STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE GAIL M. COOKSON, ALJ

I/M/O THE PETITION OF	)	
SOUTH JERSEY GAS FOR APPROVAL	)	
OF INCREASED BASE TARIFF RATES	)	
AND CHARGES FOR GAS SERVICE	)	**BPU DOCKET No. GR10010035**
AND OTHER TARIFF REVISIONS	)	**OAL DOCKET No. PUC-01598-2010N**
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	)	
	)	

DIRECT TESTIMONY OF BRIAN KALCIC
ON BEHALF OF THE
NEW JERSEY DEPARTMENT OF THE PUBLIC ADVOCATE,
DIVISION OF RATE COUNSEL

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Table of Contents

I. QUALIFICATIONS AND OVERVIEW

Q. Please state your name and business address.

A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

Q. What is your occupation?

A. I am an economist and consultant in the field of public utility regulation, and principal of Excel Consulting. My qualifications are described in the Appendix to this testimony.

Q. On whose behalf are you testifying in this case?

A. I am testifying on behalf of the New Jersey Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel").

Q. What is the subject of your testimony?

A. Rate Counsel requested that I review various rate structure proposals submitted on behalf of South Jersey Gas Company ("SJG" or "Company"), and develop an appropriate rate design that reflects Rate Counsel witness Robert J. Henkes' recommended margin revenue increase (net of the roll-in of Capital Investment Recovery Tracker ("CIRT") and Conservation Incentive Program ("CIP") revenues) of $3.197 million. In addition, I will address the Company's proposed increases to its Miscellaneous Service Charges.

For purposes of clarification, I wish to note that while Rate Counsel is recommending an incremental increase in revenues of $3.197 million or 1.9% (per line

17 of Schedule BK-2), Mr. Henkes' recommendation reflects the roll-in of the current CIRT and CIP charges into base rates. Ratepayers are currently paying $22.914 million annually through the CIRT and CIP surcharges. At the conclusion of this case, both the CIRT and CIP charges are to be set at zero, and the revenues currently collected through the CIRT and the CIP are to be collected from base rates. In other words, Mr. Henkes' recommended 1.9% rate increase would be implemented by increasing base rates by $26.111 million or 17.6%,[1] and simultaneously eliminating the CIRT and CIP surcharges, for an effective rate decrease of $22.914 million or 15.7%.

Q. Do you have any preliminary comments?

A. Yes. Mr. Henkes has utilized the Company's 9+3 update in the development of his recommended (incremental) revenue adjustment of $3.197 million. Mr. Henkes will be updating his recommended revenue adjustment based upon SJG's upcoming 12+0 filing. Accordingly, Rate Counsel reserves the right to update its recommended rate design to reflect the Company's 12+0 update in supplemental direct testimony.

Q. How is your testimony organized?

A. My direct testimony is organized as follows. Section I of my testimony contains my qualifications and an overview of my testimony. Sections II reviews the Company's current and proposed rate schedules. Section III critiques the Company's cost-of-service study. Section IV presents my recommended class revenue allocation and rate

[1] See line 8 of Schedule RJH-1.

design. Finally, Section V discusses SJG's proposed increases to its Miscellaneous Service Charges.

Q. Please summarize your recommendations.

A. Based upon my analysis of the Company's filing and interrogatory responses, I recommend that Your Honor and the New Jersey Board of Public Utilities ("Board" or "BPU"):

- Reject SJG's proposed cost-of-service methodology;
- Approve Rate Counsel's recommended class revenue allocation, which is based upon Rate Counsel's alternative cost-of-service study;
- Adopt Rate Counsel's recommended rate design, which moves $22.914 million of CIRT and CIP revenues into base rates; and
- Adopt Rate Counsel's recommended Miscellaneous Service Charges.

The specific details associated with my rate structure recommendations are discussed below.

II. CURRENT AND PROPOSED RATE SCHEDULES

Q. Mr. Kalcic, how many different rate schedules are included in the Company's current tariff?

A. At present, the Company serves approximately 340,000 customers via twelve (12) rate schedules.[2] However, over 99.0% of the Company's customers (representing over 88.0% of SJG's current margin revenues) are served on just two (2) rate schedules, i.e., Rate Schedules ("Rates") RSG (Residential Service), and GSG (General Service).

Rate RSG is applicable to all residential customers taking sales or transportation service. Rate GSG is limited to non-residential sales or transportation service customers that consume less than 100,000 therms per year.

Q. Does SJG propose to eliminate or consolidate any of its current rate schedules?

A. No. However, the Company proposes to add a new rate schedule for Natural Gas Vehicle ("NGV") service, and to make its current Electric Generation Service ("EGS") rate schedule available to residential customers.

