Agenda Date: 10/31/16
Agenda Item: 2F

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

ENERGY

IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY TO CONTINUE ITS ACCELERATED INFRASTRUCTURE REPLACEMENT PROGRAM ("AIRP") PURSUANT TO N.J.S.A. 48:2-21 AND N.J.S.A. 48:2-21.1 AND FOR APPROVAL OF A BASE RATE ADJUSTMENT TO REFLECT AIRP INVESTMENTS IN BASE RATES	)	DECISION AND ORDER APPROVING STIPULATION OF SETTLEMENT DOCKET NO. GR16020175

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

BY THE BOARD:

By this Order, the New Jersey Board of Public Utilities ("Board" or "BPU") considers a stipulation of settlement ("Stipulation") executed by South Jersey Gas Company ("SJG" or "Company"), Board Staff ("Staff"), and the New Jersey Division of Rate Counsel ("Rate Counsel") (collectively, "Parties") intended to resolve the Company's requests related to the above docketed matter.

BACKGROUND:

By Order dated February 20, 2013 ("February 2013 Order"), the Board authorized SJG to implement a four (4) year Accelerated Infrastructure Replacement Program ("AIRP I") through which the Company would invest $35.3 million per year (excluding Allowance For Funds Used During Construction ("AFUDC"), for a total of $141.2 million, to replace unprotected bare steel and cast iron mains, services, and meters.[1], [2]

[1] Included in the category of "unprotected steel" is pipe that is uncoated or that is coated but not cathodically protected. For convenience, these two (2) categories of steel pipe are referred to as unprotected steel.
[2] In re the Petition of South Jersey Gas Company to Implement an Accelerated Infrastructure Replacement Program ("AIRP") and Associated Recovery Mechanism Pursuant to N.J.S.A. 48:2-21 and N.J.S.A. 48:2-21, Docket No. GO12070670 (Order Dated February 20, 2013).

The February 2013 Order also authorized SJG to accrue to utility plant, at a carrying cost of 7.33%, costs associated with AIRP I projects, from the time a project is placed into service until it is rolled into rate base, in a future base rate case. This includes plant, construction period AFUDC and post construction carrying costs associated with AIRP I projects.

By Order dated September 30, 2014, the Board approved a settlement between the Parties to resolve the Company's base rate case, which included a roll-in of AIRP I projects that were placed in service through June 30, 2014.[3]

February 2016 Petition

On February 29, 2016, the Company filed the instant petition with the Board seeking approval to continue its AIRP for a period of seven (7) years with a total program investment of $500 million ("AIRP II" or "Program"). The Company represented that it will continue its Distribution Integrity Management Program ("DIMP") based approach to addressing the most significant threats on its distribution system and will replace and retire a significant portion of the vintage and most leak prone mains and services in its distribution system, including: (i) all remaining cast iron and unprotected bare steel mains and associated services, (ii) the most leak prone coated steel mains that are two (2) inches (2") in diameter or less and associated services; and (iii) other pipe materials and sizes found within replacement grids that would be logical and necessary to complete the modernization of the grid. The Company claimed that the approval of the AIRP II would enable the Company to continue enhancing the reliability and safety of its gas distribution system in a cost effective manner, achieve increased operational efficiencies and continue the employment benefits that have been created by its previous and existing main replacement programs.

SJG proposed to recover the capital investment costs and expenses of the AIRP II through annual base rate adjustments, subject to prudency review in the Company's next base rate case. The Company's first AIRP II rate adjustment filing would be made on April 1, 2017 and there would be no rate adjustment or customer bill impact until October 1, 2017. The Company also sought a return on the approved investments using an after-tax weighted average cost of capital ("WACC") of 7.10%, based on a return on equity of 9.75% and equity to capitalization ratio of 51.9%.

SJG also proposed to roll-in to base rates all AIRP I investments made from the time of the Company's last base rate case through the end of the AIRP I, with a base rate adjustment to take place on December 1, 2016 that would include approximately $76 million of actual and projected AIRP I investments made from October 1, 2014 through September 30, 2016.

[3] In re the Petition of South Jersey Gas Company for Approval of Increased Base Tariff Rates and Charges for Gas Service and Other Tariff Revisions, Docket Nos. BPU GR13111137; In re the Board's Establishment of a Generic Proceeding to Review the Prudency of Costs Incurred by New Jersey Utility Companies in Response to Major Storm Events in 2011 and 2012, Docket No. AX13030196; and In re the Board's Establishment of a Generic Proceeding to Review the Prudency of the Costs Incurred by South Jersey Gas Company in Response to Major Storm Events in 2011 and 2012, Docket No. GO13060600; (Order dated September 30, 2014).

SJG requested that the Board retain this matter for review on an expedited basis, given the impending expiration of the AIRP I at the end of 2016, the expectation that all authorized AIRP expenditures will be exhausted by September 30, 2016 and the importance of maintaining continuity of the program to achieve efficiencies and maintain jobs. The Company further requested that, in the event the proposed AIRP II was not approved by the Board by September 30, 2016, the Board enter an Order no later than September 30, 2016 authorizing an interim extension of the AIRP to bridge the gap between the expected exhaustion of expenditures and the approval of an AIRP II.

By Order dated April 27, 2016, the Board determined that the AIRP II petition described above should be retained by the Board for hearing and, pursuant to N.J.S.A. 48:2-32, designated Commissioner Dianne Solomon as the presiding officer authorized to rule on all motions that arise during the pendency of these proceedings and modify any schedules that may be set as necessary to secure a just and expeditious determination of the issues. Further, the April 27, 2016 Order directed that any entities seeking to intervene or participate in this matter file the appropriate application with the Board by May 30, 2016.

By motion dated May 9, 2016, Public Service Electric and Gas Company, moved for an Order granting it status as a participant pursuant to N.J.A.C. 1:1-16.6. On June 16, 2016, Commissioner Solomon granted PSE&G's motion to participate and issued a Prehearing Order with an accompanying procedural schedule.

Following the issuance of the Prehearing Order, the parties engaged in discovery and settlement conferences on July 1, 2016, July 18, 2016, August 11, 2016 and September 1, 2016. After publication of notice in newspapers of general circulation in the Company's service territory, two (2) public hearings were also held in Voorhees on August 22, 2016. No members of the public appeared at any of the public hearings and the Board did not receive written comments from interested parties.

STIPULATION

Following the review of discovery, testimony, and transcripts, the Parties reached a settlement. By correspondence dated September 21, 2016, counsel for SJG indicated that the Parties agreed to adjourn the remainder of the procedural schedule in light of the settlement. On October 3, 2016 the Parties executed the Stipulation. Participant PSE&G has submitted a letter of non-objection to the Stipulation. The Stipulation[4] provides for the following:

AIRP II

The Company agrees to limit the Program to investments in replacement of cast iron and unprotected bare steel mains and associated services (the "AIRP II Investments"). The Company will continue its practice of replacing coated steel mains, however such replacements will not be AIRP II Investments.

[4] Although summarized in this Order, should there be any conflict between this summary and the Stipulation, the detailed terms of the Stipulation are controlling, subject to the findings and conclusions of this Order.

The Program shall have a five (5) year term beginning on October 1, 2016 and ending September 30, 2021.

The costs of the Program shall be limited to $302.5 million (the "Program Cost Cap"), excluding AFUDC. This amount is derived by applying an average cost per mile cap of $550,000 to a mileage cap of 110 miles per year (the "Annual Mileage Cap"), or 550 miles (the "Program Mileage Cap") over the five (5) year term of the AIRP II. Recovery of costs beyond the $550,000 cap may be sought by the Company through a base rate case. If SJG exceeds the Annual Mileage Cap by five percent (5%) in any annual period, any excess mileage shall be applied toward the Annual Mileage Cap in future years so long as the Program Mileage Cap will not be exceeded.

The Company shall prioritize the AIRP II Investments utilizing its DIMP based main replacement criteria, as outlined in its Main Replacement Evaluation Procedure for Distribution Mains provided to the Parties during the course of this proceeding. If permitting or other issues in a grid make work within that grid impossible, impracticable, or significantly more expensive, SJG may bypass that grid and proceed to work in subsequent prioritized grids. SJG may return to do the work in the bypassed grid after resolution of the issues with that grid.

Schedule A to the Stipulation is a list of AIRP II replacement projects ("AIRP II Projects") for the first year of the Program. The Company will also provide to Rate Counsel and Staff a list of AIRP II replacement projects for each successive year of the Program prior to the start of each Program year.

Non-construction expenditures, such as planning and engineering of AIRP II Projects incurred as of September 30, 2016 shall be included in AIRP II Investments for the first year of the AIRP II.

The Company will have the option of seeking Board approval to extend the Program beyond the term provided above if any cast iron or unprotected steel mains remain in the Company's system.

During the AIRP II, the Company will be required to maintain a base level of capital spending that is not recoverable through the AIRP II (i.e., the "Stipulated Base"). The Stipulated Base will include main replacements identified using the Company's DIMP based main replacement criteria. As to these Stipulated Base expenditures, SJG will install and place in service no less than 30 miles of main per year (the "Minimum Annual Base"), or 150 miles of main over the term of the Program (the "Minimum Program Base"). If the Company fails to install the Minimum Program Base by September 30, 2021, it will complete the Minimum Program Base without seeking cost recovery from ratepayers related to any deficiency. The Company will include the remaining 50 miles of cast iron mains and unprotected steel mains in the Minimum Program Base (calculated as 600 miles of beginning mains less 550 miles of mains replaced under AIRP II) in order to eliminate the need for a small (less than 50 miles) AIRP III program. SJG may request, and the Board may grant, an exception from the requirements of this Paragraph based on extraordinary circumstances, such as extreme weather, labor disputes, acts of war or terrorism, or other *force majeure* circumstances.

