



Agenda Date: 08/20/14  
Agenda Item: 2E

**STATE OF NEW JERSEY**  
**Board of Public Utilities**  
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ENERGY

IN THE MATTER OF THE BOARD'S ESTABLISHMENT )	DECISION AND ORDER
OF A GENERIC PROCEEDING TO REVIEW THE )	APPROVING STIPULATION
COSTS, BENEFITS AND RELIABILITY IMPACTS OF )	
MAJOR STORM EVENT MITIGATION EFFORTS )	DOCKET NO. AX13030197
)	
IN THE MATTER OF THE PETITION OF SOUTH )	
JERSEY GAS COMPANY FOR APPROVAL OF A )	
STORM HARDENING AND RELIABILITY PROGRAM )	
(SHARP) AND ASSOCIATED RECOVERY )	
MECHANISM )	DOCKET NO. GO13090814

**Parties of Record:**

**Ira G. Megdal, Esq.**, Cozen O'Connor, P.C. on behalf of South Jersey Gas Company.  
**Stefanie A. Brand, Esq.**, Director, New Jersey Division of Rate Counsel  
**Alan S. Pralgever, Esq.**, Greenbaum, Rowe, Smith, & Davis, LLP on behalf New Jersey Large Energy Users Coalition

**BY THE BOARD:**

The Board of Public Utilities ("Board") is empowered to ensure that regulated public utilities provide safe, adequate and proper service to the citizens of New Jersey. N.J.S.A. 48:2-23. Pursuant to N.J.S.A. 48:2-13, the Board has been vested by the Legislature with the general supervision and regulation of and jurisdiction and control over all public utilities, "so far as may be necessary for the purpose of carrying out the provisions of [Title 48]." The courts of this State have held that the grant of power by the Legislature to the Board is to be read broadly, and that the provisions of the statute governing public utilities are to be construed liberally. See, e.g. In re Public Service Electric and Gas Company, 35 N.J. 358, 371 (1961); Township of Deptford v. Woodbury Terrace Sewerage Corp., 54 N.J. 418, 424 (1969); Bergen County v. Dep't of Public Utilities, 117 N.J. Super. 304 (App. Div. 1971). The Board is also vested with the authority, pursuant to N.J.S.A. 48:2-19, to investigate any public utility, and, pursuant to N.J.S.A. 48:2-16 and 48:2-40, to issue orders to public utilities.

In 2011 and 2012 New Jersey was struck by five unusually damaging major storm events which caused severe damage to the State's utility infrastructure, Hurricane Irene on August 28, 2011, an unseasonal and powerful snowstorm on October 29, 2011, a derecho wind storm on

June 20, 2012, Superstorm Sandy on October 29, 2012 and ten days later a powerful nor'easter on November 7, 2012.

On January 23, 2013, the Board issued an Order<sup>1</sup> ("January 23 Order") addressing five categories of potential improvements to be undertaken by New Jersey's electric distribution companies ("EDCs") in response to large-scale weather events. The areas for potential improvements include: (1) Preparedness Efforts; (2) Communications; (3) Restoration and Response; (4) Post Event; and (5) Underlying Infrastructure Issues.

In the January 23 Order, among other actions, the Board directed the EDCs to provide a detailed cost benefit analysis for a variety of utility infrastructure upgrades. The Board further required the EDCs to "carefully examine their infrastructure and use data available to determine how substations can be better protected from flooding, how vegetation management is impacting electric systems, and how Distribution Automation can be incorporated to improve reliability." January 23 Order at 56.

On March 20, 2013, the Board issued an Order<sup>2</sup> ("March 20 Order"), which initiated a generic proceeding (hereinafter "Storm Mitigation Proceeding") to investigate possible avenues to support and protect New Jersey's utility infrastructure so that it may be better able to withstand the effects of future Major Storm Events,<sup>3</sup> and focused on a portion of the January 23 Order-Underlying Infrastructure Issues – but for all utility companies, not exclusively for the EDCs. It also invited all regulated utilities to submit detailed proposals for infrastructure upgrades designed to protect the State's utility infrastructure from future Major Storm Events, pursuant to the terms and level of detail requested in the January 23 Order, and found that all petitions filed in the future should be retained by the Board for review and hearing as authorized by N.J.S.A. 52:14F-8. March 20 Order at 3.

On September 3, 2013, South Jersey Gas Company ("SJG" or "Company") filed a petition with supporting testimony, schedules, and exhibits for approval of its Storm Hardening and Reliability Program ("SHARP") including approval to: (1) invest approximately \$280 million in the Company's natural gas infrastructure and related facilities over a seven (7) year period; and (2) utilize an associated recovery mechanism for the costs to be collected from ratepayers through an annual SHARP rate adjustment.

