

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF	:	
SOUTH JERSEY GAS COMPANY FOR	:	CASE SUMMARY
APPROVAL OF INCREASED BASE TARIFF	:	
RATES AND CHARGES FOR GAS SERVICE	:	
AND OTHER TARIFF REVISIONS	:	DOCKET NO.

By this Petition, South Jersey Gas Company (“South Jersey” or the “Company”) proposes to increase its base tariff rates.

South Jersey has not sought a base rate increase from the Board since 2003. As of South Jersey’s last base rate case, its test year end gross utility plant was \$896.2 million. Since that time and through December 31, 2010, it is expected that \$465.6 will be invested in utility plant in service. The historic, test year and post-test year capital expenditures are the primary drivers of this case. While the Company has taken the steps to control costs, it has reached a point where cost controls alone will not suffice. Ongoing increasing capital expenditures for infrastructure improvements to ensure system reliability, combined with increased pension, healthcare and other expenses have necessitated this filing for rate relief. Without appropriate rate relief, allowing a reasonable return of and return on these investments, South Jersey’s ability to attract capital at reasonable rates may be affected.

In addition, the Company and its regulators established the Conservation Incentive Program (CIP), which redesigned the Company’s business philosophy and aligned the interests of its customers, shareholders and policy makers. The CIP allows South Jersey to promote conservation and energy efficient measures to its customers while it continues to maintain its financial integrity, including a strong capital structure which allows the Company to attract capital at reasonable rates. Over the past several years, the Company has also examined its facilities and operations seeking opportunities to become more energy efficient and to reduce its overall environmental impact. These cost control and energy efficiency policies and programs have enabled the Company avoid the need for rate relief. However, the Company has made and must continue to make significant investments to meet the needs of its service area. In addition, the Company must now comply with recently enacted federal pipeline safety and management regulations which require capital expenditures to ensure system reliability. The Company must also act to replace certain riser valves which have been designed with defects.

The Company’s total projected operating revenues for the twelve month period ending June 30, 2010 (utilizing three months’ actual data and nine months’ estimated data) are \$501,929,800, including revenues from the CIP and the Company’s Capital Investment Recovery Tracker (“CIRT”). The rates proposed in this Petition would yield additional operating revenues of approximately \$35.9 million or 7.15% (after giving consideration to the roll-in of CIP and CIRT revenues), adjusted for Sales and Use Tax.

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TO: THE HONORABLE COMMISSIONERS OF
THE BOARD OF PUBLIC UTILITIES

South Jersey Gas Company (sometimes hereinafter referred to as "South Jersey", "Petitioner" or "Company"), a public utility corporation of the State of New Jersey, with its principal office at 1 South Jersey Plaza, Folsom, New Jersey, hereby petitions this Honorable Board (sometimes hereinafter referred to as "Board") for authority pursuant to N.J.S.A. 48:2-21 and N.J.S.A. 48:2-21.1 and N.J.A.C. 14:1-5.12 to increase its base tariff rates and charges for gas service, and to implement certain other tariff revisions. In support thereof, Petitioner states as follows:

I. BACKGROUND

1. Petitioner is engaged in the transmission, distribution, transportation, and sale of natural gas within its defined service territory within the State of New Jersey. Said service territory includes all or portions of the following counties: Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester and Salem. Within its service territory, South Jersey services approximately 340,100 customers.

2. The rate schedules and tariff provisions which South Jersey proposes to increase and modify are those currently effective rate schedules and tariff provisions now on file with the Board, and bearing the designation Tariff for Gas Service, B.P.U.N.J. No. 9 - Gas (sometimes

hereinafter referred to as "Existing Tariff"), a copy of which is attached hereto and marked as Exhibit P-1. The Existing Tariff was issued pursuant to Board Orders in Docket Nos. GR03080683, effective July 8, 2004; GO90910059, effective August 1, 2009; GR04080870, effective August 18, 2006; GR05121019, effective October 1, 2006; GR09060429 and GR09060430, effective September 16, 2009; EO09060506, effective October 12, 2009, ER06070525, effective November 1, 2006; GR03080683, effective April 1, 2006; AT06070502, effective July 15, 2006; AT06050385, effective January 12, 2006; AX03120973, effective March 20, 2005; GR09110907, effective January 1, 2010; GX01050304, effective December 1, 2009; GR07120969, effective December 31, 2008; GR08050367, effective December 31, 2008; GM02080609, effective September 1, 2004; and GM02080609, effective September 1, 2006.

