4) The Storage Incentive or "SI" is a program that uses a benchmark of financial hedge positions (futures) on a ratable basis for the April through October injection season. Once a benchmark is determined, the actual costs of storage injections are evaluated against the benchmark to determine profit or loss. The actual costs of storage injections can include the commodity costs of physical injections and any gains and losses associated with the trading of hedges by NJNG. Both the benchmark and subsequent transactions are adjusted for delivery and fuel charges. The difference between the benchmark and the actual injection costs is shared between the customers and NJNG 80%/20%. The Company points out that the Storage Incentive promotes both cost savings as well as price stability through the hedging of storage injection volumes.

5) Ocean Peaking Power or "OPP" is a program that shares with customers, 85%/15%, the demand and variable charge revenues, less any taxes, received from Ocean Peaking Power for transportation service that OPP receives in Lakewood.

Q. Did the Company prepare a chart listing the current BGSS Sharing Incentives and their financial history?

A. Yes, see NJNG's Response to RCR-A-6, provided in Appendix "B".

B. Time of Next Review

Q. What is the Company's position with regard to the length of time the Existing Incentive Programs should remain in effect before they are again reviewed?

A. The Company has requested that its BGSS Incentive Programs, as adopted in this proceeding, should be allowed to remain "…in effect, without change, until such time as a Board Order resolving the Company's next base rate case proceeding is issued."[6]

Q. Do you agree with the Company on this issue?

A. No. I agree with the Company's belief that it is not necessary to review the Company's BGSS incentive programs each and every year. All of the five BGSS Incentive Programs currently in effect have been in existence for several years. As I mentioned before, these BGSS Incentive Programs are presently doing quite well. However, I believe waiting until after the final decision occurs in the Company's <u>next</u> base rate case may be too long a period of time before the next review of the BGSS Incentive Programs. The Company's last base rate case was 15 years ago. I believe that the BGSS Incentive Program benefits the Company by allowing it to avoid coming in for more frequent rate cases. Therefore, I believe that a better time period for BGSS incentive review would be three years from the end of this rate case, and every three years

[6] Testimony of Joseph Shields, page 9.

thereafter, unless the Company found it necessary to file for rate relief, in which case I would recommend that a review be undertaken in that rate case, just as it is being undertaken in this base rate case. I also believe that the Company, as it did in 2007, may file a Petition requesting either further extension of their incentive programs or amendments to their programs, if they were to feel that was needed.

Finally, in the past, the Company has proposed new BGSS Incentive Programs during BGSS annual reviews. This further complicates a process that was intended to be limited to establishing rates and reconciling gas costs and recoveries. I believe it is far better for the parties to examine BGSS incentives separate and apart from the BGSS annual review.

Therefore, my recommendation is to retain four of the five current major BGSS Sharing programs at the current sharing formulas. In addition however, I recommend that these programs be reviewed no later than every three years, starting with the completion of this base rate case.

Q. Has the Company made other proposals in this case regarding the existing BGSS incentive mechanisms?

A. Yes, the Company has made specific proposals to continue the five BGSS incentive mechanisms at their existing sharing levels. Just to be clear, these five programs and the current sharing arrangements are as follows:

Program	Customer/Company Sharing*	First Year
Off System Sales	85%/15%	1992
Capacity Release	85%/15%	1994
FRM Program	85%/15%	1997
Storage Incentive	80%/20%	2004
Ocean Peaking Power	85%/15%	2003

* Based upon 2007 Fiscal Year results, the current sharing of all the Incentive Programs is approximately 82%/18%.

In addition, the Company has made specific proposals for the Financial Risk Management (FRM) Program and the Storage Incentive (SI) Program. Finally, NJNG is proposing a new BGSS incentive program, which it calls the Winter Incentive or "WI" Program.

C. The Financial Risk Management (FRM) Program

Q. Please briefly describe the proposals that NJNG is making to modify the FRM Incentive?

A. The Company is making two specific proposals regarding the FRM Incentive. The Company is proposing that the annual FRM transaction cost limitation of $3.2 million either be eliminated or increased to at least $6.4 million. In addition, the Company is proposing to raise the volume limitations to be more in line with the current 50 Bcf load, as compared with the 30 Bcf load of 10 years ago.

Q. What is the Company's rationale for these proposed increased limitations?

A. The rationale is to "better align"[7] the current costs of options premiums with current prices. As an example, Mr. Shields points out that the average premium cost in the September 2007 FRM Report is approximately twice the cost than it was in the September 1997 FRM Report. In addition, increasing the FRM Program dollar amounts to a $6.4 million limitation is more in keeping with the 50 Bcf sales level the Company is now experiencing, as compared with the 30 Bcf sales level the Company had at the time of the $3.2 million dollar load.

The second Company proposal regarding the FRM Incentive is similar. The Company proposes to increase the volume limitation of the FRM Incentive and to do so based on "the updated BGSS purchase requirements set forth in the Company's annual BGSS filings each year."[8] Between increasing the financial limitations of the FRM Program and the volumes limitations on the FRM Program, the Company believes that it will improve the FRM Program's performance and create the opportunity for more FRM transactions. This should create much greater profit opportunities for the Company and continue to help reduce the

[7] Id., page 11.
[8] Id.

cost of gas through reductions in the BGSS. On page 12 of his testimony, with reference to raising the amount of the limit, Mr. Shields states: "The Company believes that increasing the financial cap for the FRM program and changing its volume limits will improve the FRM program's performance, create the opportunity for additional FRM transactions and thereby generate additional customer price stability."

Q. What is your opinion?

A. I believe that the Company should be allowed to increase its financial exposure to $6.4 million annually and to set volume limitations based on a total BGSS sales volume of 50 Bcf. The FRM Program has worked well and has helped stabilize BGSS charges to customers. As mentioned earlier, in the previous Fiscal Year 2007, $38.8 million was saved for BGSS customers, of which the FRM Program saved $7.6 million.[9] Since its inception, the FRM has saved customers $31.8 million,[10] which is quite a substantial amount. In addition, the FRM Program started in 1997 and has had a good growth trend upwards since then, from $867,000 in 1997 to $9.5 million in the most recent fiscal year.[11] Notably, there has not been a loss year in the eleven years of the program. So, this is a good track record. I believe there is minimum customer risk involved in the FRM Program given the types of

[9] Id., Page 8.
[10] Id.
[11] From Response to RCR-A 6, Attachment, Page 1 of 1.

transactions and participants and supervision of the traders making the trades. And finally, I believe that the Company's request for additional money cap limits and volumes is reasonable. Assuming the Company was a 30 Bcf company when the FRM started in 1997, and that the Company has grown to 50 Bcf today, then the Company should be allowed to place higher maximums in alignment with the current 50 Bcf load than the current maximums that were effectuated back in 1997, based on a 30 Bcf load.