The SHARP petition proposed the following natural gas infrastructure projects:

- (1) The replacement of approximately 179 miles of distribution main and 26,000 services operating at low pressure in Atlantic City, Ventnor, Margate, Longport, Pleasantville, Somers Point, Ocean City, Wildwood, North Wildwood, Wildwood Crest and West Cape May ("Coastal Areas"), with high pressure mains and services;

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<sup>1</sup> In the Matter of the Board's Review of the Utilities Response to Hurricane Irene, Order Accepting Consultants' Report and Additional Staff Recommendations and Requiring Electric Utilities to Implement Recommendations, BPU Docket No. EO11090543, January 23, 2013.

<sup>2</sup> In the Matter of the Board's Establishment of a Generic Proceeding to Review Costs, Benefits, and Reliability Impacts of Major Storm Event Mitigation Efforts, BPU Docket No. AX13030197, March 20, 2013.

<sup>3</sup> Major Storm Event is defined as sustained impact on or interruption of utility service resulting from conditions beyond the control of the utility that affect at least 10 percent of the customers in an operating area. March 20 Order at 2.

- (2) The elimination of 52 regulator stations that would no longer be necessary following the installation of the higher pressure distribution mains and services; and
- (3) The installation of Excess Flow Valves ("EFVs") in the municipalities located in the Coastal Areas.

By Order dated November 22, 2013, the matter was retained at the Board for hearings, and President Dianne Solomon was designated as the presiding Commissioner with authority to rule on all matters that arise during the proceeding, and set an appropriate schedule. On January 2, 2014, President Solomon issued an Order Setting Bar Date for Motions to Intervene, Manner of Service and Preliminary Schedule. President Solomon issued a prehearing order along with a procedural schedule for this matter on January 31, 2014. On January 16, 2014, the New Jersey Large Energy Users Coalition ("NJLEUC") filed a motion to participate in this matter, as well as a motion for the admission *pro hac vice* of Paul F. Forshay, Esq. The motions were granted by President Solomon on February 7, 2014.

Public hearings were conducted in this matter, after notice, in Voorhees, New Jersey on October 29, 2014. No members of the public attended the public hearings or filed written comments with the Board. Throughout the course of this matter, the Company, the Division of Rate Counsel ("Rate Counsel") and Board Staff have engaged in discovery.

### **STIPULATION**

Following the review of discovery, the parties met on several occasions to discuss the issues in this matter. As a result, on August 6, 2014, the Company, Rate Counsel, Board Staff and NJLEUC (collectively, "Signatory Parties") executed a stipulation of settlement ("Stipulation")<sup>4</sup>

The Stipulation provides the following:

- (1) SHARP will include the replacement of low pressure mains and associated services with high pressure mains and associated services, the elimination of 52 regulator stations and the installation of EFVs in the municipalities of Atlantic City, Ventnor City, Margate, Longport, Ocean City, Wildwood, North Wildwood, Wildwood Crest and West Cape May. SHARP will not include the replacement of meters.
- (2) SHARP investment level will be capped at \$103.5 million, excluding Allowance for Funds Used During Construction ("AFUDC"), to be recovered through the stipulated cost recovery mechanism as set forth more in more detail in the Stipulation. The SHARP project investments will be made over the three (3) year period ending June 30, 2017.
- (3) The SHARP Project investments must be incremental to the Company's regular construction budget for the period ending June 30, 2017.
- (4) The SHARP project costs shall not exceed \$34.5 million per year, plus or minus 15%, with a total cap of \$103.5 million over a three (3) year period. SJG reserves the right to request additional relief in a subsequent proceeding.

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<sup>4</sup> Although described at some length in this Order, should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusions of this Order.

