



Agenda Date: 9/17/18
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 NEW)
JERSEY NATURAL GAS COMPANY FOR)
APPROVAL OF BASE RATE ADJUSTMENTS)
PURSUANT TO ITS NJ RISE AND SAFE II)
PROGRAMS) DOCKET NO. GR18030354

Parties of Record:

Andrew K. Dembia, Esq., for New Jersey Natural Gas Company
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

On March 29, 2018, New Jersey Natural Gas Company ("NJNG" or "Company") filed a petition ("March 2018 Petition") with the New Jersey Board of Public Utilities ("Board") seeking authority to establish rates to recover annualized increases in the revenue requirements associated with its New Jersey Reinvestment in System Enhancement program ("NJ RISE Program"), and the extension of its Safety Acceleration and Facility Enhancement ("SAFE") program ("SAFE II Program"). By this Order, the Board considers a Stipulation of Settlement ("Stipulation") executed by NJNG, Board Staff, and the New Jersey Division of Rate Counsel (collectively, "Parties") intended to resolve the Company's requests related to the March 2018 Petition.

BACKGROUND

By Order¹ dated July 23, 2014, the Board authorized NJNG to invest up to \$102.5 million in its NJ RISE Program designed to bolster its utility infrastructure so that it may be better able to withstand the effects of future Major Storm Events.² The NJ RISE Order also authorized NJ

¹ In re the Board's Establishment of a Generic Proceeding to Review the Costs, Benefits and Reliability Impacts of Major Storm Event Mitigation Efforts and In re the Petition of New Jersey Natural Gas Company for Approval of the NJ RISE Program and Associated Rate Recovery Mechanism; Docket Nos. AX13030197 and GR13090828 (July 23, 2014) ("NJ RISE Order").

² "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 ten percent of the customers in area.

RISE Program expenditures to be recovered through future base rate adjustments. The following Program investments are to be made over a five year period:

	\$ millions
Sea Bright Project	3.5
North Seaside Project	6.0
South Seaside Project	25.0
Long Beach Island Project	30.0
Long Beach Island Regulator Station	3.0
Excess Flow Valve ("EFV") Project	<u>35.0</u>
Total NJ RISE Program	102.5

By Order dated September 23, 2016,³ the Board authorized NJNG to recover investments associated with the Company's NJ RISE Program, as well as NJNG's SAFE Program.

Additionally, pursuant to the September 2016 Order, NJNG was to invest up to \$157.5 million⁴ in the SAFE II Program, to be recovered through future base rate adjustments. These investments are to be completed on or before September 30, 2021.

The September 2016 Order also approved a cost recovery mechanism that allowed for annual rate adjustments for spending related to the NJ RISE Program and SAFE II Program investments. In addition, the September 2016 Order required that NJNG file a base rate case with the Board no later than November 2019.

March 2018 Petition

On March 29, 2018, New Jersey Natural Gas Company ("NJNG" or "Company") filed a petition ("March 2018 Petition") with the New Jersey Board of Public Utilities ("Board") seeking approval to recover annualized increases in the revenue requirements associated with its New Jersey Reinvestment in System Enhancement program ("NJ RISE Program"), and the extension of its Safety Acceleration and Facility Enhancement ("SAFE") program ("SAFE II Program"). Specifically, the March 2018 Petition sought approval to recover \$3.2 million in revenue related to NJ RISE Program expenditures through June 30, 2018 and \$3.7 million in revenue related to SAFE II Program costs through June 30, 2018. The March 2018 Petition was based on actual

³ 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 the 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, BPU Docket No. GR15111304 and OAL PUC 00738-16, (September 23, 2016) ("September 2016 Order").

⁴ According to the September 2016 Order, the total cost of the SAFE II Program is estimated at \$200 million. However, \$42.5 million of that amount is not recoverable through SAFE II. The remaining amount of \$157.5 million is recoverable through the SAFE II mechanism.

costs through February 28, 2018 and projected program expenditures from March 1, 2018 through June 30, 2018.

