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TRENTON, NJ

July 2, 2019

VIA OVERNIGHT DELIVERY

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Honorable Jacob S. Gertsman, ALJ
Office of Administrative Law
P.O. Box 49
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Re: 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 and

In the Matter of the Petition of New Jersey Natural Gas Company's Request for Deferred Accounting Authority for Costs Related to New Information Technology Systems

**BPU Docket Nos. GR19030420 and GR18101096
OAL Docket No. PUC 06769-2019 S**

Judge Gertsman:

Enclosed for filing is the "9 + 3" update on behalf of petitioner New Jersey Natural Gas Company ("NJNG") in the above-referenced matter. As Your Honor will recall, NJNG filed its petition in this matter with five (5) months of actual data and seven (7) months of forecasted data for the test year ending August 31, 2019. This filing provides actual data for the nine months ending May 31, 2019 and forecasted data for the three months ending August 31, 2019.

Included within this update filing is the Revised Direct Testimony of James M. Corcoran (Exhibit P-3 R-1), including revised schedules JMC-1 R-1 through JMC-31 R-1 and Phase II JMC-1 R-1. In addition, revised versions of certain of the schedules to the Direct Testimony of Angela M. Cahill (Schedules AMC-5 R-1 through AMC-14 R-1 (but excluding AMC-8, which did not change)) are also part of this filing. Finally, revised versions of two of the schedules to the

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Raymond G. Console attorney responsible for New Jersey practice.

list copied

Honorable Jacob S. Gertsman, ALJ
July 2, 2019
Page 2

Direct Testimony of Harold Walker, III (Schedules HW-1 R1 and HW-25 R1) are also part of this update filing.

Respectfully submitted,

COZEN O'CONNOR

A handwritten signature in cursive script, appearing to read "Gregory Eisenstark".

By: Gregory Eisenstark

Encls.

cc: Service List



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BPU Docket No. GR19030420

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NEW JERSEY NATURAL GAS COMPANY
REVISED DIRECT TESTIMONY
OF
JAMES M. CORCORAN
DIRECTOR – REVENUE REQUIREMENTS

1 **Q. PLEASE STATE YOUR NAME, AFFILIATION AND BUSINESS ADDRESS.**

2 **A.** My name is James M. Corcoran and I am the Director – Revenue Requirements for
3 New Jersey Natural Gas Company (“NJNG” or the “Company”). My business address
4 is 1415 Wyckoff Road, Wall, New Jersey 07719.

5 **Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.**

6 **A.** I received a Bachelor of Science degree in Accounting from Seton Hall University. In
7 May 2010, I received a Master’s of Business Administration - Finance from Seton Hall
8 University. I was employed by the State of New Jersey – Board of Public Utilities
9 (“BPU” or “Board”) beginning in July 1986 as an Accountant-Trainee and over a
10 twenty-year career moved into various Analyst positions of increased responsibility.
11 In March 2007, I accepted a Senior Regulatory Analyst position at Public Service
12 Electric and Gas Company with responsibilities that included preparing the requisite
13 testimony and financial schedules for various rate recovery mechanisms. In August
14 2007, I was promoted to the position of Principal Staff Regulatory Analyst and, in
15 August 2011, I was promoted to the position of Revenue Requirements Manager.

16 I joined the Company in July 2014 as the Manager – Revenue Requirements.
17 On January 2, 2018, I was promoted to the position of Director-Revenue Requirements.
18 My responsibilities include supporting the Regulatory Affairs department with the
19 preparation of testimony regarding all rate recovery matters. I also participate on behalf
20 of NJNG in the New Jersey Resources financial reporting committee.

21 As Director - Revenue Requirements, I perform the calculation of revenue
22 requirements for NJNG’s base rates as well as cost recovery riders.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS?**

2 **A.** Yes. I have submitted Direct Testimony before the Board in NJNG's recent
3 Infrastructure Investment Program (BPU Docket No. GR19020278), its most recent
4 base rate case (BPU Docket No. GR15111304) and the NJ Reinvestment in System
5 Enhancement ("NJ RISE") cost recovery petition (BPU Docket No. GR15050638). In
6 addition, I have provided testimony on behalf of PSEG Power, LLC in a rate matter
7 proceeding before the Connecticut Public Utilities Regulatory Authority in PURA
8 Docket No. 12-07-17.