[2] The Company's current tariff includes the following ten (10) firm service rate schedules: Residential Service (**RSG**), General Service (**GSG**), General Service – Large Volume (**GSG-LV**), Comprehensive Transportation Service (**CTS**), Large Volume Service (**LVS**), Firm Electric Service (**FES**), Electric Generation Service (**EGS**), Electric Generation Service – Large Volume (**EGS-LV**), Yard Lighting Service (**YLS**), and Street Lighting Service (**SLS**). In addition, the Company maintains the following two (2) interruptible sales and transportation rate schedules: Interruptible Gas Service (**IGS**), and Interruptible Transportation Service (**ITS**).

Q. Please describe the Company's proposed NGV rate schedule.

A. Rate NGV would be available to non-residential customers that utilize separately metered (uncompressed) natural gas solely for the purpose of vehicle fuel. As filed, NGV service would be available to either firm sales or transportation customers, and would contain a fixed service charge and volumetric delivery charge.

However, at this time, SJG has *not* developed specific rates for NGV service. Nor has the Company developed a complete set of provisions and/or terms and conditions to apply to NGV customers.[3]

Q. Why is the proposed NGV rate schedule incomplete at this time?

A. The Company indicates that it is continuing to assess the market and how best to meet the potential future demands for such service. SJG states that it intends to "provide proposed pricing and related terms of service supported by further testimony," when its market assessment and planning is complete.[4]

Q. Mr. Kalcic, is Rate Counsel in a position to evaluate the Company's proposed NGV service at this time?

A. No, since the proposal itself is incomplete. Therefore, in the event that SJG chooses to file additional testimony in this proceeding in support of a (finalized) NGV service offering, Rate Counsel reserves the right to address the Company's proposal in supplemental testimony.

[3] See Schedule DPY-12.
[4] See Mr. Yardley's Direct Testimony at page 35.

Q. Do you agree with the Company's proposal to make Rate EGS available to residential customers for distributed generation purposes?

A. Yes. At present, Rate EGS is available only to non-residential customers. Expanding Rate EGS to residential customers would make an equivalent pricing option available to residential customers that wish to use natural gas to generate electricity for household use.

I will discuss my recommended EGS rate design for residential customers later in my testimony.

III. COST OF SERVICE STUDY

Q. Mr. Kalcic, please provide a general description of the cost-of-service analysis submitted by the Company in this proceeding.

A. Company witness Daniel P. Yardley prepared a fully allocated cost-of-service study ("COSS") using weather-normalized costs and billing determinants reflective of the Company's as filed (i.e., original) requested increase of $35.9 million (inclusive of the CIRT and CIP roll-ins).

The primary purpose of the cost-of-service study ("COSS") is to assign the Company's (base rate) revenue requirement to rate classes. To that end, the Company's COSS methodology reflects the traditional three-step process of functionalization, classification and allocation. *Functionalization* refers to the process whereby utility plant and related expenses are assigned to functions, such as production, transmission, storage or distribution. *Classification* refers to the process where the functionalized

costs are broken down into cost categories, such as capacity-, commodity-, or customer-related costs. Finally, *allocation* refers to the process whereby the utility's classified costs are assigned to rate classes, based upon a factor that reflects a causal relationship between a given class and the utility's cost incurrence.

Q. What customer classes are included in the Company's COSS?

A. The COSS allocates costs to eight (8) firm service classes: 1) Residential Heating; 2) Residential Non-heating; 3) GSG; 4) GSG-LV; 5) CTS; 6) LVS; 7) EGS and 8) EGS-LV.

Q. How does SJG allocate the cost of distribution mains to rate classes?

A. The Company's COSS splits distribution mains into customer- and demand-related components, based upon a minimum-size study. In particular, distribution mains are classified as 82% customer-related and 18% demand-related. In other words, SJG allocates 82% of the total cost of distribution mains to rate classes based on the number of customers in each class. SJG employs a design day (coincident peak) demand allocator to assign the demand-related portion of distribution mains to rate classes.

Q. What does the Company's COSS indicate with respect to the relative contribution toward allocated cost of SJG's firm rate classes?

A. The Company's COSS shows that the RSG rate class is under-contributing, and that all other firm service classes are over-contributing.

Q. Mr. Kalcic, did you request that the Company rerun its COSS in this proceeding using an alternative methodology?

A. Yes, I did. Since costs related to distribution mains typically constitute the single largest component of a gas utility's revenue requirement, I requested (in RCR-RD-7) that the Company rerun its COSS with SJG's distribution mains classified as 100% demand-related. In my view, this alternative approach with respect to the allocation of distribution mains is preferable to the Company's methodology, and provides more reasonable results.

