Agenda Date: 4/16/09
Agenda Item: 2A

STATE OF NEW JERSEY

Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE PROCEEDING FOR INFRASTRUCTURE INVESTMENT AND A COST RECOVERY MECHANISM FOR ALL GAS AND ELECTRIC UTILITIES	)	DECISION AND ORDER APPROVING STIPULATION DOCKET NO. EO09010049
IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY FOR APPROVAL OF AN ACCELERATED ENERGY INFRASTRUCTURE INVESTMENT PROGRAM PURSUANT TO N.J.S.A. 48:2-23, AND FOR APPROVAL OF NECESSARY CHANGES TO GAS RATES AND CHANGES IN THE COMPANY'S TARIFF FOR GAS SERVICE PURSUANT TO N.J.S.A. 48:2-21	)	DOCKET NOS. GO09010052 GR07110889

(SERVICE LIST ATTACHED)

BY THE BOARD:

Background:

On October 16, 2008 in response to the worldwide economic downturn and seeking to mitigate its effects on New Jersey, Governor Jon Corzine announced plans to provide immediate assistance for New Jersey residents and long term economic growth options through an "Economic Stimulus Plan." Governor Corzine called on the New Jersey Board of Public Utilities ("BPU" or "Board") and the State's public utilities to aid in that plan by implementing the policy changes to be proposed in the State's about to be released Energy Master Plan ("EMP").

The EMP, issued on October 22, 2008, is the roadmap to guide the State toward a responsible energy future with adequate, reliable energy supplies that are both environmentally responsible and competitively priced[1]. Under the EMP, major goals for New Jersey include maximizing energy conservation and energy efficiency, and reducing energy consumption by at least 20% by 2020. The EMP also calls for upgrading energy infrastructure to ensure the continued reliability of energy supply, support increased energy efficiency, renewable energy, and reductions in peak demand.[2] Public utility involvement, along with competition in the renewable energy, conservation and energy efficiency industries are essential to meeting the goals of the EMP. The Governor, together with Board President Jeanne M. Fox, encouraged New Jersey's electric and gas utilities to formulate plans for enhanced investments in infrastructure improvements during 2009. Implementation of such plans would accelerate the current schedule of the electric and gas utilities for planned capital improvements and investments, thereby creating jobs and stimulating the State's economy.

New Jersey's gas and electric utilities responded by filing petitions outlining each utility's proposed projects, and seeking the Board's approval of accelerated investments in utility infrastructure. In reviewing the utilities' petitions, the Board seeks to ensure not only that the proposals further the EMP, but also create jobs to strengthen the local economy.

By Order dated January 29, 2009, the Board determined that these petitions should be retained by the Board for review and hearing, and, as authorized by N.J.S.A. 48:2-32, designated President Fox as the presiding officer.[3]

Procedural History:

On January 20, 2009, New Jersey Natural Gas Company ("NJNG" or the "Company") filed a petition requesting that the Board approve an Accelerated Energy Infrastructure Investment Program ("AIP") pursuant to N.J.S.A. 48:2-23, and that the Board simultaneously approve the recovery of costs for projects included within the AIP through a change in the NJNG base rates, pursuant to N.J.S.A. 48:2-21 and 48:2-21.1.

In its petition, the Company stated that, as part of its ordinary capital spending planning cycle, NJNG continuously plans for the replacement, reinforcement and expansion of its infrastructure, including its property, plant, facilities and equipment to maintain the reliability of its distribution and transmission system, and to ensure the continuation of safe, adequate, and proper service as well as the conservation and preservation of the environment. The Company further stated that it had recently determined that it is both reasonable and prudent to accelerate its capital spending at this time, to facilitate its operations and to support economic development and job growth in New Jersey. Accordingly, the Company has proposed to invest approximately $70.8 million in accelerated infrastructure projects that already had been included in the Company's longer term budgeting process.

The Company further maintains that its proposal is consistent with and meets the goals of the comprehensive Economic Stimulus Package for New Jersey proposed by the Governor.

[1] For the full text of the EMP, see www.nj.gov/emp.

[2] EMP at 75.

[3] In anticipation of the filings by the utilities, the Board assigned a generic docket number to facilitate the individual utility proceedings, i.e. BPU Docket No. EO09010049, as noted above.

According to NJNG, the infrastructure investment projects proposed in its petition will serve to enhance service and reliability, meet energy efficiency goals by making natural gas service more readily available, and will provide for the creation of approximately 75 to 100 additional jobs. In its petition, the Company proposed fourteen projects for inclusion in the AIP (the "Associated Projects" or "AIP Projects"), in order to offer the greatest benefit to customers and to ensure an effective implementation process. The Company also proposed seeking base rate treatment for those projects initiated within a period of approximately two years from the date of final Board approval of the AIP, or as of the date the Associated Projects that have commenced construction as of December 31, 2010, are completed. According to the Company, the proposed projects shall be completed no later than August 31, 2011. To expedite the Board's review of the proposals, NJNG requested that the Board consider this matter in conjunction with NJNG's recently finalized base rate case in Docket No. GR07110889, and that the Board re-open that case for the sole purpose of considering the AIP proposal and cost recovery approach included therein.[4] The Company also requested that the Board retain the AIP filing for review on an expedited schedule in order to timely meet the State and Federal goals for infrastructure development and job creation.

Six public hearings on the AIP filing were held at three locations in the NJNG service territory: two hearings on February 24, 2009 in Rockaway Township, New Jersey; two hearings on February 26, 2009 in Freehold Borough, New Jersey; and two hearings on March2, 2009 in Toms River Township. One member of the public appeared at one of the Freehold Borough public hearings, but made no statement for the record on the AIP petition.

Discovery requests in this matter were propounded by Board Staff and Rate Counsel, all of which were responded to by NJNG. No motions to intervene were filed.

Subsequent to the completion and review of discovery and the six public hearings, and after engaging in settlement negotiations, representatives of NJNG, Board Staff, and Rate Counsel (collectively the "Parties"), the only parties to this proceeding, met to discuss the issues in this case and executed a Stipulation and Agreement (the "Stipulation") which resolves the issues in this proceeding, as described more fully below.

On April 3, 2009, NJNG notified representatives from Amerada Hess, Intelligent Energy and Public Service Electric & Gas about the settlement reached in this matter. The three companies were granted intervenor status in NJNG's base rate case (BPU Docket No. GR07110889) which the Company has asked the Board to reopen for the purposes of considering review and rate base recovery of the AIP. PSE&G stated that it had no objection to the Stipulation, while Amerada Hess stated that it neither objects nor supports the Stipulation. Intelligent Energy specifically objects to the treatment of capacity and storage costs and any changes that "lock in" base rates, including the additional costs that would be added under the Stipulation. No other comments were received.

In this Order, the Board considers the proposed Stipulation, with key provisions described below.

[4] On October 3, 2008, the BPU issued its Decision and Order in Docket No. GR07110889 ("October 3 Order"), adopting the terms of the Stipulation entered into by NJNG, Board Staff, and the Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel"), the only active parties participating in the settlement of the NJNG base rate case.

The Proposed Stipulation[5]

AIP Projects:

The Company represents that the fourteen projects identified in Appendix A of the attached Stipulation ("Qualifying Projects") will assist the Company in providing safe, adequate and proper service to its customers, are incremental in nature, and will create jobs in support of Governor Corzine's Economic Stimulus Plan. Accordingly, the Parties agree that the costs associated with the Qualifying Projects will be recovered through NJNG's base rates, subject to review, as described below.