9 **Q. PLEASE SUMMARIZE THE PURPOSE OF YOUR REVISED DIRECT**
10 **TESTIMONY.**

11 **A.** On March 29, 2019, I filed Direct Testimony and associated financial schedules in
12 support of NJNG's petition for rate relief utilizing five (5) months of actual data and
13 seven (7) months of forecasted data for the test year ending August 31, 2019 and related
14 post-test year adjustments through and including February 28, 2019. In this revision, I
15 have updated the financial information for nine (9) months of actual data and three (3)
16 months of forecasted data for the test year and revised the associated post-test year
17 adjustments, where necessary.

18 Schedule JMC-1 R-1 shows the operating income required to provide a just and
19 reasonable return on NJNG's rate base, the pro forma operating income for the test
20 period, and the additional revenue necessary to satisfy the operating income
21 requirement. Schedule JMC-2 summarizes NJNG's Rate Base, and Schedule JMC-12
22 reflects Operating Income as of August 31, 2019, on a 9-month actual and 3-month
23 estimated basis. The Revenue Factor is presented on Schedule JMC-4. The individual
24 amounts shown on these Schedules are further supported by NJNG's accounting
25 records and its operating and capital budgets for the period ending August 31, 2019.
26 The books and records of NJNG are maintained in accordance with the Uniform System
27 of Accounts prescribed by the Board and the Federal Energy Regulatory Commission
28 ("FERC").

29 The balance of my testimony supports the Rate Base, Operating Income, and

1 the pro forma adjustments necessary for the period ending August 31, 2019. The
2 additional revenue of \$129.838 million requested in this case, as calculated on Schedule
3 JMC-1 R-1, is needed to provide NJNG the opportunity to recover operating revenues
4 through base rates sufficient to meet operating expenses, taxes and fixed charges, and
5 to provide a reasonable return on its Rate Base investments.

6 Schedules JMC-13 R-1 through JMC-30 R-1 provide the pro forma adjustments
7 and the detail of Operating Income, which I discuss later in my testimony.

8 **Q. PLEASE DESCRIBE THE SERVICE COMPANY AND ITS ROLE IN**
9 **PROVIDING SERVICE TO NJNG.**

10 **A.** The New Jersey Resources Service Company (“Service Company”) provides corporate
11 services that include accounting, human resources, treasury, information technology
12 and legal to NJNG. All costs and services are provided on a fully allocated cost basis.
13 The Service Company allocates its labor to NJNG based on direct time sheet reporting
14 and expenses based on actual monthly costs or assigned costs using various allocation
15 methods (headcount, hours of use, etc.). On a quarterly basis, actual data is used to
16 true-up all allocations to ensure a proper matching is recorded by NJNG to properly
17 assign costs based on a cost causation concept. It is the practice of the Service
18 Company to directly charge its costs whenever possible and use an allocation
19 methodology when a non-direct cost is incurred.

20 **Q. PLEASE PROVIDE AN OVERVIEW OF THE NJNG RATE CASE PETITION.**

21 **A.** NJNG’s last base rate case decision was approved by the BPU in an Order dated
22 September 23, 2016 (Docket No. GR15111304). Since that time, the Company has
23 continued to provide safe, reliable and high-quality service to its customers, and is
24 committed to providing the same in the future.

25 The Company is requesting an increase in its base rate revenues of \$129.838
26 million based on the test year ending August 31, 2019, with known and measurable
27 changes through February 29, 2020. Financial integrity and strength are key
28 components to the Company’s ability to employ the necessary capital and to cover the
29 operating expenses necessary to maintain and improve its distribution and transmission

1 systems, and to continue to provide safe, reliable and high-quality service to
2 approximately 544,000 residential and commercial customers in its service territory.
3 The health and safety of NJNG's customers and employees is the Company's number
4 one priority, and maintaining a strong financial position in the marketplace is a
5 necessary ingredient to accomplishing this goal.

6 **Q. WHAT TEST PERIOD IS NJNG USING TO SUPPORT ITS BASE RATE CASE**
7 **REQUEST?**

8 **A.** The test period in this base rate case proceeding is the 12-month period ending August
9 31, 2019. This update filing consists of 9 months actual data ending May 31, 2019,
10 and 3 months estimated data through August 31, 2019.