Cost Recovery for the AIRP II Investments will occur on an annual basis. The costs associated with AIRP II, as defined in further detail below, to be recovered will include the return on net plant in service as of the end of each annual period. Net plant in service will be calculated as gross plant in service plus AFUDC, less accumulated depreciation and accumulated deferred income taxes. The AIRP II revenue requirement will also include depreciation expense, income taxes and a revenue factor as more fully described below. In addition, the AIRP II revenue requirement will be reduced by an Operations and Maintenance ("O&M") credit of $60,000 per year, or prorated annual amount where applicable, and any depreciation expense reductions related to the retirement of mains under the AIRP II. The revenue requirement will not include an expense for the recovery of the Cost of Removal (unless embedded in the depreciation rates); however, the revenue requirement will include the return on the Cost of Removal investment. AIRP II depreciation expense will be included at a rate of 1.37% for mains and 2.01% for services, except that if the depreciation rates are revised in a subsequent base rate case, the revised rates will be applied to the following AIRP II annual filing. When AIRP II Projects are transferred from Construction Work in Progress ("CWIP") to Utility Plant in Service, the booking of AFUDC shall cease and the booking of depreciation expense shall commence. O&M expenses associated with the Program will not be included in the annual revenue requirement filings nor will such costs be deferred.

Review of the prudency of all projects undertaken in the AIRP II program will not take place prior to or in connection with the annual AIRP II base rate adjustments. However, the AIRP II rate adjustments established in the annual rate AIRP II proceedings shall be provisional and subject to refund should the Board find that SJG imprudently incurred capital expenditures under the Program. Such prudency review shall take place in the next SJG base rate case, immediately following any annual AIRP II base rate adjustment.

The Parties acknowledge that by virtue of the Board Order dated September 30, 2014 in BPU Docket No. GR13111137 adopting a Stipulation of Settlement, the Company shall file its next base case no later than October 1, 2017 ("2017 Rate Case"). The 2017 Rate Case shall be kept open beyond an order addressing base rates, if necessary, for a Phase II for the limited purposes of addressing the rate adjustments described above, and any prudence review not completed prior to an order addressing base rates. The required annual Stipulated Base spending for 2016 through 6 months after the end of the test year used in the 2017 Rate Case is subject to prudence review and, unless disallowed as unreasonable or imprudent, shall be included in rate base and rates as a result of the 2017 Rate Case.

SJG shall file another base rate case ("Next Base Case") no later than three (3) years after the issuance of an order setting rates in the 2017 Rate Case. The Next Base Case will be filed with no fewer than three (3) months of actual data and nine (9) months of projected data for the test year, which test year will be updated throughout the course of the proceeding for twelve (12) months of actual data.

Revenue Requirements associated with AIRP II Investments that are placed into service through and including June 30, 2017 shall go into base rates effective October 1, 2017. SJG shall make its initial filing for such rates in April 2017, and update such filing for actual data through June 30, 2017 by July 15, 2017. SJG shall by July 15, 2017 provide actual data on the "Stipulated Base" replacements, showing actual replacements through June 30, 2017 and projections through year end. The Annual Mileage Cap, and the Minimum Annual Base level of replacements through June 30, 2017, will reflect the pro-rata portion of the annual requirements based upon the October 1, 2017 commencement date of the AIRP II. The pro-rata Annual

Mileage Cap will be 82.5 miles, and the pro-rata Minimum Annual Base requirement will be 22.5 miles, based on a nine (9) month proration.

Revenue Requirements associated with AIRP II Investments that are placed into service through and including June 30, 2018 shall go into base rates effective October 1, 2018. SJG shall make its initial filing for such rates in April 2018, and update such filing for actual data through June 30, 2018 by July 15, 2018, including actual data on Stipulated Base replacements.

Revenue Requirements associated with AIRP II Investments that are placed into service through and including June 30, 2019 shall go into base rates effective October 1, 2019. SJG shall make its initial filing for such rates in April 2019, and update such filing for actual data through June 30, 2019 by July 15, 2019, including actual data on Stipulated Base replacements.

Revenue Requirements associated with AIRP II Investments that are placed into service through and including June 30, 2020 shall go into base rates effective October 1, 2020. SJG shall make its initial filing for such rates in April 2020, and update such filing for actual data through June 30, 2020 by July 15, 2020, including actual data on Stipulated Base replacements.

Revenue Requirements associated with AIRP II Investments that are placed into service through and including September 30, 2021, or such date that occurs five (5) years after the commencement of the AIRP II, shall go into base rates effective January 1, 2022. SJG shall make its initial filing for such rates in June 2021, and update such filing for actual data through September 30, 2021 by October 31, 2021, including actual data on the Stipulated Base replacements. The Annual Mileage Cap, and the required Stipulated Minimum Annual Base level of replacements through September 30, 2021, will reflect the remaining portion of the authorized and required amounts. The pro-rata Annual Mileage Cap will be 137.5 miles, and the pro-rata Minimum Annual Base would be 37.5 miles, based on a fifteen (15) month proration.

In the annual rate adjustment proceedings provided for above, the revenue requirement associated with the AIRP II Investments shall be calculated as summarized below.

<u>Investment Costs</u> - All qualifying AIRP II Investment capital expenditures, including actual costs of engineering, design and construction, and property acquisition, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects ("AIRP II Costs"), will be recovered through base rate roll-ins for each of the time periods described above. The AIRP II Costs will be recorded, during construction, in an associated CWIP account or in a Plant in Service account upon the respective project being deemed used and useful. The Company will follow its current policies and practices with regard to capitalizing costs, including overheads.

<u>Net Investment</u> - Is equal to the AIRP II Costs that have been placed into service less the associated accumulated depreciation less accumulated deferred income taxes.

<u>WACC</u> –The return on the AIRP II Investments shall be at a weighted average cost of capital including a 9.75% return on equity and an equity-to-capitalization ratio of 53.2%. This results in a WACC of 6.76% at current tax rates (6.13% after tax) (the "After Tax WACC"). The Parties agree that any WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent revenue requirement calculations rather than the WACC stated above, for the immediately following AIRP II annual filing.

The base rate adjustments will be calculated using the following formula:

Revenue Requirement = ((Net Investment * After Tax WACC) + Depreciation Expense (net of tax) – O&M Credit)* Revenue Factor

AFUDC – AFUDC shall be calculated utilizing the "Modified FERC Formula" described below.

Depreciation Expense – Depreciation expense will be calculated as the AIRP II Investment Costs by asset class multiplied by the associated depreciation rate applied to the same asset in current base rates and then calculated net of tax. The net of tax depreciation expense calculation will also include a credit for any depreciation expense reductions related to the retirement of mains and services under the AIRP II.

O&M Credit (Leak Repair) – O&M credit shall be $60,000 per year, or prorated annual amount where applicable.

Revenue Factor – The Revenue Factor adjusts the Revenue Requirement Net of Tax for federal and state income taxes and the costs associated with the BPU and Rate Counsel (RC) Annual Assessments and Bad Debt. The revenue factor utilized by the Company is 1.82940, which was utilized to set rates in the Company's most recent base rate case. The Signatory Parties agree that any Revenue Factor authorized by the Board in a subsequent base rate case will be reflected in the subsequent revenue requirement calculations rather than the Revenue Factor stated above, for the immediately following AIRP II annual filing.

The "Modified FERC Formula" utilized to calculate the AFUDC rate for AIRP II purposes, shall be as follows:

When the Company's total CWIP balance, including CWIP associated with AIRP II 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.

When the Company's total CWIP balance, including CWIP associated with AIRP II 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 AIRP II WACC, as defined above, for the portion of AIRP II CWIP in excess of the Company's month-end S/T debt balance. If the Company has no S/T debt at month end, the AFUDC rate will be the Company's WACC for AIRP II. For purposes of settling this matter, the Company's Modified FERC formula shall include the compounding of AFUDC on a semi-annual basis for the AIRP II. When AIRP II Projects are transferred from CWIP to Utility Plant in Service, the booking of AFUDC shall cease and the booking of depreciation shall commence.

Schedule B to the Stipulation is a sample revenue requirement calculation based on the estimated revenue requirement for the first AIRP II rate adjustment.

There is no rate impact on customers at this time from AIRP II. SJG will recover the costs associated with AIRP II Projects by adjusting the then-current volumetric rate for all customer classes, allocated in the manner prescribed in the Company's most recent base rate case. The base rates that are revised as a result of the AIRP II annual rate adjustments shall be calculated utilizing the billing determinants utilized to set rates in the Company's most recent 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 AIRP II annual rate adjustments.

Each rate change filing will be accompanied by the MFRs that are set forth in Schedule C, attached to the Stipulation.