- (5) The work associated with the SHARP projects has commenced, and a portion of it will be recognized in the Company's currently pending base rate case<sup>5</sup>, which utilizes a test year ending June 30, 2014. The cost recovery mechanism described in the Stipulation will apply to SHARP Projects placed in service after July 1, 2014.
- (6) Cost recovery for SHARP projects will be effectuated by an annual adjustment to base distribution rates ("SHARP Revenue Adjustments"). The Company shall make annual revenue adjustment filings ("Annual Filings") in accordance with the schedule detailed in paragraph 22 of the Stipulation.
- (7) It is understood and agreed that the adjustments resulting from the Annual Filings are base rate adjustments, and are not subject to true-ups or reconciliations, once placed into base rates.
- (8) Rate Counsel and Board Staff will have the opportunity to propound discovery on the information provided by SJG in each of the Annual Filings. Each of the Annual Filings will be followed by public notice and public hearings with the opportunity to file testimony and, if necessary, evidentiary hearings.
- (9) The review of the prudence of all SHARP projects will not take place during the Annual Filings. Instead, SHARP projects will be subject to a prudence review in the Company's next base rate case, which shall be filed no later than October 1, 2017.
- (10) The SHARP revenue requirements to be included in each of the Annual Filings will be calculated in the manner more fully set forth in paragraph 25 of the Stipulation.
- (11) Operation and Maintenance ("O&M") expenses associated with the SHARP projects will not be included in the calculation of the SHARP revenue requirement, nor will such costs be deferred.
- (12) SJG agrees that the SHARP Revenue Adjustments will be provisional and subject to refund solely based on a future finding by the Board that SJG imprudently incurred capital expenditures through SHARP.
- (13) The "Modified FERC Formula" utilized to calculate the AFUDC rate for SHARP purposes shall be as follows:
  - a. When the Company's total Construction Work in Progress ("CWIP") balance, including CWIP associated with SHARP projects, is less than or equal to the Company's outstanding short-term debt ("S/T debt") balance, the applicable AFUDC rate will be equal to the Company's monthly cost of S/T debt; and
  - b. When the Company's total CWIP balance, including CWIP associated with SHARP projects, is greater than the Company's outstanding S/T debt, the applicable AFUDC rate will result in a blended monthly AFUDC calculation;

<sup>5</sup> In the Matter of the Petition of South Jersey Gas Company for Approval of Increased Base Tariff Rates and Changes for Gas Service and Other Tariff Revisions, Docket No. GR13111137.

The blended AFUDC rate calculation will include a S/T debt rate for that portion of the CWIP balance equal to the month-end S/T debt balance and the Company's SHARP Weighted Average Cost of Capital ("WACC"), as defined in paragraph 29 of the Stipulation, for the portion of SHARP CWIP in excess of South Jersey's month-end S/T debt balance; and

- c. If South Jersey has no S/T debt at month end, the AFUDC rate will be the Company's WACC for SHARP. For purposes of settling this matter, the Parties agree that the South Jersey Modified FERC formula shall include the compounding of AFUDC on a semi-annual basis for SHARP. It is further agreed to by the Parties that when SHARP projects are transferred from CWIP to Utility Plant in Service, the booking of AFUDC shall cease and the booking of depreciation shall commence.
- (14) There is no rate impact on customers at this time. SJG will recover the costs associated with SHARP projects by adjusting the then-current volumetric rate for all customer classes, allocated in the manner prescribed in the Company's currently pending base rate case, once determined, and after giving effect to the Company's October 1, 2013 Capital Investment Recovery Tracker ("CIRT") Roll-In<sup>6</sup>. The base rates that are revised as a result of the SHARP Revenue Adjustments shall be calculated utilizing the billing determinants utilized to set rates in the Company's currently pending base rate case. The Margin Revenue Factor set forth in the Company's Conservation Incentive Program ("CIP") and Temperature Adjustment Clause ("TAC") tariffs shall also be revised to reflect the SHARP Revenue Adjustments.
  - (15) The Company will provide to the Signatory Parties, as part of its Annual Filings described in Paragraph 15 of the Stipulation, Minimum Filing Requirements ("MFRs"). The MFRs are attached to the Stipulation as Attachment A and incorporated herein by reference.
  - (16) The Company will provide a quarterly report to Board Staff and Rate Counsel in a format similar to that used for the Company's Accelerated Infrastructure Replacement Program ("AIRP").
  - (17) The Company has already commenced SHARP projects in Atlantic City, which has the highest inventory of low pressure mains and services and the most customers being served by low pressure in the Company's service territory, and Ventnor City. The Company intends to replace all of the low pressure mains and services in Atlantic City and Ventnor City with high pressure by the conclusion of the SHARP in 2017. As of July 2014, there are 32 open leaks in Atlantic City and 13 open leaks in Ventnor City. The Company represents that by the conclusion of the three-year SHARP, these forty-five open leaks in Atlantic City and Ventnor City will be eliminated.

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<sup>6</sup> In the Matter of the Annual Filing of South Jersey Gas Company to Adjust Rates as a Result of its Capital Investment Recovery Tracker ("CIRT") and to Eliminate the CIRT, Docket No. GR12100890 (September 18, 2013).