11 **Q. PLEASE DESCRIBE THE NJNG RATE BASE – SCHEDULE JMC-2.**

12 **A.** Schedule JMC-2 R-1 presents total Rate Base at August 31, 2019 of \$1.82 billion. The
13 NJNG Rate Base consists of the utility's investment in natural gas plant, net of
14 accumulated depreciation of utility plant; natural gas commodity in storage and LNG
15 inventory; materials and supplies; prepayments and cash working capital, offset by
16 customer advances and accumulated deferred income taxes; and a consolidated tax
17 adjustment. I will now address each individual component of the Company's Revenue
18 Requirement.

19 **Q. HAS THE COMPANY INCLUDED A CONSOLIDATED TAX ADJUSTMENT**
20 **IN ACCORD WITH THE BOARD'S CURRENT METHODOLOGY?**

21 **A.** Yes. In accord with the Board's October 22, 2014 Order in Docket No. EO12121072
22 and the recently-adopted consolidated tax adjustment rule (*see* 51 N.J.R. 414(d) (March
23 18, 2019)), the Company has calculated a consolidated tax adjustment ("CTA"). The
24 calculated CTA reduces rate base by \$3.79 million. *See* Schedule JMC-2 R-1.

25 **Q. PLEASE DESCRIBE THE WEIGHTED AVERAGE COST OF CAPITAL –**
26 **SCHEDULE JMC-3 R-1.**

27 **A.** Schedule JMC-3 R-1 provides NJNG's capital structure components and their
28 respective embedded cost rates to calculate the requested weighted average cost of

1 capital ("WACC") to establish the proper operating income requirement. The Direct
2 Testimony of Mr. Paul R. Moul supports the capital structure, the long-term debt cost
3 rate and the return on common equity utilized in the weighted average cost of capital.
4 I have incorporated the recommendation of Mr. Moul and have utilized a 10.875%
5 return on equity in the Company's capital structure.

6 **Q. PLEASE EXPLAIN THE REVENUE FACTOR – SCHEDULE JMC-4 R-1.**

7 **A.** The revenue factor utilized by the Company in this proceeding is 1.3995. The factor
8 includes State of New Jersey Corporate Business Tax, Federal Income Tax, the
9 Assessments for the Board and the New Jersey Division of Rate Counsel ("Rate
10 Counsel") and Uncollectibles.

11 **Q. PLEASE EXPLAIN THE NJNG UTILITY PLANT IN SERVICE – SCHEDULE**
12 **JMC-5 AND SCHEDULE JMC-6 R-1.**

13 **A.** The NJNG utility plant in service, as shown on Schedule JMC-5 R-1, is \$2.51 billion
14 at August 31, 2019. Since June 2016, plant in service has increased by approximately
15 \$450 million. This growth is, in part, attributable to investment in Board-approved
16 infrastructure programs for distribution and transmission mains and services, as well as
17 safety and reliability upgrades in the Company's service territory. Distribution and
18 transmission plant investments are discussed in the testimony of Mr. Craig A. Lynch.
19 Schedule JMC-6 R-1 provides a further breakdown of the Plant Additions summarized
20 on Schedule JMC-5 R-1.

21 **Q. PLEASE DESCRIBE THE ACCUMULATED DEPRECIATION OF UTILITY**
22 **PLANT – SCHEDULE JMC-7 R-1.**

23 **A.** Plant in service investments have an estimated useful life, which normally extends over
24 many years as it provides natural gas service to customers. The systematic recovery of
25 these investments is accomplished by the recognition in rates and operating expense of
26 annual depreciation charges, with accumulated depreciation primarily representing the
27 cumulative recovery of depreciation expense. This accumulated recovery of
28 depreciation is used to reduce Rate Base. This has been, and continues to be, an

1 acceptable principle in developing Rate Base, since the accumulated depreciation
2 reserve balance infers that these amounts have already been charged to income and
3 recovered from customers. The accumulated depreciation reserve balance of \$512.70
4 million includes the accumulated recognition of depreciation expense, salvage and cost
5 of removal. The accumulated depreciation reserve balance does not recognize the legal
6 Asset Retirement Obligation liabilities associated with the Statement of Financial
7 Accounting Standards No. 143 and Financial Accounting Standards Board
8 Interpretation Number 47.