Q. Why do you find that classifying 100% of SJG's distribution mains as demand-related is preferable to the classification ratios derived from the Company's minimum-size study?

A. The Company's minimum-size study compares the replacement cost of SJG's distribution system to the cost of a hypothetical distribution system, where all of the Company's mains are replaced with two-inch diameter plastic pipe – the smallest, least-expensive size and type of pipe available to connect all customers to SJG's system. The ratio of the cost of the hypothetical system to the (replacement) cost of the Company's existing system determines the customer component of distribution mains in the Company's COSS.

However, the Company's minimum-size study ignores the fact that a hypothetical gas distribution system, built solely to the minimum standard necessary to connect all customers to the system, would still be able to serve a demand function

(albeit at some reduced level). To account for this demand serving capability of the minimum system, a proper minimum system analysis would need to allocate the demand-related component of distribution mains to rate classes on the basis of Design Day demands *in excess of the portion of peak demand that is served by the minimum system component*. The Company's methodology does not do so. As a result, the Company's COSS methodology is biased against SJG's small-user rate classes. [5]

Q. What do you recommend?

A. I recommend that the Company's minimum-size study be rejected, and that SJG's distribution mains instead be classified as 100% demand-related.

Q. Have you compared the class rates of return under the Company's COSS methodology to those produced by the alternative methodology contained in RCR-RD-7?

A. Yes. Table 1 below shows the class rates of return at present rates under the two (2) COSSs.

[5] The greater the percentage of a class's Design Day demand that is served by the minimum system, the smaller that class's *excess* Design Day demand allocation factor, and therefore the lower that class's share of the Company's distribution mains cost that is classified as demand-related.

Table 1
Class Rates of Return at Present Rates

Class	*Company COSS*	*Alternative COSS*
RSG	4.27%	5.87%
GSG	11.92%	6.87%
GSG-LV	39.44%	12.80%
CTS	51.98%	18.77%
LVS	23.89%	5.48%
EGS	10.65%	1.68%
EGS-LV	26.29%	6.34%
Total Company	**6.46%**	**6.46%**

Source: Schedule DPY-6 & RCR-RD-7.

Q. What does Table 1 show?

A. Table 1 shows that the absolute magnitudes of the class rates of return differ significantly across the two (2) studies. In particular, under the alternative study, the rate of return of the RSG class is much closer to the system average, while the rates of return for the LVS, EGS and EGS-LV classes fall below the system average.

Q. Have you compared the percentage increases required to move each rate class to the Company's requested system average rate of return across the two (2) COSSs?

A. Yes, in Table 2 below. Note that the Company's COSS shows that only the RSG class requires an increase in order to move to cost of service. However, under my alternative

COSS, all classes except GSG-LV and CTS are deserving of an increase in this proceeding. Given the disparate results shown in Table 2, I conclude that it would be inappropriate for the Board to adopt the Company's proposed class revenue allocation in this case.

Table 2
Percentage Increases Required to Yield Equalized ROR of 8.89%

Class	*Company COSS*	*Alternative COSS*
RSG	37.3%	24.4%
GSG	-4.8%	19.3%
GSG-LV	-52.5%	-9.3%
CTS	-58.1%	-26.2%
LVS	-31.3%	30.4%
EGS	0.0%	76.3%
EGS-LV	-35.9%	24.8%
Total Company	**21.2%**	**21.2%**

Source: Schedule DPY-6 & RCR-RD-7.

Q. Have you utilized the alternative COSS results shown in Table 2 as a general guide in allocating Mr. Henkes' recommended revenue adjustment to rate classes?

A. Yes, I have.

IV. CLASS REVENUE ALLOCATION / RATE DESIGN

Q. Mr. Kalcic, how does SJG propose to recover its original requested base revenue increase of $35.9 million from ratepayers?

A. Schedule BK-1 summarizes the Company's proposed increases in class delivery or margin revenues. The Company's filed overall requested system average increase in margin revenues is 20.6% (per line 17 of Schedule BK-1). Schedule BK-1 shows that the proposed delivery revenue increases to the Company's firm service classes would range from 0.0% (for the GSG-LV, CTS, LVS and EGS-LV classes) to 31.3% for the lighting (YLS / SLS) classes.