## **DISCUSSION AND FINDINGS**

In evaluating a proposed settlement, the Board must review the record, balance the interests of the ratepayers and the shareholders, and determine whether the settlement represents a reasonable disposition of the issues that will enable the Company to provide its customers in this State with safe, adequate and proper service at just and reasonable rates. In re Petition of Pub. Serv. Elec. & Gas, 304 N.J. Super. 247 (App. Div.), cert. denied, 152 N.J. 12 (1997). The March 20 Order found that it was appropriate to invite all regulated utilities to submit detailed proposals for infrastructure upgrades designed to protect the State's utility infrastructure from future Major Storm Events, pursuant to the terms and level of detail requested in the January 23 Order. The March 20 Order required Board Staff to review the efficacy of the measures proposed by the utilities and examine the costs to be potentially incurred by the utilities in association with efforts to protect utility infrastructure from the impact of future Major Storm Events, as well as any other potential benefits.

The Signatory Parties agree that the natural gas infrastructure, related facilities investments and associated costs proposed by SHARP are appropriate and in the public interest. The Board is persuaded that SHARP, if successfully executed, will help protect a portion SJG's infrastructure that is susceptible to water intrusion from future Major Storm Events. The program provides for reporting by the Company and oversight by Staff and Rate Counsel. Based on review of the petition and Stipulation, the Board is persuaded that the current proposal satisfies the goals, as well as the directives, contained in the March 20 Order.

The Stipulation provides for rate recovery to occur before the next base rate case, on a provisional basis, for those facilities placed in service without deferred cost recovery for O&M expenses. The Board concludes that the method outlined in the Stipulation provides an acceptable match between costs incurred and impacts on customers. The rates will remain provisional and the costs will be subject to review for reasonableness and prudence in the base rate case that the Company has agreed to file no later than October 1, 2017.

Based on the Board's careful review and consideration of the record in this proceeding, the Board **HEREBY FINDS** the Stipulation to be reasonable and in accordance with the law, striking an appropriate balance between the needs of customers and of the Company.

Accordingly, the Board **HEREBY ADOPTS** the Stipulation in its entirety, and **HEREBY INCORPORATES** its terms and conditions as though fully set forth herein.

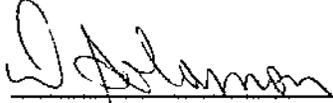
The Board **HEREBY RATIFIES** the decisions of President Solomon rendered during the proceedings for the reasons stated in her Orders.

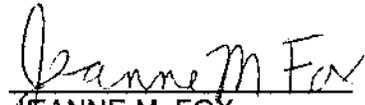
The Company's costs will remain subject to audit by the Board. This Decision and Order shall not preclude, nor prohibit, the Board from taking any actions determined to be appropriate as a result of any such audit.

This Order shall be effective on September 1, 2014.

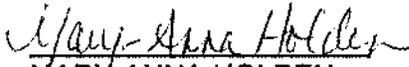
DATED: 8/20/14

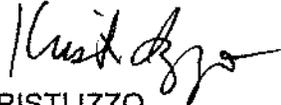
BOARD OF PUBLIC UTILITIES  
BY:

  
DIANNE SOLOMON  
PRESIDENT

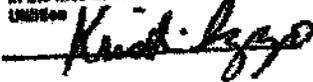
  
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ATTEST:  
  
KRISTI IZZO  
SECRETARY

I HEREBY CERTIFY that the within  
document is a true copy of the original  
in the files of the Board of Public  
Utilities



IN THE MATTER OF THE BOARD'S ESTABLISHMENT OF A GENERIC PROCEEDING TO REVIEW THE COSTS, BENEFITS AND RELIABILITY IMPACTS OF MAJOR STORM EVENT MITIGATION EFFORTS & IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY FOR APPROVAL OF A STORM HARDENING AND RELIABILITY PROGRAM ("SHARP") AND ASSOCIATED RECOVERY MECHANISM

DOCKET NOS. AX13030197 and GO13090814

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**STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES**

**IN THE MATTER OF THE BOARD'S ESTABLISHMENT )  
OF A GENERIC PROCEEDING TO REVIEW COSTS, ) BPU Docket No.  
BENEFITS AND RELIABILITY IMPACTS OF MAJOR ) AX13030197  
STORM EVENT MITIGATION EFFORTS )**

**IN THE MATTER OF THE PETITION OF SOUTH )  
JERSEY GAS COMPANY FOR APPROVAL OF A ) BPU Docket No.  
STORM HARDENING AND RELIABILITY PROGRAM ) GO13090814  
(SHARP) AND ASSOCIATED RECOVERY MECHANISM )**