9 The Company has proposed new distribution depreciation rates based on a fiscal
10 year 2018 Gas Depreciation Study, supported by the testimony of Dr. Ronald E. White
11 (Exh. P-7). The proposed depreciation rates and related depreciation expense have
12 been annualized for plant balances at August 31, 2019 and are reflected in the
13 Company's revenue requirement.

14 As detailed on Schedule JMC-7 R-1, the Company has increased its August 31,
15 2019 Accumulated Depreciation Reserve balance by \$18.98 million, representing an
16 adjustment equal to one-half of the annualized period-end depreciation expense plus
17 one-half of the annualized depreciation rate change impact. This test year adjustment
18 to the Accumulated Depreciation Reserve balance annualizes the period-end depreciation
19 expense and the proposed new depreciation rates resulting from Dr. White's depreciation
20 studies for plant balances at August 31, 2019.

21 **Q. PLEASE DESCRIBE NJNG'S CUSTOMER ADVANCES FOR**
22 **CONSTRUCTION – SCHEDULE JMC-8 R-1.**

23 **A.** As a normal part of utility business, the costs of construction related to advances made
24 by the Company's customers are capitalized and included in the Net Plant In Service
25 balance. Therefore, it is appropriate to reduce plant costs for these construction related
26 customer advances. As shown on Schedule JMC-2 R-1, Rate Base has been reduced
27 by \$2.86 million, based upon the 13-month average of actual customer advances
28 through May 31, 2019. This amount will be updated throughout the case.

1 Q. PLEASE DESCRIBE THE NATURAL GAS SUPPLY & LIQUEFIED
2 NATURAL GAS (“LNG”) INVENTORY COMPONENT OF RATE BASE –
3 SCHEDULE JMC-9 R-1.

4 A. Included in Rate Base is a representative amount of natural gas supply and LNG
5 inventory maintained by NJNG to serve its customers. The natural gas supply and LNG
6 inventory, in the amount of \$72.09 million, is based on a 13-month projected average
7 as of May 31, 2019.

8 Q. PLEASE DESCRIBE THE WORKING CAPITAL COMPONENT OF RATE
9 BASE.

10 A. The Company’s proposed working capital allowance is \$147.40 million, consisting of
11 three components: cash (Lead/Lag and Net Assets/Net Liabilities Analysis) of \$119.12
12 million, materials and supplies at a 13-month actual average of \$12.22 million and
13 prepayments at a 13-month actual average of \$16.05 million. The cash working capital
14 requirements associated with the Lead/Lag study are discussed in the testimony of
15 Harold Walker, III. (Exh. P-5). Schedule HW-25 of Mr. Walker’s Direct Testimony
16 has been updated and included in the Lead/Lag component of my Schedule JMC-2 R-
17 1. I will further discuss the rate treatment for: 1) Materials and Supplies and 2)
18 Prepayments.

19 **Materials and Supplies – Schedule JMC-9 R-1**

20 Included in Rate Base is \$12.22 million of materials and supplies necessary for ongoing
21 utility operations. This amount is a 13-month actual average balance representing
22 general store items held in NJNG’s inventory for operations and maintenance and
23 capital purposes as of May 31, 2019. This amount will be updated throughout the case.

24 **Prepayments - Schedule JMC-10 R-1**

25 The Company is required to make advance payments for certain operating costs, such
26 as insurance and assessments, prior to the amounts being charged to operating
27 expenses. The NJNG prepayments, which are similar to the materials and supplies,
28 represent a permanent, ongoing investment by the Company. Accordingly, I have
29 included in Rate Base the 13-month actual average of prepayments at May 31, 2019,

1 of \$16.05 million. This amount will be updated throughout the case.

2 **Q. PLEASE DESCRIBE THE ACCUMULATED DEFERRED TAXES PORTION**
3 **OF RATE BASE – SCHEDULE JMC-11 R-1.**

4 **A.** Deferred income taxes represent the accumulated tax effect for the timing differences
5 between when an item is recognized for tax purposes and when it is recognized for
6 book purposes in Utility Operating Income. Since the accumulated deferred tax
7 balances shown on Schedule JMC-11 R-1 relate either to utility assets included in Rate
8 Base or to expenses, both of which are utilized in setting customer rates, a Rate Base
9 deduction is appropriate. The accumulated deferred tax reduction to Rate Base is
10 estimated to be \$242.79 million at August 31, 2019.