On July 25, 2018, NJNG updated the March 2018 Petition ("July Update") to include actual NJ RISE and SAFE II Program expenditures through June 30, 2018. The revenue requirements for the NJ RISE Program decreased by \$0.31 million while the revenue requirements associated With the SAFE II Program increased by \$150,000. The July Update reflects a net reduction in the proposed combined revenue requirements of \$160,000.

NJ RISE/SAFE II - Revenue Requirements-Roll in Calculation at 6/30/18			
		NJ RISE	NJ SAFE II
1	Gross Plant	\$27,285,827	\$32,238,711
2	Accumulated Depreciation	(\$62,294)	\$9,363,601
3	Net Plant	\$27,223,533	\$41,602,312
4	Accumulated Deferred Taxes	(\$289,853)	(\$1,238,918)
5	Rate Base	\$26,933,680	\$40,363,394
6	Rate of Return-After taxes	6.40%	6.40%
7	Return Requirement-After taxes	\$1,723,270	\$2,582,530
8	Depreciation Expense, net	\$348,519	\$246,776
9	O&M Credit- Leak Repair, net	\$0	(\$71,890)
10	Sub-total [lines 7+8+9]	\$2,071,790	\$2,757,417
11	Revenue Factor	1.3972	1.3972
12	Roll-In Revenue Requirement	\$2,894,705	\$3,852,662

After publication of notice in newspapers of general circulation in the Company's service territory, public hearings were held at 4:30 p.m. and 5:30 p.m. in Freehold and Rockaway on August 22 and 23, 2018, respectively. No members of the public commented at the hearings or filed written comments.

STIPULATION

Upon review of the filing and updates thereto, and subsequent to conducting and reviewing responses to discovery, on August 30, 2018, the Parties executed the Stipulation, which provides as follows:⁵

12. The Company shall implement the base rates associated with the updated annualized increase in the revenue requirement of \$6.74 million as shown in Attachment A of the Stipulation and the associated rate design provided in the July update as detailed in Attachment B of the Stipulation. The Company shall

⁵ Although summarized in this Order, the detailed terms of the stipulation are controlling, subject to the findings and conclusions of this Order. Each paragraph is numbered to coincide with the paragraphs in the Stipulation.

implement the rates specified in Attachment B of the Stipulation effective October 1, 2018.

13. The impact of the increased rates, which reflect Sales and Use Tax ("SUT") at the current rate, to the typical residential heating customer using 100 therms in a month is \$1.05 or approximately 1.0 percent. Calculations showing the rate impact for typical residential and other customers are summarized in Attachment C of the Stipulation.
14. The Parties agree that pursuant to the terms of the September 2016 Base Rate Order, NJNG may implement these rates effective October 1, 2018. The rate adjustments established in the Stipulation shall be provisional and subject to refund as set forth in the September 2016 Base Rate Order. Nothing in the Stipulation will preclude any party from raising any objection in the next base rate case relating to the prudence of the RISE and SAFE II projects and the related expenditures.
15. The Company will submit final tariff sheets within five (5) business days of the effective date of the Board's Order in this docket conforming to the agreed-upon rates and terms set forth in the Stipulation.

DISCUSSION AND FINDING

After review of the record in this matter including the March 2018 Petition, the July Update and the Stipulation, the Board **HEREBY FINDS** the Stipulation to be reasonable, in the public interest, and in accordance with the law. Therefore, 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 APPROVES** the rate adjustments reflected in the Stipulation on a provisional basis, subject to refund and review for prudence in the base rate case that the Company has committed to file by November 2019 under the terms of the September 2016 Order. As a result of the Stipulation, a typical residential heating customer using 100 therms in a winter month will see an increase in their annual bill of \$10.66 or approximately 1.0%.

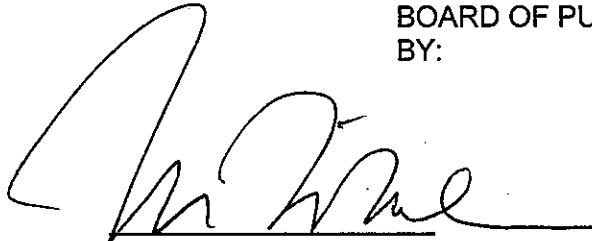
The Company is **HEREBY DIRECTED** to file the appropriate tariff sheets conforming to the terms and conditions of this Order by October 1, 2018.