Appendix A of the Stipulation contains a description of each Qualifying Project, the projected cost for each Qualifying Project, and the projected timeline and completion date for each Qualifying Project. The Company anticipates that the design and construction work associated with the Qualifying Projects will generate between 75 and 100 incremental jobs in its service territory. The Company agrees that it will try to employ contractors and engineering firms located in New Jersey. The Company's estimate of the workforce necessary for the Qualifying Projects does not include any ancillary job impacts that will increase the overall benefits generated from the Qualifying Projects.

According to the Stipulation, the work associated with the Qualifying Projects will commence upon receipt of a final Board Order in this proceeding coordinated with the estimated construction start and completion dates set forth in Appendix A. Based on current cost levels and available estimates, the Company estimates that the overall construction costs, prior to any capitalization of an Allowance for Funds Used During Construction ("AFUDC") related to the Qualifying Projects, will be approximately $70.8 million.

NJNG's current capital budgets contemplate the following levels of capital expenditures for non-Qualifying projects: $64,563,000 in fiscal year 2009, $51,985,000 in fiscal year 2010 and $51,951,000 in fiscal year 2011. NJNG represents that the expenditures related to the Qualifying Projects will be incremental to such planned levels of expenditures for 2009, 2010 and 2011. The Parties stipulate that NJNG should recover the costs of the fourteen Qualifying Projects listed in Appendix A, through the Company's base rates, subject to a prudency review and Board Order.

If it is necessary for the Company to eliminate or substitute another project for any of the Qualifying Projects during the term of its AIP, notice of any such changes and an opportunity for review and comment shall be provided to the Parties, and any substitutions shall only be made with Board approval. Before seeking such approval, the Company will consult with the Parties to the Stipulation, and will seek consent to the modifications from the Parties for filings with the Board.

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[5] Although described in this Order at some length, should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusions in this Order.

Cost Recovery Mechanism:

Under the terms of the Stipulation, NJNG's recently finalized base rate case in Docket No. GR07110889 will be re-opened for the sole purpose of considering NJNG's request for base rate increases associated with the Qualifying Projects. In June of 2010 and 2011, coincident with but separate from its annual Basic Gas Supply Service ("BGSS") filings, the Company will submit its annual AIP filing (the "Annual Filing") with the Board and provide public notice with copies to Rate Counsel.

The Annual Filing will include a request for recovery in base rates of the prudently incurred costs ("Capital Investment Costs"), associated with the Qualifying Projects. The Annual Filing will request that associated changes in base rates be effective the October following the Annual Filing, coincident with the annual BGSS rate changes. Capital Investment Costs will consist of all prudently incurred capital expenditures associated with the Qualifying Projects, including actual costs of engineering, design and construction, cost of removal (net of salvage) and property acquisition, including actual labor, materials, overheads and capitalized AFUDC (as described in paragraph 21 of the Stipulation) associated with each of the Qualifying Projects. Capital Investment Costs will be recorded, during construction, in an associated Construction Work in Progress Account ("CWIP") or in a Plant In Service Account upon the respective project being deemed used and useful. Additionally, if NJNG files a base rate case with the BPU prior to October 1, 2011, the request for rate relief associated with the Qualifying Projects sought in the NJNG June 2011 Annual AIP Filing will be withdrawn.

The Company's annual AIP base rate adjustment proposed in the Annual Filing will include a revenue requirement that reflects a rate of return calculated as follows: the Company's current CWIP balance associated with the Qualifying Projects as of August that year, including any previously capitalized AFUDC, and the Company's Qualifying Project plant-in-service investment balance as of August, multiplied by a Weighted Average Cost of Capital ("WACC") of 11.44 percent, as adjusted for income taxes. NJNG agrees that the request for recovery of higher incremental debt costs in the development of the WACC originally included in the petition is withdrawn and agrees that the WACC for this purpose is based on the Board's approved rate of return in the October 3 Order. The June 2011 filing will be limited to the Company's Qualifying Project plant-in-service investment balance as of August 31, 2011. The AIP base rate adjustment will also include depreciation expense for Qualifying Projects placed into service in the 12-month period ending August 31 of each year based on a composite depreciation rate of 2.34%, commencing with the AIP Order. NJNG agrees that it will not include incremental operation and maintenance expenses in future AIP Annual Filings

The Qualifying Projects, and any Board-approved substituted projects, and associated investment costs included in each Annual Filing will be subject to review by Board Staff and Rate Counsel prior to the issuance of a Board Order establishing that the Company's proposed annual base rate adjustment is just and reasonable. Such review will be conducted as a contested case in accordance with the New Jersey Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq. At the conclusion of proceedings to review the June 2011 Annual Filing, the reopened base rate proceedings in Docket No. GR07110899 will close.

Accounting Methodology for AIP:

The Company will separately track Capital Investment Costs, as defined in Paragraph 17 of the Stipulation, for each of the Qualifying Projects by work order in a CWIP account and will record a monthly accrual of AFUDC which will be capitalized or included in the CWIP balance as follows:

(a) when NJNG's total CWIP balance, including CWIP associated with Qualifying Projects, is less than NJNG's outstanding short-term debt ("S/T debt") balance, the applicable AFUDC rate will be equal to NJNG's monthly cost of S/T debt; or when NJNG's total CWIP balance, including CWIP associated with Qualifying Projects, is greater than NJNG's outstanding S/T debt, the applicable AFUDC rate will be equal to NJNG's overall WACC--7.76% per annum; or
(b) when a Qualifying Project is placed into service, but not yet reflected in customer rates, the AFUDC rate will be equal to NJNG's WACC--7.76% per annum.
(c) be equal to NJNG's overall WACC--7.76% per annum; or
(d) when a Qualifying Project is placed into service, but not yet reflected in customer rates, the AFUDC rate will be equal to NJNG's WACC--7.76% per annum.

In determining the CWIP base upon which to apply the monthly AFUDC rate, a deduction will be made for any CWIP amount currently approved by the BPU and included in NJNG's base rates.

Rate Design:

NJNG will recover the costs approved in each of its AIP Annual Filings by adjusting, on a volumetric basis, the then-current base rate for all customer classes, allocated in the manner prescribed in the October 3 Order. Accordingly, the effect of the AIP base rate adjustments, consistent with the October 3 Order, will reflect an across-the-board adjustment to customer classes that will have an impact on natural gas revenues for each class by the same percentage. No change will be requested in any of the AIP filings for the current customer charges approved by the Board in the October 3 Order. The volumes used to determine base volumetric revenues for each customer class and for the AIP-related base rate changes to be coincident with the annual BGSS rate changes, will be based on the weather-normalized forecast for the upcoming annual BGSS period of October through September.

Rate Impact:

The Company estimates that the total rate increase resulting from the AIP will be approximately 1 to 1.25 percent in the aggregate to the bills of an average residential heating customer based on the Company's current rates and anticipated sales volumes.

Minimum Filing Requirements ("MFRs"):

The Company will provide the information set forth in the list of MFRs attached to the Stipulation as Appendix B with each Annual Filing. The Company will also provide in each filing a detailed description, along with corresponding plant accounts, of the expenditures that are reflected in each blanket project in Appendix A, if any, together with measurable parameters, such as line-feet or number of installations, associated with each blanket project, if any.

Quarterly Reporting:

Under the terms of the Stipulation, the Company will provide the Board and Rate Counsel with a quarterly report ("Quarterly Report"), reflecting capital expenditures and the job growth resulting from the implementation of each Qualifying Project on a quarterly basis, in the format attached hereto as Appendix C and made a part of the Stipulation. The Quarterly Report should also include a Gantt chart showing the status of the projects, tasks completed, percentage of projects completed, the actual money spent to date, etc. Additionally, the Company will include in the Quarterly Report planned/budgeted capital expenditures by budget type for non-Qualifying

Projects, other than new business, for comparison to the actual costs incurred for the non-Qualifying Projects. This reporting will begin 30 (thirty) days after the end of the first calendar quarter following the issuance of a Final Board Order in this proceeding. The Company agrees to track the number of incremental contractor or other positions associated with the Qualifying Projects and will include that information with each Quarterly Report and Annual Filing submitted to the Board Staff and Rate Counsel, in the format set forth in Appendix C of the Stipulation.