11 **Q. PLEASE DESCRIBE THE OPERATING INCOME LEVEL AT CURRENT**
12 **RATES.**

13 **A.** Schedule JMC-12 R-1 presents NJNG's income statement for the test year ended
14 August 31, 2019.

15 **Q. PLEASE DESCRIBE THE OPERATING INCOME AND THE PRO FORMA**
16 **ADJUSTMENTS AT AUGUST 31, 2019.**

17 **A.** I have made the following pro forma adjustments to Operating Income to recognize a
18 normalized test year ending August 31, 2019:

19 **Pro Forma Operating Income – Schedule JMC-13 R-1**

20 This Schedule presents a summary of the pro forma adjustments applied to NJNG's
21 test period Operating Income. The pro forma adjustments modify test year Operating
22 Income for known and measurable changes to expense and income levels that will be
23 incurred when the rates are established in this proceeding. Adoption of these
24 adjustments by the Board will provide the Company with an opportunity to earn a
25 reasonable return on its investments during the period when the proposed base rates are
26 in effect.

27 **Annualization of Wages – Schedule JMC-14 R-1**

28 This adjustment of \$3.24 million (\$2.33 million, net) represents the annualization of

1 labor costs applicable to represented and non-represented employees at NJNG at
2 August 31, 2019, plus an adjustment for known and measurable changes to include in
3 the test year and the January 2020 wage increase.

4 The Company and its Union, Local 1820 of the International Brotherhood of
5 Electrical Workers, reached an agreement on a new contract that will expire in
6 December 2021. The contract contains agreed-upon annual percentage increases of
7 3.50 percent in 2019 and 2020, respectively. For represented employees, this
8 adjustment annualizes the January 2019 wages and calculates the pro forma impact of
9 the January 2020 union contract increase for employees.

10 The adjustment also annualizes the January 2019 increase and calculates the
11 pro forma impact of a January 2020 increase applicable to the Company's non-
12 represented employees. The identical percent increases afforded the represented work
13 force have been applied to the non-represented employees for calculating these impacts
14 for employees. The adjustment to labor expense also includes the wage increases
15 associated with the labor dollars charged to NJNG for the Service Company employees
16 in a similar manner.

17 The Company's employees are a critical element in meeting the service and
18 reliability needs of NJNG's customers, and this adjustment to the test year operating
19 expenses insures that the Company's base rates will reasonably reflect the cost of this
20 workforce during the time these proposed base rates are in effect.

21 **Annualization of Payroll Taxes – Schedule JMC-15 R-1**

22 This adjustment of \$248 thousand (\$178 thousand, net) annualizes the test year for
23 changes in payroll taxes and represents the increases in the Federal Insurance
24 Contribution Act ("FICA") Tax for increases in taxable wages. The test period has
25 been annualized for the statutorily mandated rates of 6.2 percent and 1.45 percent for
26 Social Security and Medicare Benefits, respectively.

27 **Interest Synchronization (Tax Savings) – Schedule JMC-16 R-1**

28 The Board has historically adopted an adjustment to synchronize the federal income
29 tax savings associated with interest expense in the test period with the tax savings,
30 based on an interest calculation using the weighted average cost of debt in the capital

1 structure utilized to support Rate Base.

2 As shown on Schedule JMC-16 R-1, the interest-bearing components of the
3 capitalization supporting the NJNG Rate Base produce interest expenses of \$30.43
4 million. This is \$2.03 million more than the recorded test year period interest expense
5 of \$28.39 million. This adjustment of \$2.03 million (\$571 thousand, net) increases
6 Operating Income attributable to the tax savings on the interest component.

7 **Pension and Benefits Expense – Schedule JMC-17 R-1**

8 An adjustment in the amount of \$2.77 million (\$1.99 million, net) represents an
9 operating expense increase and reflects the necessary adjustments in pension, Other
10 Post-Employment Benefits (“OPEB”), and medical and dental expenses over the test
11 period amounts included in operating income. This level of expense reflects the
12 forecasted pension, OPEB, and medical and dental expenses through fiscal year 2020
13 (i.e., October 1, 2019 through September 30, 2020), and includes actuarial assumptions
14 and changes to the mortality tables as prepared by AON (the Company’s actuarial
15 consultant) and used by NJNG for U.S. Securities and Exchange Commission (“SEC”)
16 disclosure purposes in its financial statements.

