

CHRIS CHRISTIE

Governor

KIM GUADAGNO Lt. Governor STEFANIE A. BRAND Director

May 13, 2015

TRENTON, New Jersey 08625

REDACTED PUBLIC VERSION

HAND DELIVERED

Honorable Irene Kim Asbury, Secretary NJ Board of Public Utilities 44 South Clinton Avenue, 9th Floor P.O. Box 350 Trenton, New Jersey 08625-0350

RE: I/M/O Petition of New Jersey Natural Gas Company and Lakewood

Cogeneration, L.P. for Approval of a Capacity Agreement

BPU Docket No. GO14101149

Dear Secretary Asbury:

Please accept for filing this original and ten copies of these reply comments and attached Supplemental Appendix on behalf of the Division of Rate Counsel ("Rate Counsel") regarding the above-referenced Petition for approval by the Board of Public Utilities ("Board") of a capacity agreement (the "Capacity Agreement") between New Jersey Natural Gas Company ("NJNG") and Lakewood Cogeneration, L.P ("Lakewood"). These reply comments contain information subject to a protective agreement and therefore are being filed in both confidential and redacted versions

We are enclosing one additional copy of the materials filed. Please date stamp each additional copy as "filed" and return to our courier. Thank you for your consideration and attention to this matter.

DISCUSSION

Rate Counsel previously submitted comments in this matter on May 4, 2015, and NJNG submitted a response on May 6, 2015. These reply comments are submitted to respond to certain arguments contained in NJNG's May 6, 2015 response.

NJNG's argues at page 3 of its responsive comments that the proposed Capacity
Agreement made only "[t]wo substantive changes" to the previous Capacity Reservation
Precedent Agreement (the "Original Agreement") between NJNG and Lakewood's predecessor
in interest, CNG Energy Company ("CNG"). Rate Counsel disputes this statement. As explained
in detail at pages 7 and 8 of Rate Counsel's May 4, 2015 comments, the Capacity Agreement
does not include the provisions that were in the Original Agreement that required Lakewood to
relinquish its right to use capacity on NJNG's system when that capacity is required to serve
other firm customers. The elimination of these provisions, which effectively gave Lakewood a
lower priority in the use of NJNG's system than other firm customers, represents a material
change in the Capacity Agreement, contrary to NJNG's representation.

NJNG also disputes the factual basis for two of the essential points made in Rate Counsel's May 4, 2015 comments that (1) the Capacity Agreement would allow Lakewood to receive service at the same level as other firm customers, and (2) the rate for such service would recover only incremental costs, rather than Lakewood's fair share of the total system costs required to provide firm service. NJNG's arguments should be rejected.

With regard to the level of service under the Capacity Agreement, NJNG suggests at page 4 of its responsive comments that the service to be provided to Lakewood would be comparable to that provided under the Company's interruptible tariff. However, this is not reflected in the

language of the Capacity Agreement. NJNG's Interruptible Service (IS) tariff includes the

following provision:

Service Interruption

The Customer agrees to discontinue the use of gas service at any time, and from time to time upon notice from the Company. The manner and time period of such notice shall be specified in the written service agreement. The Company's determination to discontinue service or to reinstate service following a discontinuance shall be conclusive.

NJNG Tariff, Service Classification – IS, Special Provision I.4, RCa39. The Capacity Agreement does not contain any provision comparable to this provision. As explained at page 8 of Rate Counsel's May 4, 2015 comments, under the Capacity Agreement, service could be interrupted only under the more limited circumstances that apply to customers paying full tariff rates for firm service. Thus, under the Capacity Agreement Lakewood would be contractually entitled to the same level of service as the customers taking firm service at tariff rates.

With regard to the rates charged to Lakewood, NJNG argues at page 4 of its responsive comments that "simple math demonstrates that Lakewood is paying more than the cost of the incremental improvements" that were made to provide service to Lakewood. Specifically, NJNG argues that, since the sum of the fixed payments over the 40-year combined terms of the Original Agreement and the Capacity Agreement total approximately \$83 million, and that amount is more than \$19 million in construction costs for the incremental improvements, it follows that "Lakewood is paying more than four times the cost of the incremental improvements and is contributing therefore, to the overall system." *NJNG Comments*, p. 4.

¹ Discovery responses and other relevant materials are provided in the Appendix attached to Rate Counsel's May 4, 2015 comments (page RCa1 through RCa-36) and the Supplemental Appendix attached to this these comments (pages RCa37 through RCa47).

