Agenda Date: 10/28/20
Agenda Item: 2C

STATE OF NEW JERSEY

Board of Public Utilities
44 South Clinton Avenue, 9th Floor
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 TO IMPLEMENT AN INFRASTRUCTURE INVESTMENT PROGRAM ("IIP") AND ASSOCIATED COST RECOVERY MECHANISM PURSUANT TO N.J.S.A. 48:2-21 AND N.J.A.C. 14:3-2A	)	DECISION AND ORDER APPROVING STIPULATION OF SETTLEMENT DOCKET NO. GR19020278

Parties of Record:

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

BY THE BOARD:

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

BACKGROUND

On December 19, 2017, the Board enacted the Infrastructure Investment and Recovery regulations ("II&R Regulations"), which are codified at N.J.A.C. 14:3-2A.1 *et seq.* The II&R Regulations establish a regulatory mechanism supporting the implementation of an Infrastructure Investment Program ("IIP") which allows a utility to accelerate its investment in the construction, installation, and rehabilitation of certain non-revenue producing utility plant and facilities that enhance safety, reliability, and/or resiliency. The II&R Regulations became effective on January 16, 2018. Through an IIP approved by the Board, a utility may qualify for accelerated cost recovery of eligible investments, subject to the terms of the subchapter, and any other conditions set forth by the Board. The II&R Regulations also provide for the recovery of IIP costs through a separate clause of the utility's Board approved tariff.

PETITION

On February 28, 2019, NJNG filed a petition with the Board seeking approval of its proposed IIP ("Program") and an associated cost recovery mechanism pursuant to the II&R Regulations ("Petition"). The Company proposed a five (5) year program with a total investment level of approximately $507 million. The Program consisted of various transmission and distribution projects ("T&D Component") and the replacement of the Company-wide Information Technology ("IT") systems ("IT Component").

The proposed T&D Component included seven (7) categories of projects estimated to cost $288.2 million, excluding Allowance for Funds Used During Construction ("AFUDC"). The proposed T&D projects consisted of the following:

Project	Cost ($Millions)	Description
Reliability and Resiliency Projects	$104.25	19 discrete looping reinforcement projects that add 65.9 miles of reinforcement mains to the system
Replacement and Reinforcement Projects	$10.75	Four (4) projects which would replace or add 7.7 miles of mains to the distribution system as well as the installation of a new regulator station
Liquefied Natural Gas ("LNG") Transmission Interconnection	$17	Reconfigures NJNG's system to directly connect the Howell LNG facility to the Company's backbone transmission system
Regulator Station Reconstruction Project	$5	Reconstruction and relocation of the Cedar Bridge regulator station
Trunk Line Replacement Projects	$87	Two (2) projects which would replace older steel mains in Lakewood and Denville; and one (1) project which would extend the Roxbury Trunk Line
Excess Flow Valve ("EFV") Installation Project	$40	Installation of approximately 16,000 EFVs
Regulator Protection Project	$24.2	Installation of approximately 60,000 protective devices on regulator vents

The proposed IT Component consisted of an integrated information technology investment known as the NJR Enterprise eXperience Transformation program ("NEXT"). The Company estimated NEXT's total capital cost to be approximately $219 million. According to the Petition, NEXT would support and modernize NJNG's business processes and technology platforms, while enhancing the security of proprietary information. The Company broke down the NEXT project into five (5) major components: 1) Finance and Accounting; 2) Customer Experience; 3) Customer Information and Billing; 4) Work Force and Asset Management; and 5) the technical foundational platforms required for IT integration, reporting and content management.

The Company proposed to implement a cost recovery mechanism similar to that presently in place in their SAFE II program.[1] The Company also proposed to make annual filings starting on March 31, 2020 to recover investments placed in service.

By Order dated March 29, 2019, the Board determined that the Petition should be retained by the Board for hearing and, pursuant to N.J.S.A. 48:2-32, designated Commissioner Robert M. Gordon as the presiding officer authorized to rule on all motions that arise during the pendency of these proceedings and modify any schedules.[2] Further, the March 2019 Order directed that any entities seeking to intervene or participate in this matter file the appropriate application with the Board by April 29, 2019.

On April 22, 2019, a motion to participate was filed by Public Service Electric and Gas Company ("PSE&G"). By letter dated April 30, 2019, NJNG indicated that it did not object to the motion filed by PSE&G.

Following proper notice, public hearings were held in Rockaway, New Jersey on July 16, 2019 and in Freehold, New Jersey on July 17, 2019. Hearings were held each day at 4:30 p.m. and 5:30 p.m. No members of the public appeared at the public hearings and the Board did not receive any letters from constituents in regard to the Program.

By Order dated July 29, 2019, Commissioner Gordon issued a Prehearing Order establishing the procedural schedule in this matter and granting PSE&G's motion to participate.[3]

By letter dated September 16, 2019, NJNG requested that the procedural schedule be held in abeyance so that the Company could undertake certain analyses requested by Rate Counsel and Staff. Following such analyses, the Company requested that the procedural schedule be reactivated on January 30, 2020. By correspondence dated February 18, 2020, NJNG circulated a revised procedural schedule to the Parties. On March 9, 2020, the Company submitted a cost-benefit analysis of the Program, which was conducted by Gabel Associates, Inc.

STIPULATION

Throughout the course of the proceeding the Parties engaged in extensive discovery and held several telephonic conferences. Following the review of discovery, testimony, the Company's cost-benefit analysis, and participating in several settlement conferences, the Parties executed the Stipulation resolving all of the issues related to the NJNG IIP. The Stipulation provides for the following:[4]

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[1] 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 Docket No. PUC 00738-16, Order dated September 23, 2016.

[2] In re the Petition of New Jersey Natural Gas Company to Implement an Infrastructure Investment Program ("IIP") and Associated Recovery Mechanism Pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:3-2A, Order Designating Commissioner, Setting Manner of Service and Bar Date, BPU Docket No. GR19020278, Order dated March 29, 2019 ("March 2019 Order").

[3] In re the Petition of New Jersey Natural Gas Company to Implement an Infrastructure Investment Program ("IIP") and Associated Recovery Mechanism Pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:3-2A, Prehearing Order with Procedural Schedule and Order on Motions to Intervene or Participate, BPU Docket No. GR19020278, Order dated July 29, 2019 ("Prehearing Order").

[4] Although summarized in this Order, should there be any conflict between this summary and the Stipulation,

11. The Company withdraws its request to include the IT component as part of this IIP.

12. The Parties agree that NJNG's IIP will consist of the specific projects listed in Attachment A to the Stipulation.

13. The Parties agree that the IIP shall be for a five (5)-year term commencing upon Board approval. The IIP budget shall not exceed $150.0 million. The Company further agrees to expend at least $15.1 million, or an average of $3.0 million per year over the five (5)-year term of the IIP, on similar projects and to maintain annual baseline capital spending levels of $70 million for the duration of the IIP, which is based on the Company's historical five (5)-year average of baseline capital spending from 2014 to 2018.