17 Similarly, prepared pension and benefit adjustments have been consistently
18 adopted by the Board in prior rate cases in New Jersey and should be accepted in this
19 base rate case. By making this adjustment for increased pension and benefit expenses,
20 the test year will reflect pension and benefit expenses during the time that the proposed
21 new base rates are in place. The NJNG pension and OPEB expenses are based on a
22 benefit plan that is closed to new employees effective December 31, 2011.

23 **BPU and Rate Counsel Assessments – Schedule JMC-18 R-1**

24 In accordance with N.J.S.A. 48:2-60 and N.J.S.A. 52:27EE-52, the Company provides
25 funding to the State of New Jersey associated with the operations of the Board and Rate
26 Counsel. These assessments are predicated on rates established by the State of New
27 Jersey and are applied to each gross intrastate revenue dollar recorded by the Company
28 for the preceding year. The current assessment rates are 0.2311 percent for the Board
29 and 0.0553 percent for Rate Counsel. By applying these rates to year-end 2018
30 intrastate operating revenues, the Company has estimated its funding obligation for the

1 Board and Rate Counsel at \$1.77 million. The adjustment of \$459 thousand (\$330
2 thousand, net) increases the test year operating expenses to that level. The adjustment
3 recognizes test year expense for this item at a level that the Company will incur while
4 new rates are in effect, assuming the assessment rate remains stable, and is therefore,
5 appropriate to be adopted in this proceeding.

6 **Basic Gas Supply Service (“BGSS”) Incentive Margin – Schedule JMC-19 R-1**

7 Included in test period Operating Income is a level of net BGSS incentive margin that
8 should be excluded from the calculation of base rates in the amount of \$8.68 million
9 (\$6.24 million, net). This incentive margin should be excluded to prevent NJNG’s base
10 rates from being reduced, which would eliminate the incentive margins earned by
11 NJNG pursuant to the Board’s separately approved program.

12 **Outside Services Employed – Schedule JMC-20 R-1**

13 This adjustment represents a normalized level of expense incurred for rate case
14 expense. The expenses are then ratably amortized over an appropriate time to
15 determine an appropriate level of operating expense recovery in base rates. In accord
16 with the Board’s long-standing policy, I have reflected a 50%/50% sharing of rate case
17 expense between shareholders and NJNG’s customers. The resulting adjustment
18 represents an increase in operating expense of \$419 thousand (\$301 thousand, net).

19 **Annualization of Depreciation – Schedule JMC-21 R-1**

20 The depreciation rate changes reflect the results of the depreciation study completed by
21 Dr. White. The difference between the annualized depreciation expense at current rates
22 and the amount of depreciation expense included in the test year has been recognized,
23 as well as the annualization of the depreciation rate change on Plant In Service
24 investments at August 31, 2019. The adjustment to depreciation expense represents an
25 increase in operating expense of \$37.96 million (\$27.29 million, net). Depreciation
26 expense is a vital component of NJNG’s recovery of its investment in utility plant over
27 its service life, as well as the recovery of the cost of removal for the replacement of
28 existing structures and other plant investment.

29 **SAVEGREEN Margin – Schedule JMC-22 R-1**

30 Included in test period Operating Income is a level of SAVEGREEN margin that should

1 be excluded from the calculation of base rates in the amount of \$5.16 million (\$3.71
2 million, net). This margin should be excluded to prevent NJNG's base rates from being
3 reduced, which would eliminate the margin earned by NJNG pursuant to the Board's
4 separately approved program.

5 **Real Estate Taxes – Schedule JMC-23 R-1**

6 This adjustment of \$23 thousand (\$17 thousand, net) increases the test year operating
7 expense to be representative of the level of property real estate tax expense that is
8 expected to be accrued and paid by NJNG on its property in the 12-month period
9 following when new base rates go into effect.

10 **Insurance – Schedule JMC-24 R-1**

11 This adjustment addresses the items for which NJNG carries insurance policies with
12 outside vendors (e.g., Automobile & Workers Compensation) for which the Company
13 pays annual premiums of approximately \$5.73 million. This adjustment of \$327
14 thousand (\$235 thousand, net) for the test year operating expense increase is
15 representative of the level of insurance expense that is expected to be accrued and paid
16 in the 12-month period following when new base rates go into effect, i.e., the rate year.
17 The increase in insurance expense is estimated to be 6.0%.