The Company's costs, including those related to the NJ RISE Program and SAFE II Program, 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.

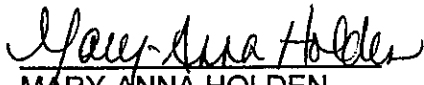
This Order shall be effective on September 27, 2018.

DATED: 9/17/18

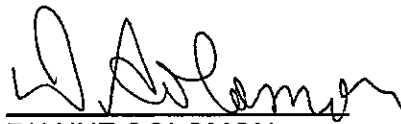
BOARD OF PUBLIC UTILITIES
BY:



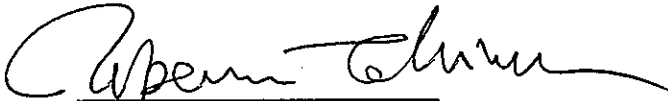
JOSEPH L. FIORDALISO
PRESIDENT



MARY-ANNA HOLDEN
COMMISSIONER



DIANNE SOLOMON
COMMISSIONER

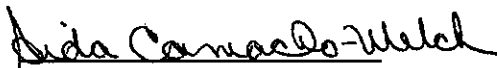


UPENDRA J. CHIVUKULA
COMMISSIONER



ROBERT M. GORDON
COMMISSIONER

ATTEST:



AIDA CAMACHO-WELCH
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 PETITION OF NEW JERSEY NATURAL GAS COMPANY FOR
APPROVAL OF BASE RATE ADJUSTMENTS PURSUANT TO ITS NJ RISE AND SAFE II
PROGRAMS DOCKET NO. GR18030354**

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

IN THE MATTER OF THE PETITION OF)
NEW JERSEY NATURAL GAS)
COMPANY FOR APPROVAL OF BASE) BPU Docket No. GR18030354
RATE ADJUSTMENTS PURSUANT TO ITS)
NJ RISE AND SAFE II PROGRAMS)

STIPULATION

APPEARANCES:

Andrew K. Dembia, Esq., Regulatory Affairs Counsel for the Petitioner, New Jersey Natural Gas Company

Felicia Thomas-Friel, Esq., Managing Attorney – Gas, **Sarah H. Steindel**, Assistant Deputy Rate Counsel, and **Maura Caroselli**, Assistant Deputy Rate Counsel, New Jersey Division of Rate Counsel (Stefanie A. Brand, Director)

Alex Moreau and **Renee Greenberg**, Deputy Attorneys General, for the Staff of the New Jersey Board of Public Utilities (Gurbir S. Grewal, Attorney General of New Jersey)

TO: THE NEW JERSEY BOARD OF PUBLIC UTILITIES

On March 28, 2018, New Jersey Natural Gas Company (“NJNG” or “Company”) filed a Petition (“March 2018 Petition”) with the New Jersey Board of Public Utilities (“Board” or “BPU”) seeking BPU approval to recover the revenue requirements associated with certain gas investment costs of the NJ Reinvestment in System Enhancement program (“NJ RISE Program”) and Safety Acceleration and Facility Enhancement Extension program (“SAFE II Program”) incurred through June 30, 2018.

BACKGROUND

1. **NJ RISE**: In an Order dated March 20, 2013, the BPU directed the State’s energy utilities to investigate prudent, cost efficient and effective opportunities to enhance utility infrastructure against damage from major storm events. On July 23, 2014, the Board issued a decision and Order (“July 2014 Order”) approving a stipulation concerning the NJ RISE Program in Docket Nos. AX13030197 and GR13090828. The July 2014 Order provided approval for NJNG to invest up to \$102.5 million, excluding Allowance for Funds Used During Construction (“AFUDC”), to be recovered through base rate adjustments in order to undertake six (6) infrastructure projects that the Company maintained would make its distribution system more resilient in anticipation of future major storms. The NJ RISE Program is a series of capital investment projects to be completed over a period of five (5) years. The projects include the installation of secondary gas distribution mains into the Sea Bright Peninsula, the Seaside Peninsula and Long Beach Island. Additionally, two (2) regulator station reinforcement projects would be undertaken, one in Mantoloking and the other in Ship Bottom on Long Beach Island. Also, an existing back-up regulator station will be relocated from Mantoloking to the mainland. Finally, the Company would be installing excess flow valves (“EFVs”) on all distribution services in waterfront communities that may be impacted by coastal and back-bay flooding and/or storm surge. The stipulation and July 2014 Order provided for the filing of the March 2018 Petition for cost recovery.