14. NJNG will make annual filings by March 31, beginning in 2021, to recover investments placed in service during the five (5)-year program period that would commence on November 1, 2020 and remain in effect until October 31, 2025. The Company agrees that it will not seek recovery in any annual period where the investment level for that specific period is below $15.0 million. The following table illustrates the filing requirements for this program.

Period	In-Service Period	Filing Date (No later than)	Update Date (No later than)	Effective Date
1	November 1, 2020 - June 30, 2021	March 31, 2021	July 31, 2021	Oct 1, 2021
2	July 1, 2021-June 30, 2022	March 31, 2022	July 31, 2022	Oct 1, 2022
3	July 1, 2022 - June 30, 2023	March 31, 2023	July 31, 2023	Oct 1, 2023
4	July 1, 2023 - June 30, 2024	March 31, 2024	July 31, 2024	Oct 1, 2024
5	July 1, 2024 - June 30, 2025	March 31, 2025	July 31, 2025	Oct 1, 2025
6	July 1, 2025 – October 31, 2025	September 30, 2025	November 30, 2025	Jan. 1, 2026

15. The BPU and other interested parties will have the opportunity to review these annual filings to ensure that the proposed rates are calculated in accordance with the BPU Order approving the IIP and any other relevant BPU Orders. These rate adjustments will be on a provisional basis and the Parties will have an opportunity for a prudency review of all projects in the context of future base rate proceedings.

16. In accordance with N.J.A.C. 14:3-2A.6(f), the Company will file a base rate case no later than five (5) years after the IIP commencement, at which time the prudency of such costs would be subject to review.

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the detailed terms of the Stipulation are controlling, subject to the findings and conclusions of this Order. Paragraphs are numbered to coincide with the Stipulation.

17. The Company will utilize the capital structure and return on equity ("ROE") as determined in NJNG's recent base rate case and will update pursuant to any future rate case(s).

18. If the calculated ROE exceeds the allowed ROE from the utility's last base rate case by 50 basis points or more, accelerated recovery of the IIP investments in the applicable filing period shall not be allowed. Recovery of the disallowed IIP investment cannot be deferred and charged to the ratepayers in a subsequent IIP filing period but the Company may seek recovery of such investments in a subsequent base rate case.

19. The Company's regulated jurisdictional net income shall be calculated by subtracting from total net income 1) other income, net of associated taxes, 2) margins retained from Off-System Sales and Capacity release, net of associated taxes, 3) margins retained from the Storage Incentive Program, net of associated taxes, and 4) margins retained from the energy efficiency programs of Rider "F", net of associated taxes.

20. The Company's rate of return on common equity shall be calculated by dividing the Company's regulated jurisdictional net income for the Annual Period by the Company's average common equity balance for such Annual Period. The common equity balance will be derived by multiplying the Company's average net rate base for the Annual Period by the Board-approved equity ratio in the Company's most recent rate case. The average net rate base should consist of the Annual Period's actual average balances as per the Company's financial statements for the following major rate base components: Distribution Gas Plant in Service, Distribution Accumulated Depreciation, Distribution Accumulated Deferred Income Taxes (including Excess Deferred Taxes), Materials and Supplies, including Gas Inventory, Prepayments, Customer Advances and a Cash Working Capital amount of $64.284 million.

21. The Company will utilize the AFUDC calculation determined in NJNG's recent base rate case.

22. The Company will not include any meter relocation costs within the IIP.

23. The Company will provide a credit in the amount of $100,000 ($71,890, net of tax) for its Operations and Maintenance ("O&M") expense.

24. The Company will calculate a credit for its Depreciation Retirement expense similar to the method utilized in the SAFE II cost recovery filings.

25. For purposes of this program, the Company commits to include costs associated with the EFV component only where a new service was installed.

26. Cost recovery for the IIP capital investments will occur on an annual basis, with schedules, procedures, and filings as detailed in the Stipulation. Costs to be recovered will include the rate of return on net plant in service investments as of the end of the specified period. Net plant in service will be calculated as gross plant in service less accumulated depreciation less accumulated deferred income taxes. The revenue requirement will also include depreciation expense, income taxes, and a revenue factor as more fully described in the Stipulation. In addition, the IIP revenue requirement will be reduced by an O&M savings credit of $100,000 ($71,890, net of

tax), or pro-rated amount where applicable, and a depreciation expense credit related to the investment retired during the specified period. 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 rate of return on the Cost of Removal investment. Depreciation will be calculated at the asset class multiplied by the depreciation rate applied to each respective account. When IIP 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. The O&M expenses associated with the IIP will not be included in the revenue requirement filings nor will such costs be deferred for future recovery.

27. The Parties agree that the review of the prudence of all projects undertaken in the IIP will take place in connection with the base rate adjustments. NJNG therefore agrees that the rate adjustments established in the IIP proceedings shall be provisional and subject to refund based upon a Board finding that NJNG imprudently incurred capital expenditures under the IIP. Such prudence review shall take place in a base rate case which shall be filed no later than five (5) years from the effective date of the Order in this matter.

28. To effectuate the cost recovery process for the IIP investments, NJNG shall proceed on the schedule detailed in the Table in the Stipulation following public notice and public hearings, recognizing that the prudence of the investments will be determined in the next appropriate base rate case proceeding. The schedule anticipates annual notice, public hearings, and rate adjustments to cover all rate changes for the IIP investments.

29. In the rate adjustment proceedings provided for above, the revenue requirement associated with the IIP investments shall be calculated as summarized in the Stipulation.

30. IIP Costs - All qualifying IIP capital investments, including actual costs of engineering, design and construction, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects ("IIP Costs"), will be recovered through a base rate roll-in for each of the time periods described above. The IIP 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.

31. Net Investment - The IIP Investment Costs that have been placed into service less the associated accumulated depreciation and less accumulated deferred income taxes.

32. Weighted Average Cost of Capital ("WACC"): The rate of return on the incremental capital investments undertaken in the IIP shall be recognized at a WACC including a 9.60% ROE reflecting an equity level of 54.00%. The Parties agree that any WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent IIP revenue requirement calculations.

33. The base rate adjustments will be calculated using the following formula: Revenue Requirement = [(Program Rate Base * After Tax WACC) + Depreciation Expense (net of tax) + Tax Adjustments] * Revenue Factor

    i. Program Rate Base: The Program Rate Base will be calculated as Plant in Service, including CWIP transferred into service and associated AFUDC, less accumulated depreciation and less associated accumulated deferred income taxes. AFUDC will be calculated using the same methodology for current distribution assets, consistent with the Company's AFUDC policy, and as permitted by FERC Order 561, which includes compounding AFUDC on a semi-annual basis. Any rate of return authorized by the Board in a subsequent base rate case will be reflected in the subsequent AFUDC calculations as addressed by FERC Order 561.

    ii. Depreciation Expense: Depreciation expense will be calculated as the IIP 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 Parties agree that any depreciation rate authorized by the Board in a subsequent base rate case will be reflected in the subsequent IIP revenue requirement calculations.

    iii. Tax Adjustments: Includes the effects of any flow through items and any tax law changes codified by the Internal Revenue Service, the State of New Jersey or any other taxing authority.