Q. How did SJG arrive at the proposed revenue distribution shown in Schedule BK-1?

A. As discussed by Mr. Yardley on pages 29 and 30 of his direct testimony, the Company used its COSS results as a general guide in developing its proposed revenue allocation. More specifically, in order to moderate potential rate impacts on residential customers, Mr. Yardley left the total delivery revenues (inclusive of CIP and CIRT) of the GSG-LV, CTS, LVS and EGS-LV classes unchanged, rather than assign such classes a decrease. The GSG and EGS classes were assigned an increase of one-half the system average or 10.4%. The YLS / SLS classes were assigned an increase of 1.5 times system average increase, and the RSG class was assigned the residual increase necessary to obtain the Company's requested revenue requirement.

Q. Have you developed a recommended revenue allocation to apportion Rate Counsel's recommended revenue adjustment in this proceeding?

A. Yes, I have. As previously discussed, my alternative COSS produces results that are materially different from those given by Company's COSS, and I have used the results of my alternative COSS as a guide in preparing my recommended class revenue allocation.

Q. What is your recommended class revenue allocation?

A. I recommend that Mr. Henkes' recommended net margin revenue increase of $3.197 million be allocated to rate classes as shown in column 3 of Schedule BK-2.

Q. How did you derive your recommended class revenue allocation?

A. My recommended allocation was completed in four (4) steps. First, I determined my recommended increases to SJG's Miscellaneous Service Charges, which are discussed in the following section of my testimony. Second, I assigned a target increase of 1.5 times the required system average increase in rate revenues to the EGS class.[6] Third, I assigned no increase (rather than a decrease) to the Company's over-contributing GSG-LV and CTS classes, which is consistent with the Company's approach. Fourth, I reduced the required increases shown in Table 2 for the remaining RSG, GSG, LVS and

[6] Rate Counsel's recommended system average increase in rate revenues is 1.8%, as shown on line 9 of Schedule BK-2.

EGS-LV classes proportionately, in order to achieve Rate Counsel's recommended net margin revenue increase of $3.197 million.[7]

Q. Would you please summarize your recommended revenue allocation?

A. Yes. As shown in Schedule BK-2, my recommended delivery revenue increases range from 0.0% to 2.7%, or from 0.0 to 1.5 times the system average increase in non-contract rate revenues. Consistent with the results of the alternative COSS shown in Table 2, the maximum increase is assigned to the EGS class, while the minimum increase (0.0%) is assigned to the GSG-LV and CTS classes.

Q. Why do you conclude that the GSG-LV and CTS classes should receive no increase in this proceeding?

A. Under normal circumstances, I would assign all rate classes a minimum increase of, say, 0.5 times the system average. However, Rate Counsel is recommending a relatively

[7] Note that since separate cost-of-service information is not available for the (YLS and SLS) lighting classes, I assigned the lighting classes the same overall increase as the RSG class.

modest overall net revenue adjustment of just 1.9% in this case. Given the magnitude of Rate Counsel's overall net revenue adjustment, I concluded that it was feasible to assign the GSG-LV and CTS classes no increase in this case without imposing unnecessary rate impacts upon the Company's under-contributing rate classes.

Q. Mr. Kalcic, have you designed a set of rates to implement your recommended revenue allocation?

A. Yes, I have.

Q. What is the total level of pro-forma margins utilized in your recommended rate design?

A. The starting point for my recommended rate design is $170.826 million in pro-forma margins at current rates as shown on line 5 of Schedule BK-3. This total is $1.735 million less than the $172.561 million of pro-forma margins contained in the Company's 9+3 update (per line 1 of Schedule BK-3) million, due to Mr. Henkes' recommended revenue adjustments.

Q. What is shown in Schedule BK-4?

A. Schedule BK-4 presents my recommended rate design and proof of revenue, in a format similar to that used in Mr. Yardley's Schedule DPY-9.

Q. Mr. Kalcic, please identify the source of the class billing determinants shown in Schedule BK-4.

A. The class billing determinants shown in Schedule BK-4 were taken from the Company's response to RCR-RD-11 and adjusted, as appropriate, to reflect the *margin revenue portion* of Mr. Henkes' recommended pro-forma operating revenue adjustments (at present rates) – per column 2, lines 2-4 of Schedule BK-3.

Q, Please explain how you developed your recommended customer charges.

A. The cost-of-service evidence in this case suggests that the Company's customer charges are below cost of service, which suggests that such charges should be assigned a greater than system average increase in this proceeding.[8] As previously discussed, it is Rate Counsel's position that the revenue that SJG collects via base rates at the conclusion of this case should increase 17.6%. Excluding Miscellaneous Service Charge revenues, the average base rate increase to SJG's firm service classes is 18.1%. In general, in order to move SJG's customer charges toward cost, I assigned an increase of 1.5 times the average (firm service) base rate revenue increase, or 27.2%, to the Company's existing customer charges.