Honorable Irene Kim Asbury, Secretary May 13, 2015 Page 4

NJNG's analysis ignores the fact that NJNG is entitled to earn a return on its investments. Rates sufficient to provide a return on a long-lived investment over a 40-year period can be expected to total a multiple of the amount of the original investment. This concept is illustrated by one of NJNG's own discovery responses. Under the "evergreen" provision relied upon by NJNG and Lakewood for continued service after the expiration of the Original Agreement, rates "will be based on the agreed upon residual value of the costs of NJNG's facilities required to render the service contemplated hereby, <u>i.e.</u> \$11.6 million, as well as operating and maintenance component of such charge which will be revised to reflect the then current experience." *Original Agreement*, sec. III.A. According to a Company response to a Rate Counsel discovery request [Begin Confidential]

[End Confidential]. NJNG Response to RCR-9, RCa45-

RCa46. This discovery response also shows that [Begin Confidential]

[End

Confidential] <u>Id.</u> NJNG has not presented any calculations or other documentation that payments totaling \$83 million over 40 years would recover for more than NJNG's original incremental investment of \$19 million.

It is also clear, contrary to NJNG's arguments at page 4 of its responsive comments, that the rate to be paid by Lakewood does not reflect its fair share of system costs given the level of service to be provided. NJNG cites a comparison of the rates paid by Lakewood over the past four years with the rates it would have paid under NJNG's tariff for interruptible service. *NJNG*

Response to Staff Informal Discovery Request S-INF-1, RCa42-RCa43.² This comparison does not demonstrate the reasonableness of the proposed Capacity Agreement. First, NJNG is comparing the tariff rate to the <u>Original Agreement</u>, not the lower rates that would be in effect under the proposed new Capacity Agreement. NJNG Comments, p. 4. Second, Lakewood's usage during the past four years, when it was selling all of its output to Jersey Central Power & Light Company under a Power Purchase Agreement, may not be representative of its future usage. See, Rate Counsel May 4, 2015 Comments, p. 10-11.

Third, and most important, NJNG is comparing Lakewood's payments to is tariff rates for interruptible service. As explained above and in Rate Counsel's May 4, 2015 comments, the proper comparison would be to NJNG's firm service tariff rates. Included in the Supplemental Appendix provided with these comments is a calculation prepared by Rate Counsel's consultant that estimates the amounts Lakewood would have paid under NJNG Firm Transportation Service ("FT") rate schedule given its usage over the past four years. Rate Counsel Consultant Calculation of Lakewood Annual Bill Assuming Current FT Rates Applied to Historical Volumes & MDQs, RCa47. As can be seen from this calculation, even the Original Agreement provided a deep discount from tariff rates paid by firm customers. The lower rates provided under the proposed new Capacity Agreement would provide an even deeper discount. Id., NJNG Responses to Rate Counsel Discovery Requests RCR-8(a) and RCR-9, RCa44-RCa46. Contrary to NJNG's argument at page 4 of its responsive comments, these rates do not represent

² This comparison was provided in attachment to an e-mail circulated on March 24, 2015 and is referred to at page 4 NJNG's comments as the NJNG's response BPU Staff's informal discovery request S-INF-1. The comparison is provided as part of the Confidential version of the Supplemental Appendix to these reply comments.

Honorable Irene Kim Asbury, Secretary May 13, 2015 Page 6

provide service to its firm customers.

Lakewood's proportionate share of the costs of the overall system NJNG must maintain to

As explained in detail in Rate Counsel's May 4, 2015 comments in this matter, the Capacity Agreement was not properly submitted, and has not been shown to meet the criteria that are required for approval of discounted rate agreements. NJNG's arguments to the contrary are factually unfounded and should be rejected.

CONCLUSION

For the foregoing reasons, in addition to those stated in Rate Counsel's May 4, 2015 comments in this matter, the Capacity Agreement should not be approved by the Board.

Respectfully submitted,

STEFANIE A. BRAND DIRECTOR, DIVISION OF RATE COUNSEL

Bv:

Sarah H. Steindel, Esq.