During the time period from October 1, 2016 through September 30, 2021, the Company shall reduce its existing inventory of open leaks by twenty percent (20%) per year. This metric is irrespective of incremental, new, post-September 30, 2016 leaks which will not be counted in such metric. If the Company fails to reduce this September 30, 2016 leak inventory by 20% in the first year, or 40% after the first two (2) years, it will notify Board Staff and Rate Counsel and schedule a conference to discuss within 30 days. If the Company fails to reduce this September 30, 2016 leak inventory by 100% over five years, the Company shall achieve compliance with this obligation without seeking cost recovery from ratepayers for any expenditures incurred for this purpose after September 30, 2021. SJG may request and the Board may grant an exception from the requirements of this paragraph based on extraordinary circumstances, such as extreme weather, labor disputes, acts of war or terrorism, or other *force majeure* circumstances.

SJG will provide quarterly reports on the Program to Board Staff and Rate Counsel ("Quarterly Report") setting forth the information for the Program and the Stipulated Base as set forth in Schedule D attached to the Stipulation. This reporting will begin with the quarter ending December 31, 2016 and be filed by March 1, 2017, and continue quarterly with reports due on the first of the month two months after the end of the quarter that is reflected in the report, until Program and Stipulated Base expenditures are complete.

AIRP Base Rate Adjustment

The Company's AIRP base rate roll-in ("AIRP Base Rate Adjustment") shall occur on December 1, 2016. The investment amount shall be limited to $74,461,892, which is the authorized program cap of $141.2 million less $66,738,108 of investments reflected in base rates in SJG's last base rate case. The AIRP Base Rate Adjustment shall be provisional and subject to refund based upon a finding of prudency in the 2017 Rate Case.

The stipulated revenue requirement associated with the AIRP Base Rate Adjustment shall be $11,046,144, including Sales and Use Tax ("SUT"). The calculation of this revenue requirement is set forth on Schedule E attached to the Stipulation, which has been updated with actual information through August 31, 2016.

The stipulated revenue requirement reflects an eighteen (18) month amortization of the AFUDC Equity Tax Loss.

The stipulated revenue requirement reflects consideration of the ADIT/NOL issue. The Signatory Parties agree that the issue will be addressed more fully in the Company's next base rate case.

The base rates that are revised as a result of the AIRP Base Rate Adjustment have been calculated utilizing the billing determinants utilized to set rates in the Company's most recent base rate case. The Margin Revenue Factor set forth in the Company's CIP and TAC tariffs shall also be revised to reflect the AIRP Base Rate Adjustment. The AIRP Base Rate Adjustment Rate Design and resulting updated CIP Margin Revenue Factors are attached to the Stipulation as Attachment F.

The impact of these rates to the typical residential heating customer using 100 therms of natural gas during a winter month is an increase of $3.02, or 2.5%.

DISCUSSION AND FINDINGS

The Board has carefully reviewed the attached Stipulation and its terms as described in this Order and **FINDS** the Stipulation to be reasonable, in the public interest, and in accordance with the law. The Board believes that an accelerated replacement program for cast iron and unprotected steel infrastructure, if prudently implemented, will lessen the Company's exposure to operational risk, increase operational efficiencies and reliability while improving safety throughout the service territory. As the Board previously discussed in the February 20, 2013 Order, many of SJG's older gas mains and services were constructed of cast iron and/or unprotected steel, the most popular and readily available materials used in the industry prior to 1970.[5] The Company's cast iron and unprotected steel infrastructure is generally more susceptible to corrosion damage, leaks and material failure than the Company's other mains and services. The Board recognizes that SJG has been addressing the replacement of such assets in its annual capital construction planning for many years.

The Board agrees that replacement of aging infrastructure, as well as the implementation of certain investments in the Company's gas system, if properly executed, should mitigate potential damage to the system and reduce methane emissions, as well as enhance public safety and result in increased long-term reliability. These investments include replacement of unprotected cast iron mains, unprotected steel mains, unprotected steel services, and associated district regulators. Moreover, the continuation of the AIRP I allows the Company to leverage economies of scale in its replacement activities.

The Board believes it is appropriate to approve the accounting treatment proposed in the Stipulation for both the remaining AIRP Base Rate Adjustment and future AIRP II Costs. The Board has previously authorized the use of this method of accounting treatment in prior proceedings.[6] With respect to cost recovery, the Board is persuaded that the mechanism proposed by the Stipulation allows the Company rate recovery for all expenditures related to facilities that have been placed in service but on a provisional basis, subject to refund. These costs will be subject to review in the Base Rate Case that the Company has committed to file by October 1, 2017.

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5 See In re the Petition of South Jersey Gas Company to Implement an Accelerated Infrastructure Replacement Program ("AIRP") and Associated Recovery Mechanism Pursuant to N.J.S.A. 48:2-21 and N.J.S.A. 48:2-21, Docket No. GO12070670 (Order Dated February 20, 2013) at 6.

6 See In re Public Service Electric and Gas Company for Approval of a Gas System Modernization Program and Associated Cost Recovery Mechanism, Docket No. GR15030272 (Order dated November 16, 2015) and In re the Petition of New Jersey Natural Gas Company for Approval of an Increase in Gas Base Rates and for Changes in its Tariff for Gas Service, Approval of SAFE Program Extension, and Approval of SAFE Extension and NJ RISE Rate Recovery Mechanisms Pursuant To N.J.S.A. 48:2-21, 48:2-21.1 and For Changes to Depreciation Rates for Gas Property Pursuant To N.J.S.A. 48:2-18, Docket No. GR15111304 (Order dated September 23, 2016).

Therefore, the Board believes the cost recovery mechanism adopted in the Stipulation strikes a more effective balance between giving the company a reasonable opportunity to earn its allowed rate of return over the life of its investment while still protecting ratepayers from paying more than is reasonably necessary. First, no rates will be charged to customers until the facilities for which the rates are being charged are in service. The Stipulation permits the Company to place rates into effect annually with respect to investments in its natural gas infrastructure. Because the Stipulation does not provide for deferred cost accounting, it is appropriate to include rate relief on a more frequent basis.

Additionally, some aspects of the cost recovery are dependent on a showing of the effectiveness of the program on leakage reduction appropriately allocating a portion of the risk of recovery on performance. The Company will also provide quarterly reports to permit oversight by Board Staff and Rate Counsel of the progress of the program.

The Board is also persuaded that the reduction in scope from the requested program is reasonable, while still permitting SJG to eliminate its most at-risk mains and services. Limiting the duration, cost, and mileage of the program is intended to protect ratepayers from unforeseen market developments and ensures that the Company can complete replacement activities in a timely, but safe, manner. The Annual Mileage Cap is 110 miles. Therefore, the Program Mileage Cap is 550 miles (110 miles X 5 years). Further, the metrics and reporting requirements provide a means to maintain accountability and oversight of the execution of the AIRP II.

After review of the petition and supporting information, the Board **HEREBY FINDS** that, subject to the terms and conditions set forth above the attached Stipulation is reasonable, in the public interest, and in accordance with the law. Accordingly, the Board **HEREBY ADOPTS** the Stipulation as its own, as if fully set forth herein.

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

The Board **HEREBY AUTHORIZES** the Company to provisionally recover in base rates the estimated annual revenue requirement of $11,046,144 (including SUT), tied to the AIRP Base Rate Adjustment, with the necessary rate adjustments to be effective for service rendered on and after December 1, 2016.

The Company is **HEREBY DIRECTED** to file revised tariff sheets conforming to the terms and conditions of this Order no later than the effective date of this Order.

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 become effective on November 10, 2016.

DATED: 10\31\16

BOARD OF PUBLIC UTILITIES
BY:

RICHARD S. MROZ
PRESIDENT

JOSEPH L. FIORDALISO
COMMISSIONER

MARY-ANNA HOLDEN
COMMISSIONER

DIANNE SOLOMON
COMMISSIONER

UPENDRA J. CHIVUKULA
COMMISSIONER

ATTEST:

IRENE KIM ASBURY
SECRETARY

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

Agenda Date: 10/31/16
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IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY TO CONTINUE ITS ACCELERATED INFRASTRUCTURE REPLACEMENT PROGRAM ("AIRP") PURSUANT TO N.J.S.A. 48:2-21 AND N.J.S.A. 48:2-21.1 AND FOR APPROVAL OF A BASE RATE ADJUSTMENT TO REFLECT AIRP INVESTMENTS IN BASE RATES – DOCKET NO. GR16020175

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South Jersey Gas

Stacy A. Mitchell, Esq.
Regulatory Affairs Counsel

October 4, 2016

Irene Kim Asbury, Secretary
NJ Board of Public Utilities
44 South Clinton Avenue, 3rd Floor
P. O. Box 350
Trenton, NJ 08625-0350

Re: In the Matter of the Petition of South Jersey Gas Company to Continue its Accelerated Infrastructure Replacement Program ("AIRP") Pursuant to N.J.S.A. 48:2-21 and N.J.S.A. 48:2-21.1 and for Approval of a Base Rate Adjustment to Reflect AIRP Investments in Base Rates
BPU Docket No. GR16020175

Dear Secretary Asbury:

Enclosed, please find a fully executed Stipulation of Settlement in the referenced matter. It is the Parties' understanding that this matter will be heard at the Board's October 31, 2016 Agenda Meeting.

Respectfully,

Stacy A. Mitchell, Esq.