For the CTS class, I increased the monthly customer charge from $600.00 to $615.00, or 2.5%, which brings the charge up to full cost of service. Rate Schedule EGS-LV does not currently contain a customer charge, although SJG is proposing to

[8] See the Company's to RCR-RD-3.

implement one. I used the Company's proposed EGS-LV customer charge of $180.00 per month in my recommended rate design.

Q. How did you determine your recommended increases to the individual RSG tariff components shown on page 1 of Schedule BK-4?

A. In line with the above discussion, I increased the current customer charge from $7.25 to $9.22 (excluding SUT) or 27.2%, and recovered the balance of the class revenue requirement target from the distribution service charge. Like the Company, I eliminated the air conditioning (A/C) discount. My recommended rate design produces a uniform RSG distribution charge of $0.3419 per therm (before SUT).

Q. Mr. Kalcic, page 1 of Schedule BK-4 shows that your recommended increases to individual RSG tariff charges range from 11.7% to 27.2%, while your recommended increase in total RSG margins revenues is only 1.9%. Why is that the case?

A. The reason that the overall increase in RSG margin revenues is so much lower than the various increases to RSG base rates is that CIP and CIRT revenues totaling approximately $14.0 million are being rolled into base rates.

Q. Please discuss how you developed your recommended rate design for the GSG service class.

A. I increase the current GSG customer charge from $17.50 to $22.25 (excluding SUT) or 27.2%, and recovered the balance of the class revenue target from the distribution service ($/therm) charge. Like the Company, I eliminated the current A/C discount.

Q. Please explain how you determined your recommended rates for the GSG-LV class.

A. As shown on page 1 of Schedule BK-4, the GSG-LV rate schedule includes a customer, demand and distribution service charge. As a first step in my rate design, I assigned a 27.2% increase to GSG-LV customer charge. I then applied a uniform residual increase to the Company's existing demand and volumetric base rates in order to recover the balance of the GSG-LV class revenue target.

Q. How did you develop your recommended rates for the CTS and LVS classes shown on page 2 of Schedule BK-4?

A. I set the CTS customer charge at cost of service, and assigned a 27.2% increase to the LVS customer charge. Thereafter, the required residual increase was applied uniformly to the Company's existing demand and volumetric base rates, within each class.

Q. How did you determine your recommended EGS and EGS-LV rates shown on page 3 of Schedule BK-4?

A. For the EGS class, I left the existing EGS customer charge unchanged (as per SJG's proposed rate design). I then recovered the balance of the class revenue requirement via

a proportional increase to existing demand and volumetric revenues. My recommended EGS volumetric charges were designed to maintain the current 3¢ per therm differential in winter versus non-winter rates.

The Company's present EGS-LV rate schedule is unique in that it contains only a demand charge. In other words, EGS-LV customers do not currently pay a customer charge or a volumetric distribution charge. However, SJG is proposing to implement a monthly customer charge in this proceeding so that the structure of Rate EGS-LV comports with the Company's other rate schedules.

To develop my recommended EGS-LV rate design, I accepted the Company's proposed customer charge, and added a volumetric distribution charge equal to $0.0033 per therm (the same as Rate LVS). As a result, my recommended EGS-LV rate structure will contain the same rate elements as SJG's other demand-based rate schedules. As a final rate design step, the balance of the EGS-LV class revenue requirement was recovered via an increase to the existing demand charge.

Q. How did you determine your recommended lighting service rates shown on page 4 of Schedule BK-4?

A. Since the Company's YLS and SLS rate schedules contain only a fixed monthly charge per installation, I assigned an across-the board increase to the YLS and SLS fixed charges.

Q. Please discuss your recommended rate design for residential distributed generation service customers taking service on the Company's EGS rate schedule.

A. My recommended residential EGS rate design in shown in Schedule BK-5. In general, I followed the Company's approach in designing my residential EGS rates by: a) setting the customer charge equal to my recommended RSG customer charge; and b) converting my recommended non-residential EGS demand and volumetric charges into an equivalent flat rate volumetric charge applicable to residential customers.

V. MISCELLANEOUS SERVICE CHARGES

Q. Mr. Kalcic, is SJG proposing any changes to its Miscellaneous Service Charges?

A. Yes. The Company proposes to increase its Turn On (Reconnection), Returned Bank Item (Returned Check) and Field Collection charges.

The Reconnection charge is proposed to increase from $20 to $36 or 80%. The Returned Check charge would increase from $18 to $30 or 66.7%, and the Field Collection charge would increase from $12 to $20 or 66.7%.

Q. What is the basis for the Company's requested increases in the above charges?

A. The Company claims that its total cost per reconnection and returned bank item is $36.21 and $29.67, respectively.[9] As such, SJG's requested increases are intended to

[9] See SJG's response to RCR-RD-9.

move the current Reconnection and Returned Check charges to (essentially) full cost of service in this case.