Calculation of Jobs Created:

The Parties agree that job creation is an integral part of the Economic Stimulus Plan underlying the Qualified Projects. For purposes of reporting jobs associated with the Qualifying Projects, the Company will define a Full-Time Equivalent ("FTE") job as 1,820 hours per year.

Government Funding:

On February 17, 2009, the Federal American Recovery and Reinvestment Act of 2009 ("ARRA") (Pub. L. No. 111-5) was signed into law by President Barack Obama. Subject to any restrictions set forth in the ARRA and other applicable law, if the Company receives federal funds or credits through the ARRA, the Company agrees to utilize that money to offset the Qualifying Project's costs. If funding or credits from the ARRA or any subsequent state or federal action becomes available to the Company through the State of New Jersey, a County or a Municipality project reimbursement, the Company agrees that any such funds or credits directly applicable to work related to the Qualifying Projects will be used to benefit customers by offsetting the costs for which recovery will be sought to the extent permitted by law.

Discussion and Findings

The Board recognizes that the acceleration of utility infrastructure projects and the treatment of capital expenses on an expedited schedule outside the purview of a rate case is not part of the normal course of utility regulation. However, these are not ordinary times.

In his address to the Legislature on October 16, 2008, the Governor called upon the Board to help facilitate job growth and assist in New Jersey's economic stimulus program. The Board, in turn, called upon the State's public utilities to formulate plans for enhanced investments in infrastructure that would both increase reliability and promote employment.

The Board takes notice of the fact that the financial markets remain volatile, affecting the utilities' ability to fund incremental infrastructure projects within the usual framework which requires that capital expenditures be recovered through a rate case only after projects are completed. N.J.S.A. 48:2-21. It is within a rate case that the property that is used and useful in the utility's provision of service is evaluated, and the expenses that can become components of just and reasonable rates are determined. In re Investigation of Tele. Cos., 66 N.J. 476 (1975). These difficult economic times require creative responses that respect the law but adapt to extraordinary circumstances**.** In the past, the Board has found that it has the power to act to meet such challenges. N.J.S.A. 48:2-13; In re Implementation of the Two Bridges/Ramapo Water Diversion Project, BPU Docket No. 8011-870 (March 17, 1981). The Board continues to have that power.

Looking generally at all of the infrastructure settlements before the Board, and at Public Service's in particular, the Board FINDS that the infrastructure programs reviewed today, if successfully executed, will both increase employment in the State and reliability of the utilities' distribution systems. Only capital projects which enhance the reliability, safety and security of each utility's distribution system are eligible under these programs as Qualifying Projects. These are projects originally scheduled for future years which can be brought forward into the 2009-2010 time period because they have already been researched and planned by the companies. In the absence of this program, most of the projects would be completed, but only in future years.

In identifying projects to be included in their infrastructure programs, projects using New Jersey-based employees were strongly favored; in contrast, projects not expected to affect employment in New Jersey, such as replacement of vehicles or computers, were eliminated from utility proposals. Projects without an obvious benefit to justify their costs were excluded as well.

Staff engineers reviewed the projects proposed by the utilities to establish that the projects would make the distribution systems more reliable, safer, or more secure, or would provide a combination of these benefits. Rate Counsel also conducted its own review, with substantial input from contracted professional consultants. Based on its review of the information provided, the Board is satisfied that the projects will positively contribute to the reliability, safety and security of utility service.

In addition to providing positive benefits to the provision of safe, adequate, and proper service, the proposed Qualifying Projects are designed to create direct jobs. Evidence presented to the Board during the overall proceedings indicate that the full impact of the overall accelerated infrastructure programs will create approximately 1,302 direct jobs in the private sector – without the use of additional government funding. The Qualifying Projects associated with this particular Order are expected to generate 75-100 direct jobs over the next two years, primarily in the construction industry. These are actual incremental private sector jobs which would not be created in the absence of these programs. The companies have provided an initial estimate of the incremental jobs to be created by these projects, and as part of the mandatory reporting requirements, will report the actual jobs created on a quarterly basis. Furthermore, the companies will provide reports on capital spending other than for the Qualifying Projects in order to identify any possible shifting of spending and assure that these are actually new jobs which would not have been created without these programs. Without question, the Board FINDS that the accelerated infrastructure programs will have a significant and real benefit on employment in the State.

The estimate of jobs to be created includes only the direct impact of the proposed projects on employment – the employees working on the utility projects themselves. It does not include the indirect impacts with respect to jobs created in other sectors of the state economy for labor, materials, and services needed for the utility projects. Neither does it include what is known as the "induced" impacts resulting from spending by the added employees for local goods and services. These "ripple" effects are difficult to quantify, but they clearly exist. Rate Counsel's consultants estimated that an additional 14,100 direct, indirect and induced jobs will be created by the accelerated infrastructure program. The multiplier calculation is based on the RIMS II Regional Input-Output Model, produced by the Bureau of Economic Affairs, US Department of Commerce, and has not been contradicted by any of the evidence provided during these proceedings. The Board therefore FINDS that the overall estimate of 1,302 direct jobs created is a relatively small fraction of the total jobs to be created as a result of the programs that the Board is approving today.

The Board also notes that current economic conditions have reduced commodity and other input costs, making this a propitious time to pursue capital investment on cost-effective terms. For example, the federal Bureau of Labor Statistics stated that the producer price index ("PPI") for the primary products of iron and steel mills dropped nearly 20% from March 2008 to March 2009; the PPI of iron and steel pipe and tube made from purchased iron and steel dropped nearly 7% over the same period; and the PPI for communication and energy wire and cable manufacturing dropped more than 19%.[6] The price of iron and steel scrap dropped by nearly half over the same period.[7] In addition, the prudency of the projects and reasonableness of the amounts actually spent on the projects will be subject to a base rate review – either within a current reopened or to be filed rate case. This review assures that the projects included in this program will receive the same level of scrutiny as any project undertaken by a New Jersey utility where the resulting costs become part of the rate base used to calculate rates.

Likewise, the Stipulations require that each company use the Weighted Average Cost of Capital ("WACC") determined in its last rate case, which provides significant financial advantages to ratepayers because the cost of debt and common equity have risen substantially in recent months. The companies originally proposed two much less attractive approaches for determining the WACC for use with the stimulus program: (1) the embedded cost of debt currently on the utility's books plus the cost of equity which the Board awarded to New Jersey Natural Gas Company in its recently completed rate case, i.e., 10.30 percent; or (2) the expected future cost of debt to finance the projects and the expected cost of equity if the Board were making that decision today, possibly as high as 10.50 percent. In rejecting that, and instead negotiating a WACC from each utility's last base rate proceedings, the Board has ensured a significant saving that further solidifies the foundation of approving these accelerated infrastructure programs.

On a net present value basis, the Board FINDS that the cost of these accelerated infrastructure programs to ratepayers is essentially the same as it would be through conventional ratemaking. In the short term, the cost may be less than under conventional ratemaking because the cost of capital used in the clauses, as discussed above, is somewhat below the current market rate. Therefore, the Board FINDS that these additions to rate base are being financed between program inception and the next base rate case at a more attractive cost from a ratepayer perspective.