Q. What is your recommendation?

A. Based upon my analysis, I recommend that the limitation on the cost of FRM transactions be raised from a cap of $3.2 million at any time during the applicable BGSS period to a cap of $6.4 million. I also recommend that the volumes be raised based "…on the updated BGSS purchase requirements set forth in the Company's annual BGSS filings each year."[12] All the parties should be officially notified, with an opportunity for comment, when such an increase is proposed in the future.

D. Proposals regarding the Storage Incentive ("SI") Program

Q. What has been the history of the financial results of the SI Program?

[12] Testimony of Joseph Shields, Pages 11 and 12.

A. The history reveals that the program started in 2004, during which it made a total of approximately $4 million for ratepayers,[13] which reduced the BGSS costs. Most recently, in fiscal 2007 the customers' share amounted to approximately $14.5 million.[14] These are very good results, and have helped BGSS customers with the reason for the program, which is to reduce and stabilize BGSS costs to ratepayers.

Q. Has the Company proposed modifications to the SI Program in this docket?

A. Yes. As explained through the Testimony of Joseph Shields, when the SI Program first started, 15 Bcf of firm storage capacity was made available for it. That amount was increased to 18 Bcf in 2005. The Company now has 23.4 Bcf of firm storage capacity, of which it wants to reserve 3.4 Bcf for daily, monthly and seasonal load fluctuations. That would leave 20 Bcf of storage capacity available for the SI Program. The Company, therefore, now proposes to expand the SI Program from 18 Bcf to 20 Bcf.

Q. What are the consequences of this program expansion?

A. We should expect that associated revenues would increase by about the percentage increase of the capacity. In this case, this should result in an approximate 11% increase in revenues.

[13] From Response to RCR-A-6, Attachment, Page 1 of 1.
[14] Id.

Q. What do you recommend?

A. I recommend that the Board approve the Company's proposal to expand the SI Program to 20 Bcf. This is an update to a successful program very much like the FRM increases are an update to that program. All the parties should be officially notified, with an opportunity for comment, when such an increase is proposed in the future.

E. Proposals Regarding Ocean Peaking Power ("OPP")

Q. What is the Company's proposal with regard to the OPP?

A. The Company's proposal is to retain the current sharing of the OPP of 85% for customers and 15% for NJNG. In noting this sharing the Company remarks that because the OPP's usage is during off-peak periods, the OPP helps to improve the systems load factor and improves the utilization of the Company's interconnection with the Texas Eastern pipeline system.[15] The Company also states: "…that the OPP rate has already taken into account the operation and maintenance costs associated with the OPP facility, as well as the capital costs the Company incurred in connection with installing certain metering and related facilities that were needed to serve the OPP plant. To ensure that customers are not paying twice for the return on OPP-related capita

[15] Testimony of Joseph P. shields, page 10.

costs, the Company has made an appropriate rate base adjustment in this case. See Exhibit P-3, Schedule JSB-37."[16]

Q. What is your position with regard to retaining the sharing of the OPP 15%, NJNG and 85% customers?

A. I am opposed to it for the following reasons. First, this appears to me to be a customer service in the form of a contract that is being rendered by NJNG to one customer, albeit a fairly large customer. It would be overly burdensome to generate a BGSS Incentive mechanism for each and every customer. Second, according to the Company, BGSS "…incentives are designed to promote innovative purchasing and asset management strategies that take advantage of opportunities in the marketplace to generate additional benefits to customers."[17] These are large revenue producing mechanisms that are designed to significantly offset the large cost to customers of the annual BGSS. This is simply not the case with the OPP. Third, while it is difficult to track the costs of most BGSS incentives through base rates, it is not difficult to track the Company's investment in the OPP in base rates. In fact, the investment in the OPP is $601,000. There is no reason why this investment, like every other utility investment, should not be included in rate base, and accordingly in her testimony Ms. Crane has included it as an adjustment. Also, according to RCR-INC-14 and 15, the small O&M

[16] Id.
[17] Response to RCR-INC-8.

costs associated with the OPP Contract are not separately tracked, and are not split-out from annual operating expenses that are already being claimed for base rates. The only expenses that will vary will be taxes, and, in the examples I have been provided with, the taxes were deducted before the split between customers and the Company. This should be allowed to continue. Because, the Company will now receive a fair return on its OPP investment, and as it already captures its expenses, there is no reason why it should receive a portion of the Incentive benefit. Therefore, customers should receive 100% of the revenues less taxes through the BGSS. Fourth, I note that in the Decision and Order of Docket No. GR02120947, which approved the STIPULATION for NJNG's service to OPP, at Paragraph 3, (c), 4), it stated:

> 4) In the event that NJNG files a base rate case during the initial term of the Service Agreement, the revenue sharing set forth in (c)1 and (c)2 above shall terminate upon receipt of the final Board Order in that base rate case;

I believe this is the base rate case referenced. Therefore, for all the aforementioned reasons, I believe the OPP revenue sharing should cease and 100% of the BGSS OPP revenues should go to ratepayers.

F. <u>Proposals Regarding the Winter Incentive ("WI") Program</u>

Q. In addition to the Company's current BGSS Incentive Programs, is the Company proposing any new programs?

A. Yes. The Company is proposing one new program, which is the Winter Incentive ("WI") Program. This is a program that would be very similar to the Company's current Storage Incentive Program, but would be targeted to the winter period. The WI Program would hedge actual gas purchases for the five months from November through March. The program would utilize NYMEX future contracts to establish an initial benchmark. NJNG would then attempt to improve the benchmark through selling and buying futures. The difference between the benchmark and the final actual costs would be the margin. This margin is proposed to be shared between customers and NJNG 80%/20%.

The Company is proposing that the WI Program have no fixed volume limitation. The Company would set the annual volume for the Winter Incentive prior to June 1st of each year. The volume determined would be hedged on a ratable basis for delivery during each month of the five-month winter period. In the Company's example, if the WI Program went into effect June 1, 2008, and the winter (November-March) purchase requirement was 8 Bcf, the WI Program would set an initial hedge position of 1.6 Bcf (8 Bcf/ 5 months). These hedged positions, plus transportation and fuel costs, would constitute the benchmark. The Company would then try to improve its overall positions against this benchmark by trading against the benchmark positions, just as it does in the SI Program.