Assistant Deputy Rate Counsel

c: Richard Mroz, President (hand delivered)

Joseph L. Fiordaliso, Commissioner (hand delivered)

Mary-Anna Holden, Commissioner (hand delivered)

Dianne Solomon, Commissioner (hand delivered)

Upendra Chivukula, Commissioner (hand delivered)

Service List (hand delivered or by regular mail; redacted public version by electronic mail)

REDACTED PUBLIC VERSION

I/M/O Petition of New Jersey Natural Gas Company and Lakewood Cogeneration, L.P. for Approval of a Capacity Agreement BPU Docket No. GO14101149

SUPPLEMENTAL APPENDIX TO RATE COUNSEL COMMENTS

May 4, 2015

New Jersey Natural Gas Company Tariff – BPU No. 8 Gas	
NJNG Tariff, Service Classification – IS	RCa37
New Jersey Natural Gas Company Responses to BPU Staff Discove	ery
S-INF-1	RCa42
New Jersey Natural Gas Company Responses to Rate Counsel Disc	covery
RCR-8(a)	RCa44
RCR-9	RCa45
Other	
Rate Counsel Consultant Calculation of Lakewood Annual Bill As FT Rates Applied to Historical Volumes and MDQs	•

INTERRUPTIBLE SERVICE

AVAILABILITY

This service is applicable to Commercial and Industrial Customers whose minimum connected load is not less than 150 therms per hour and who sign a service agreement, providing gas is used only at locations where the Company has 1) adequate distribution facilities and 2) an adequate supply of natural gas. Customers will be required to specify that they have alternate fuel facilities installed in operating condition with an adequate fuel supply, as discussed in Special Provision 1.

CHARACTER OF SERVICE

Interruptible gas sales and transportation service.

MONTHLY RATES

Customer Charge:

Customer Charge per meter per month

\$575.00

Delivery Charge:

Customers with Alternate Fuel

Delivery Charge per therm

\$0.1747

Customers without Alternate Fuel

Delivery Charge per therm

\$0.4164

BGSS Charge:

BGSS Charge per therm for Sales Customers

See "Rate Summaries" at the end of this Tariff

These rates are inclusive of all applicable taxes and riders and are subject to adjustment for all other applicable riders, taxes, assessments or similar charges lawfully imposed by the Company. See Rate Summaries at the end of this Tariff for a summary of components incorporated in these rates.

MINIMUM MONTHLY CHARGE

The minimum monthly charge applicable shall be the Customer Charge. Where service is taken for less than one month, the minimum charge will be prorated.

Date of Issue:

September 30, 2014

Issued by:

Mark R. Sperduto, Senior Vice President

Wall, NJ 07719

Effective for service rendered on and after October 1, 2014

Filed pursuant to Order of the Board of Public Utilities entered in Docket No. ER14060613

INTERRUPTIBLE SERVICE (continued)

SPECIAL PROVISIONS

I. Applicable to All Customers in this Service Classification

1. Alternate Fuel Certification

If the Customer desires to be categorized as a customer with alternate fuel then, as of November 1st of each year, the Customer must certify in a signed affidavit that the installation being served is physically and legally capable of using the fuel oil and the specific sulfur content as indicated or that it may legally and physically use propane at the Customer's end-use facility. The alternate fuel certification and related details will be held confidential except as same information shall be utilized by the Company for preparation of periodic reports to the Board. It is the Customer's full responsibility to have standby equipment installed and maintained in operating condition and a fuel supply adequate for its operation at all times. Adequate supply requirements for customers using No. 2 fuel oil, No. 4 fuel oil, jet fuel or kerosene are seven (7) days of alternate fuel either on hand or, if a customer's on-site storage capacity is less than seven (7) days, then full storage capacity plus additional firm contractual supply arrangements to equal seven (7) days. No customer is required to build additional storage. All customers that use non-distillate fuels as an alternate supply, or will agree to suspend operations during an interruption, are exempt from the alternate fuel requirement, but must file a certification with the Company indicating the alternate fuel used or their intention to discontinue operations.

2. Separately Metered

Gas delivered hereunder will be separately metered and shall not be used interchangeably with gas supplied under any other service classification.

3. Automated Meter Reading Device

Metering shall include an automated meter recording device (AMR), which shall be furnished and installed by the Company at the Customer's expense. The Customer shall furnish an electrical supply and phone line for the operation of the device, in an area acceptable to the Company. The Company shall provide technical assistance in order to minimize the Customer's expense for such installation.