The federal stimulus package, enacted as the American Recovery and Reinvestment Act of 2009 ("ARRA 2009"), included funding to enhance energy independence and modernize infrastructure. It does not currently appear that the ARRA 2009 includes funding for the types of projects included in the accelerated infrastructure development programs. Should such funds become available under the ARRA 2009, the Stipulations provide that ARRA 2009 funding would be used to reduce the cost of the accelerated infrastructure development programs to ratepayers. The Board notes that the accelerated infrastructure programs eliminate the lag associated with waiting for ARRA 2009 funding in implementing these projects while still preserving for ratepayers any benefits from ARRA 2009 should benefits become available later.

[6] Bureau of Labor Statistics, "Table 5 - Producer price indexes for the net output of selected industries and their products," http://www.bls.gov/ppi/ppitable05.pdf.

[7] Bureau of Labor Statistics, "Table 2 - Producer price indexes and percent changes for selected commodity groupings by stage of processing," http://www.bls.gov/news.release/ppi.t02.htm.

In summary, the Boards FINDS that the overall infrastructure improvement program, and the projects proposed by the utilities under it, are reasonable and in the public interest because of the positive impact they are expected to have on the reliability, safety and security of utility service. These infrastructure investment programs are timely given the drop in commodity prices, the attractive cost of capital, and the impact on both direct employment and the positive ripple effect on the New Jersey economy. All of these factors make this an appropriate time to proceed with these programs, which enhance and support Governor Corzine's Economic Stimulus Program.

Turning to the NJNG Stipulation that is under review, the Board FINDS that it meets the tests articulated above. The Company will invest an estimated $70.8 million over the next two years creating an estimated 75 to 100 direct jobs over that period. The projects, totaling 14 in all, will include the replacement of eight miles of 8-inch steel main, vintage 1960's with a 12-inch main and replacement of approximately four miles of 8-inch main with 12-inch steel main. Both projects will improve reliability and enhance the safe operation of NJNG's system.

Accordingly, the Board will, in this case and in light of the extreme contraction of the credit markets, allow NJNG to begin recovery of capital expenses for these QPs based upon the review within the reopened rate case. This authorization in no way sets a new framework for future actions; instead, it reflects the realities of today's economic situation.

The Stipulation requests that the Board reopen the Company's recently completed base rate case to allow a prudency review of the proposed Qualifying Projects and their cost recovery. In doing so, the Board HEREBY FINDS that within the reopened rate case it has the power to grant the requested increases pursuant to N.J.S.A. 48:2-21 and 48:2-21.1 after the contemplated reviews. See, In re Intrastate Industrial Sand Rates. 66 N.J. 12 (1974). However, the Board's approval of the Stipulation should not be taken to represent either a common, new, or precedent-setting treatment of rate regulation, but appropriate relief during trying financial conditions.

Therefore, the Board, having reviewed the complete record in this proceeding including the attached Stipulation, HEREBY FINDS the Stipulation to be reasonable, in the public interest, and in accordance with law., and HEREBY APPROVES the attached Stipulation in its entirety and HEREBY INCORPORATES its terms and conditions as though fully set forth herein.

The Board notes the objection to the Stipulation posed by Intelligent Energy and HEREBY FINDS that the changes to policy related to the treatment of capacity and storage inherent in that objection are beyond the scope of this proceeding, in light of the pressing economic situation which is the impetus for this Order. As such, the objection does not provide a basis for rejection of the Stipulation.

Furthermore, the Board HEREBY DIRECTS the Company to commence the design and construction of the fourteen AIP projects identified in Appendix A of the attached Stipulation

The Board HEREBY REOPENS recently completed BPU Docket No. GR07110889 for the purposes of reviewing the prudency of the Qualifying Projects as constructed and of the AIP base rate adjustments which will be requested in the annual AIP cost recovery filings; and

FURTHER DIRECTS NJNG to file its first annual AIP cost recovery filing in June of 2010, coincident with the Company's annual BGSS filing, as described in the Stipulation.

The Company's base rates will remain subject to audit by the Board. This Decision and Order shall not preclude the Board from taking any actions deemed to be appropriate as a result of any Board audit.

DATED: 4/28/09

BOARD OF PUBLIC UTILITIES
BY:

Jeanne M Fox
JEANNE M. FOX
PRESIDENT

Frederick F. Butler
FREDERICK F. BUTLER
COMMISSIONER

JOSEPH L. FIORDALISO
COMMISSIONER

Nicholas Asselta
NICHOLAS ASSELTA
COMMISSIONER

DISSENT OF COMMISSIONER ELIZABETH RANDALL

These five (5) requests were filed by the utilities in response to Governor Corzine's October 16, 2008 proposal to help revive the State's economy through the acceleration of capital spending projects. In his speech to the New Jersey Legislature on October 16, 2008, the Governor said:

> "First and most practically, I have instructed all Commissioners, most particularly the Commissioners and Directors of the Department of Transportation, New Jersey Transit, the Toll Authorities, the Schools Development Authority, the Board of Public Utilities and the Department of Environmental Protection, to accelerate where feasible all currently funded spending projects."

Although not "currently funded," the utilities are asking the Board to fund these improvements with rate increases which will take effect no later than May 1, 2009. It is my opinion that the projected economic stimulus from these petitions is not sufficient to justify the cost to New Jersey customers.

As discussed below, my decision is based upon two factors: (1) the unprecedented infusion to the State of New Jersey of an anticipated $17.5 billion in federal stimulus monies pursuant to the American Reinvestment Recovery Act (ARRA), and (2) the comparatively small number of new jobs which would be created under these proposals relative to the total cost to New Jersey utility customers.[8]

On February 17, 2009, President Obama signed the ARRA which will inject $787 billion into the U.S. economy. New Jersey is expected to receive $17.5 billion.[9] An additional $240 billion will be available in tax benefits and competitive grants, of which New Jersey hopes to receive $7.2 billion, bringing New Jersey's total of anticipated federal stimulus dollars to $24.7 billion.

Based on estimates from the White House, these dollars will create or save 100,000 New Jersey jobs over the next two years.[10]

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[8] The five (5) stipulations indicate the following costs and projected new jobs:

Utility	Projected Cost	Projected Jobs	Customers
NJNG Co.	$70.8 Million	75 – 100	485,000
PSE&G Co.	$694.0 Million	933	2.1M Elec./1.7M Gas
SJG Co.	$103.0 Million	127	335,000
Elizabethtown Gas Co.	$60.4 Million	65	274,000
Atlantic City Electric Co.	$27.6 Million	92	544,000
TOTALS	**$955.8 Million**	**1292-1317**	**5,438,000**

[9] See http://www.recovery.nj.gov

[10] See http://www.recovery.nj.gov

Some four months before President Obama signed the federal stimulus bill, Governor Corzine addressed the New Jersey Legislature and proposed a New Jersey Economic Assistance and Recovery Plan.

The five matters before the Board are a direct result of the call to identify job-creation proposals. Specifically, the Executive branch sought company-specific program proposals with associated cost recovery and rate mechanisms, broken down into the following categories:

1 Infrastructure programs that will effectively spur an increase in construction employment, while increasing the reliability of the electric and gas distribution system.

2. Infrastructure programs that will improve energy efficiency of the electric or gas distribution system.

3. Statewide energy efficiency programs scaled down from the menu of programs submitted by the energy utilities.

Collectively, these five utilities seek permission to spend $955.8 Million (See Footnote 8), all of which will be recovered from customers through increases in utility rates.[11] The language used to describe the method of cost-recovery varies from utility to utility, with one company proposing an "Economic Stimulus Surcharge," and another calling it an "Infrastructure Investment Surcharge."