Q. Do you recommend adoption of the WI Program as an additional capacity related incentive?

A. No, I do not recommend Board approval of the WI Program at this time for several reasons. First, it should be noted that the timing of a Board decision in this matter precludes the implementation of a WI for the 2008-2009 winter season. Since the program requires that winter volumes be established prior to June of each year, any Board decision could only be effective for the 2009-2010 winter season.

Second, in response to the Liberty Management audit of NJNG in 2007, the Company decided to create a separate hedging (trading) department for the regulated side. I have been to the physical site and it is up and running. However, it is new and some of the new department members are in slightly different roles than they were in before. Thus, it would be better to give these new department members a little more time before tackling a totally new BGSS incentive. Furthermore, the Winter Incentive is close enough to the Storage Incentive that it should be no more risky. However, it really has not been tried as a BGSS Incentive by NJNG previously. Therefore, NJNG has no track record in working with this particular incentive, and I also note that the Company was unable to confidently forecast the financial success of this program going forward.[18]

[18] See Response to RCR-INC-10.

Third, in Mr. LeLash's filed direct testimony, he recommended that the Company should be required to evaluate its procurement and capacity management options. He went on to state that if the Company wishes to develop a different gas procurement strategy, it should file a separate petition to address potential alternatives. Assuming that these recommendations are adopted by the Board, such a filing would be the appropriate venue to consider a WI Program in the context of other procurement and incentive options.

Q. Does this complete your testimony at this time?

A. Yes, it does.

APPENDIX A

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
Chesapeake Utilities Corporation	E	Delaware	07-186	12/07	Revenue Requirements	Division of the Public Advocate
Public Service Company of New Mexico	E	New Mexico	07-00077-UT	10/07	Revenue Requirements	New Mexico Office of Attorney General
Investigation regarding whether Water Utilities require CIAC or Advances	W	Delaware	Reg. Docket No. 15	5/05	Advances & Contributions in Aid of Construction	Division of the Public Advocate
Generic Proceeding to establish Reasonable Cost Threshold for Renewable Energy	E	New Mexico	04-00253-UT	10/04	Renewable Cost Threshold	New Mexico Attorney General
Long Neck Water Company	W	Delaware	04-31	7/04	Revenue Requirements Cost of Capital Public Policy	Division of the Public Advocate
Tidewater Utilities, Inc.	W	Delaware	04-152	7/04	Revenue Requirements Accounting Issues Public Policy	Division of the Public Advocate
Public Service Company of New Mexico	G	New Mexico	03-000-17 UT	5/03	Revenue Requirements	New Mexico Attorney General
Entergy New Orleans	E/G	Louisiana	UD-01-4 UD-03-1	4/03	Electric and Gas Rates	Thomas P. Lowenburg, et al
Rockland Electric Company	E	New Jersey	ER02080614	1/03	Deferred Balance	Division of the Ratepayer Advocate
Public Service Company of New Mexico	E	New Mexico	3137	11/02	Merchant Plant Filing	New Mexico Attorney General
Artesian Water Company	W	Delaware	02-109	9/02	Revenue Requirements Asymmetrical Pricing Affiliated Interest Charges Public Policy - Advances and Contributions	Division of the Public Advocate
Bayview Water Company	W	New Jersey	WR01120818	8/02	Revenue Requirements	Division of the Ratepayer Advocate
Savannah Electric and Power Company	E	Georgia	14618-U	3/02	Revenue Requirements	Consumers' Utility Counsel
Entergy New Orleans	E/G	Louisiana	UD-00-2	2/02	Accounting (Additional)	Thomas P. Lowenburg, et al
Entergy New Orleans	E/G	Louisiana	UD-00-2	1/02	Excess Earnings	Thomas P. Lowenburg, et al
Yankee Gas Services	G	Connecticut	01-05-19PH01	9/01	Revenue Requirements	Office of Consumer Counsel
Artesian Water Company	W	Delaware	00-649	4/01	Financial Testimony	Division of the Public Advocate
Southern Connecticut Gas Company	G	Connecticut	00-12-08	3/01	Financial Audit	Office of Consumer Counsel
El Paso Electric Company	E	New Mexico	3170	9/00	Electric Restructuring	Office of the New Mexico Attorney General
Consolidated Edison, Inc. and Northeast Utilities	E/G	Connecticut	00-01-11	2/00	Merger Issues	Office of Consumer Counsel

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
Connecticut Natural Gas Company	G	Connecticut	99-09-03	1/00	Pro Forma Revenues	Office of Consumer Counsel
Artesian Water Company	W	Delaware	99-197	9/99	Revenue Requirements	Division of the Public Advocate
Energy Master Plan Phase 1 Proceeding - Restructuring	E	New Jersey	EX94120585U, EO97070457	3/98	Electric Restructuring Issues	Division of the Ratepayer Advocate
Southern Connecticut Gas Company	G	Connecticut	97-12-21	3/98	Affiliated Interests and Off-System Sales	Office of Consumer Counsel
PNM Gas Services	G	New Mexico	2762	2/98	Revenue Requirements	Office of the Attorney General
Artesian Water Company	W	Delaware	97-340	2/98	Revenue Requirements	Division of the Public Advocate
Rockland Electric Company Stranded Costs and Unbundling	E	New Jersey	EO97070465, EO97070464	1/98	Stranded Costs	Division of the Ratepayer Advocate
Generic Investigation Regarding Gas Unbundling Issues	G	Connecticut	97-07-11	12/97	Rate Design and Service Unbundling	Office of Consumer Counsel
Grumman Aerospace Electric Application	E	New York	97-E-0919	11/97	Competition	County of Nassau
Review of Electric Companies Cost of Service and Unbundled Tariffs	E	Connecticut	97-01-15	8/97	Rate Design and Service Unbundling	Office of Consumer Counsel
Artesian Water Company	W	Delaware	97-66	7/97	Revenue Requirements	Division of the Public Advocate
Zia Natural Gas Company	G	New Mexico	2745	4/97	Revenue Requirements	Office of the Attorney General
Virginia Electric and Power Company	E	Virginia	PUE 950131	10/96	Anti-Competitive Practices and Rate Design	City of Richmond
United Illuminating	E	Connecticut	96-03-29	7/96	Revenue Requirements	Office of Consumer Counsel
Grumman Aerospace Electric Application	E	New York	95-M-1133	4/96	Regulatory Policy	County of Nassau
PNM Gas Services	G	New Mexico	2662	1/96	Revenue Requirements	Office of Attorney General
T.W. Phillips Gas and Oil Company	G	Pennsylvania	R-00953406	10/95	Revenue Requirements	Office of Consumer Advocate
Maine Public Service Company	E	Maine	95-052	8/95	Jurisdictional Allocations, Rate Plan, Productivity	Maine Public Service Commission Staff
Peoples Natural Gas Company	G	Pennsylvania	R-00943252 R-00953318	3/95	Accounting	Office of Consumer Advocate
North Penn Gas Company	G	Pennsylvania	R-00943245	3/95	Accounting	Office of Consumer Advocate
Artesian Water Company	W	Delaware	94-164	3/95	Revenue Requirements	Division of the Ratepayer Advocate
General Waterworks of Pennsylvania, Inc.	W	Pennsylvania	R-00943152	12/94	Revenue Requirements	Office of Consumer Advocate