    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 Annual Assessments and Gas Revenue Uncollectibles. The then-current statutory state and federal income tax rates and the then-current BPU/Rate Counsel Assessment rates will be utilized. The percentage used to calculate the uncollectible expense is based upon the percentage determined in the Company's recent base rate case.

34. IIP Rate Design – There is no rate impact on customers at this time from the IIP. The Company will allocate the total revenue requirement to each firm customer class based upon the level of distribution revenues from the rate design approved in the Company's most recent base rate case. A volumetric distribution charge will be determined for each class utilizing the billing determinants used to set rates in the Company's most recent base rate case. The Margin Revenue Factor in NJNG's current Conservation Incentive Program tariff will be revised in order to reflect the IIP annual rate adjustments authorized by this Stipulation. To the extent a different rate design methodology is adopted in the future for establishing base rates, then that rate design shall be utilized for the IIP Cost Recovery Mechanism in IIP filings subsequent to the adoption of such methodology.

35. Minimum Filing Requirements ("MFRs"): Each IIP base rate change filing will be accompanied by the MFRs that are set forth in Attachment B to the Stipulation.

36. IIP Quarterly Report: NJNG will provide quarterly reports on the IIP to Board Staff and Rate Counsel ("Quarterly Report") setting forth the information for the IIP and the

Stipulated Base as set forth in Attachment C to the Stipulation. This reporting will begin with the quarter ending December 31, 2020 and be filed by February 28, 2021, and continue quarterly with reports due 60 days after the end of the respective quarter that is reflected in the report, until Program and Stipulated Base expenditures are complete.

37. The initial estimated bill impact for a residential heating customer using 1,000 therms annually is estimated to begin on October 1, 2021 and is $0.80 or 0.1 percent (0.1%) based on investments in service as of June 30, 2021. The cumulative increases over the six (6)-year recovery period are estimated to be $28.00 for the typical residential heating customer, or 2.4 percent (2.4%). Attachment D to the Stipulation presents the estimated bill impacts for the period of the program.

DISCUSSION AND FINDINGS

In evaluating a proposed settlement, the Board must review the record, balance the interests of the ratepayers and the shareholders, and determine whether the settlement represents a reasonable disposition of the issues that will enable the Company to provide its customers in this State with safe, adequate, and proper service at just and reasonable rates. The II&R Regulations were created to provide a rate recovery mechanism that encourages and supports all necessary accelerated construction, installation, and rehabilitation of certain utility plant and equipment. The Board believes that IIPs are important for continued system safety, reliability, resiliency, and sustained economic growth. After carefully considering the record in this proceeding and the terms of the Stipulation, the Board is persuaded that the current settlement satisfies these goals.

The Board agrees that replacement of aging infrastructure, as well as the implementation of certain investments in the Company's system, if properly executed, should mitigate potential damage to the system, as well as enhance public safety and result in increased long-term reliability.

With respect to the cost recovery mechanism, the Board is persuaded that the mechanism proposed in the Stipulation allows the Company recovery for all expenditures related to the utility plant that has been placed in service, but on a provisional basis, subject to refund. These costs will be subject to review in the next base rate case, which the Company has committed to filing no later than five (5) years after the Board's approval of the Program's start date. The Board, in its discretion, may require NJNG to file its next base rate case within a shorter period. The Board believes the cost recovery mechanism adopted in the Stipulation strikes an effective balance between giving the Company a reasonable opportunity to earn its allowed rate of return over the life of the investment while still protecting ratepayers from paying more than reasonably necessary. No rates will be charged to customers until the facilities for which the rates are being charged are in service. The Stipulation also mandates the Company to maintain certain reporting requirements, which provides additional protection to ratepayers.

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

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

The Board **HEREBY RATIFIES** the decisions made by Commissioner Gordon during the pendency of this proceeding for the reasons stated in his decisions and Orders.

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

This Order shall be effective on October 31, 2020.

DATED: October 28, 2020

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

AIDA CAMACHO-WELCH
SECRETARY

IN THE MATTER OF THE PETITION OF NEW JERSEY NATURAL GAS COMPANY TO IMPLEMENT AN INFRASTRUCTURE INVESTMENT PROGRAM ("IIP") AND ASSOCIATED RECOVERY MECHANISM PURSUANT TO N.J.S.A 48:2-21 AND N.J.A.C. 14:3-2A

DOCKET NO. GR19020278

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October 8, 2020

VIA ELECTRONIC TRANSMISSION

The Honorable Aida Camacho-Welch, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, NJ 08625-0350

Re: In the Matter of the Petition of New Jersey Natural Gas Company for Approval to Implement an Infrastructure Investment Program ("IIP") and Associated Cost Recovery Mechanism Pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:3-2A
BPU Docket No. GR19020278

Dear Secretary Camacho-Welch:

Enclosed please find, on behalf of New Jersey Natural Gas Company, a fully executed Stipulation of Settlement in the above captioned matter.

Should you have any questions, please do not hesitate to contact me.

Respectfully submitted,

Andrew K Dembia

Andrew K Dembia, Esq.
Regulatory Affairs Counsel

AKD/sf
Encl.
C: Service List

In the Matter of the Petition of New Jersey Natural Gas Company for Approval to Implement an Infrastructure Investment Program ("IIP") and Associated Cost Recovery Mechanism Pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:3-2A
BPU Docket No. GR19020278

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BPU Docket No. GR19020278

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In the Matter of the Petition of New Jersey Natural Gas Company for Approval to Implement an Infrastructure Investment Program ("IIP") and Associated Cost Recovery Mechanism Pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:3-2A
BPU Docket No. GR19020278

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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 TO IMPLEMENT AN	)	**BPU DOCKET NO. GO19020278**
INFRASTRUCTURE INVESTMENT	)	
PROGRAM ("IIP") AND ASSOCIATED	)	
COST RECOVERY MECHANISM	)	
PURSUANT TO N.J.S.A. 48:2-21 AND	)	
N.J.A.C. 14:3-2A	)	

STIPULATION

APPEARANCES:

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

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

Terel Klein, Deputy Attorney 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 February 28, 2019, pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:3-2A, New Jersey Natural Gas Company ("NJNG" or "Company"), filed a petition with the New Jersey Board of Public Utilities ("BPU" or "Board") for approval of an Infrastructure Investment Program ("IIP") ("Petition").[1] NJNG sought approval of: 1) a series of capital investment projects that promote improved reliability and safety through facility enhancements; 2) capital investment in new Information Technology ("IT") platforms and associated modules that will allow NJNG to

[1] On December 19, 2017, the Board adopted new rules for utility "Infrastructure Investment and Recovery" to encourage utilities to implement IIPs. These rules are codified at N.J.A.C. 14:3-2A.1 et seq. ("IIP Rules") and became effective on January 16, 2018.

maintain reliability and provide superior service to customers; and 3) a related IIP rider to the Company's Tariff, to permit NJNG to recover the costs of the proposed IIP.