2. The Company's NJ RISE Program rate filing includes a request for recovery in base rates for the actual capital expenditures associated with the NJ RISE projects through June 30, 2018, including actual costs of engineering, design and construction, cost of removal (net of salvage), property acquisition, actual labor, materials overheads and capitalized AFUDC. NJNG's March 2018 Petition in this matter sought Board approval for base rate changes to provide for cost recovery associated with the Company's NJ RISE Program.
3. SAFE II: On September 23, 2016, the Board issued a Decision and Order approving a stipulation concerning the SAFE II Program in Docket No. GR15111304 ("September 2016 Base Rate Order"). The SAFE II Program is an extension of the Company's previously BPU approved Safety Acceleration and Facilities Enhancement program ("SAFE Program"). See, BPU Docket No. GO12030255. The September 2016 Base Rate Order, which included approval of the SAFE II Program, provided for NJNG to invest up to \$200 million, excluding AFUDC, to be recovered through base rate adjustments over the five (5) year term of the SAFE II Program. The SAFE II Program is designed to replace all of the Company's existing unprotected steel mains and services throughout its service territory on or before September 30, 2021.
4. Under the September 2016 Base Rate Order, the Company is required to maintain a Stipulated Base level of capital spending of \$8.5 million per year, not recoverable through the SAFE rate mechanism, for the replacement of unprotected steel mains and services. Additionally, if the Company does not replace at least 58.7 miles of main and associated services through the Stipulated Base expenditures by the end date of the program, the costs of completing the work will not be recoverable through the SAFE rate mechanism.

5. The Company's SAFE II Program rate filing includes a request for recovery in base rates for the actual capital expenditures associated with the SAFE II through June 30, 2018, including the replacement of existing unprotected steel mains and services. The SAFE II Program rate filing and updates included documentation that the Company expended \$8.5 million in Stipulated Base capital spending during the twelve (12) month period from July 1, 2017 through June 30, 2018.
6. As agreed to by the parties and set forth in the September 2016 Base Rate Order, the rate design for the SAFE II Program and NJ RISE Program annual rate adjustments will be structured to reflect the same rate design methodology used to set rates in the Company's most recent base rate case.
7. NJNG's March 2018 Petition in this matter sought Board approval for base rate changes to provide for cost recovery associated with the Company's NJ RISE Program and SAFE II Program (collectively, "Programs"). These Programs were addressed in the September 2016 Base Rate Order that adopted a Stipulation that provided for the filing of requests for the recovery of revenue requirements associated with both programs in March 2018.¹
8. NJNG's March 2018 Petition sought authority to establish rates to recover an annualized increase in revenue requirement of \$6.90 million. The proposed revenue requirement increase is associated with the Programs' investment costs. The annualized increase in

¹ The September 2016 Base Rate Order provides at Paragraph 22b:

"Revenue Requirements associated with SAFE Extension investments that are placed into service through and including June 30, 2018 shall go into base rates effective October 1, 2018. NJNG shall make its initial filing for such rates in March 2018, and update such filing for actual data through June 30, 2018 by July 31, 2018, including actual data on the 'Stipulated Base' expenditures."

The September 2016 Base Rate Order provides at Paragraph 34 that: "The Parties agree that the NJ RISE incremental capital investments as authorized by Board Order in Docket Nos. AX13030197 and GR13090828 will be recovered in base rates in the same manner as the SAFE Extension Cost Recovery mechanism set forth above. The NJ RISE and SAFE Extension annual rate filings shall be combined for administrative ease."

revenue requirement was supported by Schedule NJNG-NJ RISE-1 and Schedule NJNG-SAFE II-1 attached to the March 2018 Petition, which was based upon actual expenditures through February 28, 2018 and projected expenditures through June 30, 2018, and was the basis for the proposed increased base rates.

