



1 In addition, I hold several positions outside of the SJI organization. I am currently  
2 Chairman of the New Jersey Board of Higher Education. I also serve on the Board of Directors  
3 for the Higher Education Student Assistance Authority, the New Jersey Utilities Association, the  
4 New Jersey Manufacturers Insurance Company, the New Jersey Business & Industries  
5 Association, and the Atlantic City Chamber of Commerce. Additionally, I am a member of the  
6 Center for Energy, Economic and Environmental Policy (CEEEP) in the Edward J. Bloustein  
7 School of Planning and Public Policy at Rutgers University, and the William J. Hughes Center  
8 for Public Policy at the Richard Stockton College of New Jersey. I serve as a trustee on the  
9 Rowan University Foundation Board and The Foundation of the New Jersey Alliance for Action.  
10 I am also a former director of the American Gas Association.

11 **II. PURPOSE OF TESTIMONY**

12 In this case I am serving as the Company’s policy witness. I will explain the reasons  
13 behind this filing, provide an overview of the Company’s corporate profile, culture and  
14 philosophy, and discuss actions the Company has taken to increase the alignment of our  
15 activities with green energy strategies advanced by our federal and state officials. Additionally, I  
16 will provide a discussion of regulatory initiatives that the Company has undertaken in response  
17 to Regional Greenhouse Gas Initiative (“RGGI”) legislation, the New Jersey Energy Master Plan  
18 (“EMP”), the Governor’s Economic Stimulus Plan (“ESP”), and our historical commitment to a  
19 cleaner, safer environment. I will also briefly discuss actions taken by SJG to avoid filing a base  
20 rate case for almost six and a half years and address why rate relief is necessary at this time.

21 **III. THE REASON FOR THIS FILING**

22 The last base rate case order received by SJG was based upon a test year ending February  
23 29, 2004. At that time the Company’s gross utility plant balance was \$896.2 million. Since that

1 time and through December 31, 2010, we project that an additional \$465.6 million will be  
2 invested in utility plant in service. The primary driver of this case is a need to earn a fair return  
3 on these investments so that we may continue to attract capital at reasonable rates and invest in  
4 the infrastructure necessary to continue providing safe and reliable service to our customers.

5 South Jersey has not filed a base rate case since 2003. We have been able to avoid  
6 increasing base rates through a combination of operational functions and certain economic  
7 conditions. Our emphasis on new technologies and operational efficiencies has contributed to  
8 the Company's ability to stabilize base rates for such a long period of time. South Jersey has  
9 achieved successful cost control measures which have reduced our operation and maintenance  
10 expenses per customer from \$156.87 in 2004 to \$155.39 in 2008. This has been achieved while  
11 we maintained our excellent record of safety and reliability and increased customer satisfaction.

12 Another reason that the Company has been able to stabilize base rates for such a long  
13 period of time has been our aggressive initiatives to control health care costs. These measures  
14 include a cap on the annual amount that the Company will pay for retiree medical coverage as  
15 well as a cap for new hires to limit our annual costs for prescription drug coverage. Also, new  
16 hires are required to enroll in a 90/70 point of service medical plan which provides solid  
17 coverage at a lower cost to the Company compared to more traditional plans. New hires are also  
18 ineligible to participate in the Company's defined benefits pension plan. In addition to these  
19 measures, all employees are now required to pay more for their medical coverage than they have  
20 in the past. Further, a mandatory prescription mail-order program was negotiated and  
21 implemented for our employees to help reduce prescription costs. Lastly, we have partnered  
22 with AtlantiCare (a local health care system) to roll out a wellness program to help employees  
23 understand the role they play in staying healthy. This reduces overall benefit costs.

1 Customer growth was robust and averaged approximately 3% prior to the nation's  
2 economic downturn. For the past five years, SJG has pursued residential conversions via  
3 aggressive, comprehensive marketing plans. These programs are discussed by Mr. Fatzinger.