BACKGROUND

1. In the Petition, NJNG sought Board approval of a group of capital investment projects aimed at enhancing the safety, reliability, and resiliency of NJNG's gas distribution system through infrastructure replacements, upgrades, and/or redundancies. The proposed transmission and distribution projects were estimated to cost approximately $288.2 million, excluding Allowance For Funds Used During Construction ("AFUDC"), and included the following projects:

(1) Reliability and Resiliency Projects:[2]

i. Denville-Randolph Reinforcement
ii. Southern Randolph Reinforcement
iii. Eastern Montville Reinforcement Loop
iv. Flanders Route 206 Reinforcement Loop
v. Lincoln Park Reinforcement Loop
vi. Mt. Arlington - Jefferson Reinforcement Loop
vii. Netcong - Stanhope Reinforcement Loop
viii. Northern Boonton Reinforcement Loop
ix. Taylortown Reinforcement Loop
x. Western Randolph Reinforcement Loop
xi. Western Freehold Reinforcement Loop
xii. Bayville - Forked River Reinforcement Loop
xiii. Beachwood Reinforcement Loop

[2] The projects in this category were designed and directed at enhancing key portions of the gas distribution system to provide benefits to customers in both normal and adverse weather conditions. The Company's proposed IIP included 19 discrete looping reinforcement projects that add 65.9 miles of reinforcement mains to the system. The looping reinforcement projects add secondary feeds or interconnect single feed distribution systems.

xiv. Hope Chapel Reinforcement Loop

xv. Southern Jackson Ridgeway Reinforcement Loop

xvi. Western Jackson Bowman Reinforcement Loop

xvii. Whiting - Lacey Reinforcement Loop

xviii. Whiting - Toms River Reinforcement Loop

xix. Sandy Hook Reinforcement Loop,

(2) Replacement and Reinforcement Projects:[3]

i. Brielle Pump Line Reinforcement

ii. Toms River East Reinforcement

iii. Joe Parker Reinforcement

iv. Dover Chester Reinforcement,

(3) LNG Transmission Interconnection Project - Howell,[4]

(4) Regulator Station Reconstruction Project - Cedar Bridge,[5]

(5) Trunk Line Replacement Projects:[6]

i. Lakewood Trunk Line Replacement

ii. Denville Trunk Line Replacement

iii. Roxbury Route 46 Trunk Extension,

(6) Excess Flow Valve ("EFV") Installation Project,[7] and

(7) Regulator Protection Project.[8]

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[3] The proposed replacement and reinforcement projects would replace or add 7.7 miles of mains to the distribution system as well as the installation of a new regulator station. The replacement reinforcement projects were proposed to address system bottlenecks or pressure concerns in various locations on the distribution system.

[4] The proposed Howell LNG Transmission interconnection project reconfigures NJNG's system to directly connect the Howell LNG facility to the Company's backbone transmission system to enhance reliability.

[5] This proposed project would entail the reconstruction and relocation of a distribution regulator station in order to mitigate existing storm-related risks, including station operations and communications.

[6] Both the proposed Lakewood and Denville trunk line replacement projects would entail replacing and upgrading older steel mains with state of the art steel mains. The proposed Lakewood replacement will improve service reliability to a line feeding five (5) regulator stations, while the proposed Denville line would improve service reliability and operating flexibility through higher operating pressures across portions of Morris County capable of being fed by multiple interstate pipelines. The Roxbury Trunk Line project is the extension of the 12-inch steel 230 pounds per square inch gauge ("psig") trunk system main, ending with a new regulator station to serve the local distribution system. This proposed project would allow for improved supplier diversity and pressure reinforcement to the existing backbone system by extending the system that supplies gas to the western region of Morris County, currently fed by the Tennessee, Columbia, and Texas Eastern interstate pipeline systems.

[7] This proposed project entails the installation of approximately 16,000 EFVs, which provide important safety benefits by reducing the potential for gas venting to the atmosphere when storm damage impacts dwellings or other service disruptions occur. The installation of EFVs improves the safety of service to the thousands of customers as well as the reliability of service to all customers in these communities. The EFV installations are a continuation of those previously approved by the BPU under the Company's NJ RISE program.

2. Additionally, NJNG proposed to include approximately $218.8 million for the replacement of the Company's IT platforms and systems. NJNG currently utilizes the JD Edwards World platform Information Technology ("JDE") system across all of its businesses. Extended support for this system, by Oracle, the owner of JDE, is ending by April 2025. Therefore, NJNG is in the process of switching to new IT systems in order to provide continuity of service as well as modernize the Company's aging IT systems.

3. NJNG's proposed IIP would result in the projected accelerated capital investment of approximately $507 million (excluding AFUDC) over five (5) years.

4. The Company requested BPU approval of the above referenced IIP projects to be completed over a five (5)-year period. In conjunction with the implementation of the projects, NJNG sought Board approval to implement a tariff rider that will enable it to recover, on a provisional basis, capital investment costs incurred in connection with the projects through annual rate filings over a six (6)-year period. The proposed IIP rates would be assessed to all of the Company's firm customers.

5. NJNG also sought authority to implement a cost recovery mechanism for its proposed IIP that complies with N.J.A.C. 14:3-2A.1 et seq. and is similar to that presently in place and approved by the Board for NJNG's capital investment associated with its existing SAFE II Program. The Company proposed that NJNG's investment costs would be recovered utilizing the cost recovery mechanism previously adopted by the Board and utilized in the Company's SAFE Extension ("SAFE II") Program that was approved in the context of the

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[8] The proposed Regulator Protection Project entails the installation of approximately 60,000 protective devices on regulator vents in flood areas. This project will reduce the water from infiltrating into regulators and meters during high water events. This proposed project would improve reliability and resiliency by avoiding potential storm-related outages and reduces the need for replacement meter and regulator sets due to storm damage.

Company's 2016 base rate case.[9]

6. As filed, customers would see no change in their bill before October 2022. Based on the Company's current rates and anticipated sales volumes, a typical residential heat customer using 1,000 therms annually could experience an average rate increase of approximately 1.8 percent each year, or $18.35 per year, over the six (6)-year recovery period based on the proposals in the Petition. The cumulative increases over the six (6)-year recovery period are estimated to be $110.10 for the typical residential heat customer, or 10.7 percent.

7. On March 29, 2019, the Board issued an Order designating Commissioner Robert M. Gordon as the Presiding Officer with authority to rule on all Motions that arise during the pendency of this proceeding and modify any schedules that may be set as necessary to secure a just and expeditious determination of the issues.[10] The Board further directed any parties interested in seeking to intervene or participate, to file the appropriate application by April 29, 2019. [11] On April 22, 2019, Public Service Electric and Gas Company ("PSE&G") filed for Participant status in this proceeding. By letter dated April 30, 2019, NJNG did not oppose PSE&G's request for Participant status.