**STIPULATION OF SETTLEMENT**

**APPEARANCES:**

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Alex Moreau and Veronica Beke, Deputy Attorneys General, for the Staff of the Board of Public Utilities (John J. Hoffman, Acting Attorney General of New Jersey)

Alan S. Pralgever, Esq., (Greenbaum Rowe Smith & Davis LLP) and Paul Forshay, Esq., admitted *pro hac vice* (Sutherland Asbill & Brennan LLP), on behalf of the New Jersey Large Energy Users Coalition

**TO: THE NEW JERSEY BOARD OF PUBLIC UTILITIES**

**BACKGROUND**

1. On September 3, 2013, South Jersey Gas Company ("South Jersey", "Company" or "SJG") filed a petition (the "Petition") with the New Jersey Board of Public Utilities (the "Board" or "BPU") requesting approval of its Storm Hardening and Reliability Program ("SHARP"). The Petition was filed pursuant to the Board's March 20, 2013 Order, BPU Docket

No. AX13030197 (the "March Order") which initiated a generic proceeding in response to Superstorm Sandy, inviting all regulated utilities subject to the BPU's jurisdiction to submit detailed proposals for infrastructure upgrades designed to protect New Jersey infrastructure from future "Major Storm Events".

2. Through the SHARP Petition, the Company proposed to replace 179 miles of distribution main and approximately 26,000 services operating at low pressure in Atlantic City, Ventnor, Margate, Longport, Pleasantville, Somers Point, Ocean City, Wildwood, North Wildwood, Wildwood Crest and West Cape May, with high pressure main and services (the "Coastal Areas"). The Company also proposed to eliminate 52 regulator stations that would no longer be necessary following the upgrade of these mains and services to high pressure and to install Excess Flow Valves, which will provide additional safety benefits in the event of structural damage caused by a Major Storm Event (collectively, the "Projects"). The Company proposed a total investment of approximately \$280 million over seven years, or approximately \$40 million per year, with a proposed mechanism for the costs to be collected from its ratepayers through an annual SHARP rate adjustment.

3. The SHARP Projects are designed to harden the Company's distribution system in the municipalities currently served by low pressure, making them less susceptible to storm damage and customer outages caused by water intrusion during Major Storm Events.

4. The term "Low Pressure Main" has been defined by the Company as distribution main which operates at less than a quarter pound of pressure per square inch gauge. The term "High Pressure Main" has been defined by the Company as distribution main which operates at 60 pounds per square inch gauge. With the SHARP program, the Company proposed to replace Low Pressure Main and associated services with High Pressure Main and associated services.

5. This replacement is necessary because Low Pressure Mains and services are susceptible to water intrusion during Major Storm Events. Intrusion occurs when storm force flooding overcomes the internal operating pressure within a main. This forces water into susceptible points of entry, such as joints and non-welded fittings.

6. In the event of flooding of SJG's Low Pressure Main distribution system, and a system shutdown, the system would need to be nitrogen purged and pressure tested prior to reintroducing gas. Old bare steel and cast iron mains comprising a low pressure system would not be able to withstand this testing.

7. As a result, the Company states, if the Low Pressure Main system is compromised by water intrusion and is shut off, it cannot be placed back into service, and would need to be replaced in its entirety.

8. This could result in extremely long periods of time when customers have no natural gas service.

### **PROCEDURAL HISTORY**

9. On November 22, 2013, the Board issued an Order retaining jurisdiction over the Petition and designating President Dianne Solomon as Presiding Officer.

10. On January 16, 2014, the New Jersey Large Energy Users Coalition ("NJLEUC") filed a Motion to Participate in this matter. SJG submitted a letter dated February 4, 2014 stating that it did not oppose NJLEUC's status as a Participant in this matter.

11. On January 31, 2014, President Solomon issued a Prehearing Order setting forth the procedural schedule in this matter. Also, by Order dated February 7, 2014, President Solomon granted the motion for participation of NJLEUC, and the motion for admission *pro hac vice* of Paul F. Forshay, Esq.

12. On May 28, 2014, the Parties agreed to request an extension of time to file direct testimony and other revisions to the Procedural Schedule which was modified and approved by President Solomon on June 5, 2014. President Solomon subsequently extended the period within which Rate Counsel is to file its testimony to August 21, 2014 to allow the Parties to continue working towards settlement.