9. Notice of the Company's March 2018 Petition, including the date, time and place of public hearings, was placed in newspapers having a circulation within the Company's service territory, and was served on the Clerks of the municipalities, the Clerks of the Board of Chosen Freeholders, and the County Executives within the Company's service territory. In accordance with that notice, public hearings on the Company's requests were held on the following dates at two (2) locations in NJNG's service territory: two (2) hearings on August 22, 2018 in Freehold, New Jersey and two (2) hearings on August 23, 2018 in Rockaway, New Jersey. No members of the public provided comments on this matter at the hearings in Freehold and Rockaway, nor were any written comments received by the BPU, NJNG or the New Jersey Division of Rate Counsel ("Rate Counsel").
10. On July 25, 2018, the Company provided updated schedules ("July Update") in this matter, which replaced the projected data in the original schedules with actual data through June 30, 2018. Updated Schedules NJNG-NJ RISE-1 and NJNG-SAFE II-1 reflect the updated annualized increase to revenue requirements associated with the Programs' investment costs. The updated annual increase in revenue requirement reflected in that schedule is lower than the increase in annual revenue requirement initially proposed in this matter. The Company proposed updated rates, as described below, are designed to recover the revenue requirement increases from the updated Schedules of \$6.74 million.

11. Upon reviewing the March 2018 Petition and the July update, conducting and reviewing responses to discovery, and discussing the facts and issues in settlement meetings, Staff of the New Jersey Board of Public Utilities (“Board Staff”), Rate Counsel, and NJNG, the only parties to this proceeding (collectively, “Parties”), stipulate and agree as follows:

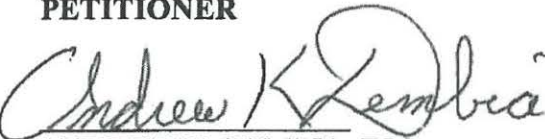
STIPULATED ISSUES

12. The Company shall implement the base rates associated with the updated annualized increase in the revenue requirement of \$6.74 million as shown in Attachment A and the associated rate design provided in the July update as detailed in Attachment B. The Company shall implement the rates specified in Attachment B effective October 1, 2018.
13. The impact of the increased rates, which reflect Sales and Use Tax (“SUT”) at the current rate, to the typical residential heating customer using 100 therms in a month is \$1.05 or approximately 1.0 percent. Calculations showing the rate impacts are summarized in Attachment C.
14. The Parties agree that pursuant to the terms of the September 2016 Base Rate Order, NJNG may implement these rates effective October 1, 2018. The rate adjustments established herein shall be provisional and subject to refund as set forth in the September 2016 Base Rate Order. Nothing herein will preclude any party from raising any objection in the next base rate case relating to the prudence of the RISE and SAFE II projects and the related expenditures.
15. The Company will submit final tariff sheets within five (5) business days of the effective date of the Board’s Order in this docket conforming to the agreed-upon rates and terms set forth in the above paragraphs.

16. 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 that this Stipulation is not adopted in its entirety by the Board in any applicable Order, 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.
17. The Parties agree that they consider the Stipulation to be binding on them for all purposes herein.
18. 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, NJNG, Board Staff, and Rate Counsel 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, in total or by specific item. The 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.
19. The 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 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 in order to implement these rates as of the later of October 1, 2018 or the effective date of the Board Order approving this Stipulation.