With respect to the Field Collection charge, the Company's claimed cost per collection visit is $17.78, so the proposed Field Collection charge of $20 would exceed cost of service.

Q. Do you believe the Company's proposed Miscellaneous Service Charges are appropriate?

A. No. I find that SJG's proposed increases of 66.7% to 80% would be excessive, particularly in light of current economic conditions which could cause a greater than normal number of customers to experience a shut off for non-payment.

Q. What is your recommendation in this area?

A. I recommend that the increase to the current Reconnection, Returned Check and Field Collection charges be limited to 2.0 times the system average increase in total base revenues, or 35.3%. This results in the following recommended charges: a) Reconnection at $27.00 (i.e., $27.06 rounded); b) Returned Check at $24.35 (i.e., $24.36 rounded); and c) Field Collection at $16.25 (i.e., $16.24 rounded).

Q. Have you reflected the additional revenue associated with your recommended Miscellaneous Service Charge increases in Schedule BK-4?

A. Yes, my recommended Miscellaneous Service Charge rate design is shown on page 4 of Schedule BK-4.

Q. Does this conclude your direct testimony at this time?

A. Yes.

SCHEDULES BK1 THROUGH BK5

Schedule BK-1

South Jersey Gas Company

Company Proposed Allocation of its
Requested Increase in Delivery Revenues

Line	Description	Present Delivery Revenue 1/	Proposed Delivery Revenue	Increase Amount	Increase %	Increase Ratio
		(1)	(2)	(3)	(4)	(5)
1	Residential - RSG	$ 120,093,646	$ 151,937,047	$ 31,843,401	26.5%	127
2	General Service - GSG	32,779,048	36,200,504	3,421,456	10.4%	50
3	General Service (LV) - GSG-LV	6,834,581	6,834,429	(152)	0.0%	0
4	Comp. Firm Transportation Service - CTS	3,465,927	3,465,929	2	0.0%	0
5	Large Volume Service - LVS	5,314,218	5,314,227	9	0.0%	0
6	Electric Generation Service - EGS	35,843	39,597	3,754	10.5%	50
7	Electric Generation Service (LV)- EGS-LV	390,959	390,805	(154)	0.0%	0
8	Gas Lighting Service - YLS / SLS	67,795	89,031	21,236	31.3%	150
9	Subtotal Firm	$ 168,982,017	$ 204,271,569	$ 35,289,552	20.9%	100
10	Special Contracts	3,565,667	3,565,667	0	0.0%	
11	Total Firm and Contract Margins	$ 172,547,684	$ 207,837,236	$ 35,289,552	20.5%	
	Miscellaneous Revenues					
12	Turn On Charges	488,000	878,400	390,400	80.0%	
13	Returned Bank Item	100,800	168,000	67,200	66.7%	
14	Field Collection Fee	190,800	318,000	127,200	66.7%	
15	Other	603,900	603,900	0	0.0%	
16	Subtotal Miscellaneous	1,383,500	1,968,300	584,800	42.3%	
17	Total Margin Revenues	$ 173,931,184	$ 209,805,536	$ 35,874,352	20.6%	
				$ 35,870,843	Target	
				$ 3,509	Rounding	

Source: Schs. DPY-9 & SMB-6.

Notes:

1/ As filed (3+9) position, includes CIRT & CIP revenues.

South Jersey Gas Company

Schedule BK-2

Rate Counsel Allocation of its
Recommended Adjustment in Delivery Revenues

Line	Description	Present Delivery Revenue 1/	Recommended Delivery Revenue	Recommended Increase Amount	%	Ratio
		(1)	(2)	(3)	(4)	(5)
1	Residential - RSG	$ 117,081,716	$ 119,356,999	$ 2,275,284	1.9%	110
2	General Service - GSG	32,011,697	32,514,407	502,710	1.6%	89
3	General Service (LV) - GSG-LV	6,777,435	6,777,813	378	0.0%	(0)
4	Comp. Firm Transportation Service - CTS	3,518,727	3,519,775	1,048	0.0%	2
5	Large Volume Service - LVS	5,558,405	5,694,204	135,799	2.4%	138
6	Electric Generation Service - EGS	40,114	41,177	1,064	2.7%	150
7	Electric Generation Service (LV)- EGS-LV	392,861	400,637	7,776	2.0%	112
8	Gas Lighting Service - YLS / SLS	67,795	69,117	1,321	1.9%	110
9	Subtotal Firm	$ 165,448,750	$ 168,374,130	$ 2,925,380	1.8%	100
10	Special Contracts	4,082,321	4,082,321	0	0.0%	
11	Total Firm and Contract Margins	$ 169,531,071	$ 172,456,451	$ 2,925,380	1.7%	
	Miscellaneous Revenues					
12	Turn On Charges	488,000	658,800	170,800	35.0%	
13	Returned Bank Item	100,800	136,360	35,560	35.3%	
14	Field Collection Fee	190,800	258,375	67,575	35.4%	
15	Other	515,300	515,300	0	0.0%	
16	Subtotal Miscellaneous	1,294,900	1,568,835	273,935	21.2%	
17	Total Margin Revenues	$ 170,825,971	$ 174,025,286	$ 3,199,315	1.9%	
				$ 3,197,335	Target	
				$ 1,980	Rounding	