3. The proposed rate schedules and tariff provisions which Petitioner seeks to make effective as a result of this filing are those contained in the Tariff sheets which are blacklined to reflect proposed changes ("Proposed Tariff"), a copy of which is attached to Mr. Pignatelli's Testimony as Schedule SAP-8 and incorporated herein by reference. It is proposed that the Proposed Tariff be made effective February 15, 2010, a date which is more than thirty (30) days from this filing.

4. Petitioner's total projected operating revenues, per books, for the twelve month period ending June 30, 2010 (utilizing three months' actual data and nine months' estimated data) are \$501,929,800 including revenues from the Conservation Incentive Program ("CIP") and Capital Investment Recovery Tracker ("CIRT"). The rates proposed in this Petition would yield additional operating revenues of approximately \$ 35.9 million or 7.15% (after giving consideration to the roll-in of the CIRT and CIP revenue), adjusted for Sales and Use Tax. The

actual percentage increase applicable to specific customers will vary according to the applicable rate schedule and the level of each customer's usage.

II. NEED FOR RATE RELIEF

5. South Jersey must make significant investments in the immediate future to replace infrastructure and comply with federal pipeline safety and integrity management regulations. It must also act to replace certain riser valves which have been designed with defects. The financial impact of these investment and replacement requirements must also take into consideration the additional external financing requirements which will be needed. In order to address these extensive capital and replacement requirements, South Jersey is proposing to implement a Reliability Tracker which will enable the Company and regulators to thoroughly and expeditiously review and incent important investments and replacements that South Jersey is making to its system. These proposals will be discussed in detail in the testimony of Samuel A. Pignatelli.

6. As of South Jersey's last base rate case, the Petitioner's test year end gross utility plant was \$896.2 million. Since that time and through December 31, 2010, it is expected that \$465.6 million will be invested in utility plant in service. The Company estimates that over the next five (5) years its capital expenditures will approximate \$340 million. The historic, test year and post-test year capital expenditures are the primary drivers of this case. Without appropriate rate relief in this proceeding, allowing a reasonable return of and return on these investments, South Jersey's ability to attract capital at reasonable rates may be affected.

7. South Jersey has always fostered a culture which stresses cost control. For instance, South Jersey's policy is to either "outsource" or "insource" business processes as the circumstances dictate. South Jersey has achieved successful cost control measures which have

reduced its operation and maintenance expenses per customer from \$156.87 in 2004 to \$155.39 in 2008. South Jersey has reduced these costs despite the fact that the consumer price index for its region has increased during this time. This has been achieved while the Company maintained its excellent record of safety and reliability and increased customer satisfaction. This improvement reflects its cost control culture which has continued to be effective since the Company's last base rate case.

8. While the Company has taken the aforementioned steps which it considers to be management's responsibilities in controlling costs, it is now faced with a situation in which cost controls alone will not suffice. Ongoing increasing capital expenditures for infrastructure improvements to ensure system reliability, combined with increased pension, healthcare and other expenses have necessitated this filing for rate relief.

9. Construction costs and the Company's proposed Accelerated Main Replacement Program ("AMRP") are detailed in testimony offered by Mr. Charles F. Dippo, Vice President, Engineering Services, South Jersey. Mr. Dippo's testimony addresses the ongoing significant transmission and distribution system construction facing the Company over the test year and post-test year period. The needs he addresses are the major projects needed to expand and improve South Jersey's transmission and distribution infrastructure. In addition to construction needs to meet growth requirements and make infrastructure improvements, the Company is also faced with rapidly increasing costs for system replacement which is required to meet regulatory standards. As Mr. Dippo notes, these requirements will only be increased in the near future due to new federal programs. The Company proposes to market carbon offsets associated with the reduction of Greenhouse Gases resulting from the AMRP, and credit the proceeds to customers.