8. Notice of the Company's 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

[9] In The Matter Of The Petition of New Jersey Natural Gas Company For Approval Of An Increase In Gas Base Rates And In Changes For Its Tariff For Gas Service, Approval For 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. Docket No. GR15111304 (September 23, 2016).

[10] Order Designating Commissioner, Setting Manner of Service And Bar Date, BPU Docket No. GO19020278, (March 29, 2019).

[11] Id.

Freeholders, and the County Executives within the Company's service territory. In accordance with that notice, two (2) public hearings on the Company's Petition were held on July 16, 2019 in Rockaway, New Jersey and two (2) public hearings were held on July 17, 2019 in Freehold, New Jersey. No members of the public provided comments on these matters at the hearings, nor were any written comments received by the BPU, NJNG or the New Jersey Division of Rate Counsel ("Rate Counsel").

9. On July 29, 2019, Commissioner Gordon issued a prehearing order in this matter setting forth a procedural schedule and ruling on PSE&G's motion to participate. On September 16, 2019 NJNG submitted a request to the Honorable Commissioner Gordon, requesting that the procedural schedule be held in abeyance until January 30, 2020. This abeyance was requested in order to afford NJNG adequate time to undertake certain analysis requested by Rate Counsel and Board Staff, namely, to perform Cost Benefit Analyses ("CBAs") for the proposed infrastructure projects contained in the Petition. On January 29, 2020, the Company requested that the procedural schedule be re-activated in this matter as it had completed the requested CBAs and subsequently provided them to Rate Counsel and Board Staff.

10. Upon reviewing the Petition, the CBAs, and responses to discovery, Board Staff, Rate Counsel, and NJNG, the only parties to this proceeding (collectively, "Parties"), stipulate and agree as follows:

STIPULATED ISSUES

11. The Company withdraws its request to include the IT component as part of this IIP.

12. The Parties agree that NJNG's IIP will consist of the specific projects listed in Attachment A.

13. The Parties agree that the IIP shall be for a five (5)-year term commencing upon Board approval. The IIP budget shall not exceed $150.0 million. The Company further agrees to expend at least $15.1 million, or an average of $3.0 million per year over the five (5)-year term of the IIP, on similar projects and to maintain annual baseline capital spending levels of $70 million for the duration of the IIP, which is based on the Company's historical five (5)-year average of baseline capital spending from 2014 to 2018.

14. NJNG will make annual filings by March 31, beginning in 2021, to recover investments placed in service during the five (5)-year program period that would commence on November 1, 2020 and remain in effect until October 31, 2025. The Company agrees that it will not seek recovery in any annual period where the investment level for that specific period is below $15.0 million. The following table illustrates the filing requirements for this program.

Period	In-Service Period	Filing Date (No later than)	Update Date (No later than)	Effective Date
1	November 1, 2020-June 30, 2021	March 31, 2021	July 31, 2021	Oct 1, 2021
2	July 1, 2021-June 30, 2022	March 31, 2022	July 31, 2022	Oct 1, 2022
3	July 1, 2022 -June 30, 2023	March 31, 2023	July 31, 2023	Oct 1, 2023
4	July 1, 2023 -June 30, 2024	March 31, 2024	July 31, 2024	Oct 1, 2024
5	July 1, 2024 -June 30, 2025	March 31, 2025	July 31, 2025	Oct 1, 2025
6	July 1, 2025 –October 31, 2025	September 30, 2025	November 30, 2025	Jan. 1, 2026

15. The BPU and other interested parties will have the opportunity to review these annual filings to ensure that the proposed rates are calculated in accordance with the BPU Order approving the IIP and any other relevant BPU Orders. These rate adjustments will be on a

provisional basis and the Parties will have an opportunity for a prudency review of all projects in the context of future base rate proceedings.

16. In accordance with N.J.A.C. 14:3-2A.6(f), the Company will file a base rate case no later than five (5) years after the IIP commencement, at which time the prudency of such costs would be subject to review.

17. The Company will utilize the capital structure and return on equity ("ROE") as determined in NJNG's recent base rate case and will update pursuant to any future rate case(s).[12]

18. If the calculated ROE exceeds the allowed ROE from the utility's last base rate case by 50 basis points or more, accelerated recovery of the IIP investments in the applicable filing period shall not be allowed. Recovery of the disallowed IIP investment cannot be deferred and charged to the ratepayers in a subsequent IIP filing period but the Company may seek recovery of such investments in a subsequent base rate case.

19. The Company's regulated jurisdictional net income shall be calculated by subtracting from total net income 1) other income, net of associated taxes, 2) margins retained from Off-System Sales and Capacity release, net of associated taxes, 3) margins retained from the Storage Incentive Program, net of associated taxes, and 4) margins retained from the energy efficiency programs of Rider "F", net of associated taxes.

20. The Company's rate of return on common equity shall be calculated by dividing the Company's regulated jurisdictional net income for the Annual Period by the Company's average common equity balance for such Annual Period. The common equity balance will be derived by multiplying the Company's average net rate base for the Annual Period by

[12] In the Matter of 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, Pursuant to N.J.S.A. 48:2-21 and 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. GR19030420 (November 13, 2019).

the Board-approved equity ratio in the Company's most recent rate case. The average net rate base should consist of the Annual Period's actual average balances as per the Company's financial statements for the following major rate base components: Distribution Gas Plant in Service, Distribution Accumulated Depreciation, Distribution Accumulated Deferred Income Taxes (including Excess Deferred Taxes), Materials and Supplies, including Gas Inventory, Prepayments, Customer Advances and a Cash Working Capital amount of $64.284 million.

21. The Company will utilize the AFUDC calculation determined in NJNG's recent base rate case.[13]

22. The Company will not include any meter relocation costs within the IIP.

23. The Company will provide a credit in the amount of $100,000 ($71,890, net of tax) for its Operations and Maintenance ("O&M") expense.

24. The Company will calculate a credit for its Depreciation Retirement expense similar to the method utilized in the SAFE II cost recovery filings.

25. For purposes of this program, the Company commits to include costs associated with the EFV component only where a new service was installed.

26. Cost recovery for the IIP capital investments will occur on an annual basis, with schedules, procedures, and filings as detailed herein. Costs to be recovered will include the rate of return on net plant in service investments as of the end of the specified period. Net plant in service will be calculated as gross plant in service less accumulated depreciation less accumulated deferred income taxes. The revenue requirement will also include depreciation expense, income taxes, and a revenue factor as more fully described

[13] Id.

below. In addition, the IIP revenue requirement will be reduced by an O&M savings credit of $100,000 ($71,890, net of tax), or pro-rated amount where applicable, and a depreciation expense credit related to the investment retired during the specified period. 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 rate of return on the Cost of Removal investment. Depreciation will be calculated at the asset class multiplied by the depreciation rate applied to each respective account. When IIP 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. The O&M expenses associated with the IIP will not be included in the revenue requirement filings nor will such costs be deferred for future recovery.