SAM:lvk
Enclosure

cc: Service List

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Tel. 609-561-9000 • Fax 609-561-8225 • TDD ONLY 1-800-547-9085

IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY TO CONTINUE ITS ACCELERATED INFRASTRUCTURE REPLACEMENT PROGRAM ("AIRP") PURSUANT TO N.J.S.A. 48:2-21 AND N.J.S.A. 48:2-21.1 AND FOR APPROVAL OF A BASE RATE ADJUSTMENT TO REFLECT AIRP INVESTMENTS IN BASE RATES
DOCKET NO. GR16020175

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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF SOUTH JERSEY GAS COMPANY TO CONTINUE ITS ACCELERATED INFRASTRUCTURE REPLACEMENT PROGRAM ("AIRP") PURSUANT TO N.J.S.A. 48:2-21 AND N.J.S.A. 48:2-21.1 AND FOR APPROVAL OF A BASE RATE ADJUSTMENTTO REFLECT AIRP INVESTMENTS IN BASE RATES	:	**BPU DOCKET NO. GR16020175** **STIPULATION OF SETTLEMENT**

APPEARANCES:

Ira G. Megdal, Esq., Cozen O'Connor, for Petitioner South Jersey Gas Company.

Felicia Thomas-Friel, Esq., Deputy Rate Counsel, **Henry M. Ogden, Esq.**, Assistant Deputy Rate Counsel, and **Maura Caroselli, Esq.**, Assistant Deputy Rate Counsel, for the New Jersey Division of Rate Counsel (Stefanie A. Brand, Director).

Alex Moreau and Veronica Beke, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (**Christopher S. Porrino,** Attorney General of New Jersey).

Martin C. Rothfelder, Esq., Associate General Regulatory Counsel, for Participant Public Service Electric and Gas Company.

TO THE HONORABLE COMMISSIONERS OF THE BOARD OF PUBLIC UTILITIES:

This Stipulation of Settlement addresses the Petition filed by South Jersey Gas Company ("SJG" or the "Company") with the New Jersey Board of Public Utilities (the "Board" or "BPU") on February 29, 2016 in Docket No. GR16020175 seeking (1) to continue its Accelerated Infrastructure Replacement Program ("AIRP"); and (2) approval of a base rate adjustment to reflect AIRP investments in base rates.

BACKGROUND

1. On February 20, 2013, in BPU Docket No. GO12070670, the Board approved the Company's currently existing Accelerated Infrastructure Replacement Program ("AIRP I") as a four (4) year program commencing on January 1, 2013 and continuing until December 31, 2016 (the "AIRP I Order"). Pursuant to the AIRP I Order, the Company was authorized to invest $35.3 million per year (excluding AFUDC) for four (4) years, for a total of $141.2 million, to replace unprotected bare steel and cast iron mains and services.

2. On February 29, 2016, the Company petitioned the Board in this matter for approval (1) of the second AIRP program pursuant to N.J.S.A. 4:2-21 and 48: 2-21.1 (hereinafter referred to as "AIRP II" or the "Program"), and (2) to adjust base rates to reflect AIRP I investments (the "AIRP I Investments") made through September 2016 in base rates, effective December 1, 2016.

3. The Company proposed to commence AIRP II on October 1, 2016, at which time all authorized investments under AIRP I were expected to be exhausted.

4. AIRP II, as filed, proposed to continue the Company's Distribution Integrity Management Program ("DIMP") based approach to addressing the most significant threats on its distribution system and to replace and retire a significant portion of the vintage and most leak prone mains and services in SJG's distribution system, including: (i) all remaining cast iron and unprotected bare steel mains and associated services; (ii) the most leak prone coated steel mains 2" in diameter or less, and associated services; and (iii) other pipe materials and sizes found within replacement grids that would be logical and necessary to complete the modernization of the grid.

5. SJG proposed a total AIRP II investment of $500 million over seven years and further proposed to recover the capital investment costs and expense through annual base rate adjustments to be effective on October 1st of each year. The first AIRP II rate adjustment filing would have been made in April 2017 with no rate adjustment or customer bill impact from the Program until October 1, 2017.

6. In addition, SJG proposed to roll into base rates all AIRP I investments from the time of the Company's last base rate case through the end of AIRP I through a base rate adjustment to take place on December 1, 2016. The Company anticipated that all AIRP I expenditures would be made by September 30, 2016.

7. On April 27, 2016 (effective date May 7, 2016), the Board issued an Order designating Commissioner Dianne Solomon as the presiding officer in the matter to rule on all motions that arise during the pendency of the proceeding and modify any schedules that may be set as necessary to secure a just and expeditious determination of the issues.

8. On May 9, 2016, Public Service Electric & Gas Company ("PSE&G") filed a Motion to Participate in this matter. SJG submitted a letter dated May 23, 2016 stating that it did not oppose PSE&G's status as a Participant in this matter.

9. On June 16, 2016, Commissioner Solomon issued a Prehearing Order setting forth the procedural schedule and granting PSE&G's Motion for Participation in this matter.

10. Following proper public notice, two public hearings were held in this matter on August 22, 2016 in Voorhees, New Jersey. No members of the public were in attendance.

11. SJG responded to all discovery requests that were propounded in this proceeding by BPU Staff and the New Jersey Division of Rate Counsel ("Rate Counsel").

12. SJG, BPU Staff and Rate Counsel (the "Signatory Parties") met on several occasions in order to facilitate information gathering and to discuss settlement. This included meetings on July 1, 2016 (telephonic), July 18, 2016, August 11, 2016, and September 1, 2016 at Rate Counsel's offices.

13. The Signatory Parties reached an agreement resolving all issues in the instant proceeding. In light of the foregoing, the Signatory Parties have agreed to this Stipulation of Settlement, the terms of which are set forth below[1]. Specifically, the Signatory Parties hereby **STIPULATE AND AGREE** to the following:

STIPULATED MATTERS

I. AIRP II

14. The Signatory Parties agree that, subject to Board approval of this Stipulation and Agreement, SJG may implement the AIRP II under the terms and conditions described herein. The Company agrees to limit the Program to investments in replacement of cast iron and unprotected bare steel mains and associated services (the "AIRP II Investments"). The Company will continue its practice of replacing coated steel mains, however such replacements will not be AIRP II Investments.

15. The Program shall have a five year term beginning on October 1, 2016 and ending September 30, 2021.

16. The costs of the Program shall be limited to $302.5 million (the "Program Cost Cap"), excluding AFUDC. This amount is derived by applying an average cost per mile cap of $550,000 to a mileage cap of 110 miles per year (the "Annual Mileage Cap"), or 550 miles (the

[1] Participant PSE&G has submitted a letter of non-objection to this Stipulation of Settlement.

"Program Mileage Cap") over the five year term of AIRP II. Recovery of costs beyond the $550,000 cap may be sought by the Company through a base rate case. If SJG exceeds the Annual Mileage Cap by 5% in any annual period, any excess mileage shall be applied toward the Annual Mileage Cap in future years so long as the Program Mileage Cap will not be exceeded.

17. The Company shall prioritize the AIRP II Investments utilizing its Distribution Integrity Management Program ("DIMP") based main replacement criteria, as outlined in its Main Replacement Evaluation Procedure for Distribution Mains provided to the Signatory Parties during the course of this proceeding. This prioritization method utilizes the Hazard Index and other prioritization factors including, but not limited to, cast iron break history, leak history (including cast iron bell-joint leaks) and concentration of leaks on all piping material types, population density (high consequence areas), construction by others and moratoria. Prioritization will also take into consideration the Company's practice of identifying construction grids for replacement projects. If permitting or other issues in a grid (e.g. municipal/county specific paving costs, traffic control costs, etc.) make work within that grid impossible, impracticable, or significantly more expensive, SJG may bypass that grid and proceed to work in subsequent prioritized grids. SJG may return to do the work in the bypassed grid after resolution of the issues with that grid.

18. Attached as Schedule A is a list of AIRP II replacement projects for the first year of the AIRP II Program. The Company will also provide to Rate Counsel and Staff a list of AIRP II replacement projects for each successive year of the AIRP II Program prior to the start of each Program year. Project lists may be modified without further review during the year based on permitting, cost or other considerations.

19. Non-construction expenditures, such as planning and engineering of AIRP II Projects incurred as of September 30, 2016 shall be included in AIRP II Investments for the first year of AIRP II.

20. The Company will have the option of seeking Board approval to extend the Program beyond the term provided above if any mileage of cast iron or unprotected steel mains remain in the Company's system. Any such extension proposal shall include data from the fourth year of the Program. In order to expedite the decision-making process for an efficient continuation of the Program, the Company may initially file for such extension with no more than 6 months of projected data for part of the fourth year of the Program, with updates through the end of the fourth year to be filed in sufficient time to allow full consideration as part of the proceedings related to the proposed extension.

21. During the AIRP II, the Company will be required to maintain a base level of capital spending that is not recoverable through the AIRP II (i.e., the "Stipulated Base"). The Stipulated Base will include main replacements identified using the Company's DIMP based main replacement criteria. As to these Stipulated Base expenditures, SJG will install and place in service no less than 30 miles of main per year (the "Minimum Annual Base"), or 150 miles of main over the term of the Program (the "Minimum Program Base"). If the Company fails to install the Minimum Program Base by September 30, 2021, it will complete the Minimum Program Base without seeking cost recovery from ratepayers related to any deficiency. The Company will include the remaining 50 miles of cast iron mains and unprotected steel mains in the Minimum Program Base (calculated as 600 miles of beginning mains less 550 miles of mains replaced under AIRP II) in order to eliminate the need for a small (less than 50 miles) AIRP III program. SJG may request, and the Board may grant, an exception from the requirements of this

Paragraph based on extraordinary circumstances, such as extreme weather, labor disputes, acts of war or terrorism, or other *force majeure* circumstances.