Source: Sch. RJH-8 & RCR-RD-11

Notes:

1/ Includes CIRT & CIP revenues.

South Jersey Gas Company

Rate Counsel Pro-Forma Adjusted Margin Revenues

($000)

Line	Description	Present Operating Revenue 1/ (1)	Present Margin Revenue (2)	Source
1	Total SJG 9&3 Pro Forma Adjusted	$ 428,439	$ 172,561	RCR-RD-11 & SMB-6 9&3
	plus RC adjustments:			
2	Sales from Post-TY Plant Additions	(5,270)	(1,497)	SMB-10 9&3
3	Contract Changes	1,659	347	RFF-5 9&3
4	Miscellaneous Service Charges	(585)	(585)	BK-4
5	Total RC 9&3 Pro Forma Adjusted	$ 424,244	$ 170,826	
	Total Pro-Forma Margins Used in Rate Design			
6	Schedule BK-4		$ 170,826	
7	Difference		$ 0	

Note:

1/ Per Sch. RJH-8.

South Jersey Gas Company
Rate Counsel Recommended Rates and Proof of Revenue

FIRM CUSTOMER CLASSES	Billing Units (1)	Present Base Rates Rate (2)	Present Base Rates Revenue (3)	Recommended Base Rates Rate (4)	Recommended Base Rates Revenue (5)	Increase (6)
Residential - RSG		RSG		RSG		
Customer	3,794,642	$ 7.25	$ 27,511,155	$ 9.22	$ 34,986,599	27.17%
Distribution Service						
All therms	246,769,114	$ 0.3062	75,560,703	$ 0.3419	84,370,360	11.66%
Air Conditioning	117	$ 0.3019	35	$ 0.3419	40	13.25%
CIP Revenues			10,501,072		-	-100.0%
CIRT Revenues			3,508,751		-	-100.0%
Total Base Revenues			**$ 117,081,716**		**$ 119,356,999**	1.94%
General Service - GSG		GSG		GSG		
Customer	269,734	$ 17.50	$ 4,720,336	$ 22.25	$ 6,001,570	27.14%
Distribution Service						
All therms	94,116,658	$ 0.2183	20,545,666	$ 0.2817	26,512,663	29.04%
Air Conditioning	619	$ 0.2140	132	$ 0.2817	174	31.64%
CIP Revenues			5,405,978		-	-100.0%
CIRT Revenues			1,339,584		-	-100.0%
Total Base Revenues			**$ 32,011,697**		**$ 32,514,407**	1.57%
General Service (LV) - GSG-LV		GSG-LV		GSG-LV		
Customer	1,894	$ 100.00	$ 189,400	$ 127.19	$ 240,898	27.19%
Demand	18,029	$ 6.9863	1,511,472	$ 7.4734	1,616,855	6.97%
Distribution Charge						
All therms	30,000,365	$ 0.1533	4,599,056	$ 0.1640	4,920,060	6.98%
CIP Revenues			55,652		-	-100.0%
CIRT Revenues			421,855		-	-100.0%
Total Base Revenues			**$ 6,777,435**		**$ 6,777,813**	0.01%

South Jersey Gas Company
Rate Counsel Recommended Rates and Proof of Revenue

FIRM CUSTOMER CLASSES	Billing Units (1)	Present Base Rates Rate (2)	Present Base Rates Revenue (3)	Recommended Base Rates Rate (4)	Recommended Base Rates Revenue (5)	Increase (6)
Comprehensive Firm Trans. - CTS		CTS		CTS		
Customer	543	$ 600.00	$ 325,800	$ 615.00	$ 333,945	2.50%
Demand	10,020	$ 22.6286	2,720,863	$ 25.7887	3,100,833	13.97%
Distribution Charge						
All therms	28,332,374	$ 0.0026	73,664	$ 0.0030	84,997	15.38%
CIRT Revenues			398,400		-	-100.0%
Total Base Revenues			**$ 3,518,727**		**$ 3,519,775**	0.03%
Large Volume - LVS		LVS		LVS		
Customer	303	$ 600.00	$ 181,800	$ 763.14	$ 231,231	27.19%
Demand	30,590	$ 10.7096	3,931,280	$ 14.0977	5,174,984	31.64%
Distribution Service						
All therms	87,269,291	$ 0.0025	218,173	$ 0.0033	287,989	32.00%
CIRT Revenues			1,227,152		-	-100.0%
Total Base Revenues			**$ 5,558,405**		**$ 5,694,204**	2.44%