10. South Jersey has not sought a base rate increase from the Board since the Order resulting from its last base rate petition, which was filed in 2003. Throughout this time, South Jersey has avoided increasing base rates through a combination of operational functions and certain economic conditions. The Company's emphasis on new technologies and operational efficiencies has contributed to the Company's ability to stabilize base rates for such a long period of time.

11. One reason that the Company has been able to stabilize base rates for such a long period of time has been its aggressive initiatives to reduce and control health care costs. These measures include a cap on the annual amount that the Company will pay for retiree medical coverage as well as a cap for new hires to limit our annual costs for prescription drug coverage. New hires are also ineligible to participate in the Company's defined benefits pension plan. In addition to these measures, all employees are now required to pay more for their medical coverage than they have in the past. Further, a mandatory mail-order program was negotiated and implemented for South Jersey's employees to help reduce prescription costs. Lastly, the Company has partnered with AtlantiCare to roll out a wellness program to help employees understand the role they play in staying healthy. This reduces overall benefit costs. Through its strategic planning process, Petitioner has achieved substantial savings.

12. Despite South Jersey's concerted efforts to effectively manage costs while providing customers with safe and reliable service, a change in base rates is necessary at this time. South Jersey intends to maintain its excellent quality of service while also having an opportunity to earn a reasonable return for our shareholders. South Jersey's cost cutting and other measures have allowed it to defer the request for rate relief for more than six and a half

years since its last rate case. However, the Company can no longer defer the proposed rate increase through cost cutting efforts alone.

13. Testimony concerning the Company's capital structure is presented by Mr. Paul R. Moul, Managing Consultant, P. Moul & Associates. Mr. Moul notes that the Company is faced with the requirement to undertake investment to maintain and upgrade existing facilities in its service territory and to meet growth. To maintain safe and reliable service to existing customers, the Company must invest to upgrade its infrastructure. The rehabilitation of the Company's infrastructure represents a non-revenue producing use of capital. Mr. Moul further notes that the continuing cost of upgrading, replacing and expanding the Company's infrastructure will keep the level of construction expenditures at heightened levels during the test year. These efforts will substantially reduce Petitioner's embedded cost of capital. Mr. Moul recommends that Petitioner's rate of return on common equity utilized to set rates in this case should be at least eleven and one-half percent (11.5%) and the overall rate of return utilized to set rates in this case should be eight and eighty-nine one hundredths percent (8.89%).

III. CORPORATE CULTURE AND PHILOSOPHY

14. Reliability and safety are just two aspects of South Jersey's corporate philosophy and culture. In addition to providing excellent service to its customers, South Jersey strives to be a good corporate citizen and has adopted planning concepts which are directed toward balancing the interests of all stakeholders, including its customers, shareholders and policy makers.

15. A recent example of South Jersey's accomplishments in this area is the establishment of our Conservation Incentive Program (CIP), which is discussed in greater detail in the testimony of Mr. Edward J. Graham, Chairman, President and CEO of the Company. Through innovation, South Jersey along with the regulators developed a program which

redesigned South Jersey's business philosophy and aligned the interests of its customers, shareholders and policy makers. The CIP now allows South Jersey to promote conservation and energy efficient measures to our customers without suffering financial impairment. This enables South Jersey to assist its customers in saving money on their gas bills while it continues to maintain its financial integrity, including a strong capital structure which allows its to attract capital at reasonable rates.

16. In October of 2008, Governor Corzine announced an Economic Stimulus Plan to assist New Jersey in laying a foundation for long-term economic recovery. Included in this plan was the extensive participation by New Jersey's energy utilities in the creation of jobs in New Jersey by implementing policy changes proposed in the State's Energy Master Plan ("EMP") through increased infrastructure spending and investments in energy efficiency programs. South Jersey, supportive of the State's policies and cognizant of its vital role in New Jersey's economy, responded to the Governor's plan and participated in two proceedings initiated by the Board.