The customer may reimburse the Company for the AMR expense, either in a lump sum payment when service is initiated or over the life of the initial IS agreement with the prime interest rate used to calculate carrying costs on the unpaid balance.

Date of Issue:

October 6, 2008

Issued by:

Mark R. Sperduto, Vice President

Wall, NJ 07719

INTERRUPTIBLE SERVICE (continued)

4. Service Interruption

The Customer agrees to discontinue the use of gas service at any time, and from time to time upon notice from the Company. The manner and time period of such notice shall be specified in the written service agreement. The Company's determination to discontinue service or to reinstate service following a discontinuance shall be conclusive.

5. Unauthorized Use

In the event the Company notifies the Customer to discontinue the use of gas service at any time and the Customer fails to do so, the Company shall have the right to terminate service and/or to bill the Customer for usage occurring after the expiration of the period of notice specified in the service agreement at ten (10) times the highest price of the daily ranges that are published in Gas Daily on the table "Gas Price Survey" for delivery in Texas Eastern Zone M-3. This rate shall not be lower than the maximum penalty charge for unauthorized daily overruns as provided for in the FERC-approved gas tariffs of the interstate pipelines which deliver gas into New Jersey.

6. Incremental Gas Service

During periods of gas service interruption, Customers in need of gas may request service under the Incremental Gas Service ("IGS") Classification.

7. Margin Sharing

Margin derived from the Delivery Charge will be treated pursuant to the stipulation of the parties in BPU Docket No. GR07110889.

II. Applicable to All Customers Purchasing Gas Supply Under Rider "A" BGSS

1. Maximum Quantities

The maximum monthly and hourly quantities of gas to be delivered shall be specified in the service agreement and may be changed only with approval of the Company.

2. Service Nominations

Upon request by the Company on any day, the Customer shall furnish an estimate of the amount of gas to be taken under this rate schedule during the next 24-hour period. The Customer must notify the Company at least twenty-four (24) hours before it plans to discontinue the use of gas service.

Date of Issue:

October 6, 2008

Issued by:

Mark R. Sperduto, Vice President

Wall, NJ 07719

INTERRUPTIBLE SERVICE (continued)

3. BGSS

Customers will be supplied under the Monthly BGSS service which will be applied to all therms billed each month. See "Rate Summaries" for the current price.

III. Applicable to All Customers Purchasing Gas Supply from a Marketer or Broker

1. Return to Sales Classification

Upon a Customer's election to take service under the IS Service Classification, it shall be required to provide the Company with no less than 30 days notice of the Customer's intention to return to sales service under Service Classification IS or NGV. The Company may accept less than thirty (30) days notice if gas is available to serve the Customer.

2. Incremental Expenses

The Customer will reimburse the Company for any out-of-pocket expenses (including, but not limited to legal and travel expenses) incurred in connection with the initiation and rendering of service under this service classification. The Company shall provide an estimate of such expenses prior to their incurrence.

3. Service Charge Waiver

The Customer charge for IS sales or NGV service will be waived in months when a Customer uses IS transportation service to meet all its gas needs.

4. Customer Responsibility

In the event the Customer designates a Marketer or Broker in accordance with Service Classification MBR, the Customer will remain responsible for a pro rata share of any Charges which such Marketer or Broker fails to pay to the Company including payments for <u>Unauthorized Use</u> or for <u>Monthly Imbalances</u>.

5. Additional Requirements

Service is subject to the terms and conditions of the Marketer and Broker Requirements section of this Tariff (Service Classification – MBR) and Section 10 of the Company's Standard Terms and Conditions.

Date of Issue:

October 6, 2008

Issued by:

Mark R. Sperduto, Vice President

Wall, NJ 07719

INTERRUPTIBLE SERVICE (continued)

PAYMENT

Bills are due within 10 days after the Company sends the bill and subject to a late payment charge as set forth in Paragraph 8.9 of the Standard Terms and Conditions of this Tariff.

CONTRACT

A written service agreement on the Company's Standard Application Form for a minimum one-year period shall be required for IS Customers. Successive one-year terms will be in effect unless terminated by written notice at least two (2) months prior to the expiration of the service agreement.

TERMS AND CONDITIONS

Service is subject to the Standard Terms and Conditions of this Tariff and the service agreement.