South Jersey Gas Company
Rate Counsel Recommended Rates and Proof of Revenue

FIRM CUSTOMER CLASSES	Billing Units (1)	Present Base Rates Rate (2)	Present Base Rates Revenue (3)	Recommended Base Rates Rate (4)	Recommended Base Rates Revenue (5)	Increase (6)
Electric Generation Service - EGS						
		EGS		EGS		
Customer	48	$ 25.00	$ 1,200	$ 25.00	$ 1,200	0.00%
Demand	247	$ 5.1750	15,339	$ 5.5533	16,460	7.31%
Distribution Service						
Winter therms	183,875	$ 0.0843	15,501	$ 0.0896	16,477	6.30%
Non-Winter Therms	118,108	$ 0.0543	6,413	$ 0.0596	7,040	9.78%
CIRT Revenues			1,661		-	-100.0%
Total Base Revenues			**$ 40,114**		**$ 41,177**	2.65%
Electric Generation (LV) - EGS-LV						
		EGS-LV		EGS-LV		
Customer	18	$ -	$ -	$ 180.00	$ 3,240	-
Demand	2,100	$ 13.4510	338,965	$ 15.2678	384,749	13.51%
Distribution Service						
All therms	3,832,834	$ -	-	$ 0.0033	12,648	-
CIRT Revenues			53,896		-	-100.0%
Total Base Revenues			**$ 392,861**		**$ 400,637**	1.98%

South Jersey Gas Company
Rate Counsel Recommended Rates and Proof of Revenue

FIRM CUSTOMER CLASSES	Billing Units (1)	Present Base Rates Rate (2)	Present Base Rates Revenue (3)	Recommended Base Rates Rate (4)	Recommended Base Rates Revenue (5)	Increase (6)
Gas Lighting Service - YLS / SLS		YLS / SLS		YLS / SLS		
Yard Lights - mantles	100	$ 5.2790	$ 6,335	$ 5.3819	$ 6,458	1.95%
Street Lights - mantles	900	$ 5.6908	$ 61,461	$ 5.8017	$ 62,658	1.95%
Total Base Revenues			**$ 67,795**		**$ 69,117**	1.95%
TOTAL FIRM BASE REVENUES			**$ 165,448,750**		**$ 168,374,130**	1.77%
Special Contract Revenues			**$ 4,082,321**		**$ 4,082,321**	0.00%
Miscellaneous Revenues						
Turn On Charges	24,400	$ 20.00	$ 488,000	$ 27.00	$ 658,800	35.00%
Returned Bank Item	5,600	$ 18.00	100,800	$ 24.35	136,360	35.28%
Field Collection Fee	15,900	$ 12.00	190,800	$ 16.25	258,375	35.42%
Other			515,300		515,300	0.00%
Total Misc Revenues			**$ 1,294,900**		**$ 1,568,835**	21.15%
TOTAL BASE & OTHER REVENUES			**$ 170,825,971**		**$ 174,025,286**	1.87%
				INCREASE	**$ 3,199,315**	
				TARGET INCREASE	**$ 3,197,335**	
				Difference	**$ 1,980**	

South Jersey Gas Company

Derivation of Rate Counsel Recommended
Residential EGS Rates

Line	Description	Residential EGS Rates 1/ (1)	Non-Residential EGS Rates 1/ (2)	Source
1	Customer Charge (per month)	$ **9.22**		same as RSG
2	EGS Demand Charge (Mcf/Month)		$ 5.5533	Sch. BK-4
3	@ 100% Load Factor (per therm)		$ 0.0176	10.35 therms/Mcf
4	Average EGS Delivery Charge		$ 0.0779	Sch. BK-4
5	Delivery Charge (per therm)	$ **0.0955**	$ 0.0955	col. 2, lines 3 + 4

Note:
1/ Before SUT.

APPENDIX

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Illinois Benedictine College with a Bachelor of Arts degree in Economics in December, 1974. In May, 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University, including Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic joined the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice that offers business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Texas, and also before the Bonneville Power Administration.