17. First, in April 2009, South Jersey received approval from the Board of a Capital Investment Recovery Tracker (CIRT). The CIRT committed over \$100 million of accelerated infrastructure investment over a two year period. It was designed to create additional jobs while increasing the reliability of our system and reducing green house gas emissions. South Jersey carefully chose and accelerated thirteen projects which were planned for construction during the years of 2011 and 2012. These projects are on or near budget and schedule. Due to operational efficiencies and favorable pricing conditions the Company has been able to identify additional projects that will enhance its construction efforts and compliment the intent of the Governor's stimulus plan. The Company has proposed that these projects be added to the CIRT.

18. Secondly, in July 2009, South Jersey received approval from the Board to implement its Energy Efficiency Tracker (EET) which was designed to introduce new energy efficiency programs that will assist customers in reducing their energy usage while boosting the economy with the creation of green jobs. South Jersey committed over \$17 million to be invested over a two year period. This money will be used to initiate five programs that will provide financial incentives for South Jersey's customers to install energy efficient equipment in their homes and businesses. This program will assist South Jersey in providing additional services to its customers while supporting the goals of New Jersey's EMP and the Governor's Economic Stimulus Plan.

19. These initiatives exemplify the environmental and energy efficiency principles that the Company strives to achieve as detailed in the testimony of Mr. Graham.

20. In addition to these initiatives, as detailed in the testimony of Mr. Fatzinger, South Jersey has transformed its sales and marketing function to its Energy Efficiency Education and Consulting ("EEE&C") group. The EEE&C will have the ability and resources to create the demand for energy efficient products and services in Southern New Jersey. It will provide advice to customers about their most efficient energy choices.

IV. TARIFF PROPOSALS

21. To mitigate the need for future rate proceedings, South Jersey makes several proposals in this Petition. Some of the Proposed Tariff changes are for tariff administration purposes and do not affect the character or quality of service to the customers in which the schedules apply.

22. Special provision (c) of Residential Service (RSG) is updated to exclude the requirement to execute a Residential Transportation Customer Consent Form consistent with N.J.A.C. 14:4-2.4 which does not contain such a requirement.

23. Special provisions in Rate Schedules RSG, GSG and GSG-LV setting forth alternative Delivery Charges for a customer with installed gas air conditioning as the primary cooling source on the customer's premises were eliminated.

24. South Jersey is also proposing a Natural Gas Vehicle Service rate class. The Company believes that the expanded use of compressed natural gas to fuel vehicles can play a critical role in diversifying the nation's transportation fuel needs by providing a clean and inexpensive fuel source that is domestically abundant.

25. In this Petition, South Jersey proposes to create a Reliability Tracker, sponsored by Mr. Pignatelli.

26. The Company is proposing a Limited Firm service for its Large Volume Service customers.

27. The Company is proposing to reduce the Monthly Threshold for eligibility for Monthly BGSS adjustments.

28. The Company is proposing to extend its Electric Generation Service (EGS) to residential customers.

29. The Company proposes to create a regulatory asset to capture expenditures associated with the replacement of defectively designed valves at 70,000 customer locations.

II. MISCELLANEOUS

30. Petitioner's proposed test year ends June 30, 2010. Petitioner is seeking inclusion in rate base of certain post-test year additions which will be made after June 30, 2010, and which will be in service within six months.

31. Petitioner's filing in this case is based upon three months of actual data, and nine months of estimated data. During the processing of this case, South Jersey will update its

testimony and exhibits, as appropriate to reflect actual results. It is anticipated that by the conclusion of this case, the entire test year ended June 30, 2010 will reflect actual results.

32. In accordance with N.J.A.C. 14:1-5.12(a)(4), the amount of operating revenue derived from intrastate service during the twelve months ended December 31, 2008 was \$462.1million.