Date of Issue:

October 6, 2008

Issued by:

Mark R. Sperduto, Vice President

Wall, NJ 07719

Sarah Steindel

From:

Dembia Andrew < ADembia@NJNG.com>

Sent:

Tuesday, March 24, 2015 2:41 PM

To:

'Bator, Alice'; Felicia Thomas-Friel; 'Alex Moreau'; 'Peterson, Stacy'; 'May, Jerome'; 'Christopher Psihoules'; 'sgoldenberg'; Sperduto Mark; Trebino Tina; Shah Jayana; 'Caroline Vachier'; 'excel.consulting@sbcglobal.net'; Sarah Steindel; Brian Lipman;

'david.musselman@essentialpowerllc.com'

Subject:

NJNG/Lakewood Cogen Gas Agreement - Follow-Up information from March 19, 2015

Teleconference

Attachments:

Lakewood Cogen at IT charges.xlsx

To All:

As requested during last week's conference call, attached is a file containing the tariff rate calculation at the IT-Interruptible tariff which is closest in concept to the Lakewood non-tariff agreement.

Please let us know if you have any further questions or issues.

Andrew

Andrew K. Dembia
Regulatory Affairs Counsel
New Jersey Natural Gas Company
1415 Wyckoff Road
P.O. Box 1464
Wall, New Jersey 07719
732-938-1073
adembia@NJNG.com

This email is confidential and is protected by attorney-client, work product and all other applicable privileges.

From: Dembia Andrew

Sent: Wednesday, March 11, 2015 10:24 AM

To: 'Bator, Alice'; Felicia Thomas-Friel; Alex Moreau; Peterson, Stacy; May, Jerome; Christopher Psihoules; sgoldenberg; Sperduto Mark; Trebino Tina; Shah Jayana; Caroline Vachier; excel.consulting@sbcglobal.net; Sarah Steindel; Brian Lipman; david.musselman@essentialpowerllc.com

Subject: NJNG/Lakewood Cogen Gas Agreement - Teleconference for Thursday, March 19th at 1:00pm

To All:

The meeting will be conducted via conference call. It is confirmed for Thursday, March 19, 2015 at 1:00pm. Please mark your calendars accordingly. The following is the conference call dial-in information:

Dial in:

800-373-0950

Passcode:

287481#

Date:

March 19, 2015

Time:

1:00pm

IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY FOR (1) APPROVAL OF A CAPACITY AGREEMENT BETWEEN LAKEWOOD COGENERATION, L.P. AND

NEW JERSEY NATURAL GAS COMPANY AND (2) a PROTECTIVE ORDER AND EXEMPTION FROM PUBLIC DISCLOSURE OF CONFIDENTIAL INFORMATION

BPU Docket No. GO14101149

Discovery Response

Request No: RCR-8

Request:

Reference the Company's response to RCR-1.

- a. Please provide the total capacity reservation charges paid by Lakewood under the Original Agreement, by month, from January 2010 through the latest month available.
- b. Please provide the total charges paid by Lakewood under the Original Agreement for natural gas supply purchased from NJNG, by month, from January 2010 through the latest month available.
- c. Does NJNG treat the revenues identified in part (a) as margin revenues (i.e., retained by the Company)? If not, please explain.

Response:

- a. Lakewood paid \$217,833.33 per month from January 2010 through October 2014 for capacity reservation charges.
- b. Please see the attached schedule for total charges paid by month for natural gas supply purchased from NJNG by Lakewood's gas supply manager under a NAESB agreement.
- c. NJNG treats the capacity reservation charges as margin revenue. In a base rate case, the margins from Lakewood's capacity reservation charges reduce the cost to serve the remaining NJNG customer base.

New Jersey Natural Gas Company and Lakewood Generation, L.P. for (1) Approval of a Capacity Agreement Between Lakewood Cogeneration, L.P. and New Jersey Natural Gas Company and (2) a Protective Order and Exemption from BPU BPU Docket No.: GO14101149

Honorable Irene Kim Asbury Secretary NJ Board of Public Utilities 44 South Clinton Avenue, 9th Floor P.O. Box 350 Trenton. New Jersev 08625-0350

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Jayana Shah New Jersey Natural Gas Company 1415 Wyckoff Road P.O. Box 1464 Wall, NJ 07719 Tina Trebino New Jersey Natural Gas Company 1415 Wyckoff Road P.O. Box 1464 Wall, NJ 07719

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Christopher Psihoules, DAG Division of Law 124 Halsey Street, 5th Floor P.O. Box 45029 Newark, NJ 07101