Terminology aside, while it is true that customers will benefit from these infrastructure investments, it is equally true that these improvements do not need to be completed within the next 24 months. None of the filings indicates that the delivery of safe and adequate service will be at risk if these requests are denied. Indeed, the petitions are replete with references to ongoing capital projects which are already planned and which will be funded by ratepayers.[12]

The number of new jobs to be created through approval of the accelerated projects is estimated at 1292-1317. Given the cost which customers will bear, I am persuaded that the cost of this job creation is too high. While it is true that the average bill will not go up by more than 1%, this amount will remain as part of the customer's bill for as long as it takes to repay the funds being borrowed by the utilities, which is approximately forty years.

Moreover, while some New Jerseyans would be put to work, there is no guarantee that the construction and engineering jobs created by these projects would go to companies based in New Jersey.[13] Regardless, the jobs created will be temporary in nature, and do not reflect permanent job creation with the utility companies.

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[11] Also recoverable from customers is a profit for each company. In these cases, the utilities will make a profit of approximately 10%.

[12] Illustrative of this point is paragraph 14 of the Stipulation with New Jersey Natural Gas Company (NJNG) which refers to ongoing infrastructure costs unrelated to this matter and states: "14. NJNG's current capital budgets contemplate the following levels of capital expenditures for non-qualifying projects: $64,563,000 in fiscal year 2009, $51,985,000 in fiscal year 2010 and $51,951,000 in fiscal year 2011. NJNG represents that the expenditures related to the qualifying projects will be incremental to such planned levels of expenditures for 2009, 2010 and 2011."

[13] Each of the stipulations simply states that the utilities will "endeavor to employ contractors and engineering firms located in New Jersey."

Contrast the efficiency of the BPU's job-creation effort with one recently announced by the Governor and the New Jersey Department of Transportation.

For a cost of $67 million and a promise of 500 jobs, a bridge upgrade will be done on Route 46 in Bergen County. Moreover, federal funds from the American Recovery and Reinvestment Act will pay for $47.6 million of this project, leaving New Jersey taxpayers paying only $19.4 million for 500 jobs.

In sum, the promise and benefits of the federal stimulus program are extraordinary. Were it not for the federal money, we would need to rely on New Jersey taxpayers and ratepayers to shoulder the burden of job creation through increased taxes and rates. Fortunately, this burden need not be increased at this time.

Elizabeth Randall

ELIZABETH RANDALL
COMMISSIONER

ATTEST:

Carmen D. Diaz

CARMEN D. DIAZ
ACTING SECRETARY

New Jersey Natural Gas

April 9, 2009

VIA ELECTRONIC AND REGULAR MAIL

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

Re: NEW JERSEY NATURAL GAS COMPANY FOR APPROVAL OF AN ACCELERATED ENERGY INFRASTRUCTURE INVESTMENT PROGRAM, AND FOR APPROVAL OF NECESSARY CHANGES TO GAS RATES AND CHANGES IN THE COMPANY'S TARIFF FOR GAS SERVICE
BPU DOCKET NOS. GR07110889, ER09010049 and GR09010052

Dear Ms. Izzo:

Enclosed with this letter is a fully executed Stipulation in the above captioned matter with separate and original signature pages for each signatory.

Please do not hesitate to contact me at (732) 919-8025 if you need any additional information.

Very truly yours,

Tracey Thayer, Esq.
Director, Regulatory Affairs Counsel

C: Service List (electronically only)

IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY FOR APPROVAL OF AN ACCELERATED ENERGY INFRASTRUCTURE INVESTMENT PROGRAM PURSUANT TO N.J.S.A. 48:2-23, AND FOR APPROVAL OF NECESSARY CHANGES TO GAS RATES AND CHANGES IN THE COMPANY'S TARIFF FOR GAS SERVICE PURSUANT TO N.J.S.A 48:2-21
NJ BPU DOCKET NO.GO 09010052

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NJ BPU DOCKET NO.GO 09010052

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NJ BPU DOCKET NO.GO 09010052

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NJ BPU DOCKET NO.GO 09010052

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PROCEEDING FOR INFRASTRUCTURE INVESTMENT AND A COST RECOVERY MECHANISM FOR ALL GAS AND ELECTRIC UTILITIES	**BPU DOCKET NO. EO09010049**
IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY FOR APPROVAL OF AN ACCELERATED ENERGY INFRASTRUCTURE INVESTMENT PROGRAM AND FOR APPROVAL OF NECESSARY CHANGES TO GAS RATES AND CHANGES IN THE COMPANY'S TARIFF FOR GAS SERVICE	**AND** **BPU DOCKET NO. GO09010052** **BPU DOCKET NO. GR07110889** **STIPULATION**

APPEARANCES:

Tracey Thayer, Esq., New Jersey Natural Gas Company for the Petitioner, New Jersey Natural Gas Company

Felicia Thomas-Friel, Esq., Deputy Public Advocate, and **Sarah H. Steindel**, **Esq.,** Assistant Deputy Public Advocate, Department of the Public Advocate, Division of Rate Counsel (**Ronald K. Chen, Esq.,** Public Advocate, **Stefanie A. Brand, Esq.,** Director)

Caroline Vachier, Jessica L. Campbell, Kerri Kirschbaum, Alex Moreau and Anne Marie Shatto, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (**Anne Milgram,** Attorney General of New Jersey)

TO: THE NEW JERSEY BOARD OF PUBLIC UTILITIES

BACKGROUND

1. New Jersey Natural Gas Company ("NJNG" or the "Company") filed a petition in Docket No. GO09010052 on January 20, 2009, requesting that the New Jersey Board of

Public Utilities ("BPU" or the "Board") approve an Accelerated Energy Infrastructure Investment Program ("AIP") pursuant to N.J.S.A. 48:2-23 and simultaneously approve the recovery of costs for projects included within the AIP through a change in NJNG base rates, pursuant to N.J.S.A. 48:2-21 and 48:2-21.1.

2. As part of its ordinary capital spending planning cycle, NJNG continuously plans for the replacement, reinforcement and expansion of its infrastructure, including its property, plant, facilities and equipment, to maintain the reliability of its system and to ensure the continuation of safe, adequate, proper service and the conservation and preservation of the environment. NJNG has recently determined, however, to increase its planned infrastructure capital spending at this time, to enhance the reliability of its system and to support economic development and job growth in New Jersey.

3. NJNG proposed fourteen projects for inclusion in the AIP, seeking base rate treatment for those projects that have commenced construction no later than December 31, 2010, and are expected to be completed no later August 31, 2011.

4. NJNG further requested that the Board consider this matter in conjunction with NJNG's recently finalized base rate case in Docket No. GR07110889 and re-open that case for the sole purpose of considering the AIP proposal and cost recovery approach included herein and conducting the appropriate reviews of the rate increase requested to be implemented under the proposal. On October 3, 2008, the BPU issued its Decision and Order in Docket No. GR07110889, adopting the terms of the Stipulations entered into by NJNG, Board Staff and the Department of the Public Advocate, Division of Rate Counsel ("Rate Counsel").

5. On January 29, 2009 the Board issued an Order retaining this matter for consideration and designated BPU President Jeanne M. Fox as the presiding officer. On February 2, 2009, the Board issued an Order setting forth a procedural schedule for this matter.[1]

6. Public notice was provided and six public hearings on the AIP filing were held on the following dates at three locations in the NJNG service territory: two hearings on February 24, 2009, in Rockaway Township, New Jersey; two hearings on February 26, 2009, in Freehold Borough, New Jersey; and two hearings on March 2, 2009, in Toms River Township. One member of the public appeared at one of the Freehold Borough public hearings but made no statement for the record on the NJNG petition.

7. Discovery questions in this matter were propounded by Board Staff and Rate Counsel, and the Company responded thereto.