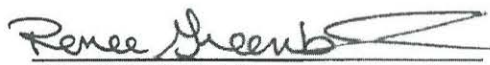
**NEW JERSEY NATURAL GAS
PETITIONER**

By: 
ANDREW K. DEMBIA, ESQ.
New Jersey Natural Gas

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

By: 
HENRY OGDEN, ESQ. *August 30, 2018*
ASSISTANT DEPUTY RATE COUNSEL

**GURBIR S. GREWAL
ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the Board of Public Utilities**

By:  *8/30/2018*
~~ALEX MOREAU~~ Rence Greenberg
DEPUTY ATTORNEY GENERAL

Date: August ²⁸, 2018

NJ RISE PROGRAM
Roll-in Calculation

Investment End Date 6/30/2018

RATE BASE CALCULATION

	Total
Gross Plant	\$27,285,827
Accumulated Depreciation	(\$62,294)
Net Plant	\$27,223,533
Accumulated Deferred Taxes	(\$289,853)
Rate Base	\$26,933,680
Rate of Return - Net of Tax (SCHEDULE NJNG-NJ RISE-2)	6.40%
Return Requirement	\$1,723,270
Depreciation Exp, net	\$348,519
	\$2,071,790
Revenue Factor (SCHEDULE NJNG-NJ RISE-3)	1.3972
Total Revenue Requirement	\$2,894,705

SUPPORT

Gross Plant

Plant in-service	\$26,754,760
AFUDC - Debt	\$137,180
AFUDC - Equity	\$393,887
Total Gross Plant	\$27,285,827

Accumulated Depreciation

Accumulated Depreciation	(\$62,294)
Net Accumulated Depreciation	(\$62,294)

Depreciation Expense (Net of Tax)

Depreciable Plant (xAFUDC-E)	\$26,891,940
AFUDC-E	\$393,887
Depreciation Rate	By Asset Class
Depreciation Expense	\$484,795
Tax @ 28.11%	136,276
Depreciation Expense (Net of Tax)	\$348,519

NJ RISE PROGRAM

Weighted Average Cost of Capital (WACC)

SAFE Extension Capital Structure					
Type	Ratio	Cost	Weighted Cost	Net of Tax	Pre-tax
Long Term Debt	45.07%	3.89%	1.76%	1.26%	1.76%
Short Term Debt	2.43%	1.00%	0.02%	0.02%	0.02%
Common Equity	52.50%	9.75%	5.12%	5.12%	7.12%
	100.00%		6.90%	6.40%	8.90%

Federal Income Tax	21.00%
State NJ Business Income Tax	9.00%
Tax Rate	28.11%

NJ RISE PROGRAM
Revenue Factor Calculation

Revenue Increase	100.0000
Uncollectible Rate	0.4400
BPU Assessment Rate	0.0023
Rate Counsel Assessment Rate	<u>0.0005</u>
Income before State of NJ Bus. Tax	99.5571
State of NJ Bus. Income Tax @ 9.00%	<u>8.9601</u>
Income Before Federal Income Taxes	90.5970
Federal Income Taxes @ 21%	<u>19.0254</u>
Return	<u>71.5716</u>
Revenue Factor	<u><u>1.3972</u></u>

SAFE II PROGRAM
Roll-in Calculation

Investment End Date 6/30/2018

RATE BASE CALCULATION

	Total
Gross Plant	\$32,238,711
Accumulated Depreciation	\$9,363,601
Net Plant	\$41,602,312
Accumulated Deferred Taxes	(\$1,238,918)
Rate Base	\$40,363,394
Rate of Return - After-Tax (SCHEDULE NJNG-SAFE II-2)	6.40%
Return Requirement	\$2,582,530
Depreciation Exp, net	\$246,776
O&M Credit - Leak Repair, net	(\$71,890)
	\$2,757,417
Revenue Factor (SCHEDULE NJNG-SAFE II-3)	1.3972
Total Revenue Requirement	\$3,852,662

SUPPORT

Gross Plant

Plant in-service	\$32,089,210
AFUDC - Debt	\$38,747
AFUDC - Equity	\$110,753
Total Gross Plant	\$32,238,711

Accumulated Depreciation

Accumulated Depreciation	(\$233,496)
Cost of Removal	\$9,597,098
Net Accumulated Depreciation	\$9,363,601

Depreciation Expense (Net of Tax)

Depreciable Plant (xAFUDC-E)	\$32,127,957
AFUDC-E	\$110,753
Depreciation Rate	1.39%/1.21%
Depreciation Expense	\$426,138
Depreciation Expense Retirements	\$82,869
Tax @ 28.11%	96,493
Depreciation Expense (Net of Tax)	\$246,776

