New Jersey Natural Gas

July 25, 2008

Mr. Lance Miller
New Jersey Board of Public Utilities
Office of Policy and Planning
Two Gateway Center
Newark, New Jersey 07102

Re: NJNG's Comments on the Draft Energy Master Plan

Dear Mr. Miller:

New Jersey Natural Gas (NJNG) is proud to operate in a state that is proactively developing a long-term energy strategy, while simultaneously seeking to protect our environment. The state's commitment to the creation of an Energy Master Plan (EMP) demonstrates its recognition of the importance of an effective energy policy to both the economy and overall quality of life for New Jersey's residents. NJNG commends the state for its extensive stakeholder outreach in this effort and the numerous opportunities provided for feedback. We are pleased to be a contributing stakeholder in the development of the EMP and are committed to being a part of the energy solution for New Jersey. To this end, NJNG respectfully offers our comments to the April 17, 2008 draft EMP and related implementation strategies.

Overview

The Energy Master Plan provides the framework for a long-term strategy for the state to create a foundation for an environmentally and economically responsible energy environment in New Jersey. NJNG is encouraged by the clear recognition that New Jersey's growing demand for energy will need to be met with a diverse supply portfolio, inclusive of renewable energy as well as nuclear power and the more traditional fossil fuels, along with energy efficiency and conservation measures. As an active and engaged stakeholder in this process, NJNG is working to reduce its carbon footprint, while actively exploring the potential of solar and other renewable energy initiatives as a result

of the recently enacted Regional Greenhouse Gas Initiative (RGGI) legislation, and striving to change customer behavior by encouraging energy efficiency and conservation. We agree that these efforts alone cannot meet New Jersey's projected future demand for energy.

NJNG has long worked in partnership with our regulators to ensure the delivery of safe, reliable and reasonably priced natural gas service to our more than 480,000 customers. We appreciate the opportunity as provided in the draft EMP to continue in partnership with the New Jersey Board of Public Utilities (BPU) to assess the future natural gas and related capacity needs for the state. We also applaud the state for including the consideration of liquefied natural gas (LNG) in this comprehensive analysis. In the absence of a national energy policy that directly addresses the current supply/demand imbalance, it is reasonable to expect that LNG will become increasingly important in helping to meet the growing demand for energy.

Recommendations

NJNG supports the overall holistic approach of the draft EMP. We, too, firmly believe that a combination of renewable and traditional energy resources combined with energy efficiency and conservation efforts are needed in order to attain the goals of this EMP. While ultimately changes in customer behavior will also be needed to sustain the goals for long term energy strategy, direct investment in energy-efficient equipment currently provides the most accurate measure of energy efficiency improvements. To this end, NJNG supports the implementation of new building codes and appliance standards as proposed in the draft EMP, and recognizes the need to address the energy efficiency of the existing housing stock.

As the state looks to enhance the current building codes, NJNG recommends consideration of restrictions on electric heating for residential new construction. This is not a new concept, as it was publicly discussed as early as 2002 in the wake of the high electricity bills and resulting impact on residential customers who heat their homes with

electricity. More recently, at the July 10, 2008 public hearing on the draft EMP, Public Service Electric & Gas union employees described the impact of high electric heat bills on the families they each day while on the job. NJNG estimates that electric heating in our service territory, on an annual basis, is nearly three times more expensive than natural gas.

Regarding the existing housing stock and how it relates to the state's efforts to achieve its greenhouse gas emissions reduction goals, NJNG recommends the BPU work with the Economic Development Authority to amend the Underground Storage Tank Finance Act, the legislation that created the Petroleum Underground Storage Tank Remediation, Upgrade and Closure Fund (the "Fund"). We recommend the Fund include a fuel neutral policy whereby eligible New Jersey residents can use reimbursement funds to switch their central heating system to an alternate, cleaner fuel. By including conversions to alternate fuels, the funding could help facilitate significant carbon reductions and is likely to result in a lower annual energy burden for the customer as well.

NJNG also suggests the state consider requiring an energy audit, or, at a minimum, the disclosure of past energy expenses, as part of the real estate transfer process. Certain energy-efficient equipment expenditures can generate positive cash flow from the outset when financed through a typical mortgage. As a result, it is critical to ensure that prospective homeowners are equipped to identify potential energy-efficient upgrades so that if desired, the associated cost of the investment could be included in the financing of the home. These types of improvements are key to helping the state achieve and sustain its energy goals, and enabling homeowners to more readily make these smart investments. It could potentially even reduce the amount of funding needed to otherwise motivate customers to pursue action. NJNG recognizes that this recommendation is directly tied to the need to develop the "green collar" workforce and, as a result, an implementation date for later in the future may be more appropriate.

Decoupling

The future of energy and energy use is inextricably tied to our environment – particularly in view of the state's very aggressive goals to reduce greenhouse gas (GHG) emissions. NJNG is a staunch partner in this effort having been the first business in New Jersey to announce its commitment to match the state's goal of reducing GHG emissions 20 percent by year 2020. Reducing our carbon footprint is something NJNG takes seriously, and we are equally committed to helping our customers do the same. To this end, NJNG is pleased that the draft EMP supports decoupling, a ratemaking mechanism designed specifically to address the fundamental disconnect in traditional utility ratemaking that rewards utilities for increased energy consumption. Based on the historic volumetric rate structure, when customers used less, natural gas utility financial performance suffered. Decoupling, as recognized in the draft EMP, eliminates that inherent impediment for utilities to actively engage in aggressively promoting energy efficiency and conservation, and aligns the interests of customers, utilities and the state. It is important to note that there is not just one method of addressing the utility disincentive. Various mechanisms and approaches can be designed that meet the needs of both customers and utilities while encouraging energy efficiency and conservation efforts.

As noted in the draft EMP, NJNG has a decoupling-like mechanism in place on a pilot basis, which was approved by the BPU in 2006. Because it is a three-year pilot, we were especially pleased that the draft EMP recognizes the value and benefit a decoupling mechanism can provide in achieving a sustainable energy future, reducing GHG emissions and lowering energy bills for customers. A decoupled rate structure is a fair and reasonable way to ensure that the utility can recover its operating costs and have an opportunity to earn its authorized return on investments when the utility is actively encouraging customers to use less energy. It is important for all stakeholders to recognize that it **does not** guarantee profits for a utility and **does not** result in the utility earning more than it is authorized, as determined in our respective base rate case agreements.