8. Subsequent to the completion and review of discovery and the six public hearings, representatives of NJNG, Board Staff and Rate Counsel (the "Parties"), the only Parties to this proceeding, met to discuss the issues in this case and agreed that the AIP proposal and associated cost recovery mechanism, as amended by the Parties and set forth herein, are reasonable and in the public interest.

9. NJNG represents that the Company's proposal, as amended below, is consistent with and meets the goals of the comprehensive Economic Stimulus Plan for New Jersey proposed by Governor Jon Corzine to create new jobs and stimulate the New Jersey economy. The infrastructure investment projects set forth herein will enhance service, reliability, and

[1] In anticipation of the filings by the utilities, the Board assigned a generic docket number, EO09100049, to facilitate the issuance of procedural orders.

energy efficiency and provide for the creation of approximately 75 to 100 incremental jobs.

Specifically, the Parties hereby **STIPULATE AND AGREE** to the following.

STIPULATED MATTERS

Projects

10. The Company represents that the fourteen projects identified in Appendix A ("Qualifying Projects") will assist the Company in providing safe, adequate and proper service to its customers, are incremental in nature, and will create jobs in support of Governor Corzine's Economic Stimulus Plan. Accordingly, the Parties agree that the costs associated with the Qualifying Projects will be recovered through NJNG's base rates, subject to review, as set forth below.

11. Appendix A contains a description of each Qualifying Project, the projected cost for each Qualifying Project, the estimated number of jobs created as a result of each Qualifying Project, and the projected timeline and completion date for each Qualifying Project.

12. The Company anticipates that the design and construction work associated with the Qualifying Projects will generate between 75 and 100 incremental jobs in its service territory. The Company agrees that it will endeavor to employ contractors and engineering firms located in New Jersey. The Company's estimate of the workforce necessary for the Qualifying Projects does not include any ancillary job impacts that will increase the overall benefits generated from the Qualifying Projects.

13. The work associated with the Qualifying Projects will commence upon receipt of a Final Board Order in this proceeding in conjunction with the estimated construction start and completion dates set forth in Appendix A. Based on current cost levels and available estimates, the

Company estimates that the overall construction costs, prior to any capitalization of an Allowance for Funds Used During Construction ("AFUDC"), related to the Qualifying Projects will be approximately $70.8 million.

14. NJNG's current capital budgets contemplate the following levels of capital expenditures for non-Qualifying projects: $64,563,000 in fiscal 2009, $51,985,000 in fiscal year 2010 and $51,951,000 in fiscal year 2011. NJNG represents that the expenditures related to the Qualifying Projects will be incremental to such planned levels of expenditures for 2009, 2010 and 2011.

15. The Parties stipulate that NJNG should recover the costs of the fourteen Qualifying Projects listed in Appendix A, through the Company's base rates, subject to a prudency review and Board Order, as provided below.

Substitution of Projects

16. If it is necessary for the Company to eliminate or substitute another project for any of the Qualifying Projects during the term of its AIP, notice of any such changes and an opportunity for review and comment shall be provided to the Parties, and any substitutions shall only be made with Board approval. Before seeking such approval, the Company will consult with the Parties to this Stipulation, and consent to the modifications may be manifested in filings with the Board.

Cost Recovery Mechanism

17. NJNG's recently finalized base rate case in Docket No. GR07110889 will be re-opened for the sole purpose of considering NJNG's request for base rate increases associated with the Qualifying Projects. In June of 2010 and 2011, coincident with but separate from its annual Basic Gas Supply Service ("BGSS") filings, the Company will submit its annual AIP filing (the

"Annual Filing") with the Board and provide public notice thereof, with copies to Rate Counsel. The Annual Filing will include a request for recovery in base rates of the prudently incurred costs ("Capital Investment Costs"), associated with the Qualifying Projects. The Annual Filing will request that associated changes in base rates be effective the October following the Annual Filing, coincident with the annual BGSS rate changes. Capital Investment Costs will consist of all prudently incurred capital expenditures associated with the Qualifying Projects, including actual costs of engineering, design and construction, cost of removal (net of salvage) and property acquisition, including actual labor, materials, overheads and capitalized AFUDC (as described below in paragraph 21) associated with each of the Qualifying Projects. Capital Investment Costs will be recorded, during construction, in an associated Construction Work in Progress Account ("CWIP") or in a Plant In Service Account upon the respective project being deemed used and useful. Additionally, if NJNG submits a base rate case filing with the BPU prior to October 1, 2011, the request for rate relief associated with the Qualifying Projects that had been sought in the NJNG June 2011 Annual AIP Filing will be withdrawn.

18. The Company's annual AIP base rate adjustment proposed in the Annual Filing will include a revenue requirement that reflects a rate of return calculated as follows: the Company's current CWIP balance associated with the Qualifying Projects as of August that year, including any previously capitalized AFUDC, and the Company's Qualifying Project plant-in-service investment balance as of August, multiplied by a Weighted Average Cost of Capital ("WACC") of 11.44 percent, as adjusted for income taxes. NJNG agrees that the request for recovery of higher incremental debt costs in the development of the WACC originally included in the Petition is withdrawn and agrees that the WACC for this purpose is based on the Board's approved rate of

return in the October 3 Order. The June 2011 filing will be limited to the Company's Qualifying Project plant-in-service investment balance as of August 31, 2011.

19. The AIP base rate adjustment will also include depreciation expense for Qualifying Projects placed into service in the12-month period ending August 31 of each year based on a composite depreciation rate of 2.34%, commencing with the AIP Order. NJNG agrees that it will not include incremental operation and maintenance expenses in future AIP Annual Filings.

20. The Qualifying Projects, and any Board-approved substituted projects, and associated investment costs included in each Annual Filing will be subject to review by Board Staff and Rate Counsel prior to the issuance of a Board Order establishing that the Company's proposed annual base rate adjustment is just and reasonable. Such review will be conducted as a contested case in accordance with the New Jersey Administrative Procedure Act N.J.S.A. 52:14B-1 et seq. At the conclusion of proceedings to review the June 2011 Annual Filing, the reopened base rate proceedings in Docket No. GR07110899 will close.

Accounting Methodology for AIP

21. The Company will separately track Capital Investment Costs, as defined in Paragraph 17 herein, for each of the Qualifying Projects by work order in a CWIP account and will record a monthly accrual of AFUDC which will be capitalized or included in the CWIP balance as follows:

(a) when NJNG's total CWIP balance, including CWIP associated with Qualifying Projects, is less than NJNG's outstanding short-term debt ("S/T debt") balance, the applicable AFUDC rate will be equal to NJNG's monthly cost of S/T debt; or

(b) when NJNG's total CWIP balance, including CWIP associated with Qualifying Projects, is greater than NJNG's outstanding S/T debt, the applicable AFUDC rate will be equal to NJNG's overall WACC--7.76% per annum; or

(c) when a Qualifying Project is placed into service, but not yet reflected in customer rates, the AFUDC rate will be equal to NJNG's WACC--7.76% per annum.

22. In determining the CWIP base upon which to apply the monthly AFUDC rate, a deduction will be made for any CWIP amount currently approved by the BPU and included in NJNG's base rates.

Rate Design

23. NJNG will recover the costs approved in each of its AIP Annual Filings by adjusting, on a volumetric basis, the then-current base rate for all customer classes, allocated in the manner prescribed in the October 3 Order. Accordingly, the effect of the AIP base rate adjustments, consistent with the October 3 Order, will reflect an across-the-board adjustment to customer classes that will impact natural gas revenues for each class by the same percentage. No change will be requested in any of the AIP filings for the current customer charges approved by the Board in the October 3 Order.

24. The volumes used to determine base volumetric revenues for each customer class and for the AIP-related base rate changes to be coincident with the annual BGSS rate changes, will be based on the weather-normalized forecast for the upcoming annual BGSS period of October through September.