18 **Annual Review of Commercial Customer Usage – Schedule JMC-25 R-1**

19 Pursuant to the Company's Tariff, at least once annually, small and large commercial
20 customers' usage is reviewed to determine their appropriate service classification and
21 highest monthly average daily (HMAD) usage, if applicable. This review is typically
22 performed in September. The Company is proposing an adjustment to reflect the
23 margin impact of the anticipated switching of commercial customers between small
24 and large classes, as well as HMAD changes. The margin accrued during the test year
25 will not accrue at the conclusion of this rate case. A pro forma adjustment to reflect
26 the change in margin and income that results from the annual review of commercial
27 customer's usage is necessary.

28 Schedule JMC-25 R-1 shows the adjustment necessary to reflect the reduction
29 in margin anticipated from the annual review of commercial customers' usage. The
30 adjustment results in a decrease to operating income of \$1.16 million (\$831 thousand,

1 net). This adjustment will be updated throughout the case.

2 **Project NEXT– Schedule JMC-26 R-1**

3 Schedule JMC-26 R-1 reflects the normalization of operation and maintenance
4 (“O&M”) costs associated with Project NEXT. On October 5, 2018, NJNG requested
5 BPU approval for deferred accounting treatment of O&M costs related to Project Next
6 (BPU Docket No. GR18101096). As of the date of this updated filing, this docket has
7 been merged into the rate case for resolution. In addition, on February 28, 2019, NJNG,
8 pursuant to the Board’s recently enacted Infrastructure Investment Program (“IIP”)
9 rulemaking, filed an IIP which encompassed the capital costs associated with Project
10 NEXT (BPU Docket No. GR19020278). This matter is currently pending before the
11 Board.

12 This pro forma adjustment will normalize the anticipated O&M expenses
13 anticipated to be incurred for the duration of the Project NEXT build-out. Based on
14 the Company’s estimates, NJNG anticipates incurring total O&M of approximately
15 \$40.86 million which equates to an annual average of \$8.84 million for four years. The
16 Company’s income statement currently forecasts approximately \$4.67 million in test
17 year expenses. The Company is proposing to defer any amount above or below the
18 stated level of \$10.22 million and include any deferred balance in the Company’s next
19 base rate case proposed to be filed no later than five years after approval of its IIP.

20 The adjustment represents an increase in operating expense of \$.5.55 million
21 (\$3.99 million, net).

22 **Revenue– Schedule JMC-27 R-1**

23 Schedule JMC-27 R-1 reflects three adjustments to annualize the Company’s revenues
24 for its Conservation Incentive Program (CIP), the SAFE II/NJ RISE Program, and a
25 billing cycle adjustment.

26 This CIP adjustment normalizes the test year actual results to recognize that,
27 through the resetting of the CIP baseline use per customer in the NJNG Tariff Rider I
28 – Conservation Incentive Program in this base rate case, this accrued margin will not
29 be earned effective with the new base rates emanating from this case.

30 The SAFE II/NJ RISE Program adjustment annualizes the test year revenues

1 for the SAFE II/ NJ RISE rate change that occurred on October 1, 2018. As the
2 proposed Test Year for this rate case begins on September 1, 2018, the Company has
3 increased its revenues to reflect an additional month for this change.

4 Finally, based on the timing of this Test Year, the Company's revenues reflect
5 239 billing cycles as opposed to a "normal" period of 240 billing cycles. Therefore,
6 the Company has increased its revenues to reflect this additional billing cycle.

7 In aggregate, this adjustment represents an increase in operating expense of
8 \$275 thousand (\$197 thousand, net).

9
10 **Capital Additions – Schedule JMC-28**

11 NJNG is in the process of completing major construction projects necessary to continue
12 its high level of service to its customers. The testimony of Mr. Lynch contains
13 descriptions of these projects and their benefits to NJNG customers.

14 Included in revenue requirements are adjustments to properly include capital
15 investments and the associated depreciation expense.

16 This adjustment represents an increase to operating expense by \$614 thousand
17 (\$571 thousand, net) for major system improvements.