4 South Jersey heavily promotes the economic, environmental and lifestyle benefits of  
5 using natural gas to new construction and conversion homeowners still heating with oil, propane  
6 and electric. Our marketing approach, coupled with attractive financing arrangements, is a  
7 major factor in our ability to maintain base rates for a period of approximately six years. By  
8 comparison, SJG's embedded cost of debt filed in this proceeding is 5.82% compared to that  
9 filed in 2003 of 6.26%.

10 Despite our concerted efforts to effectively manage costs while we provide customers  
11 with safe and reliable service, we believe a change in base rates is necessary at this time. We  
12 made this decision so we can continue to maintain our excellent quality of service while having  
13 an opportunity to earn a reasonable return for our shareholders. Our cost cutting and other  
14 measures have allowed us to defer our request for rate relief for more than six and a half years.  
15 However, we made the decision that we can no longer forestall this action. While we make  
16 significant annual investments to maintain a safe gas delivery system, further investments will be  
17 required in the future to replace aging infrastructure and comply with federal transmission and  
18 distribution pipeline integrity management regulations. The financial impact of our investment  
19 requirements must also take into consideration the additional external financing requirements  
20 which will be needed. In order to address these extensive capital requirements, South Jersey is  
21 proposing to implement a Reliability Tracker. This proposal will be discussed in detail in the  
22 testimony of Messrs. Pignatelli, Dipppo and Fatzinger.

23

1 **IV. CORPORATE PROFILE**

2 South Jersey is one of the four (4) natural gas local distribution companies in New Jersey  
3 and serves approximately 340,100 customers within seven counties covering over 2,500 square  
4 miles in the southern section of New Jersey. South Jersey acknowledges the important service it  
5 provides to our customers and is committed to performing this service in a safe and reliable  
6 manner at a reasonable price. Because of this, I consistently reinforce with my management  
7 team the need to communicate this message to all levels of our workforce to ensure that everyone  
8 at SJG understands and accepts the responsibility of providing this essential service. South  
9 Jersey's operational philosophy is to deliver gas to our customers in a manner that includes  
10 excellent reliability and safety. We have been wise at South Jersey by taking proper action to  
11 develop and maintain an extremely talented, civically minded and dedicated workforce. I am  
12 confident that all levels of our South Jersey team will be able to continue meeting the needs of  
13 our stakeholders in the future.

14 Reliability and safety are the cornerstones of our corporate philosophy and culture. In  
15 addition to providing excellent service to our customers, South Jersey strives to be a good  
16 corporate citizen and has adopted planning concepts which are directed toward balancing the  
17 interests of all stakeholders, including our customers, shareholders and policy makers.  
18 Recognizing and developing opportunities to balance the interests of all is something we at South  
19 Jersey work tirelessly to achieve. A recent example of our accomplishments in this area is the  
20 establishment of our Conservation Incentive Program (CIP), which I will discuss in greater detail  
21 later in my testimony. Through innovation, South Jersey and our regulators developed a program  
22 which redesigned our business philosophy and aligned the interests of our customers,  
23 shareholders and policy makers.

1           The CIP now allows South Jersey to promote conservation and energy efficient measures  
2 to our customers without suffering financial impairment. From October 2006 through September  
3 2009, under the CIP SJG's customers have reduced their natural gas usage by a total of 10.4 Bcf,  
4 enabling them to save \$123.6 million in energy costs. The CIP enabled South Jersey to assist our  
5 customers in saving money on their gas bills while we continue to maintain our financial  
6 integrity, including a strong capital structure which allows us to attract capital at reasonable  
7 rates. Our capital structure will be addressed in the testimony of Paul Moul.

8           Additionally, South Jersey recognizes that as a public utility it has unique responsibilities  
9 to the State and the areas it serves, and it takes those responsibilities seriously. South Jersey  
10 believes that a true measure of a company's success is the extent that a company can prosper in  
11 the marketplace and at the same time make positive contributions to the public good. South  
12 Jersey has long held the belief that business success and corporate social responsibility need not  
13 be mutually exclusive. The result is a strong focus on environmental stewardship, social  
14 investment, customer and employee safety, diversity and corporate governance. The Company  
15 has implemented a number of measures to respond to and align our operations with the initiatives  
16 of our regulators and State policy makers. These will be addressed later in my testimony and the  
17 testimony of other witnesses in this filing.