Rate Impact

25. The Company estimates that the total rate increase resulting from the AIP will be approximately 1 to 1.25 percent in the aggregate to the bills of an average residential heating customer based on the Company's current rates and anticipated sales volumes.

Minimum Filing Requirements ("MFR")

26. The Company will provide the information set forth in the list of MFRs attached hereto as Appendix B and made a part of this Stipulation in each Annual Filing. The Company will also provide in each filing a detailed description, along with corresponding plant accounts, of the expenditures that are reflected in each blanket project in Appendix A, if any, together with measurable parameters, such as line-feet or number of installations, associated with each blanket project, if any.

Quarterly Reporting

27. The Parties stipulate that the Company will provide the Board and Rate Counsel with a quarterly report ("Quarterly Report"), reflecting capital expenditures and the job growth resulting from the implementation of each Qualifying Project on a quarterly basis, in the format attached hereto as Appendix C and made a part of this Stipulation. The Quarterly Report should also include a Gantt Chart showing the status of the projects, tasks completed, percentage of projects completed, the actual money spent to date, etc. Additionally, the Company will include in the Quarterly Report planned/budgeted and actual capital expenditures by budget type for non-Qualifying Projects, other than new business. This reporting will begin 30 (thirty) days after the end of the first calendar quarter following the issuance of a Final Board Order in this proceeding.

28. The Company agrees to track the number of incremental contractor or other positions associated with the Qualifying Projects and will include that information with each

Quarterly Report and Annual Filing submitted to the Board Staff and Rate Counsel, in the format set forth in Appendix C.

Calculation of Jobs Created

29. The Parties agree that job creation is an integral part of the Economic Stimulus Plan underlying the Qualified Projects. For purposes of reporting jobs associated with the Qualifying Projects, the Company will define a Full-Time Equivalent ("FTE") job as 1,820 hours per year.

Government Funding

30. On February 17, 2009, the Federal American Recovery and Reinvestment Act of 2009 ("ARRA")(Pub. L. No. 111-5.) was signed into law by President Barack Obama. Subject to any restrictions set forth in the ARRA and other applicable law, if the Company gets federal funds or credits through the ARRA, the Company agrees to utilize that money to offset the Qualifying Projects' costs. If funding or credits from the ARRA or any subsequent state or federal action become available to the Company through the State of New Jersey, a County or Municipality project reimbursement, the Company agrees that any such funds or credits directly applicable to work related to the Qualifying Projects will be used to benefit customers by offsetting the costs for which recovery will be sought to the extent permitted by law.

Further Provisions

31. This Stipulation represents a mutual balancing of interests, contains interdependent provisions and, therefore, is intended to be accepted and approved in its entirety. In the event any particular aspect of this Stipulation is not accepted and approved in its entirety by the Board, any Party aggrieved thereby shall not be bound to proceed with this Stipulation and shall have the right to litigate all issues addressed herein to a conclusion. More particularly, in the event this Stipulation is not adopted in its entirety by the Board in any applicable Order(s), then any Party

hereto is free to pursue its then available legal remedies with respect to all issues addressed in this Stipulation as though this Stipulation had not been signed.

32. It is the intent of the Parties that the provisions hereof be approved by the Board as being in the public interest. The Parties further agree that they consider the Stipulation to be binding on them for all purposes herein.

33. It is specifically understood and agreed that this Stipulation represents a negotiated agreement and has been made exclusively for the purpose of these proceedings. Except as expressly provided herein, neither NJNG, the Board, its Staff, nor Rate Counsel shall be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein and, in total or by specific item. This Stipulation is in no way binding upon them in any other proceeding, except to enforce the terms of this Stipulation.

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WHEREFORE, the Parties hereto do respectfully submit this Stipulation and request that the Board issue a Decision and Order approving it in its entirety, in accordance with the terms hereof, as soon as reasonably possible.

NEW JERSEY NATURAL GAS
PETITIONER

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TRACEY THAYER, ESQ.
Director, Regulatory Affairs Counsel

DEPARTMENT OF THE PUBLIC ADVOCATE
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By: Jessica Campbell
JESSICA L. CAMPBELL
Deputy Attorney General

Date: April 2, 2009

NJNG Qualifying Projects[1]

Morris County

Project: Hanover Line Replacement
Estimated Cost: $21.0 million
Description: Replacement of existing 8 miles of 8" steel transmission main, vintage 1960's, with 12" steel main. The line delivers gas from a Texas Eastern (TE) Gate Station, and is a major supply to our Northern Division in Morris County. Capacity improvement will be obtained by installing a 12" main operating at higher pressures. The main runs through very rough terrain from the TE Gate Station at Columbia Turnpike & Route 24 in Hanover Township, northwest along Park Avenue, Cedar Knolls Road, Boulevard Road, Malapardis Road to Route 10, then continues along Route 10 terminating at Park Avenue - Denville Station.
Estimated Start Date: Construction Mid-2010 (Design Mid-2009)
Estimated Complete Date: Mid-2011
Estimated FTE Impact = 17

Project: Thatcher Line Replacement
Estimated Cost: $5.7 million
Description: Replacement of approximately 4 miles of 8" steel main with 12" steel main. This main is a primary system of the Northern Division distribution system in Morris County. The main begins at the Rockaway / Dover Township border and continues west along Route 46, including various roads through Dover. The main continues northwest into Wharton Borough, running along a railroad right-of-way ending at Main Street in Wharton.
Estimated Start Date: Construction Late-2010 (Design Late-2009)
Estimated Complete Date: Mid-2011
Estimated FTE Impact = 8.5

Project: Flanders System Reinforcement
Estimated Cost: $1.3 million
Description: Installation of approximately 2 miles of 8" plastic distribution main for system reliability in Mount Olive Township, Morris County. This distribution system is located in the most western portion of the Northern Division Morris County. The proposed route begins at Flanders Road, east of Marilyn Terrace and continues west along Flanders Road to Mt. Olive Road. The main then continues north along Route 46 ending at Netcong Road, Mount Olive Township.
Estimated Start Date: Construction Mid-2010
Estimated Complete Date: Late-2010
Estimated FTE Impact = 4

[1] The FTEs shown here were calculated by dividing the estimated hours for each project by 1820 and rounding.

Monmouth County

Project: Franklin Trunk Line Replacement
Estimated Cost: $6.5 million
Description: Replacement of 10" steel main, vintage 1940's, with 16" steel main. The main runs along various roads and right-of-way from Eatontown to Long Branch, Monmouth County, and is approximately 3.5 miles in length.
Estimated Start Date: Construction early-2010, pending easement acquisitions.
Estimated Complete Date: Mid-2011
Estimated FTE Impact = 6

Project: Route 36 Pump System Reinforcement
Estimated Cost: $1.3 million
Description: Replacement of approximately 1 mile of 8" bare steel distribution main, vintage 1930's, with a 12" steel main. The system is the primary backbone of the Bayshore distribution system in Monmouth County. This main runs along Route 36, from Laurel Avenue in Hazlet Township, east to Main Street in Middletown.
Estimated Start Date: Construction Late-2010 (Design Early-2010)
Estimated Complete Date: Early-2011
Estimated FTE Impact = 2

Project: Western Freehold Regulator Station
Estimated Cost: $1.2 million
Description: Installation of a new regulator station for supply and reliability to the distribution system of western Freehold Township, Monmouth County, due to continued growth in the area. The Station is being planned in the vicinity of Route 527 & Route 537, pending land and easement acquisition.
Estimated Start Date: Construction Late-2009 (Design Mid-2009)
Estimated Complete Date: Mid-2010
Estimated FTE Impact = 2