SAFE II PROGRAM

Weighted Average Cost of Capital (WACC)

SAFE II Capital Structure

Type	Ratio	Cost	Weighted Cost	Net of Tax	Pre-tax
Long Term Debt	45.07%	3.89%	1.76%	1.26%	1.76%
Short Term Debt	2.43%	1.00%	0.02%	0.02%	0.02%
Common Equity	52.50%	9.75%	5.12%	5.12%	7.12%
	100.00%		6.90%	6.40%	8.90%

Federal Income Tax	21.00%
State NJ Business Income Tax	9.00%
Tax Rate	28.11%

SAFE II PROGRAM
Revenue Factor Calculation

Revenue Increase	100.0000
Uncollectible Rate	0.4400
BPU Assessment Rate	0.0023
Rate Counsel Assessment Rate	<u>0.0005</u>
Income before State of NJ Bus. Tax	99.5571
State of NJ Bus. Income Tax @ 9.00%	<u>8.9601</u>
Income Before Federal Income Taxes	90.5970
Federal Income Taxes @ 21%	<u>19.0254</u>
Return	<u>71.5716</u>
Revenue Factor	<u><u>1.3972</u></u>

New Jersey Natural Gas Company
Base Rates and Revenues at Present and Proposed Rates

Component (a)	Amount (b)	Units (c)	Present Rates		Proposed Rates		
			Rate (d)	Revenue (e)	Rate (f)	Revenue (g)	Increase (h)
			<u>RS</u>		<u>RS</u>		
<u>Residential Service</u>							
Customer Charge	6,045,270	Bills	\$ 8.08	\$ 48,845,785	\$ 8.16	\$ 49,329,406	
Volumetric Charge	477,176,748	Therms	0.3565	170,113,511	0.3656	174,455,819	
Total Base Revenues				\$ 218,959,296		\$ 223,785,226	2.2%

			<u>GSS</u>		<u>GSS</u>		
<u>General Service Small (less than 5,000 Annual Therms)</u>							
Customer Charge	363,249	Bills	\$ 24.49	\$ 8,895,980	\$ 24.73	\$ 8,983,160	
Volumetric Charge	37,521,632	Therms	0.3276	12,292,087	0.3377	12,671,055	
Volumetric Charge - A/C	82,299	Therms	0.0708	5,827	0.0724	5,958	
Total Base Revenues				\$ 21,193,893		\$ 21,660,173	2.2%

			<u>GSL</u>		<u>GSL</u>		
<u>General Service Large (5,000 + Annual Therms)</u>							
Customer Charge	103,676	Bills	\$ 46.98	\$ 4,870,685	\$ 48.93	\$ 5,072,853	
Demand Charge	11,055,933	Therms	1.7215	19,032,788	1.7247	19,068,167	
Volumetric Charge	141,070,844	Therms	0.2547	35,930,744	0.2623	37,002,882	
Volumetric Charge - A/C	265,200	Therms	0.0708	18,776	0.0724	19,201	
Total Base Revenues				\$ 59,852,993		\$ 61,163,103	2.2%

New Jersey Natural Gas Company
Base Rates and Revenues at Present and Proposed Rates

Component (a)	Amount (b)	Units (c)	Present Rates		Proposed Rates		
			Rate (d)	Revenue (e)	Rate (f)	Revenue (g)	Increase (h)
			<u>FT</u>		<u>FT</u>		
<u>Firm Transportation Service*</u>							
Customer Charge	1,344	Bills	\$ 193.26	\$ 259,834	\$ 222.19	\$ 298,730	
Demand Charge	2,263,191	Therms	1.7647	3,993,854	1.8083	4,092,529	
Volumetric Charge	26,900,292	Therms	0.0748	<u>2,012,142</u>	0.0748	<u>2,012,142</u>	
Total Base Revenues				\$ 6,265,830		\$ 6,403,401	2.2%