22. AIRP II Cost Recovery - Cost Recovery for the AIRP II Investments will occur on an annual basis, with schedules, procedures, and filings as detailed in subsequent paragraphs. AIRP II costs to be recovered will include the return on net plant in service as of the end of each annual period. Net plant in service will be calculated as gross plant in service plus Allowance for Funds Used During Construction ("AFUDC"), less accumulated depreciation and accumulated deferred income taxes. The AIRP II revenue requirement will also include depreciation expense, income taxes and a revenue factor as more fully described below. In addition, the AIRP II revenue requirement will be reduced by an Operations and Maintenance ("O&M") credit of $60,000 per year, or prorated annual amount where applicable, and any depreciation expense reductions related to the retirement of mains under AIRP II. The revenue requirement will not include an expense for the recovery of the Cost of Removal (unless embedded in the depreciation rates); however, the revenue requirement will include the return on the Cost of Removal investment. AIRP II depreciation expense will be included at a rate of 1.37% for mains and 2.01% for services, except that if the depreciation rates are revised in a subsequent base rate case, the revised rates will be applied to the following AIRP II annual filing. When AIRP II projects are transferred from CWIP to Utility Plant in Service, the booking of AFUDC shall cease and the booking of depreciation expense shall commence. O&M expenses associated with the Program will not be included in the annual revenue requirement filings nor will such costs be deferred.

23. The Signatory Parties agree that the review of the prudency of all projects undertaken in the AIRP II program will not take place prior to or in connection with the annual

AIRP II base rate adjustments. However, the AIRP II rate adjustments established in the annual rate AIRP II proceedings shall be provisional and subject to refund should the Board find that SJG imprudently incurred capital expenditures under the Program. Such prudency review shall take place in the next SJG base rate case, immediately following any annual AIRP II base rate adjustment.

24. The Signatory Parties acknowledge that by virtue of the Board Order dated September 30, 2014 in BPU Docket No. GR13111137 adopting a Stipulation of Settlement, the Company shall file its next base case no later than October 1, 2017 ("2017 Rate Case"). The Signatory Parties agree that the 2017 Rate Case shall be kept open beyond an order addressing base rates, if necessary, for a Phase II for the limited purposes of addressing the rate adjustments described above, and any prudence review not completed prior to an order addressing base rates. The Signatory Parties further agree that the required annual Stipulated Base spending for 2016 through 6 months after the end of the Test Year used in the 2017 Rate Case is subject to prudence review and, unless disallowed as unreasonable or imprudent, shall be included in rate base and rates as a result of the 2017 Rate Case.

25. The Signatory Parties agree that SJG shall file another base rate case ("Next Base Case") no later than three (3) years after the issuance of an order setting rates in the 2017 Rate Case. The Next Base Case will be filed with no fewer than three (3) months of actual data and nine (9) months of projected data for the test year, which test year will be updated throughout the course of the proceeding for twelve (12) months of actual data.

26. To effectuate the cost recovery process for the Program investments, SJG shall proceed on the following schedule following public notice and public hearing, recognizing that the prudency of the investments will be determined in the next appropriate base rate case

proceeding. The schedule below anticipates annual notice, public hearings, and rate adjustments to cover all rate changes for the Program investments. The effective dates for the adjustments may be revised by agreement of the Signatory Parties in a future base rate case.

a. Revenue Requirements associated with AIRP II Investments that are placed into service through and including June 30, 2017 shall go into base rates effective October 1, 2017. SJG shall make its initial filing for such rates in April 2017, and update such filing for actual data through June 30, 2017 by July 15, 2017. SJG shall by July 15, 2017 provide actual data on the "Stipulated Base" replacements, showing actual replacements through June 30, 2017 and projections through year end.. The Annual Mileage Cap, and the Minimum Annual Base level of replacements through June 30, 2017, will reflect the pro-rata portion of the annual requirements based upon the October 1, 2017 commencement date of AIRP II. The pro-rata Annual Mileage Cap will be 82.5 miles, and the pro-rata Minimum Annual Base requirement will be 22.5 miles, based on a 9 month proration.

b. Revenue Requirements associated with AIRP II Investments that are placed into service through and including June 30, 2018 shall go into base rates effective October 1, 2018. SJG shall make its initial filing for such rates in April 2018, and update such filing for actual data through June 30, 2018 by July 15, 2018, including actual data on Stipulated Base replacements.

c. Revenue Requirements associated with AIRP II Investments that are placed into service through and including June 30, 2019 shall go into base rates effective October 1, 2019. SJG shall make its initial filing for such rates in April 2019, and update such filing for actual data through June 30, 2019 by July 15, 2019, including actual data on Stipulated Base replacements.

d. Revenue Requirements associated with AIRP II Investments that are placed into service through and including June 30, 2020 shall go into base rates effective October 1, 2020. SJG shall make its initial filing for such rates in April 2020, and update such filing for actual data through June 30, 2020 by July 15, 2020, including actual data on Stipulated Base replacements.

e. Revenue Requirements associated with AIRP II Investments that are placed into service through and including September 30, 2021, or such date that occurs five (5) years after the commencement of AIRP II program, shall go into base rates effective January 1, 2022. SJG shall make its initial filing for such rates in June 2021, and update such filing for actual data through September 30, 2021 by October 31, 2021, including actual data on the Stipulated Base replacements. The Annual Mileage Cap, and the required Stipulated Minimum Annual Base level of replacements through September 30, 2021, will reflect the remaining portion of the authorized and required amounts. The pro-rata Annual Mileage Cap will be

137.5 miles, and the pro-rata Minimum Annual Base would be 37.5 miles, based on a 15 month proration.

27. In the annual rate adjustment proceedings provided for above, the revenue requirement associated with the AIRP II Investments shall be calculated as summarized below.

Investment Costs - All qualifying AIRP II Investment capital expenditures, including actual costs of engineering, design and construction, and property acquisition, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects ("AIRP II Costs"), will be recovered through base rate roll-ins for each of the time periods described above. The AIRP II Costs will be recorded, during construction, in an associated Construction Work In Progress ("CWIP") account or in a Plant in Service account upon the respective project being deemed used and useful. The Company will follow its current policies and practices with regard to capitalizing costs, including overheads.

Net Investment - Is equal to the AIRP II Costs that have been placed into service less the associated accumulated depreciation less accumulated deferred income taxes.

WACC –The return on the AIRP II Investments shall be at a weighted average cost of capital including a 9.75% return on equity and an equity-to-capitalization ratio of 53.2%. This results in a WACC of 6.76% at current tax rates (6.13% after tax) (the "After Tax WACC"). The Signatory Parties agree that any WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent revenue requirement calculations rather than the WACC stated above, for the immediately following AIRP II annual filing.

The base rate adjustments will be calculated using the following formula:

Revenue Requirement = ((Net Investment * After Tax WACC) + Depreciation Expense (net of tax) – O&M Credit)* Revenue Factor

i. AFUDC –AFUDC shall be calculated utilizing the "Modified FERC Formula" described below.

ii. Depreciation Expense – Depreciation expense will be calculated as the AIRP II Investment Costs by asset class multiplied by the associated depreciation rate applied to the same asset in current base rates and then calculated net of tax. The net of tax depreciation expense calculation will also include a credit for any depreciation expense reductions related to the retirement of mains and services under AIRP II.

iii. O&M Credit (Leak Repair) – O&M credit shall be $60,000 per year, or prorated annual amount where applicable.

iv. Revenue Factor – The Revenue Factor adjusts the Revenue Requirement Net of Tax for federal and state income taxes and the costs associated with the BPU and Rate Counsel (RC) Annual Assessments and Bad Debt. The revenue factor utilized by the Company is 1.82940, which was utilized to set rates in the Company's most recent base rate case. The Signatory Parties agree that any Revenue Factor authorized by the Board in a subsequent base rate case will be reflected in the subsequent revenue requirement calculations rather than the Revenue Factor stated above, for the immediately following AIRP II annual filing.

28. The "Modified FERC Formula" utilized to calculate the AFUDC rate for AIRP II purposes, shall be as follows:

a. When the Company's total CWIP balance, including CWIP associated with AIRP II 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 AIRP II 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 AIRP II WACC, as defined in paragraph 25 herein, for the portion of AIRP II CWIP in excess of the Company's month-end S/T debt balance, and

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

29. Attached as Schedule B is a sample revenue requirement calculation based on the estimated revenue requirement for the first AIRP II rate adjustment.

30. Rates and Rate Design - There is no rate impact on customers at this time from the AIRP II program. The Signatory Parties agree that SJG will recover the costs associated with AIRP II projects by adjusting the then-current volumetric rate for all customer classes, allocated in the manner prescribed in the Company's most recent base rate case. The base rates that are revised as a result of the AIRP II annual rate adjustments shall be calculated utilizing the billing determinants utilized to set rates in the Company's most recent 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 AIRP II annual rate adjustments.

31. Minimum Filing Requirements (MFRs) - Each rate change filing will be accompanied by the MFRs that are set forth in Schedule C, attached hereto.