33. South Jersey submits herewith, and incorporates as part hereof, all documents and exhibits required to accompany this Petition pursuant to N.J.A.C. 14:1-5.12, 14:1-4.1 and 14:1-5.1. Likewise, attached hereto and incorporated herein by reference, are the direct testimony and exhibits submitted herewith on behalf of the following witnesses:

- a. Edward J. Graham, Chairman, President and Chief Executive Officer, South Jersey Gas Company;
- b. Samuel A. Pignatelli, Vice President, Rates & Regulatory Affairs, South Jersey Gas Company;
- c. Charles F. Dippo, PE, Vice President, Engineering Services, South Jersey Gas Company;
- d. Thomas S. Kavanaugh, Controller, South Jersey Gas Company;
- e. Stacey M. Barnes, Manager, Rates and Revenue Requirement, South Jersey Gas Company;
- f. Paul R. Moul, Managing Consultant, P. Moul & Associates, Inc.;
- g. Robert F. Fatzinger, Distribution Operations, South Jersey Gas Company;
- h. Daniel P. Yardley, Principal, Yardley & Associates;
- i. Michael E. Barrett, National Director Electric & Gas Energy Industry, Ernst & Young, LLP; and
- j. Frank T. DiPalma, Director, Utilities Practice, Jacobs Consultancy, Inc.

34. Notice of this filing and three (3) copies of the filing have been served upon Stefanie A. Brand, Director, Division of Rate Counsel, 31 Clinton Street, Newark, New Jersey 07102.

35. Notice of this filing and two (2) copies of the filing have been served upon the Department of Law and Public Safety, 124 Halsey Street, P.O. Box 45029, Newark, NJ 07102.

36. Notice of this filing, and the effect thereof will be served by mail upon the Clerks of the respective municipalities and counties within Petitioner's service area at least twenty (20) days prior to the date set for the initial hearing, which notice shall include and specify the time and place of said hearing. A list of said municipalities and counties is contained in Schedule SAP-8 of Mr. Pignatelli's testimony. A copy of the form of notice is attached hereto as Exhibit P-2.

37. Customers will be notified of this filing and the effect thereof as well as the time and place of the initial hearing, by publication, at least twenty days prior to the date set for the initial hearing, in newspapers of general circulation within the Petitioner's service territory.

38. Proof of service of the notices previously referred to herein will be filed with the Board.

39. The reasons for the proposed rate increases and other relief requested by Petitioner in the Petition are as follows:

(a) To be allowed to earn on investments made in facilities required to provide safe, adequate and proper service to existing and new customers of the Petitioner, which have been put into service since the end of the February 29, 2004 test year, underlying current rates. These facilities are not currently included in rate base and the Petitioner currently bears carrying charges and depreciation associated with these facilities.

(b) To recover increased costs, not previously recovered in rates.

(c) To permit South Jersey to earn an adequate rate of return on its current net investment in used and useful utility property.

(d) To establish rates which will be sufficient to enable South Jersey, under efficient and economical operation, to maintain and support its financial integrity and to raise and maintain such additional capital as may be necessary at a reasonable cost for the proper discharge of its public duty.

(e) To offset such increases as may occur in operating expenses and to maintain adequate levels of cash flow.

(f) To enable Petitioner to continue to furnish safe, adequate and proper service, to maintain existing facilities, and to provide such additional facilities as may be necessary to discharge its public duties.

40. Petitioner respectfully submits that the rates, tariff modifications and other relief requested by it are in all respects just and reasonable.

WHEREFORE, Petitioner respectfully requests the Board find and determine as follows:

- (a) that the rates presently in effect are unjust and unreasonable;
- (b) that the proposed rates sought herein are just and reasonable and should be applied;

(c) that Petitioner have such other and further relief as the Board may deem just, reasonable and proper under the circumstances presented to it in this case.

Date: January 15, 2010

Respectfully submitted,

COZEN O'CONNOR
ATTORNEYS FOR PETITIONER
SOUTH JERSEY GAS COMPANY



By: _____
Ira G. Megdal

Communications addressed to the
Petitioner in this case are to be sent to:
COZEN O'CONNOR
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P.O. Box 5459
Cherry Hill, NJ 08002
(856) 910-5000

VERIFICATION

I, SAMUEL A. PIGNATELLI, of full age, being duly sworn according to law, upon my oath, depose and say:

1. I am Vice President, Revenue Requirements of South Jersey Gas Company and I am authorized to make this verification on behalf of the Company.

2. I have reviewed the within petition and the information contained therein is true according to the best of my knowledge, information and belief.

SAMUEL A. PIGNATELLI

Sworn to and subscribed
before me this 15th day
of January, 2010