			<u>DGC</u>		<u>DGC</u>		
<u>Distributed Generation - Commercial*</u>							
Customer Charge	168	Bills	\$ 49.38	\$ 8,296	\$ 49.96	\$ 8,393	
Demand Charge	335,120	Therms	1.3069	437,968	1.3476	451,607	
Volumetric Charge - Winter	2,007,970	Therms	0.0604	121,281	0.0604	121,281	
Volumetric Charge - Summer	1,950,841	Therms	0.0298	<u>58,135</u>	0.0298	<u>58,135</u>	
Total Base Revenues				\$ 625,680		\$ 639,417	2.2%

			<u>NGV / CNG</u>		<u>NGV / CNG</u>		
<u>Natural Gas Vehicle / Compressed Natural Gas Service</u>							
Customer Charge	60	Bills	\$ 50.38	\$ 3,023	\$ 51.06	\$ 3,064	
Volumetric Charge	1,222,089	Therms	0.1618	<u>197,734</u>	0.1654	<u>202,134</u>	
Total Base Revenues				\$ 200,757		\$ 205,197	2.2%

TOTAL SYSTEM BASE DISTRIBUTION REVENUES **\$ 307,098,449** **\$ 313,856,516** **2.2%**

Increase	6,758,068
TARGET Increase	6,747,367
Difference	\$10,701

* In BPU Docket No. GR15111304, the settlement rate design increased fixed charges for Firm Transportation and Distributed Generation - Commercial customers and decreased their volumetric charges. The rates above reflect the maintenance of the rate case volumetric charge and increase to the fixed charges.

New Jersey Natural Gas Company
Net impact of Proposed Rate Changes

<u>Impact on Residential Non-Heating Customers</u>				
			25 therm bill	
Current Rates				
Customer Charge	\$8.62		\$8.62	
Delivery	\$0.5221		\$13.05	
BGSS	\$0.3646		\$9.12	
Total	\$0.8867		\$30.79	
Proposed Rates- effective 10/1/18				
Customer Charge	\$8.70		\$8.70	
Delivery	\$0.5318		\$13.30	
BGSS	\$0.3646		\$9.12	
Total	\$0.8964		\$31.11	
Increase			\$0.32	
Increase as a percent			1.0%	
<u>Impact on Residential Heating Customers</u>				
			100 therm bill	1000 therm annual bill
Current Rates				
Customer Charge	\$8.62		\$8.62	\$103.44
Delivery	\$0.5545		\$55.45	\$554.50
BGSS	\$0.3646		\$36.46	\$364.60
Total	\$0.9191		\$100.53	\$1,022.54
Proposed Rates- effective 10/1/18				
Customer Charge	\$8.70		\$8.70	\$104.40
Delivery	\$0.5642		\$56.42	\$564.20
BGSS	\$0.3646		\$36.46	\$364.60
Total	\$0.9288		\$101.58	\$1,033.20
Increase			\$1.05	\$10.66
Increase as a percent			1.0%	1.0%
<u>Impact on Commercial GSS Customers</u>				
				100 therm bill
Current Rates				
Customer Charge	\$26.11		\$26.11	
Delivery	\$0.5139		\$51.39	
BGSS	\$0.3646		\$36.46	
Total	\$0.8785		\$113.96	
Proposed Rates- effective 10/1/18				
Customer Charge	\$26.37		\$26.37	
Delivery	\$0.5247		\$52.47	
BGSS	\$0.3646		\$36.46	
Total	\$0.8893		\$115.30	
Increase			\$1.34	
Increase as a percent			1.2%	
<u>Impact on Commercial GSL Customers</u>				
				1200 therm bill
Current Rates				
Customer Charge	\$50.09		\$50.09	
Demand Charge	\$1.84		\$176.64	
Delivery	\$0.4367		\$524.04	
BGSS (July 2018)	\$0.4081		\$489.72	
Total	\$0.8448		\$1,240.49	
Proposed Rates- effective 10/1/18				
Customer Charge	\$52.17		\$52.17	
Demand Charge	\$1.84		\$176.64	
Delivery	\$0.4448		\$533.76	
BGSS (July 2018)	\$0.4081		\$489.72	
Total	\$0.8529		\$1,252.29	
Increase			\$11.80	
Increase as a percent			1.0%	