27. The Parties agree that the review of the prudence of all projects undertaken in the IIP will take place in connection with the base rate adjustments. NJNG therefore agrees that the rate adjustments established in the IIP proceedings shall be provisional and subject to refund based upon a Board finding that NJNG imprudently incurred capital expenditures under the IIP. Such prudence review shall take place in a base rate case which shall be filed no later than five (5) years from the effective date of the Order in this matter.

28. To effectuate the cost recovery process for the IIP investments, NJNG shall proceed on the schedule detailed in the Table above following public notice and public hearings, recognizing that the prudence of the investments will be determined in the next appropriate base rate case proceeding. The schedule anticipates annual notice, public hearings, and rate adjustments to cover all rate changes for the IIP investments.

29. In the rate adjustment proceedings provided for above, the revenue requirement associated with the IIP investments shall be calculated as summarized below.

30. IIP Costs - All qualifying IIP capital investments, including actual costs of engineering, design and construction, including actual labor, materials, overhead, and capitalized AFUDC associated with the projects ("IIP Costs"), will be recovered through a base rate roll-in for each of the time periods described above. The IIP 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.

31. Net Investment - The IIP Investment Costs that have been placed into service less the associated accumulated depreciation and less accumulated deferred income taxes.

32. Weighted Average Cost of Capital ("WACC"): The rate of return on the incremental capital investments undertaken in the IIP shall be recognized at a WACC including a 9.60% ROE reflecting an equity level of 54.00%. The Parties agree that any WACC authorized by the Board in a subsequent base rate case will be reflected in the subsequent IIP revenue requirement calculations.

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

Revenue Requirement = [(Program Rate Base * After Tax WACC) + Depreciation Expense (net of tax) + Tax Adjustments] * Revenue Factor

i. Program Rate Base: The Program Rate Base will be calculated as Plant in Service, including CWIP transferred into service and associated AFUDC, less accumulated depreciation and less associated accumulated deferred income taxes. AFUDC will be calculated using the same methodology for current distribution assets, consistent with the Company's AFUDC policy, and as permitted by FERC Order 561, which includes compounding AFUDC on a semi-annual basis. Any rate of return authorized by the Board in a subsequent base rate case will be reflected in the subsequent AFUDC calculations as addressed by FERC Order 561.

ii. Depreciation Expense: Depreciation expense will be calculated as the IIP 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 Parties agree that any depreciation rate authorized by the Board in a subsequent base rate case will be reflected in the subsequent IIP revenue requirement calculations.

iii. Tax Adjustments: Includes the effects of any flow through items and any tax law changes codified by the Internal Revenue Service, the State of New Jersey or any other taxing authority.

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 Gas Revenue Uncollectibles. The then-current statutory state and federal income tax rates and the then-current BPU/RC Assessment rates will be utilized. The percentage used to calculate the uncollectible expense is based upon the percentage determined in the Company's recent base rate case.

34. IIP Rate Design – There is no rate impact on customers at this time from the IIP. The Company will allocate the total revenue requirement to each firm customer class based upon the level of distribution revenues from the rate design approved in the Company's most recent base rate case. A volumetric distribution charge will be determined for each

class utilizing the billing determinants used to set rates in the Company's most recent base rate case. The Margin Revenue Factor in NJNG's current Conservation Incentive Program tariff will be revised in order to reflect the IIP annual rate adjustments authorized by this Stipulation. To the extent a different rate design methodology is adopted in the future for establishing base rates, then that rate design shall be utilized for the IIP Cost Recovery Mechanism in IIP filings subsequent to the adoption of such methodology.

35. Minimum Filing Requirements ("MFRs"): Each IIP base rate change filing will be accompanied by the MFRs that are set forth in Attachment B hereto.

36. IIP Quarterly Report: NJNG will provide quarterly reports on the IIP to Board Staff and Rate Counsel ("Quarterly Report") setting forth the information for the IIP and the Stipulated Base as set forth in Attachment C. This reporting will begin with the quarter ending December 31, 2020 and be filed by February 28, 2021, and continue quarterly with reports due 60 days after the end of the respective quarter that is reflected in the report, until Program and Stipulated Base expenditures are complete.

37. The initial estimated bill impact for a residential heating customer using 1,000 therms annually is estimated to begin on October 1, 2021 and is \$0.80 or 0.1 percent (0.1%) based on investments in service as of June 30, 2021. The cumulative increases over the six (6)-year recovery period are estimated to be \$28.00 for the typical residential heating customer, or 2.4 percent (2.4%). Attachment D presents the estimated bill impacts for the period of the program.

38. 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.

39. The Parties agree that they consider the Stipulation to be binding on them for all purposes herein.

40. 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.

41. 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 respectfully request that the Board issue a Decision and Order approving this Stipulation in its entirety, in accordance with the terms hereof, as soon as reasonably possible.

NEW JERSEY NATURAL GAS COMPANY
PETITIONER

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

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

By: ______/s/ HENRY M OGDEN
HENRY M. OGDEN, ESQ.
ASSISTANT DEPUTY RATE COUNSEL

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

By: ______________________________
TEREL KLEIN
DEPUTY ATTORNEY GENEER RAL

Date: October 7, 2020

INFRASTRUCTURE INVESTMENT PROGRAM			
A. RELIABILITY AND RESILIENCY PROJECTS (15):	**Projected In-Service**	**Estimated Investment Cost**	
Denville-Randolph Reinforcement	September-23	$ 5,000	
Southern Randolph Reinforcement	December-21	$ 2,500	
Flanders Route 206 Reinforcement Loop	September-24	$ 4,000	
Lincoln Park Reinforcement Loop	June-25	$ 1,000	
Mt. Arlington - Jefferson Reinforcement Loop	September-24	$ 4,000	
Netcong-Stanhope Reinforcement Loop	September-24	$18,000	
Northern Boonton Reinforcement Loop	December-21	$ 1,250	
Taylortown Reinforcement Loop	June-25	$ 2,500	
Western Randolph Reinforcement Loop	September-25	$ 6,000	
Western Freehold Reinforcement Loop	September-21	$ 2,500	
Bayville-Forked River Reinforcement Loop	September-24	$ 2,500	
Beachwood Reinforcement Loop	June-24	$ 1,000	
Hope Chapel Reinforcement Loop	October-25	$ 2,500	
Southern Jackson Ridgeway Reinforcement Loop	September-23	$ 1,500	
Western Jackson Bowman Reinforcement Loop	September-24	$ 4,000	
			$ 58,250
B. REPLACEMENT AND REINFORCEMENT PROJECTS (4):			
Brielle Pump Line Reinforcement	October-23	$ 3,000	
Toms River East Reinforcement	December-23	$ 4,000	
Joe Parker Reinforcement	September-22	$ 1,750	
Dover Chester Reinforcement	June-22	$ 2,000	
			$ 10,750
C. REGULATOR STATION RECONSTRUCTION PROJECT (1):			
Cedar Bridge Regulator Station	October-25	$ 5,000	
			$ 5,000
D. TRUNK LINE REPLACEMENT PROJECTS (2):			
Denville Trunk Line Replacement	October-25	$25,000	
Roxbury Route 46 Trunk Extension	June-25	$12,000	
			$ 37,000
E. EXCESS FLOW VALVES (8,000):			
Excess Flow Valves	Various	$20,000	
			$ 20,000
F. REGULATOR PROTECTORS (47,500):			
Vents	Various	$19,000	
			$ 19,000
			$150,000