18           South Jersey is the largest company within the SJI corporate structure and employs over  
19 600 people. From 2004 through 2008 South Jersey's average annual capital expenditures were  
20 approximately \$63.5 million. Capital expenditures during 2009 are anticipated to total \$122.4  
21 million including CIRT projects. Our operations play a significant role in contributing to  
22 maintaining employment, job creation and the economy of the State and the South Jersey region.  
23 We are well aware of our important role which is even more critical during the current economic

1 climate. The Company is continually committed to support the State in initiatives designed to  
2 stimulate New Jersey's economy.

### 3 **V. COMPANY ACHIEVEMENTS**

4 South Jersey's commitment to providing our customers with superior service while  
5 contributing to New Jersey's social and environmental needs has resulted in the Company and  
6 SJI receiving a number of recent industry awards which I will briefly describe below.

7 In 2009, The U.S. Environmental Protection Agency awarded SJG the ENERGY STAR  
8 Leadership in Housing Award. SJG received this award in recognition of the Company's work  
9 in promoting energy efficient construction and helping to protect the environment through our  
10 partnership with ENERGY STAR. The ENERGY STAR program has done a tremendous job  
11 over the years in providing cost savings to consumers and making significant contributions to the  
12 environment. In 2008, with the help of ENERGY STAR and its partners, Americans saved  
13 approximately \$19 billion on their utility bills and avoided greenhouse gas emissions equivalent  
14 to those of 29 million vehicles. We are appreciative of this acknowledgement and look forward  
15 to our continued work with the ENERGY STAR program and the Board of Public Utilities  
16 ("BPU" or the "Board"), which has strongly endorsed the program.

17 SJG is also proud of our results in the 2008 and 2009 J.D. Power and Associates Gas  
18 Utility Residential Customer Satisfaction Study which ranked the Company in the top five in  
19 both years. The study measures residential customer satisfaction with gas companies across six  
20 factors: company image, communications, price and value, billing and payment, customer  
21 service and field service. I believe these rankings are the result of the South Jersey business  
22 culture and the emphasis that Company management places on our employees and our strong  
23 desire to provide customers with the best service possible at reasonable rates.

1 South Jersey Industries has also been included as a member of the KLD Global Climate  
2 100 Index. The GC 100 is a specialty index designed to promote social responsibility investment  
3 in global companies whose activities demonstrate the greatest potential for mitigating immediate  
4 and long-term causes of climate change. The purpose of the Index is to promote and track the  
5 performance of companies leading the private sector response to global warming. The Index  
6 identifies companies that are leaders in responding to environmental concerns and includes  
7 utility, oil and automobile companies. We are especially pleased to be identified as a leader in  
8 the private sector and compliment the extensive efforts our policy makers in New Jersey have  
9 expended in fighting greenhouse gas emissions and promoting renewable energy and energy  
10 efficiency.

## 11 **VI. RECENT REGULATORY ACTIVITIES**

12 New Jersey has long been a leader in combating climate change and the nation's reliance  
13 on foreign energy supplies through policies implemented and actions taken by our legislators and  
14 regulators. Examples of the State's call to action are the passage of the Regional Green house  
15 Gas Initiative ("RGGI") legislation, the fine work of the Board's Clean Energy Program and the  
16 aggressive goals concerning renewable energy sources and energy efficiency established for  
17 New Jersey in the Energy Master Plan ("EMP"). New Jersey has also been a leader in  
18 combining progressive energy policies with efforts to provide economic stimulus for the State.  
19 South Jersey is supportive of the State's ideals and has been an active and willing participant in  
20 these proceedings. We commend our policy makers and regulators for these efforts and are proud  
21 to have taken actions that contributed toward meeting New Jersey's goals and objectives during  
22 recent regulatory proceedings.