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
Columbia Gas of Pennsylvania	G	Pennsylvania	M-00940568	10/94	Take or Pay Refunds	Office of Consumer Advocate
UGI Utilities, Inc.	G	Pennsylvania	M-00940549	10/94	Take or Pay Refunds	Office of Consumer Advocate
National Fuel Gas Distribution Company	G	Pennsylvania	R-942991	6/94	Revenue Requirements	Office of Consumer Advocate
Allied Gas Company	G	Pennsylvania	R-932952	5/94	Revenue Requirements	Office of Consumer Advocate
US West Communications	T	Arizona	E-1051-93-183	3/94	Revenue Requirements	Residential Utility
Peoples Natural Gas	G	Pennsylvania	R-932866	2/94	Revenue Requirements	Office of Consumer Advocate
The Southern Connecticut Gas Company	G	Connecticut	93-03-09	8/93	Revenue Requirements, Accounting Policy	Office of Consumer Counsel
Virginia Electric and Power Company	E	Virginia	PUE 920041	2/93	Regulatory Policy	City of Richmond
Pennsylvania Gas and Water Company - Scranton	G/W	Pennsylvania	R-00922482	1/93	Accounting	Office of Consumer Advocate
Pennsylvania Gas and Water Company	G/W	Pennsylvania	R-00922404	11/92	Accounting (Surrebuttal)	Office of Consumer Advocate
UGI Utilities, Inc. Electric Utilities Division	G	Pennsylvania	R-00922195	10/92	Accounting	Office of Consumer Advocate
Pennsylvania Gas and Water Company	G/W	Pennsylvania	R-00922404	10/92	Accounting	Office of Consumer Advocate
The Jersey Central Power and Light Company	E	New Jersey	PUC00661-92 ER91121820J	7/92	Accounting	Rate Counsel
Shenango Valley Water Company	W	Pennsylvania	R-912060	1/92	Accounting	Office of Consumer Advocate
Pennsylvania-American Water Company	W	Pennsylvania	R-911909	10/91	Accounting	Office of Consumer Advocate
Jamaica Water Supply Company	W	New York	90-W-0295	10/91	Excess Earnings	Nassau County, Town of Hempstead
National Fuel Gas Distribution Corp.	G	Pennsylvania	R-911912	7/91	Accounting, Regulatory Policy	Consumer Advocate
Virginia Electric & Power Company	E	Virginia	PUE87-0093	2/91	Regulatory Policy	City of Richmond
Elizabethtown Water Co.	W	New Jersey	PUC04416-90 WR9005-0497J	11/90	Accounting, Regulatory Policy	Rate Counsel
Artesian Water Company	W	Delaware	90-10	8/90	Accounting	Commission Staff
Jamaica Water Supply Company	W	New York	90-W-0295	8/90	Regulatory Policy Accounting	Nassau County, Town of Hempstead
New York Telephone	T	New York	90-C-0191	7/90	Accounting, Affiliated Interests	NY State Consumer Protection Board
Pennsylvania-American Water Company	W	Pennsylvania	R-901652	6/90	Accounting	Consumer Advocate

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
Kent County Water Authority	W	Rhode Island	1952	6/90	Accounting Regulatory Policy	Division of Public Utilities & Carriers
Columbia Gas of Pennsylvania	G	Pennsylvania	R-891468	4/90	Accounting	Consumer Advocate
Valley Utilities Company	SW	Pennsylvania	R-891358	10/89	Regulatory Policy Accounting	Consumer Advocate
Union County Utilities Authority	SW	New Jersey	PUC 567-89 BPU8711-1308	9/89	Accounting	Rate Counsel
Jamaica Water Supply Company	W	New York	89-W-062	8/89	Regulatory Policy Rate Design	Nassau County, Towns of Hempstead, N. Hempstead
Interstate Navigation Co.	N	Rhode Island	D-89-7	7/89	Regulatory Policy Accounting, Cost of Cap.	Division of Public Utilities & Carriers
Morris County Transfer Station	SW	New Jersey	PUC1487-88 SE87111370	6/89	Regulatory Policy Accounting	Rate Counsel
Automated Modular Systems	SW	New Jersey	PUC1769-88	5/89	Accounting Regulatory Policy	Rate Counsel
Equitable Gas Company	G	Pennsylvania	M-860105 F050C001	12/88	Accounting	Consumer Advocate
Equitable Gas Company	G	Pennsylvania	R-880971	8/88	Accounting	Consumer Advocate
Jamaica Water Supply Company	W	New York	88-W-080	6/88	Rate Return, Accounting	Towns of Hempstead, N. Hempstead
Arizona Public Service Company	E	Arizona	U-1345-88-0033	6/88	Federal Income Taxes	Residential Utility Consumer Office
Western Pennsylvania Water Company	W	Pennsylvania	R-870825 C-871582	1/88	Rate Design	City of Pittsburgh
Artesian Water Company	W	Delaware	87-3	10/87	Accounting	Commission Staff
Duquesne Light Company	E	Pennsylvania	R-870651	9/87	Accounting	Consumer Advocate
Providence Gas Company	G	Rhode Island	1673	1987	Regulatory Policy	R.I. PUC
Bell Telephone Company of Pennsylvania	T	Pennsylvania	C-860923	3/87	Accounting	Consumer Advocate
Wilmington Suburban Water Corporation	W	Delaware	86-25	2/87	Accounting *(Surrebuttal)*	Commission Staff
Mountain Bell Telephone Relationships with Affiliates and Subsidiaries	T	Utah	86-049-01	3/87	Accounting	Committee of Consumer Services
Mountain Bell Telephone Operator Services Subsidiary	T	Utah	86-049-07	2/87	Accounting	Committee of Consumer Services
Wilmington Suburban Water Corporation	W	Delaware	86-25	2/87	Accounting	Commission Staff
All Public Utilities in Delaware	ALL	Delaware	Reg. No. 15	1987	Policy	Commission Staff
Woonsocket Water Department	W	Rhode Island	-	12/86	Accounting	Div. of Public Utilities