13. Following proper public notice, two Public Hearings were held in this matter on January 29, 2014 at the Voorhees Middle School in Voorhees, NJ. No members of the public appeared at either public hearing and no written comments regarding the Petition were received by the BPU, SJG or Rate Counsel.

14. SJG has received and responded to all discovery requests that have been propounded in this proceeding by BPU Staff and Rate Counsel.

15. Following settlement discussions among the Parties to address resolution of the Petition, the following agreement has been reached.

16. Specifically, in consideration of the terms, covenants, conditions and agreements contained herein, it is hereby **STIPULATED AND AGREED** by representatives of SJG, BPU Staff, NJLEUC and Rate Counsel (the "Signatory Parties") as follows:

#### **STIPULATED ISSUES**

17. The Signatory Parties agree that the SHARP Programs will include the replacement of Low Pressure Mains and associated services with High Pressure Mains and associated services, the elimination of 52 regulator stations and the installation of Excess Flow Valves in the municipalities of Atlantic City, Ventnor City, Margate, Longport, Ocean City, Wildwood, North Wildwood, Wildwood Crest and West Cape May. The SHARP Programs will not include the replacement of meters.

18. The Signatory Parties agree that the SHARP will include an investment level of up to \$103.5 million, excluding Allowance for Funds Used During Construction ("AFUDC"), to be recovered through the stipulated cost recovery mechanism described below. The SHARP Project investments will be made over the three (3) year period ending June 30, 2017.

19. The Signatory Parties agree that the SHARP Project investments must be incremental to the Company's regular construction budget for the period ending June 30, 2017.

20. The Signatory Parties agree that the SHARP Project costs shall not exceed \$34.5 million per year, plus or minus 15%, with a total cap of \$103.5 million over a three (3) year period. SJG reserves the right to request additional relief in a subsequent proceeding.

21. The work associated with the SHARP Projects has commenced, and a portion of it will be recognized in the Company's currently pending base rate case, Docket No. GR13111137, which utilizes a test year ending June 30, 2014. The cost recovery mechanism described in this Stipulation will apply to SHARP Projects placed in service on or after July 1, 2014.

**A. COST RECOVERY**

22. The Signatory Parties agree that cost recovery for SHARP Projects will be effectuated by an annual adjustment to base distribution rates ("SHARP Revenue Adjustment"). In order to effectuate the cost recovery process, the Company shall make annual Revenue Adjustment filings ("Annual Filings"), which shall be made on the following schedule:

- a. Revenue requirements associated with the SHARP Projects that are placed into service through and including June 30, 2015 shall go into base rates effective October 1, 2015. The Company shall make its initial filing for such rates in April 2015 and update said filing with actual data through June 30, 2015 by July 15, 2015.
- b. Revenue requirements associated with SHARP Projects that are placed into service from July 1, 2015 through and including June 30, 2016 shall go into base rates effective October 1, 2016. The Company shall make its initial filing for such rates

in April 2016 and update said filing with actual data through June 30, 2016 by July 15, 2016.

- c. Revenue requirements associated with SHARP Projects that are placed into service from July 1, 2016 through and including June 30, 2017 shall go into base rates effective October 1, 2017. The Company shall make its initial filing for such rates in April 2017 and update said filing with actual data through June 30, 2017 by July 15, 2017.
- d. It is understood and agreed that the adjustments reflected in subparagraphs a, b, and c, above, are base rate adjustments, and are not subject to true-ups or reconciliations, once placed into base rates.

23. Rate Counsel and BPU Staff will have the opportunity to propound discovery on the information provided by SJG in each of the Annual Filings. Each of the Annual Filings will be followed by public notice and public hearings with the opportunity to file testimony and, if necessary, evidentiary hearings.

24. The review of the prudence of all SHARP Projects will not take place during the Annual Filings. Instead, SHARP Projects will be subject to prudence review in the Company's next base rate case, which shall be filed no later than October 1, 2017.

25. The SHARP Revenue Requirements to be included in each of the Annual Filings discussed in Paragraph 22 herein will be calculated as follows:

Definitions:

SHARP Investment Costs - All prudently-incurred SHARP Project capital expenditures, including actual costs of engineering, design and construction, property acquisition, actual labor, materials overheads and capitalized AFUDC associated with the SHARP Projects ("SHARP Investment Costs") will be recovered through base rate roll-ins for each of the time periods described in Paragraph 22 above. SHARP Investment Costs will be recorded, during construction, in an associated Construction Work in Progress Account ("CWIP") and transferred to a Plant in Service account upon the respective SHARP Project being deemed used and useful. When SHARP Projects are transferred from CWIP to Utility Plant in Service, the booking of AFUDC shall cease.