Project: Northern Howell System Reinforcement (Adelphia-Farmingdale)
Estimated Cost: $1.0 million
Description: Replacement of approximately 2.8 miles of 3" bare steel distribution main, vintage 1930's, with a 6" plastic main. The main is a primary feed of the northern Howell distribution system. The Project route runs, in segments, along Route 547 (Adelphia-Farmingdale Road) from Halls Mills Road, Freehold Township, and east to Colts Neck Road, Farmingdale.
Estimated Start Date: Construction Late-2009 (Design Mid-2009)
Estimated Complete Date: Early-2010
Estimated FTE Impact = 3

<u>Ocean County</u>

Project: Toms River Loop
Estimated Cost: $16.1 million
Description: Installation of approximately 6.5 miles of 24” steel transmission main in Manchester & Toms River Townships, Ocean County. This main will provide a secondary feed for system reliability to southern Ocean County that is currently reliant on a single 12” steel main. The route runs along Route 70, starting at Route 527 continuing southwest to a right-of-way running parallel to Route 37 and ending at the Toms River Station.
Estimated Start Date: Construction Mid-2010 (Design Mid-2009)
Estimated Complete Date: Mid-2011
Estimated FTE Impact = 16.5

Project: Ocean County - Backbone System Expansion
Estimated Cost: $6.5 million
Whiting/Manchester Township Project Description: Installation of approximately 3.5 miles of 12” steel main and 2.25 miles of 8” plastic distribution main in the Whiting area of Manchester Township, Ocean County. The first main segment runs along Route 530 from Schoolhouse Road to Township Line Road. The next segment continues along Route 614 (Lacey Road) from route 530 to Schoolhouse Road. The final segment then continues along Lake Road from Route 530 and loops the Roosevelt City Development along Coolidge Avenue to Route 539, and back to Route 530.
Egg Harbor Township Project Description: Installation of approximately 3 miles of 8” plastic distribution main. This main will provide reliable gas service to the southern most portions of Ocean County. The main will run along Route 9, from Mathistown Road, Little Egg Harbor Township, Ocean County, south to Bass River Township, Burlington County
Stafford Township Project Description: Installation of approximately 4,500 feet of 8” plastic distribution main in Stafford Township. The main will run parallel along Route 72 providing gas service to portions of Stafford Township west of the Garden State Parkway.
Estimated Start Date: Construction Mid - 2009
Estimated Complete Date: Late-2009 to Mid-2010
Estimated FTE Impact = 12

Project: Route 35, Bay Head Replacement
Estimated Cost: $3.0 million
Description: Replacement of approximately 3.5 miles of 8” bare steel distribution main, vintage 1930’s, with a 12” steel main. The main is the primary system of the Point Pleasant - Seaside distribution system, and is being replaced prior to the repaving / reconstruction of Route 35 by the NJDOT. The main runs along Route 35 from Johnson Street, Bay Head and continues South to Bay Lane, South Mantoloking Beach (Brick Twp), Ocean County.
Estimated Start Date: Construction Late-2009 (Design Mid-2009)
Estimated Complete Date: Mid-2010
Estimated FTE Impact = 5

Project: Lakehurst System Reinforcement
Estimated Cost: $2.3 million
Description: Installation of approximately 1.25 miles of 16” steel main to reinforce the Lakehurst-Whiting distribution system and improve system reliability in the area. The main runs along Route 70 from Route 547 west to the Lakehurst Circle, Lakehurst, Ocean County.
Estimated Start Date: Construction Late-2010 (Design Early-2010)
Estimated Complete Date: Early 2011
Estimated FTE Impact = 2

Project: Jackson Regulator Station
Estimated Cost: $1.8 million
Description: Installation of a new regulator station for supply and reliability to the distribution system of Jackson Township, Ocean County as a result of continued growth in the western portion of Monmouth County. The Station is being planned in the vicinity of Route 526 & Route 527, pending land and easement acquisition.
Estimated Start Date: Construction Early-2010 (Design Late-2009)
Estimated Complete Date: Mid-2010
Estimated FTE Impact = 2

Project: Long Beach Island System Reinforcement
Estimated Cost: $1.7 million
Description: Installation of approximately 2.2 miles of 12” steel main to reinforce system reliability of Long Beach Island. Existing inlet pressure to the single feed regulator station serving this area requires pressure improvement. The main route runs along Hilliard Boulevard from Route 9 to Route 180, Stafford Township, Ocean County.
Estimated Start Date: Construction Late-2009 (Design Mid-2009)
Estimated Complete Date: Mid-2010
Estimated FTE Impact = 3

Project: Lakewood Regulator Station Replacement
Estimated Cost: $1.5 million
Description: Replacement of the existing Regulator Station located in a residential area of Lakewood Township, Ocean County to insure system integrity and reliability. The Station is being planned in the vicinity of Hope Chapel Road or Clearstream Road, pending land and easement acquisition.
Estimated Start Date: Construction Late-2010 (Design Late-2009)
Estimated Complete Date: Mid-2011
Estimated FTE Impact = 2

Total Estimated FTE Impact = 85

APPENDIX B

MINIMUM FILING REQUIREMENTS

1. The Company's income statement for the most recent 12 month period, as filed with the New Jersey Board of Public Utilities ("BPU").
2. The Company's balance sheet for the most recent 12 month period, as filed with the BPU.
3. The Company's overall capital budget broken down by major categories, including distribution and incremental capital expenditures for the Qualifying Projects, both budgeted and actual amounts.
4. For each Qualifying Project or proposed new project:
    a. The original project summary for each Qualifying Project;
    b. Capital expenditures incurred to date;
5. Anticipated project timeline with updates and expected changes.
6. A spending schedule detailing the Qualifying Projects and Non-Qualifying Projects to date as compared to the Company's original approved capital spending plans.
7. A summary of expenditures for each of the Qualifying Projects that identify each expenditure from project inception through the end of the current quarter.
8. A calculation of the proposed rate adjustment based on details related to Qualifying Projects included in Plant in Service.
    a. A calculation of the associated depreciation expense, based on those projects closed to Plant in Service during the period.
9. A list of FTE equivalent jobs created and their duration associated with each Qualifying Project.
10. A list of any and all funds or credits received from the United States government, the State of New Jersey, a county or a municipality, for work related to any of the Qualifying Projects, such as relocation, reimbursement or stimulus money.
    a. An explanation of the financial treatment associated with the receipt of the government funds or credits.
11. A revenue requirement calculation showing the actual capital expenditures for the period ending August 31 for the year in which the filing is made, as well as supporting calculations.
12. Actual revenues, by month, collected from ratepayers pursuant to the tariff(s).

APPENDIX C

New Jersey Natural Gas

Quarterly Report on Capital Expenditures and Job Creation Related to Qualifying Projects

Proposed Infrastructure Project	Project Type	Estimated Quantity	Major Tasks	Tasks Completed To Date	Quantity Completed To Date	Percent of Quantity/Tasks Completed To Date	Total Estimated Cost	Actual Cost To Date	Percent of Cost To Date	Project Completion Date	Total Jobs To Be Created	Jobs Created To Date	Traditional Budget Budgeted Spending For The Budget Year	Traditional Budget Actual Spending For The Budget Year	Budgeted Spending For The Quarter	Actual Spending For The Quarter
(a)	(b)	(c)*	(d)*	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)*	(o)*	(p)*	(q)*

Notes: 1. For column c & d-If the project cannot be quantified with numbers then it should be broken down into major tasks to be completed.
e.g. desgn phase, material procurement, permit gathering, phases of construction etc.

2. For column N & O the amounts includes only normal spending for the budget year and do not include any spending associated with the qualitified projects in Exhibit A.

3. See Attached Gantt Charts (or equivalent) for each project