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
Artesian Water Company	W	Delaware	86-26	12/86	Accounting	Commission Staff
Wilmington Suburban Water Corporation	W	Delaware	86-25	9/86	Accounting	Commission Staff
Western Pennsylvania Water Company	W	Pennsylvania	R-8600397	8/86	Accounting	Consumer Advocate
York Water Company	W	Pennsylvania	R-850268	7/86	Accounting (Surrebuttal)	Consumer Advocate
Sun City Water Company	W	Arizona	E-86-020	6/86	Accounting	Sun City Taxpayers' Assn.
Sun City Sewer Company	WW	Arizona	E-86-020	6/86	Accounting	Sun City Taxpayers' Assn.
Sun City West Utilities	W/WW	Arizona	E-86-020	6/86	Accounting	Sun City Taxpayers' Assn.
Separation of Costs of Regulated Telephone Service From Costs of Nonregulated Activities	T	FCC	86-111	6/86	Report	NASUCA
New Jersey Bell Telephone Company	T	New Jersey	845-856 Phase II	2/86	CSI/NSI Contract Affiliated Relationships	New Jersey Public Advocate
Chesapeake & Potomac Telephone Company of Maryland	T	Maryland	7903	12/85	Regulatory Policy Affiliated Relationships	Commission Staff
Equitable Gas Company	G	Pennsylvania	R-842769 R-850038	5/85	Accounting	Consumer Advocate
Bell Telephone Company of Pennsylvania	T	Pennsylvania	R-842779	5/85	Accounting	Consumer Advocate
New York Telephone Company	T	New York	28961	3/85	Accounting	Consumer Coalition
Fitchburg Gas & Electric Co.	E/G	Massachusetts	-	11/84	Accounting	Attorney General
Philadelphia Suburban Water Company	W	Pennsylvania	-	8/84	Accounting	Consumer Advocate
Philadelphia Suburban Water Company	W	Pennsylvania	-	7/84	Accounting	Consumer Advocate
Wakefield Water Company	W	Rhode Island	-	4/84	Accounting	Division Witness
National Fuel Gas	G	Pennsylvania	-	3/84	Accounting	Consumer Advocate
Long Island Lighting Company	E	New York	28553	3/84	Accounting	Counties of Suffolk, Nassau, etc.
Diamond State Telephone	T	Delaware	83-12	12/83	Accounting	Commission Staff
Long Island Lighting Company	E	New York	28553/4	7/83	Finance	Counties of Suffolk, Nassau, etc.
South Carolina Electric and Gas Company	E/G	S. Carolina	80CP403454	5/83	Accounting	Consumer Advocate
Connecticut Natural Gas Company	G	Connecticut	830101	4/83	Accounting	Office of Consumer Counsel
Pennsylvania Power and Light Company	E	Pennsylvania	R-822169	3/83	Accounting	Consumer Advocate

Company	Utility	State	Docket	Date	Topic	On Behalf Of:
Pennsylvania Power Company	E	Pennsylvania	R-821918C002	3/83	Accounting	Consumer Advocate
Diamond State Telephone	T	Delaware	82-32	11/82	Accounting	Commission Staff
Long Island Lighting Company	E	New York	28176 28177	6/82	Accounting	Suffolk County, etc.
Bell Telephone Company of Pennsylvania	T	Pennsylvania	R-811819	4/82	Accounting	Consumer Advocate
South Jersey Gas Company	G	New Jersey	818-754	3/82	Accounting	Public Advocate
New York Telephone	T	New York	27995 27710-II	9/81	Accounting	New York Attorney General NY CPB, NYC
Pennsylvania Power Company	E	Pennsylvania	-	8/81	Accounting	Consumer Advocate
Southwestern Bell Telephone Company	T	Kansas	1238110	1981	Accounting Affiliated Interests	Kansas Commission
Pennsylvania Gas & Water Company	G/W	Pennsylvania	R-80071265	11/80	Accounting	Consumer Advocate
Duquesne Light Company	E	Pennsylvania	-	9/80	Accounting	Consumer Advocate
Pennsylvania Power and Light	E	Pennsylvania	R-80031114	9/80	Accounting	Consumer Advocate
West Penn Power Company	E	Pennsylvania	-	8/80	Accounting	Consumer Advocate
New England Telephone	T	Vermont	-	4/80	Accounting Regulatory Policy	Vermont PUC
Philadelphia Suburban Water	W	Pennsylvania	-	9/79	Accounting	Consumer Advocate
West Penn Power Company	E	Pennsylvania	-	4/79	Accounting	Consumer Advocate
Columbia Gas of Ohio	G	Ohio	77-1428	3/79	Accounting	Ohio Consumers' Counsel
Consolidated Edison Company	E	New York	27353	1978	Accounting	Consumer Protection Board

APPENDIX B

In The Matter of the Petition of
New Jersey Natural Gas Company for
Approval of an Increase in Gas Rates,
Depreciation Rates for Properties and for
Changes in the Tariff for Gas Service
OAL Docket No. PUC 12545-07
Docket No. GR07110889

Discovery Response

Request ID: RCR-A- 6

Requested By: Rate Counsel Witness: Larry Downes

Request: Please provide all workpapers, assumptions, and calculations for the savings of $338 million referenced on page 13, line 8 of Mr. Downes' testimony.

Response: Please see the attached schedule supporting the $338 million of customer incentive sharing.