32. Leaks - During the time period from October 1, 2016 through September 30, 2021, the Company shall reduce its existing inventory of open leaks by twenty percent (20%) per year. This metric is irrespective of incremental, new, post-September 30, 2016 leaks which will not be counted in such metric. If the Company fails to reduce this September 30, 2016 leak inventory by 20% in the first year, or 40% after the first two years, it will notify Board Staff and Rate Counsel and schedule a conference to discuss within 30 days. If the Company fails to

reduce this September 30, 2016 leak inventory by 100% over five years, the Company shall achieve compliance with this obligation without seeking cost recovery from ratepayers for any expenditures incurred for this purpose after September 30, 2021. SJG may request and the Board may grant an exception from the requirements of this paragraph based on extraordinary circumstances, such as extreme weather, labor disputes, acts of war or terrorism, or other *force majeure* circumstances.

33. AIRP II Quarterly Reports - SJG will provide quarterly reports on the Program to the BPU Staff and Rate Counsel ("Quarterly Report") setting forth the information for the Program and the Stipulated Base as set forth in Schedule D, attached hereto. This reporting will begin with the quarter ending December 31, 2016 and be filed by March 1, 2017, and continue quarterly with reports due on the first of the month two months after the end of the quarter that is reflected in the report, until Program and Stipulated Base expenditures are complete.

II. AIRP Base Rate Adjustment

34. The Company's AIRP base rate roll-in ("AIRP Base Rate Adjustment") shall occur on December 1, 2016. The investment amount shall be limited to $74,461,892, which is the authorized program cap of $141.2 million less $66,738,108 of investments reflected in base rates in SJG's last base rate case. The AIRP Base Rate Adjustment shall be provisional and subject to refund based upon a finding of prudency in the 2017 Rate Case.

35. The stipulated revenue requirement associated with the AIRP Base Rate Adjustment shall be $11,046,144, including Sales and Use Tax ("SUT"). The calculation of this revenue requirement is set forth on Schedule E, attached hereto, which has been updated with actual information through August 31, 2016.

36. The stipulated revenue requirement reflects an eighteen (18) month amortization of the AFUDC Equity Tax Loss.

37. The stipulated revenue requirement reflects consideration of the ADIT/NOL issue. The Signatory Parties agree that the issue will be addressed more fully in the Company's next base rate case.

38. The base rates that are revised as a result of the AIRP Base Rate Adjustment have been calculated utilizing the billing determinants utilized to set rates in the Company's most recent 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 AIRP Base Rate Adjustment. The AIRP Base Rate Adjustment Rate Design and resulting updated CIP Margin Revenue Factors are attached hereto as Attachment F.

39. The impact of these rates to the typical residential heating customer using 100 therms of natural gas during a winter month is an increase of $3.02, or 2.5%.

FURTHER PROVISIONS

40. 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.

41. It is the intent of the Signatory Parties that the provisions herein 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.

42. 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, the Signatory Parties shall not 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. The Signatory Parties further agree that this Stipulation is in no way binding upon them in any other proceeding, except to enforce the terms of this Stipulation.

43. The Signatory Parties further acknowledge that a Board Order approving this Stipulation will become effective upon the service of said Board Order, or upon such date after the service thereof as the Board may specify, in accordance with N.J.S.A. 48:2-40.

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

BY: Ira G. Megdal
Ira G. Megdal
Cozen O'Connor

DATED: 10/3/16

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

BY: Henry M. Ogden /MC
Henry M. Ogden
Assistant Deputy Rate Counsel

DATED: 10/3/16

CHRISTOPHER S. PORRINO
ATTORNEY GENERAL
OF NEW JERSEY
Attorney for the Staff of the Board of Public Utilities

BY:
Alex Moreau
Deputy Attorney General

DATED: 10/3/16

AIRP II Year 1 Projects

Division	Job Name	Township	Mains (Footage)	Services (Number)
ATLANTIC	PLEASANTVILLE LP GRID 2	PVL	35,950	600
ATLANTIC	Farr Ave(black pike - ppDE)	EHT	697	6
ATLANTIC	PLEASANTVILLE LP GRID 1	PVL	40,900	680
ATLANTIC	NORTHFIELD LP GRID 1	NFD	18,550	250
ATLANTIC	Sycamore Ave (Shady to Oak)	ABS	1,541	19
ATLANTIC	GRAVESMITH DR (Washington-Columbus)	EHT	850	6
ATLANTIC	Foster Ave (South Ave-North Ave)	EHT	242	1
ATLANTIC	Central Ave (Blackman Rd- West to end of Main)	EHT	1,400	15
ATLANTIC	Marlborough Ave (Haddon- St. Charles)	ABS	300	5
ATLANTIC	Shady Ln (Route 9- Sycamore)	ABS	950	23
ATLANTIC	South Ave (Farr Ave - Foster Ave)	EHT	530	6
ATLANTIC	Cape May Ave (Old Egg Harbor- 14th)	MAY	5,600	21
ATLANTIC	Lincoln Ave (Central-Steven)	LIN	1,328	27
ATLANTIC	W Jersey Ave (Tremont Ave- Ivins Ave)	EHT	913	2
ATLANTIC	Steven Dr (Central-Wabash)	LIN	1,804	27
ATLANTIC	Haines Ave (Shore-Wabash)	LIN	878	14
ATLANTIC	Haines Ave (Wabash-Marita)	LIN	1,402	20
ATLANTIC	W Father Keis Dr (Rosemarie-Apple)	GWY	1,535	24
ATLANTIC	Ridgewood Ave (4th-10th)	GWY	3,694	45
ATLANTIC	Ashland (Lincoln - Jefferson)	PVL	600	6
ATLANTIC	Mayslanding (Farragut - Pennington)	MAY	1,027	15
ATLANTIC	Farragut Ave (Atlantic - Gaskill)	MAY	273	1
ATLANTIC	Main St (Shadeland - Tremont)	PVL	800	7
ATLANTIC	California Ave (Shore - Franklin)	PVL	900	6
ATLANTIC	Groveland (Shore to Atlantic)	SPT	501	10
ATLANTIC	Groveland (Atlantic to Bethel)	SPT	776	13
ATLANTIC	Ocean Ave (Steelman - Atlantic)	SPT	787	7
ATLANTIC	Steelman Ave (Ocean - DE)	SPT	1,515	29
ATLANTIC	White Horse Pike (Poplar - Cherry)	ELW	1,100	4
ATLANTIC	West Pleasantville	PVL	11,955	133
ATLANTIC	ABSECON LP GRID 1	ABS	4,800	50
ATLANTIC	NORTHFIELD LP GRID 2	NFD	22,240	300
ATLANTIC	NORTHFIELD LP GRID 3	NFD	32,900	440
ATLANTIC	NORTHFIELD HP GRID 1	NFD	2,047	15
CAPE MAY	WILDWOOD CREST HP GRID 1	WDC	16,760	501
CAPE MAY	STONE HARBOR HP GRID 1	STH	36,673	1,245
CUMBERLAND	COMMERCIAL HP GRID 1	MLV	4,723	85
CUMBERLAND	South Blvd (Central Ave- Harding Ave)	LDV	3,165	19
CUMBERLAND	S Lincoln Ave (Landis Ave- S to DE of Main)	VIN	2,650	4
CUMBERLAND	West Ave (Atlantic Ave- E Wheat Rd)	MIN	2,040	14
CUMBERLAND	Magnolia Dr (Daffodil-Robin)	LLC	1,135	5
CUMBERLAND	Woodruff-Husted Rd (Richards Rd- Tie into PP)	BGU	262	2
CUMBERLAND	North Blvd (Willow St- NE to DE of Main)	LDV	4,040	14
CUMBERLAND	N Bethel Rd (Rt 49-DE)	MLV	235	-
CUMBERLAND	Forest Grove Rd (N West Ave- N West BLVD)	VIN	1,316	7
CUMBERLAND	Geissinger Ave (Newcombtown Rd- DE)	MLV	2,211	28
CUMBERLAND	Wheat Rd (West Ave-Fornataro Ave)	MIN	540	7