Weighted Average Cost of Capital ("WACC") - The return on the SHARP Program Rate Base shall be calculated at a weighted average cost of capital including a 9.75% return on common equity and an equity level in the capital structure of 51.9%. This results in an after-tax WACC of 7.10%.

The annual SHARP Revenue Adjustment will be calculated using the following formula:

Revenue Requirement = ((SHARP Program Rate Base \* After-Tax WACC) + Annual Depreciation Expense (net of tax) + Tax Adjustments) \* Revenue Factor

SHARP Program Rate Base – The SHARP Program Rate Base will be calculated as SHARP Investment Costs, including CWIP transferred into service and associated AFUDC, less associated accumulated depreciation and less associated accumulated deferred income taxes. AFUDC shall be calculated utilizing the “Modified FERC Formula”.

Depreciation Expense – Depreciation expense will be calculated based upon the asset class multiplied by the associated depreciation rate for that asset, as established in the Company’s most recently completed base rate case in which such depreciation rates are established. The Company will begin to depreciate SHARP Project assets once they are placed in service.

Revenue Factor – The Company will apply a revenue factor of 1.82940. The Revenue Factor will be adjusted, from time to time, to reflect any changes in the corporate federal income tax rate, or the New Jersey Corporation Business Tax or Sales and Use Tax rates, which become effective prior to June 30, 2017.

26. Operation and Maintenance (“O&M”) Expenses associated with the SHARP

Projects will not be included in the calculation of the SHARP Revenue Requirement, nor will such costs be deferred.

27. SJG agrees that the SHARP Revenue Adjustments will be provisional and subject to refund solely based on a future finding by the Board that SJG unreasonably and imprudently incurred capital expenditures through SHARP.

28. The “Modified FERC Formula” utilized to calculate the AFUDC rate for SHARP purposes, shall be as follows:

- a. When the Company’s total CWIP balance, including CWIP associated with SHARP projects, is less than or equal to the Company’s outstanding short-term debt (“S/T debt”) balance, the applicable AFUDC rate will be equal to the Company’s monthly cost of S/T debt, and
- b. When the Company’s total CWIP balance, including CWIP associated with SHARP projects, is greater than the Company’s outstanding S/T debt, the applicable AFUDC rate will result in a blended monthly AFUDC calculation. The blended AFUDC rate calculation will include a S/T debt rate for that portion of the

CWIP balance equal to the month-end S/T debt balance and the Company's SHARP WACC, as defined in paragraph 25 herein, for the portion of SHARP CWIP in excess of South Jersey's month-end S/T debt balance, and

- c. If South Jersey has no S/T debt at month end, the AFUDC rate will be the Company's WACC for SHARP. For purposes of settling this matter, the Parties agree that the South Jersey Modified FERC formula shall include the compounding of AFUDC on a semi-annual basis for SHARP. It is further agreed to by the Parties that when SHARP projects are transferred from CWIP to Utility Plant in Service, the booking of AFUDC shall cease and the booking of depreciation shall commence.

**B. RATES**

29. There is no rate impact on customers at this time. The Signatory Parties agree that SJG will recover the costs associated with SHARP Projects by adjusting the then-current volumetric rate for all customer classes, allocated in the manner prescribed in the Company's currently pending base rate case, once determined, and after giving effect to the Company's October 1, 2013 CIRT Roll-In (BPU Docket No. GR1200890). The base rates that are revised as a result of the SHARP Revenue Adjustments shall be calculated utilizing the billing determinants utilized to set rates in the Company's currently pending base rate case. The Margin Revenue Factor set forth in the Company's Conservation Incentive Program ("CIP") and Temperature Adjustment Clause ("TAC") tariffs shall also be revised to reflect the SHARP Revenue Adjustment.

**C. MINIMUM FILING REQUIREMENTS ("MFRs")**

30. The Company will provide to the Signatory Parties, as part of its Annual Filings described in Paragraph 22 above, MFRs. The MFRs are attached hereto as Attachment A and incorporated herein by reference.

**D. REPORTING REQUIREMENTS AND PERFORMANCE METRICS**

31. The Company will provide a quarterly report to Board Staff and Rate Counsel in a format similar to that used for the Company's Accelerated Infrastructure Replacement Program ("AIRP") program.