New Jersey Natural Gas Company
Incentive Sharing History
$ (000)

Fiscal Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total
FRM Program																	
FRM Program - Gain (Loss)	-	-	-	-	-	867	1,864	678	2,858	10,434	1,957	566	1,506	1,858	7,671	9,508	39,767
Customer Sharing						694	1,491	542	2,287	8,347	1,566	453	1,205	1,487	6,137	7,606	**31,814**
NJNG Sharing	-	-	-	-	-	173	373	136	572	2,087	391	113	301	372	1,534	1,902	7,953
Storage Incentive																	
Storage Gain (Loss)	-	-	-	-	-	-	-	-	-	-	-	-	5,063	7,963	11,429	18,165	42,621
Customer Sharing													4,051	6,371	9,143	14,532	**34,097**
NJNG Sharing	-	-	-	-	-	-	-	-	-	-	-	-	1,013	1,593	2,286	3,633	8,524
Demand Reduction & Portfolio Enhancement																	
Demand Reduction	-	-	-	-	-	-	-	3,456	6,477	7,332	10,074	14,374	8,757				50,470
Customer Sharing	-	-	-	-	-	-	-	2,074	4,745	6,019	8,192	10,453	7,111				**38,592**
NJNG Sharing	-	-	-	-	-	-	-	1,382	1,732	1,313	1,882	3,921	1,647				11,878
OFF-SYSTEM SALES																	
Net Margin	1,589	6,163	10,217	8,027	7,982	15,099	13,178	13,549	12,971	9,448	13,358	6,469	16,343	24,447	21,322	14,505	194,666
Customer Sharing	-	4,410	7,992	6,421	6,385	12,079	10,542	11,517	11,025	8,031	11,354	5,498	13,891	20,780	18,124	12,330	**160,381**
NJNG Sharing	1,589	1,753	2,226	1,605	1,596	3,020	2,636	2,032	1,946	1,417	2,004	970	2,451	3,667	3,198	2,176	34,287
CAPACITY RELEASE																	
Revenue	-	-	5,858	11,845	14,889	11,866	11,259	9,286	4,448	3,367	2,866	2,784	2,805	3,069	2,568	2,764	89,674
Customer Sharing	-	-	4,632	9,476	11,911	9,493	9,007	7,893	3,781	2,862	2,436	2,367	2,384	2,609	2,183	2,349	**73,383**
NJNG Sharing			1,226	2,369	2,978	2,373	2,252	1,393	667	505	430	418	421	460	385	415	16,291
Total Customer Sharing	-	4,410	12,625	15,897	18,297	22,265	21,040	22,026	21,837	25,259	23,548	18,771	28,641	31,246	35,586	36,817	338,267

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Attachment
Page 1 of 1

APPENDIX C

Responses to Interrogatories

In The Matter of the Petition of
New Jersey Natural Gas Company for
Approval of an Increase in Gas Rates,
Depreciation Rates for Properties and for
Changes in the Tariff for Gas Service
OAL Docket No. PUC 12545-07
Docket No. GR07110889

Discovery Response

Request ID: RCR-A- 6

Requested By: Rate Counsel Witness: Larry Downes

Request: Please provide all workpapers, assumptions, and calculations for the savings of $338 million referenced on page 13, line 8 of Mr. Downes' testimony.

Response: Please see the attached schedule supporting the $338 million of customer incentive sharing.

New Jersey Natural Gas Company
Incentive Sharing History
$ (000)

Fiscal Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total
FRM Program																	
FRM Program - Gain (Loss)	-	-	-	-	-	867	1,864	678	2,858	10,434	1,957	566	1,506	1,858	7,671	9,508	39,767
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Storage Incentive																	
Storage Gain (Loss)	-	-	-	-	-	-	-	-	-	-	-	-	5,063	7,963	11,429	18,165	42,621
Customer Sharing													4,051	6,371	9,143	14,532	**34,097**
NJNG Sharing	-	-	-	-	-	-	-	-	-	-	-	-	1,013	1,593	2,286	3,633	8,524
Demand Reduction & Portfolio Enhancement																	
Demand Reduction	-	-	-	-	-	-	-	3,456	6,477	7,332	10,074	14,374	8,757				50,470
Customer Sharing	-	-	-	-	-	-	-	2,074	4,745	6,019	8,192	10,453	7,111				**38,592**
NJNG Sharing	-	-	-	-	-	-	-	1,382	1,732	1,313	1,882	3,921	1,647				11,878
OFF-SYSTEM SALES																	
Net Margin	1,589	6,163	10,217	8,027	7,982	15,099	13,178	13,549	12,971	9,448	13,358	6,469	16,343	24,447	21,322	14,505	194,666
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NJNG Sharing	1,589	1,753	2,226	1,605	1,596	3,020	2,636	2,032	1,946	1,417	2,004	970	2,451	3,667	3,198	2,176	34,287
CAPACITY RELEASE																	
Revenue	-	-	5,858	11,845	14,889	11,866	11,259	9,286	4,448	3,367	2,866	2,784	2,805	3,069	2,568	2,764	89,674
Customer Sharing	-	-	4,632	9,476	11,911	9,493	9,007	7,893	3,781	2,862	2,436	2,367	2,384	2,609	2,183	2,349	**73,383**
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Total Customer Sharing	-	4,410	12,625	15,897	18,297	22,265	21,040	22,026	21,837	25,259	23,548	18,771	28,641	31,246	35,586	36,817	**338,267**

In The Matter of the Petition of
New Jersey Natural Gas Company for
Approval of an Increase in Gas Rates,
Depreciation Rates for Properties and for
Changes in the Tariff for Gas Service
OAL Docket No. PUC 12545-07
Docket No. GR07110889

Discovery Response

Request ID: RCR-INC- 4

Requested By: Rate Counsel Witness: Joe Shields

Request: Regarding the Chart at page 8, please give a description and a (simple) numerical example of each Incentive Mechanism, including sharing aspects. If a benchmark number is involved in the calculation of the Incentive benefit to ratepayers, please explain how the benchmark number works and is calculated.

Response: **Off System Sales and Capacity Release:**
These incentives serve to generate benefits by allowing other entities to utilize capacity that is not needed from time-to-time for NJNG's firm on-system customers. The Company has gained experience from the historical incentive activities so that the Company also optimizes other market opportunities for the benefit of customer savings; for example, the Company can sell gas off the TETCO M2 contract capacity and buy a replacement M3 service in order to capture the spread in the capacity basis and, as a result, lower the effective overall BGSS gas costs. The fixed pipeline demand charges recovered from the BGSS customers are reduced as a result of the net effect of these transactions and, primarily, out of state revenues serve to reduce NJNG's customers' bills. The sharing formula for this incentive is 85% for the customer and 15% retained by NJNG.