AIRP II Year 1 Projects

Division	Job Name	Township	Mains (Footage)	Services (Number)
CUMBERLAND	College Dr (Sherman Ave-S to DE of Main)	VIN	2,402	3
CUMBERLAND	Osprey Dr (Mallard st- Dead End)	MLV	450	5
CUMBERLAND	Coombs Rd (PP-Miller Ave)	MLV	870	3
CUMBERLAND	Mallard St (Osprey Dr-Robin Rd)	MLV	625	7
CUMBERLAND	S Myrtle St (PP (C2718R)-DE)	VIN	544	8
CUMBERLAND	Caloris Ave (Edgewood Ave-Wheaton Ave)	MLV	1,382	25
CUMBERLAND	N West Blvd (Garden Rd- South- DE of main)	VIN	855	2
CUMBERLAND	N East Blvd (Forest Grove-Garden rd)	VIN	542	3
CUMBERLAND	Robin Rd (Glenside Rd-DE)	MLV	1,045	12
CUMBERLAND	Roberts Dr (Weymouth Rd-DE of Main)	VIN	1,460	21
CUMBERLAND	Orchard Rd (W Oak Rd- South-DE of Main)	VIN	1,230	3
CUMBERLAND	W Park Dr (West Ave-Old Deerfield Pk)	BGN	3,880	7
CUMBERLAND	Old Union Rd (DE-Delsea Dr)	MLV	1,370	4
CUMBERLAND	Dahl Ter (Delsea Dr-DE)	MLG	830	4
CUMBERLAND	N High St (Sharp St - Harrison Ave)	MLV	2,552	6
CUMBERLAND	Lincoln Ave (Dante Ave - Palermo Ave)	VIN	2,300	10
CUMBERLAND	S East Blvd (W Butler Ave - Sheridan Ave)	VIN	820	7
CUMBERLAND	MILLVILLE HP GRID 1	MLV	5,633	45
CUMBERLAND	COMMERCIAL HP GRID 2	MLV	4,145	46
GLASSBORO	Cedar Ave (Roosevelt - Poinsett)	PIT	1,340	16
GLASSBORO	Crown Point Rd (Porcupine to Benjamin Green Rd)	PKT	4,401	5
GLASSBORO	Cedar Rd (Old Jackson Rd to Winding Way)	MHL	2,900	18
GLASSBORO	Field St (Gary to Virginia)	CPT	977	3
GLASSBORO	Mechanic St (Logan to Rt 322)	BPT	366	6
GLASSBORO	Shell Rd (Hollywood to Broadway)	CPT	1,632	15
GLASSBORO	Cedar Ave (Brookfield - Euclid)	GLA	1,115	10
GLASSBORO	Woodlawn Ave (E Colton - Evergreen)	CGL	692	11
GLASSBORO	Dolbow Ave (Field st - WS Tie in)	CPT	112	3
GLASSBORO	W Clayton Ave (Bernard - Lakeview)	CLA	1,500	7
GLASSBORO	School House Ln (Bell Lake Rd - School House Ct)	TVB	1,670	17
GLASSBORO	Bells Lake Rd (Scarlet Oak Rd - Westminster Blvd)	TVB	482	3
GLASSBORO	Westminster Blvd (Gray Birch Rd - PP West of Gray Birch)	TVB	2,347	44
GLASSBORO	Westminster Blvd (Granttown Rd - Georgetown Rd)	TVB	1,621	29
GLASSBORO	Carpenter St (Main St - Campus Terrace Dr)	GLA	1,051	15
GLASSBORO	Bianca (Shell Rd- Anna Bell)	CPT	439	6
GLASSBORO	Doe Run (Royal Ave- DE)	FKV	417	2
GLASSBORO	White Birch Ct (White birch Rd - DE)	WTT	377	7
GLASSBORO	McCarthy Ave (Mantua Blvd - Wenonah Ave)	MAN	780	8
GLASSBORO	Black Horse Pike (Wilson - Meadow)	WTS	2,620	24
GLASSBORO	10th Ave (6th - Jackson)	NWV	3,204	26
GLASSBORO	Whitman Dr (Private Property)	WSQ	250	1
GLASSBORO	Lotus Ave (S Main St- Bailey)	WOO	973	8
GLASSBORO	Sherwin Rd (Mullica Hill RD - Cedar Rd)	MHL	2,865	20
GLASSBORO	Jackson Rd (Salem Pk - Harrison)	PNL	307	-
GLASSBORO	Woodlawn Ave (Evergreen - E Collings)	CGL	1,418	10
GLASSBORO	Sycamore Ave (Tuckahoe Rd - PP Tie in at Mayfair Ave)	WTS	620	7

AIRP II Year 1 Projects

Division	Job Name	Township	Mains (Footage)	Services (Number)
GLASSBORO	Ledden Ln (BHP- DE)	WTT	1,460	17
GLASSBORO	Cedar Ave (Brookfield - Cummings)	GLA	1,073	23
GLASSBORO	Central Ave (Glen lake - Oriental)	GLA	830	10
GLASSBORO	BUENA VISTA HP GRID 1	WMS	6,721	149
GLASSBORO	Mill Lane (Cains Mill - DE)	FOL	803	4
GLASSBORO	Wayne Ave (Cedar Lake Dr- Fairmont Ave)	CGF	585	6
GLASSBORO	Wayne Ave (Fairmont Ave-Jays)	CGF	368	4
GLASSBORO	Logan Ln (Mechanic St- Dead End)	BPT	433	6
GLASSBORO	PITMAN HP GRID 1	PIT	8,592	183
GLASSBORO	Lake Ave (Cedar Ave - DE)	PIT	654	12
GLASSBORO	Highland Ter (Columbia-Wildwood)	PIT	344	6
GLASSBORO	Porchtown Rd (7th St - 2nd St)	FKV	2,523	23
GLASSBORO	S Brentwood Ave (Holly Ave - DE)	PIT	544	8
GLASSBORO	Cumberland Ave (Monmouth Rd - Warren Ct)	CPV	1,178	26
GLASSBORO	Mullica Hill Rd aka Route 322 (4" BS from Whitney - DE towa	GLA	2,050	2
GLASSBORO	Walters Ave (Dayton - Swedesboro)	PAU	686	8
GLASSBORO	Cambridge Rd (Ramble - Forrest Dr)	TVL	461	8
GLASSBORO	PITMAN HP GRID 2	PIT	5,002	51
WATERFORD	Elvins La (WHP - Linda)	HAM	2,994	29
WATERFORD	Garwood Rd (Brittlea to Alberta)	ERL	2,431	26
WATERFORD	Price Ave (Front St - Station Ave)	GDA	1,812	30
WATERFORD	GLOUCESTER HP GRID 1	BLK	1,600	7
WATERFORD	Lake Ave (Huntington Ave - Fern Ave)	GDA	840	13
WATERFORD	Auburn Ave (W Atlantic to W Front)	ATC	1,110	4
WATERFORD	San Pedro Dr (Glendora-St. Mark Dr)	GDA	124	1
WATERFORD	Huntington Ave (Front St - Lake Ave)	GDA	371	12
WATERFORD	CHERRY HILL HP GRID 1	CHL	9,481	153
WATERFORD	PINE HILL HP GRID 1	PHL	18,274	236
WATERFORD	WINSLOW HP GRID 1	BER	2,982	11
WATERFORD	LINDENWOLD HP GRID 1	LWD	4,780	81
WATERFORD	10th Ave (Glendora Ave- Central Ave)	GDA	200	4
WATERFORD	Burnt Mill Rd (Evesham to Fairview)	ASV	467	5
WATERFORD	Pineview Ave (Rondon to New Freedom)	BER	1,102	21
WATERFORD	New Freedom Rd (Ridgeview - Aristone)	BER	1,099	12
WATERFORD	Bate Ave (Haddon to North Ave)	BER	285	3
WATERFORD	Lakeshore Dr (S of Fernwood - Queens La)	HAM	4,650	22
		TOTAL	435,355	6,516
		TOTAL Miles of Main	82	

SOUTH JERSEY GAS COMPANY
ACCELERATED INFRASTRUCTURE REPLACEMENT PROGRAM EXTENSION (AIRP II)
SAMPLE REVENUE REQUIREMENT

	Year 1
Plant in Service as of June 30, 2017	$45,375,000
AFUDC	$24,535
Gross Plant in Service as of June 30, 2017	$45,399,535
Accumulated Depreciation	($565,187)
Rate Base	$44,834,349
Accumulated Deferred Tax	($8,052,764)
Net Rate Base	$36,781,584
Rate of Return - Net	6.13%
Return Requirement (Net of Tax)	$2,254,711
Depreciation Expense, Net of Tax	$419,457
O&M Credit - Leak Repair	($60,000)
Revenue Recovery	$2,614,168
Revenue Factor	1.82940
Total Revenue Requirement, including SUT	**$4,782,365**
Total Revenue Requirement, excluding SUT	**$4,469,500**

SUPPORT

Accumulated Depreciation

Accumulated Depreciation	($210,616)
Cost of Removal	$0
1/2 Annualized Depreciation	($354,570)
Net Accumulated Depreciation	**($565,187)**

Depreciation Expense, Net of Tax

	Mains	Services	Total
Plant In Service	$31,762,500	$13,612,500	$45,375,000
AFUDC	$17,170	$7,366	$24,535
Total Gross Plant In Service	$31,779,670	$13,619,866	$45,399,535
Depreciation Rate	1.37%	2.01%	
Depreciation Expense	$435,381	$273,759	$709,141
Depreciation Expense Retirements			$0
Tax (40.85%)			($289,684)
Depreciation Expense (Net of Tax)			**$419,457**

Accumulated Deferred Tax

	State Tax	Federal Tax
Total Gross Plant In Service	45,399,535	45,399,535
50% Bonus Depreciation		$ 22,699,768
Tax Depreciation	$ 1,702,483	$ 851,241
Total Tax Depreciation	$ 1,702,483	$ 23,551,009
Book Depreciation	(709,141)	(709,141)
Net	993,342	22,841,868
Deferred Tax	$ 89,401	$ 7,994,654
Benefit of State Deferred on Federal		$ (31,290)
Total Deferred Taxes		**$ 8,052,764**

SCHEDULE C

MINIMUM FILING REQUIREMENTS

1) SJG's income statement for the most recent 12 month period, as filed with the BPU.

2) SJG's balance sheet for the most recent 12 month period, as filed with the BPU.

3) A calculation of the proposed rate adjustment based on details related to Program 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.

4) A revenue requirement calculation showing the actual capital expenditures for the period for which the filing is made, as well as supporting calculations.