New Jersey Natural Gas Company Minimum Filing Requirements
Minimum Filing Requirement
14:3-2 A.2 Project Eligibility
a) The projects within an Infrastructure Investment Program shall be: 1. Related to safety, reliability, and/or resiliency; 2. Non-revenue producing; 3. Specifically identified by the utility within its petition in support of an Infrastructure Investment Program; and 4. Approved by the Board for inclusion in an Infrastructure Investment Program, in response to the utility's petition.
b) Projects within an Infrastructure Investment Program 1. The replacement of gas utilization pressure cast iron mains with elevated pressure mains and associated services; 2. The replacement of mains and services that are identified as high risk in a gas utility's Distribution Integrity Management Plan; 3. The installation of gas excess flow valves where existing gas service line replacements require them, excluding excess flow valves installed upon customer request pursuant to 49 CFR 192.383; 4. Electric distribution automation investments, including, but not limited to, supervisory control and data acquisition equipment, cybersecurity investments, relays, reclosers, voltage and reactive power control, communications networks, and distribution management system integration; 5. The installation of break-predictive water sensors and wastewater sensors to curtail combined sewer overflows; and 6. Other projects deemed appropriate by the Board.
c) A utility shall maintain its capital expenditures on projects similar to those proposed within the utility's Infrastructure Investment Program. These capital expenditures shall amount to at least 10 percent of any approved Infrastructure Investment Program. These capital expenditures shall be made in the normal course of business and recovered in a base rate proceeding, and shall not be subject to the recovery mechanism set forth in N.J.A.C. 14:3-2A.6.

Minimum Filing Requirement
14:3-2A.3 Annual baseline spending levels
a) A utility seeking to establish an Infrastructure Investment Program shall, within its petition, propose annual baseline spending levels to be maintained by the utility throughout the length of the proposed Infrastructure Investment Program. These expenditures shall be recovered by the utility in the normal course within the utility's next base rate case.
b) In proposing annual baseline spending levels, the utility shall provide appropriate data to justify the proposed annual baseline spending levels, which may include historical capital expenditure budgets, projected capital expenditure budgets, depreciation expenses, and/or any other data relevant to the utility's proposed baseline spending level.
14:3-2A.4 Infrastructure Investment Program length and limitations
a) A utility may petition the Board for approval of an Infrastructure Investment Program extending for a period of five years or less.
e) Allowance for Funds Used During Construction (AFUDC) shall be permitted under an Infrastructure Investment Program, but a utility shall not utilize AFUDC once Infrastructure Investment Program facilities are placed in service.
14:3-2A.5 Infrastructure Investment Program minimum filing and reporting requirements
b) A utility requesting approval of an Infrastructure Investment Program shall include within its petition:
1. Projected annual capital expenditure budgets for a five-year period, identified by major categories of expenditures;
2. Actual annual capital expenditures for the previous five years, identified by major categories of expenditures;
3. An engineering evaluation and report identifying the specific projects to be included in the proposed Infrastructure Investment Program, with descriptions of project objectives, including the specific expected resilience benefits, detailed cost estimates, in service dates, and any applicable cost-benefit analysis for each project;
4. An Infrastructure Investment Program budget setting forth annual budget expenditures;
5. A proposal addressing when the utility intends to file its next base rate case, consistent with N.J.A.C. 14:3-2A.6(f);
6. Proposed annual baseline spending levels, consistent with N.J.A.C. 14:3-2A.3(a) and (b);
7. The maximum dollar amount, in aggregate, the utility Seeks to recover through the Infrastructure Investment Program; and
8. The estimated rate impact of the proposed Infrastructure Investment Program on customers.
(d) Before the Board approves an Infrastructure Investment Program, the Board shall conduct a public hearing. Notice of the public hearing shall contain the maximum dollar amount the utility seeks to recover through its Infrastructure Investment Program and the utility's estimated rate impact.

Minimum Filing Requirement
14:3-2A.6 Infrastructure Investment Program expenditure recovery
a) A utility may file for annual or semi-annual rate recovery for facilities constructed and placed in service under an Infrastructure Investment Program. "In service" means when a project approved for inclusion in an Infrastructure Investment Program is functioning in its intended purpose, is in use (that is, not under construction) and useful (that is, actively helping the utility provide efficient service).
b) Each filing made by a utility seeking accelerated recovery under an Infrastructure Investment Program shall seek recovery, at a minimum, of at least 10 percent of overall Infrastructure Investment Program expenditures.
c) A utility's expenditures made prior to the Board's approval of an Infrastructure Investment Program shall not be eligible for accelerated recovery.
d) Rates approved by the Board for recovery of expenditures under an Infrastructure Investment Program shall be accelerated, and recovered through a separate clause of the utility's Board-approved tariff.
e) Rates approved by the Board for recovery of expenditures under an Infrastructure Investment Program shall be provisional, subject to refund and interest. Prudence of Infrastructure Investment Program expenditures shall be determined in the utility's next base rate case.
f) A utility shall file its next base rate case not later than five years after the Board's approval of the Infrastructure Investment Program, although the Board, in its discretion, may require a utility to file its next base rate case within a shorter period.
g) A utility may continue to file for accelerated recoveries during the approved Infrastructure Investment Program period notwithstanding the filing of the utility's next base rate case.
h) An earnings test shall be required, where Return on Equity (ROE) shall be determined based on the actual net income of the utility for the most recent 12-month period divided by the average of the beginning and ending common equity balances for the corresponding period.
i) For any Infrastructure Investment Program approved by the Board, if the calculated ROE exceeds the allowed ROE from the utility's last base rate case by 50 basis points or more, accelerated recovery shall not be allowed for the applicable filing period.