The BGSS schedule 4e provides the numerical process of the Off System Sales Mechanism, including the sharing aspect. In October 2007, NJNG had 175 off-system sales transactions for a total sales volume of 2,361,398 dth which generated total revenue of $17,016,674. The total gas cost to supply those sales was $15,952,984 which produced a gross margin amount of $1,063,690. The margin was shared 85% with the BGSS customers, $904,137, and 15% retained by NJNG, $159,553.

$ (000) Oct-07	Off-System Sales
17,017	Revenue
15,953	Cost of Gas
1,064	Net Margin
904	Customer sharing @ 85%
160	NJNG Sharing @ 15%

The BGSS schedule 4f provides the numerical process of the Capacity Release Mechanism, including the sharing aspect. In October 2007, NJNG released 12,000 dth per day for 31 days, a total volume of 372,000 dth, which yields a total release credit of $258,626 that was shared 85% with the BGSS customers, $219,832, and 15% retained by NJNG, $38,794.

$ (000) Oct-07	Capacity Release
259	Revenue
220	Customer Sharing @ 85%
39	NJNG Sharing @ 15%

Financial Risk Management ("FRM"):
This incentive utilizes the projected NYMEX futures prices from the Natural Gas Monthly quarterly reports (March, June, September, and December) published by Global Insight, Inc. as the incentive's benchmark. The sharing on this incentive became 85% to NJNG's customers and 15% retained by the Company as of November 1, 2007 per the BPU's October 3, 2007 Order in Docket No. GR06120871 ("Incentive Order").

The following is an example of an FRM transaction. The example assumes that the Natural Gas Monthly quarterly benchmark is $7.50 per dth for a specific future month and NJNG pays a premium price of $0.30 per dth and a fee of $150 for the option to purchase 30 contracts with a strike price of $6.50. The net gain less fees of $209,850 is shared 85% with the BGSS customers, $178,373, and 15% retained by NJNG, $31,478.

FRM Benchmark	a	$7.50
Strike Price	b	$6.50
Premium Price	c	$0.30
FRM Gain $/Dth	a-b-c=d	$0.70
Dth (30 contracts)	30*10,000 dth =e	300,000
FRM Gain $	d*e=f	$210,000
Fees at purchase	g	$150
FRM Gain net of Fees	f-g=h	$209,850
Customer Share	h*85%=i	$178,373
NJNG Share	h-i=j	$31,478

Storage Incentive:
The storage injection incentive provides benefits to customers through added price stability and cost reductions. The program establishes a benchmark cost for storage injections against which actual injection costs are measured. Financial hedge positions are set for a ratable April though October injection season for the program's injection volumes and a delivery basis is added using TETCO ELA to M3 costs and fuel retention charges in order to establish the benchmark. The program yields cost savings by promoting innovative purchasing strategies that take advantage of the optionality inherent in storage operations and marketplace opportunities.

The actual costs of storage injections include commodity costs of physical injections, actual transportation costs and any gains and losses associated with the trading of financial hedges associated with the program. NYMEX spreads are used as a financial hedge to either accelerate or defer physical storage injections. NJNG uses this strategy to lower gas costs by utilizing storage flexibility and taking advantage of pricing opportunities in the marketplace. The difference between the benchmark and actual costs, positive or negative, are shared 80% with it customer and 20% retained by NJNG. In addition to cost savings, the program promotes long-term price stability through hedging of storage injection volumes.

The following is an example of a Storage Incentive transaction. NJNG entered into the initial NYMEX futures positions for a ratable monthly injection of a program total of 18 bcf for the April 2007 through October 2007 injection season. These positions were in place by August 2006 and set the initial benchmark for the 2007 Storage Incentive injections. On Jan 11, 2007, NJNG bought 15 April 2007 NYMEX contracts (each contract represents 10,000 Dth) at an average of $6.4549 and sold 15 September 2007 NYMEX contracts at an average of $6.9049 collecting $.45 on the spread and accelerated some physical storage injections to April 2007. The net hedged improvement associated with the transaction of $67,500 is shared 80% with the BGSS customers, $54,000, and 20% retained by NJNG, $13,500.

Set the Benchmark	Volume (Dth)	Benchmark Price	Inventory $	
18 BCF average benchmark price	18,000,000	$9.419	$169,541,373	a

Improve the Benchmark Jan 11, 2007 transaction example	Volume (Dth)	Transactions	Transaction $	
sell 15 Sep futures contracts	(150,000)	$6.9049	($1,035,740)	b
buy 15 Apr futures contracts	150,000	$6.4549	$968,240	c
Change in position	0		($67,500)	b+c=d
Customer Share 80%			($54,000)	d*80%=
NJNG Share 20%			($13,500)	d-e=f

Resulting Storage Price Improvement	Volume (Dth)	Improved Storage Price	Inventory $	
	18,000,000	$9.415	$169,473,873	a+d=g

On-System Interruptible Sales:

The on-system interruptible sales of natural gas, pursuant to which margins had been shared between customers and the Company on a 90/10 percentage basis. The sharing on this incentive became 100% solely for the benefit of NJNG's customers as of November 1, 2007 per the Incentive Order. The BGSS schedule 4a provides the numerical process example of the Interruptible Sales Mechanism, including the sharing aspect. In April 2005, the last month in which customers utilized the interruptible sales service, the sales were a total of 16,576 therms which generated total revenue of $20,654. The revenue less the gas cost to supply those sales of $13,699 and the revenues associated with riders, tax and assessment of $2,147 produced a margin of $4,808. The margin less a contribution of $0.01 per therm generated the sharing margin which was shared 90% with the BGSS customers, $4,178, and 10% retained by NJNG, $464. The BGSS customers received a total amount of $4,344.

$ (000) Apr-05	Interruptible Sales
$20,654	Revenues
(2,147)	Less Tefa-Sls tax, Assessment, RA, NJ Clean Energy, and USF
18,507	Net Revenue
13,699	Cost of Gas
4,808	Gross Margin
(166)	Less Contribution
4,642	Sharing Margin
(464)	NJNG Sharing @ 10%
4,178	Customer sharing @ 90%
166	Plus Contribution ($0.01/therm)
$4,344	Total Customer Credit

On-System Interruptible Transportation:
The net on-system interruptible transportation revenues had been shared between customers and the Company on a 95/5 percentage basis. The sharing on this incentive became 100% for the customer as of November 1, 2007 per the Incentive Order. The BGSS schedule 4d provides the numerical process example of the Interruptible Transportation Mechanism, including the sharing aspect. In October 2007, the transportation volumes were a total of 2,772,258 therms which generated total revenue of $293,748. The revenue less the associated riders, tax and assessment of $198,120 produced a net margin of $95,628 which was shared 95% with the BGSS customers, $90,847, and 5% for NJNG, $4,781.