5) Copies of the current and all previously filed Quarterly Reports.

SCHEDULE D

QUARTERLY REPORTING REQUIREMENTS

1) SJG's overall AIRP II Program and Stipulated Base capital budget broken down by major categories, both budgeted and actual amounts.

2) For the AIRP II Program and for the Stipulated Base:

   a. Descriptions of projects (main replacement and service replacement) funded through the AIRP II Program and through Stipulated Base spending.

   b. Expenditures incurred to date and amounts transferred to plant in service, by project.

   c. Projected miles of mains installed and actual miles of mains installed (and placed in service), broken down by size and type of material being installed.

   d. Projected number of services installed and actual number of services installed and placed in service, broken down by size and type of material being installed.

3) Anticipated AIRP II Program and Stipulated Base timeline with updates and expected changes.

4) 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 Program projects, as well as an explanation of the financial treatment associated with the receipt of the government funds or credits.

5) Explanations of differences of over 5% between budgeted and actual amounts in Program Costs as reflected in data provided in response to 1 above (calendar year end quarterly report only), including a detailed explanation of each cause and a breakdown of the amount of the deviation by cause.

SOUTH JERSEY GAS COMPANY
ACCELERATED INFRASTRUCTURE REPLACEMENT PROGRAM (AIRP)
REVENUE REQUIREMENT

Line No.		
1	Total Investment as of August 31, 2016	$74,461,892
2	AFUDC/Carrying Costs	$5,711,727
3	Total Investment as of August 31, 2016	$80,173,619
4		
5	Less: Deferred Accumulated Depreciation	($1,668,653)
6		
7	Net Plant	$78,504,965
8		
9	Less: Accumulated Deferred Tax	($8,729,885)
10		
11	Rate Base	$69,775,081
12		
13	After-Tax Rate of Return	6.13%
14		
15	Return on Investment	$4,277,212
16		
17	Add: Depreciation, Net of Tax	$728,584
18		
19	Add: AFUDC Equity Tax Loss	$1,032,321
20		
21	Revenue Recovery	$6,038,117
22		
23	Revenue Factor	1.82940
24		
25	**Revenue Requirement, including SUT**	**$11,046,144**
26		
27	**Revenue Requirement, excluding SUT**	**$10,323,499**
28		

SOUTH JERSEY GAS COMPANY
ACCELERATED INFRASTRUCTURE REPLACEMENT PROGRAM (AIRP)
BASE AND TOTAL REVENUES AT PRESENT AND PROPOSED RATES

Component	Amount	Units	Present Rates (Effective Oct 1, 2016) Rate	Present Rates Revenue	Proposed Rates (Effective Dec 1, 2016) Rate	Proposed Rates Revenue	Increase
			RSG		RSG		
Residential Service							
Customer Charge	4,055,511	Bills	$ 9.00	$ 36,499,599	$ 9.00	$ 36,499,599	
Distribution Charge	255,393,546	Therms	0.519066	132,566,106	0.547317	139,781,229	
CIP Revenues				-		-	
CIRT Revenues				-		-	
Total Base Revenues				$ 169,065,705		$ 176,280,828	4.3%
			GSG		GSG		
General Service (0-100,000 Annual Therms)							
Customer Charge	286,978	Bills	$ 27.25	$ 7,820,151	$ 27.25	$ 7,820,151	
Distribution Charge	95,087,060	Therms	0.414224	39,387,342	0.435411	41,401,952	
CIP Revenues				-		-	
CIRT Revenues				-		-	
Total Base Revenues				$ 47,207,493		$ 49,222,102	4.3%
			GSG-LV		GSG-LV		
General Service Large Volume (100,000 + Annual Therms)							
Customer Charge	2,063	Bills	$ 150.00	$ 309,450	$ 150.00	$ 309,450	
Demand Charge	204,557	Mcf	9.0000	1,841,013	9.0000	1,841,013	
Distribution Charge	31,185,054	Therms	0.225848	7,043,082	0.238429	7,435,421	
CIP Revenues				-		-	
CIRT Revenues				-		-	
Total Base Revenues				$ 9,193,545		$ 9,585,884	4.3%

SOUTH JERSEY GAS COMPANY
ACCELERATED INFRASTRUCTURE REPLACEMENT PROGRAM (AIRP)
BASE AND TOTAL REVENUES AT PRESENT AND PROPOSED RATES

Component	Amount	Units	Present Rates (Effective Oct 1, 2016) Rate	Present Rates (Effective Oct 1, 2016) Revenue	Proposed Rates (Effective Dec 1, 2016) Rate	Proposed Rates (Effective Dec 1, 2016) Revenue	Increase
			CTS		CTS		
Comprehensive Firm Transportation Service							
Customer Charge	580	Bills	$ 600.00	$ 348,000	$ 600.00	$ 348,000	
Demand Charge	148,155	Mcf	27.4213	4,062,603	27.4213	4,062,603	
Distribution Charge	27,954,358	Therms	0.039202	1,095,867	0.047608	1,330,851	
CIRT Revenues				-		-	
Total Base Revenues				$ 5,506,469		$ 5,741,454	4.3%

Component	Amount	Units	Present Rate	Present Revenue	Proposed Rate	Proposed Revenue	Increase
			LVS		LVS		
Large Volume Service							
Customer Charge	360	Bills	$ 900.00	$ 324,000	$ 900.00	$ 324,000	
Demand Charge	398,130	Mcf	14.8842	5,925,847	14.8842	5,925,847	
Distribution Charge	99,751,830	Therms	0.036069	3,597,949	0.040282	4,018,203	
CIRT Revenues				-		-	
Total Base Revenues				$ 9,847,795		$ 10,268,050	4.3%

Component	Amount	Units	Present Rate	Present Revenue	Proposed Rate	Proposed Revenue	Increase
			EGS		EGS		
Electric Generation Service							
Customer Charge	66	Bills	$ 25.00	$ 1,650	$ 25.00	$ 1,650	
Demand Charge	2,434	Mcf	6.500	15,821	6.5000	15,821	
Distribution Charge (Nov - Mar.)	89,990	Therms	0.118172	10,634	0.125294	11,275	
Distribution Charge (Apr - Oct.)	166,293	Therms	0.088172	14,662	0.095294	15,847	
CIRT Revenues				-		-	
Total Base Revenues				$ 42,768		$ 44,593	4.3%

SOUTH JERSEY GAS COMPANY
ACCELERATED INFRASTRUCTURE REPLACEMENT PROGRAM (AIRP)
BASE AND TOTAL REVENUES AT PRESENT AND PROPOSED RATES

Component	Amount	Units	Present Rates (Effective Oct 1, 2016) Rate	Present Rates (Effective Oct 1, 2016) Revenue	Proposed Rates (Effective Dec 1, 2016) Rate	Proposed Rates (Effective Dec 1, 2016) Revenue	Increase
			EGS-LV		EGS-LV		
Electric Generation Service - Large Volume							
Customer Charge	24	Bills	$ 180.00	51,840	$ 180.00	51,840	
Demand Charge	22,800	Mcf	19.770237	450,761	20.710978	472,210	
Distribution Charge	3,373,811	Therms	-	-	-	-	
CIRT Revenues				-		-	
Total Base Revenues				$ 502,601		$ 524,050	4.3%

Component	Amount	Units	Present Rate	Present Revenue	Proposed Rate	Proposed Revenue	Increase
			NGV		NGV		
Natural Gas Vehicle Service							
Cust. Charge 0-999 CFH	12	Bills	$ 37.50	$ 450	$ 37.50	$ 450	
Cust. Charge 1,000-4,999 CFH	35	Bills	75.00	31,500	75.00	31,500	
Cust. Charge 5,000-24,999 CFH	12	Bills	200.00	28,800	200.00	28,800	
Cust. Charge 25,000+ CFH	36	Bills	600.00	259,200	600.00	259,200	
Distribution Charge	1,206,617	Therms	0.146504	176,774	0.164072	197,972	
Subtotal Distribution				$ 496,724		$ 517,922	4.3%
Compression Charge	663,510	Therms	0.5428	360,133	0.5428	360,133	
Total Base Revenues				$ 856,857		$ 878,055	

SOUTH JERSEY GAS COMPANY
ACCELERATED INFRASTRUCTURE REPLACEMENT PROGRAM (AIRP)
BASE AND TOTAL REVENUES AT PRESENT AND PROPOSED RATES

Component	Amount	Units	Present Rates (Effective Oct 1, 2016) Rate	Present Rates (Effective Oct 1, 2016) Revenue	Proposed Rates (Effective Dec 1, 2016) Rate	Proposed Rates (Effective Dec 1, 2016) Revenue	Increase
			GLS		GLS		
Gas Lights Service							
Yard Lights	12	Mantles	$ 7.407253	$ 1,067	$ 7.723363	$ 1,112	
Street Lights	431	Mantles	$ 7.985129	41,299	$ 8.325900	43,062	
Total Base Revenues				$ 42,366		$ 44,174	4.3%
TOTAL SYSTEM BASE DISTRIBUTION REVENUES				*$ 242,265,600*		*$ 252,589,190*	*4.3%*
TOTAL SYSTEM INCLUDING OTHER REVENUES				*$ 242,265,600*		*$ 252,589,190*	*4.3%*

INCREASE		INCREASE	10,323,591
TARGET INCREASE		TARGET INCREASE	10,323,499
Difference		Difference	$91