1           In October of 2006, South Jersey partnered with the Board and Rate Counsel and  
2 implemented its progressive, customer-friendly Conservation Incentive Program (CIP). The CIP  
3 is a pilot program designed to help customers reduce their energy use and natural gas costs while  
4 changing the way the Company does business. The CIP is an innovative rate mechanism that  
5 severs the link between sales volumes and profit. Historically, SJG promoted the use of natural  
6 gas and increased burner tips in order to improve the financial position of the Company. As a  
7 result of the CIP implementation, the Company no longer has an incentive to promote natural gas  
8 consumption. Instead, it can now promote conservation and energy efficiency, consistent with  
9 the State's policies, and avoid the previous negative implications on the Company's financial  
10 health. Stated alternatively, the CIP eliminated SJG's disincentive to promote conservation and  
11 energy efficiency.

12           With shareholder supplied funds, South Jersey has initiated programs that educate  
13 residential, business and governmental customers on how to use natural gas more efficiently.  
14 The CIP has enabled the Company to align its interests with the interests of our customers and  
15 energy policies in the State. The CIP has been viewed as a national model because of the  
16 innovative way in which it has combated traditional regulatory disincentives. Customers have  
17 reduced their usage and saved approximately \$123.6 million in energy costs from October 2006  
18 through September 2009. The CIP is in its fourth year of existence. Discussions are currently  
19 underway to extend this successful program through September 2013.

20           In October of 2008, Governor Corzine announced an Economic Stimulus Plan to assist  
21 New Jersey in laying a foundation for long-term economic recovery. Included in this plan was  
22 the extensive participation by New Jersey's energy utilities in the creation of jobs in New Jersey  
23 by implementing policy changes proposed in the State's EMP through increased infrastructure

1 spending and investments in energy efficiency programs. South Jersey, supportive of the State's  
2 policies and cognizant of its vital role in New Jersey's economy, responded to the Governor's  
3 plan and participated in two proceedings initiated by the Board.

4 In April 2009, South Jersey received approval from the Board of a Capital Investment  
5 Recovery Tracker ("CIRT"). The CIRT committed over \$100 million of accelerated  
6 infrastructure investment over a two year period. It was designed to create additional jobs while  
7 increasing the reliability of our system and reducing green house gas emissions. South Jersey  
8 carefully chose and accelerated thirteen projects which were planned for construction during the  
9 years of 2011 and 2012. I am happy to report that these projects are on or near budget and  
10 schedule. As part of the CIRT, the Company also committed to double the pace of its Main  
11 Replacement Program (MRP) during the two year period. This component of the CIRT has also  
12 played an integral role in creating jobs, improving our systems reliability and reducing green  
13 house gas emissions. Because of SJG's experience with the MRP under the CIRT, we have  
14 proposed in this proceeding to continue the accelerated replacement of our cast iron and  
15 unprotected steel main and services. This proposal is sponsored in the testimony of Messrs.  
16 Dippo and Pignatelli.

17 Also in July 2009, South Jersey received approval from the Board to implement its  
18 Energy Efficiency Tracker ("EET") which was designed to introduce new energy efficiency  
19 programs that will assist customers in reducing their energy usage while boosting the economy  
20 with the creation of green jobs. South Jersey committed over \$17 million to be invested over a  
21 two year period. This money will be used to initiate five programs that will provide financial  
22 incentives for our customers to install energy efficient equipment in their homes and businesses.  
23 The Company is pleased to participate in this program that will assist South Jersey in providing

1 additional services to our customers while supporting the goals of New Jersey’s EMP and the  
2 Governor’s Economic Stimulus Plan.

3 **VII. ENVIRONMENTALLY FRIENDLY INITIATIVES**

4 SJG believes that businesses are responsible for achieving sustainable environmental  
5 practices and operating in a sustainable manner. This belief translates to a commitment on our  
6 part to reduce our environmental impact and continue to improve our environmental performance  
7 as an integral and fundamental part of our business strategy and operating methods.