ATTACHMENT C

Semi-annual Report

Major Categories	Forecasted Dollars	Actual Dollars for this Quarter	YTD Dollars	Number of Projects Per Major Category	Number of Projects Completed Per Major Category	Estimated Completion Date for Major Category	Base Capital Spending
Reliability & Resilency							
Replacement & Reinforcement							
Regulator Station							
Trunk Line Replacement							
Excess Flow Values							
Regulator Vents							
Totals	$0	$0	$0	$0	$0	$0	$0

Any known substantial changes will be noted here(4)

New Jersey Natural Gas Company
Net impact of Proposed Rate Changes

	Current Rates	Year 1 Rates	Year 2 Rates	Year 3 Rates	Year 4 Rates	Year 5 Rates	Year 6 Rates	Total	Average
Revenue Requirement		$521,022	$1,792,780	$1,031,761	$2,534,152	$6,689,775	$5,041,444	$17,610,935	
Residential Heat									
Rates									
BGSS	$0.3320	$0.3320	$0.3320	$0.3320	$0.3320	$0.3320	$0.3320		
Delivery	0.6976	0.6984	0.7013	0.7029	0.7070	0.7176	0.7256		
Total Variable	$1.0296	$1.0304	$1.0333	$1.0349	$1.0390	$1.0496	$1.0576		
Customer Charge	$10.14	$10.14	$10.14	$10.14	$10.14	$10.14	$10.14		
100 therm Bill									
BGSS	$33.20	$33.20	$33.20	$33.20	$33.20	$33.20	$33.20		
Delivery	69.76	69.84	70.13	70.29	70.70	71.76	72.56		
Total Variable	$102.96	$103.04	$103.33	$103.49	$103.90	$104.96	$105.76		
Customer Charge	10.14	10.14	10.14	10.14	10.14	10.14	10.14		
Total Bill	$113.10	$113.18	$113.47	$113.63	$114.04	$115.10	$115.90		
Increase		$0.08	$0.29	$0.16	$0.41	$1.06	$0.80	$2.80	$0.47
% increase from Current Rates		0.1%	0.3%	0.1%	0.4%	0.9%	0.7%	2.5%	0.4%
1000 therm annual bill	$1,151.28	$1,152.08	$1,154.98	$1,156.58	$1,160.68	$1,171.28	$1,179.28		
Increase		$0.80	$2.90	$1.60	$4.10	$10.60	$8.00	$28.00	$4.67
% Increase from Current Rates		0.1%	0.3%	0.1%	0.4%	0.9%	0.7%	2.4%	0.4%
Residential Non-Heat									
Rates									
BGSS	$0.3320	$0.3320	$0.3320	$0.3320	$0.3320	$0.3320	$0.3320		
Delivery	0.6338	0.6346	0.6375	0.6391	0.6432	0.6538	0.6618		
Total Variable	$0.9658	$0.9666	$0.9695	$0.9711	$0.9752	$0.9858	$0.9938		
Customer Charge	$10.14	$10.14	$10.14	$10.14	$10.14	$10.14	$10.14		
25 therm Bill									
BGSS	$8.30	$8.30	$8.30	$8.30	$8.30	$8.30	$8.30		
Delivery	15.85	15.87	15.94	15.98	16.08	16.35	16.55		
Total Variable	$24.15	$24.17	$24.24	$24.28	$24.38	$24.65	$24.85		
Customer Charge	10.14	10.14	10.14	10.14	10.14	10.14	10.14		
Total Bill	$34.29	$34.31	$34.38	$34.42	$34.52	$34.79	$34.99		
Increase		$0.02	$0.07	$0.04	$0.10	$0.27	$0.20	$0.70	$0.12
% increase from Current Rates		0.1%	0.2%	0.1%	0.3%	0.8%	0.6%	2.0%	0.3%
200 therm annual bill	$314.84	$315.00	$315.58	$315.90	$316.72	$318.84	$320.44		
Increase		$0.16	$0.58	$0.32	$0.82	$2.12	$1.60	$5.60	$0.93
% Increase from Current Rates		0.1%	0.2%	0.1%	0.3%	0.7%	0.5%	1.8%	0.3%

New Jersey Natural Gas Company
Net impact of Proposed Rate Changes

	Current Rates	Year 1 Rates	Year 2 Rates	Year 3 Rates	Year 4 Rates	Year 5 Rates	Year 6 Rates	Total	Average
GSS									
Rates									
BGSS	$0.3320	$0.3320	$0.3320	$0.3320	$0.3320	$0.3320	$0.3320		
Delivery	0.6499	0.6510	0.6545	0.6565	0.6615	0.6748	0.6847		
Total Variable	$0.9819	$0.9830	$0.9865	$0.9885	$0.9935	$1.0068	$1.0167		
Customer Charge	$34.85	$34.85	$34.85	$34.85	$34.85	$34.85	$34.85		
100 therm Bill									
BGSS	$33.20	$33.20	$33.20	$33.20	$33.20	$33.20	$33.20		
Delivery	64.99	65.10	65.45	65.65	66.15	67.48	68.47		
Total Variable	$98.19	$98.30	$98.65	$98.85	$99.35	$100.68	$101.67		
Customer Charge	34.85	34.85	34.85	34.85	34.85	34.85	34.85		
Total Bill	$133.04	$133.15	$133.50	$133.70	$134.20	$135.53	$136.52		
Increase		$0.11	$0.35	$0.20	$0.50	$1.33	$0.99	$3.48	$0.58
% increase from Current Rates		0.1%	0.3%	0.2%	0.4%	1.0%	0.7%	2.6%	0.4%
1200 therm annual bill	$1,596.48	$1,597.80	$1,602.00	$1,604.40	$1,610.40	$1,626.36	$1,638.24		
Increase		$1.32	$4.20	$2.40	$6.00	$15.96	$11.88	$41.76	$6.96
% Increase from Current Rates		0.1%	0.3%	0.2%	0.4%	1.0%	0.7%	2.6%	0.4%
GSL									
Rates									
BGSS	$0.2943	$0.2943	$0.2943	$0.2943	$0.2943	$0.2943	$0.2943		
Delivery	0.4865	0.4872	0.4898	0.4913	0.4948	0.5042	0.5112		
Total Variable	$0.7808	$0.7815	$0.7841	$0.7856	$0.7891	$0.7985	$0.8055		
Customer Charge	$80.79	$80.78	$80.78	$80.78	$80.78	$80.78	$80.78		
Demand Charge	$2.63	$2.63	$2.63	$2.63	$2.63	$2.63	$2.63		
1200 therm Bill									
BGSS	$353.16	$353.16	$353.16	$353.16	$353.16	$353.16	$353.16		
Delivery	583.80	584.64	587.76	589.56	593.76	605.04	613.44		
Total Variable	$936.96	$937.80	$940.92	$942.72	$946.92	$958.20	$966.60		
Customer Charge	80.79	80.78	80.78	80.78	80.78	80.78	80.78		
Demand Charge	252.48	252.48	252.48	252.48	252.48	252.48	252.48		
Total Bill	$1,270.23	$1,271.06	$1,274.18	$1,275.98	$1,280.18	$1,291.46	$1,299.86		
Increase		$0.83	$3.12	$1.80	$4.20	$11.28	$8.40	$29.63	$4.94
% increase from Current Rates		0.1%	0.2%	0.1%	0.3%	0.9%	0.7%	2.3%	0.4%
15,000 therm annual bill	$15,711.24	$15,721.62	$15,760.62	$15,783.12	$15,835.62	$15,976.62	$16,081.62		
Increase		$10.38	$39.00	$22.50	$52.50	$141.00	$105.00	$370.38	$61.73
% Increase from Current Rates		0.1%	0.2%	0.1%	0.3%	0.9%	0.7%	2.4%	0.4%