32. The Company has already commenced SHARP Projects in Atlantic City, which has the highest inventory of low pressure mains and services and the most customers being served by low pressure in the Company's service territory, and Ventnor City. The Company intends to replace all of the low pressure mains and services in Atlantic City and Ventnor City with high pressure by the conclusion of the SHARP in 2017. As of July 2014, there are thirty-two (32) open leaks in Atlantic City and thirteen (13) open leaks in Ventnor City. The Company represents that by the conclusion of the three-year SHARP, these forty-five (45) open leaks in Atlantic City and Ventnor City will be eliminated.

**FURTHER PROVISIONS**

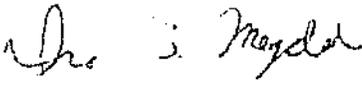
33. The Signatory Parties further agree that this Stipulation fully disposes of all issues in controversy in this proceeding. This Stipulation represents a mutual balancing of interests, contains interdependent provisions and, therefore, is intended to be accepted and approved in its entirety. In the event any provision of this Stipulation is not accepted and approved in its entirety by the Board, any Signatory Party aggrieved thereby will not be bound to proceed with this Stipulation and will have the right to litigate all issues addressed herein to a conclusion. More particularly, in the event the Board, in any applicable order(s), does not adopt this Stipulation in its entirety then any Signatory 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.

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

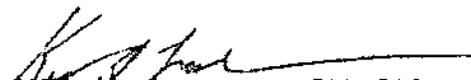
35. It is specifically understood and agreed that this Stipulation represents a negotiated agreement and has been made exclusively for the purpose of these proceedings. Except as expressly provided herein, neither SJG, NJLEUC, Board Staff, nor Rate Counsel will be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein.

**WHEREFORE**, the Signatory 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.

**SOUTH JERSEY GAS COMPANY  
PETITIONER**

By:   
\_\_\_\_\_  
IRA G. MEGDAL, ESQ.  
STACY A. MITCHELL, ESQ.  
COZEN O'CONNOR

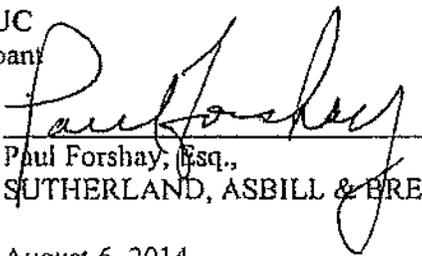
**STEFANIE A. BRAND, ESQ., DIRECTOR  
NEW JERSEY DIVISION OF RATE COUNSEL**

By:   
\_\_\_\_\_  
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ASSISTANT DEPUTY  
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**ACTING ATTORNEY GENERAL OF NEW JERSEY**  
Attorney for the Staff of the Board of Public Utilities

By:   
ALEX MOREAU  
DEPUTY ATTORNEY GENERAL

NJLEUC  
Participant

By:   
Paul Forshay, Esq.,  
SUTHERLAND, ASBILL & BRENNAN, LLP

Date: August 6, 2014

## Attachment A

### SHARP MINIMUM FILING REQUIREMENTS

- Schedule SJG-1** SJG Income Statement as of the current quarter.
- Schedule SJG-2** SJG Balance Sheet as of the current quarter.
- Schedule SJG-3** SJG's overall capital budget broken down by major categories, including distribution and incremental capital expenditures for SHARP Projects, both budgeted and actual amounts to be reported per fiscal year.
- Schedule SJG-4** For each SHARP Project:
1. The original project summary for each Qualifying Project;
  2. Actual capital expenditures incurred through the most recent quarter.
- Schedule SJG-5** Anticipated project timelines with updates and expected changes.
- Schedule SJG-6** A summary of actual expenditures for SHARP Projects, identifying capital expenditures from project inception through the current quarter.
- Schedule SJG-7** A calculation of the proposed rate adjustment based on details related to SHARP Projects included in Plant in Service, including a calculation of the associated depreciation expense, based on projects closed to Plant in Service during the most recent quarter.
- Schedule SJG-8** An explanation of the financial treatment associated with the receipt 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 SHARP Projects, such as relocation, reimbursement or stimulus money.
- Schedule SJG-9** Revenue requirement calculation showing the actual capital expenditures and the forecasted spending, as well as supporting calculations; a schedule of base rate revenues at present and proposed rates; and Tariff Sheets reflecting the proposed rates.
- Schedule SJG-10** Draft form of Public Notice.
- Schedule SJG-11** Projected Bill Impact.
- Schedule SJG-12** The AFUDC rates, calculated in accordance with the Modified FERC Formula, used for AFUDC capitalization for each month in the most recent completed quarter, including the AFUDC rate calculation showing capital components and capital cost rates making up each of the monthly AFUDC rates."