8 Our commitment to providing the most environmentally friendly energy supplies and  
9 encouraging customers to implement energy efficient equipment and measures is evident in the  
10 aforementioned CIP program and programs associated with the EET. We recently hosted the  
11 South Jersey Energy Symposium at the Richard Stockton College of New Jersey in March 2009.  
12 The symposium featured panel and group discussions related to the implementation of the State’s  
13 EMP and featured leaders in business, government, education, efficiency and conservation, and  
14 planning and infrastructure. The event specifically targeted individuals along with business and  
15 industry representatives. These efforts are a natural progression of the Company’s  
16 environmental and energy efficiency commitment as our history of promoting energy efficiency  
17 to various demographics of our constituency preceded the popularity of “Green Initiatives”.

18 We have promoted environmental benefits to our customers through various programs,  
19 beginning as far back as the 1980’s. These efforts have included rebates and efficiency audits. In  
20 addition, for over eight years, we have utilized our financial strength to offer zero percent loans  
21 to customers to convert to natural gas service, and thereby displace heavier, carbon based fuels,  
22 and expensive electric systems. In most cases, our customers use these loans to offset the cost of

1 the installation of a high efficiency heating system. The result is a decrease in greenhouse gases,  
2 and a reduction on the reliance upon foreign oil.

3 We are proud of our environmental record. Many natural gas utilities in the United States  
4 have to address the sites of old Manufactured Gas Plants (“MGP”). South Jersey has been a  
5 leader in remediation activities. The Company was originally responsible for 14 such sites, two  
6 of which have been investigated or remediated. One such site is the current site of the Atlantic  
7 City Convention Center. Of the remaining 12 sites three have had substantial remedial  
8 accomplishments. We are currently working on the remediation of the remaining 9 other MGP  
9 sites in concert with the NJDEP.

10 Our environmental impact reducing principles are not limited to external efforts. We are  
11 also very proud of the steps we have taken to reduce the environmental impact among our own  
12 operations. In 1999, we first teamed with Atlantic City Electric Company (“ACE”) in a joint  
13 venture named Millennium Account Services, LLC to provide meter-reading services for both  
14 utilities. The combination of South Jersey and ACE for this particular service effectively  
15 eliminates the need for both utilities to dispatch meter readers throughout our respective, mostly  
16 overlapping service territories, significantly reducing the carbon footprint.

17 South Jersey is also investing in solar projects. In 2009, solar panels were installed at  
18 corporate headquarters in Folsom and South Jersey’s McKee City location. All of the electricity  
19 produced by the solar panels will be used on-site for facility operations.

20 The Company has moved definitively and aggressively toward its vision of becoming the  
21 “go to” company for customers and communities who are looking for innovative, clean, cost  
22 effective energy solutions for their homes and businesses. We have transformed the Company’s  
23 sales and marketing functions from an organization focused primarily on acquiring gas

1 customers and additional gas load into an organization focused on energy efficiency education  
2 and consulting. The substance of this transformation is discussed in greater detail in the  
3 testimony of Mr. Fatzinger.

4 From hybrid vehicles, solar panel installation, energy efficient upgrades at our facilities  
5 down to our recycling program and selection of janitorial services, we are committed to reducing  
6 our energy consumption and environmental impact. We believe this is our responsibility as a  
7 business and are committed to making it an integral and fundamental part of our business  
8 strategy and operating methods. We encourage our customers to make efforts to conserve  
9 through a variety of our programs, including the CIP and EET programs. We educate our  
10 customers through participation in such events as the South Jersey Energy Symposium. We set  
11 an example to our customers by taking the steps necessary to reduce our own energy  
12 consumption and continue to look for opportunities to do so.

### 13 **VIII. CONCLUSION**

14 South Jersey Gas Company has not filed a base rate case since 2003. It has managed its  
15 business responsibly and effectively and continues to provide a high quality of service to our  
16 customers at reasonable rates. However, we must now be afforded the opportunity to earn a  
17 reasonable return on our investments made since that case. We can no longer do so through cost  
18 cutting efforts alone. The Company has made significant and prudent investments to our  
19 transmission and distribution systems and has experienced cost increases which have affected all  
20 industry sectors within the economy. I respectfully request that the Board provide South Jersey  
21 with the opportunity to earn a fair return on our investments and grant our request for rate relief  
22 at this time.