$ (000) Oct-07	Interruptible Transportation
$293,748	Revenue
(198,120)	Less BPU/RPA Assessment, RA, NJ Clean Energy, USF, Tefa & Sls tax
95,628	Gross Margin
90,847	Customer Sharing @ 95%
$4,781	NJNG Sharing @ 5%

Sayreville and Forked River:
Sales of gas to the Sayreville and Forked River Electric Generation Plants, pursuant to which margins had been shared between customers and the Company on a 90/10 percentage basis, after an initial contribution to customers of $0.01 per therm. The sharing on these incentives became 100% for the customer as of November 1, 2007 per the Incentive Order. The BGSS schedules 4b and 4c provide the numerical process example including the sharing aspect. Similar to the Interruptible sales, the revenue less the gas cost to supply those sales and the revenues associated with riders, tax and assessment produce a gross margin. The gross margin less a

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contribution of $0.01 per therm generated the sharing margin which was shared 90% with the BGSS customers and 10% retained by NJNG.

$ (000)
Oct-07

Forked River	Sayreville	
216.0	153.1	Revenue
(0.5)	(0.3)	Less BPU/RPA Assessment
215.5	152.7	Net Revenue
203.1	144.2	Cost of Gas
12.5	8.5	Gross Margin
(2.6)	(1.8)	Less Contribution
9.9	6.7	Sharing Margin
0.7	0.7	NJNG Sharing @ 10%
8.9	6.1	Customer sharing @ 90%
2.6	1.8	Plus Contribution
11.5	7.8	Total Customer Credit

Ocean Peaking Power:
NJNG shares with customers the gross margins associated with demand and variable charges received from Ocean Peaking Power (OPP) for firm transportation service to OPP at specified electric generation facilities that OPP owns and operates in Lakewood, NJ. The sharing on this incentive became 85% for customers and 15% retained by the Company as of September 2007 per the Incentive Order. The BGSS schedule 4h provides the numerical process example of the OPP sharing aspect. In October 2007, the OPP transportation volumes were a total of 979,381 therms which generated total revenue of $157,344. The revenue less the associated riders, tax and assessment of $71,948 produced a net margin of $85,396 which was shared 85% with the BGSS customers, $72,586, and 15% retained by NJNG, $12,810.

$ (000) Oct-07	Ocean Peaking Power
$157,344	Revenue
(71,948)	Less Sales Tax, Assessment, RA, NJ Clean Energy, and USF
85,396	Sharing Margin
72,586	Customer Sharing @ 85%
$12,810	NJNG Sharing @ 15%

In The Matter of the Petition of
New Jersey Natural Gas Company for
Approval of an Increase in Gas Rates,
Depreciation Rates for Properties and for
Changes in the Tariff for Gas Service
OAL Docket No. PUC 12545-07
Docket No. GR07110889

Discovery Response

Request ID: RCR-INC- 8

Requested By: Rate Counsel Witness: Joe Shields

Request: Please quantify the anticipated additional net benefits and/or net costs associated with adopting the recommended changes to the FRM program as requested on pages 10-12 of Mr. Shields' testimony. Please include all assumptions and calculations with your response.

Response: As noted in the Response to RCR-INC-5, anticipated benefits and/or costs associated with the incentives have not been quantified. The incentives are designed to promote innovative purchasing and asset management strategies that take advantage of opportunities in the marketplace to generate additional benefits to customers. Because the strategies are opportunistic and are contingent upon unknown future market conditions, the benefits that will be realized depend on future market conditions making it impracticable to project annual savings or gains.

The Company believes that increasing the financial cap for the FRM program and changing its volume limits to align with the Company's changing customer profile each year will improve the FRM program's performance, create the opportunity for additional FRM transactions and thereby generate the benefit of additional customer price stability.

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Discovery Response

Request ID: RCR-INC- 10

Requested By: Rate Counsel Witness: Joe Shields

Request: Please quantify the anticipated additional net benefits and/or net costs associated with adopting the "Winter Incentive Program" as described at pages 14-16 of Mr. Shields' testimony.

Response: As noted in the Response to RCR-INC- 8 and 9, anticipated benefits and/or costs associated with any incentive programs, including the "Winter Incentive Program", have not been quantified. Since the Winter Incentive is proposed to operate in the same fashion as the Storage Incentive, with the only difference being that the Winter Incentive would hedge winter flowing supplies while the Storage Incentive is designed to hedge summer supplies for storage injections, the benefits that could be anticipated would include enhanced BGSS customer price stability, and the potential for lowering the effective hedged winter costs through trading improvements against the initial hedge positions.

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Discovery Response

Request ID: RCR-INC- 14

Requested By: Rate Counsel Witness: Joe Shields

Request: Regarding the Ocean Peaking Power agreement, please identify and quantify all annual operating expenses incurred by the Company relating to the project.

Response: On an annual basis NJNG's meter shop expends approximately $3,500 on maintenance of metering instrumentation equipment. NJNG Pressure Measurement and Transmission personnel work on the inspection of the devices and regulator totals about $1,900 annually. Communication and electric expense at the OPP telemetry site is approximately $970 annually. In total, NJNG's annual operating expenses for the OPP agreement are approximately $6,370.

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Discovery Response

Request ID: RCR-INC- 15

Requested By: Rate Counsel

Witness: Joe Shields

Request: Regarding the Ocean Peaking Power agreement, please identify all operating costs that are reflected in the Company's claim in this case.

Response: NJNG does not separately track the operating expenses associated with the Ocean Peaking Power (OPP) Agreement. As detailed in Response to RCR INC 14, normal annual operation and maintenance expenses for OPP include the following:

- NJNG's meter shop expends approximately $3,500 on the maintenance of metering instrumentation and equipment.
- The NJNG Pressure Measurement and Transmission group expends approximately $2,000 on an annual basis to inspect measurement devices and regulators.
- Communication and electric expenses at the OPP telemetry site is approximately $1,000 on an annual basis.