18 **Tax Reform True-up – Schedule JMC-29**

19 By BPU Order dated May 22, 2018, in Docket No. GR18030224, the Board approved
20 a Stipulation to address the impacts of the Tax Cuts and Jobs Act of 2017 on the
21 Company's rates. Pursuant to this Order, NJNG began amortizing the "protected" or
22 rate base-related excess deferred federal income taxes ("DFIT") to ratepayers over
23 41.67 years. In addition, this Order authorized NJNG to refund the "unprotected"
24 excess deferred federal income tax items to ratepayers beginning in June 2018.

25 As required under the Stipulation, NJNG initially utilized estimated fiscal year
26 end balances to calculate the amount of excess DFIT to be amortized and refunded to
27 ratepayers; however, the parties to the Stipulation agreed that NJNG would be required
28 to true-up these amounts in the Company's next base rate case using actual year-end
29 results. Using actual results, the Company has determined the effects on both the
30 protected and unprotected amounts as follows.

1 First, regarding the protected amount, NJNG originally estimated that the
2 excess protected DFIT to be amortized was \$148.88 million or \$208.02 including the
3 revenue factor effect. Based on actual results, this amount should be \$150.38 million
4 or \$210.45 million including the revenue factor effect. Therefore, an additional \$1.49
5 million, excluding gross-up, should be amortized back to ratepayers.

6 Second, regarding the unprotected amount, NJNG originally estimated that the
7 excess unprotected DFIT to be refunded was \$14.39 million, or \$20.10 including the
8 revenue factor effect. Based on actual results, however, the excess unprotected amount
9 is \$13.29 million, or \$18.59 million including the revenue factor effect. Therefore, an
10 additional \$1.10 million, excluding gross-up, should be recovered from ratepayers.

11 As ratepayers have seen a net benefit from the original amounts approved, the
12 Company proposes combining the impacts of both adjustments with the gross-up and
13 recovering the difference over the remaining amortization period (500 months or 40
14 years) originally established for the protected excess DFIT.

15 This true-up adjustment represents an increase to operating income of \$14
16 thousand (\$10 thousand, net).

17 **Compressed Natural Gas (“CNG”) Credit – Schedule JMC-30 R-1**

18 In accordance with the Board’s Order in the Company’s most recent base rate case,
19 Docket No. GR15111304, NJNG has deferred the Compressed Natural Gas (“CNG”)
20 Charge revenue since June 30, 2016, the end of the test year in that proceeding. Based
21 on actual and estimated sales at these stations, the Company is proposing to credit to
22 ratepayers \$447 thousand, which includes the deferred amount and interest for the
23 period from July 1, 2016 through August 31, 2019, over a two-year amortization period.
24 This adjustment represents an increase to operating income of \$219 thousand (\$158
25 thousand, net).

26 **Rate Case Expense– Schedule JMC-31 R-1**

27 Schedule JMC-31 R-1 reflects an adjustment to remove the actual rate case expenses
28 incurred through May 31, 2019 from the Test Tear Income Statement. As of this date,
29 the Company has paid approximately \$159 thousand. This adjustment represents an
30 increase to operating income by \$159 thousand (\$114 thousand, net) for this matter.

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Southern Reliability Link Project – Proposed Phase II - Schedule Phase II - JMC-1 R-1

The Company has received approvals in two Board Orders to undertake a major transmission pipeline project referred to as the Southern Reliability Link (“SRL”) in BPU Docket Nos. GE15040402 and GO15040403.

The SRL has commenced construction in November 2018 and is anticipated to be in-service during 2020, but outside the six-month period for inclusion with post-test year capital additions. As the magnitude of this single project will have a major financial impact on the Company, NJNG requests authority to re-open this docket to address the inclusion of the SRL in the Company’s base rates in a Phase II of this matter. NJNG believes that this major transmission pipeline project, the largest in the history of the Company, should be permitted Phase II treatment. The testimony of Mr. Lynch provides an overview of the SRL project.

Phase II - Schedule JMC-1 reflects the estimated revenue requirement to reflect the return on capital investment, deferred taxes and the depreciation expense associated with the SRL’s operation. Based on the most recent data available, NJNG is estimating a Phase II revenue requirement increase of \$28.46 million.

Q. PLEASE DISCUSS IF YOU ANTICIPATE MAKING ANY ADDITIONAL PRO FORMA ADJUSTMENTS DURING THESE PROCEEDINGS.

A. As stated previously, pro forma adjustments modify test year Operating Income for known or measurable changes. Adoption of these known and measurable adjustments provides an opportunity for the Company to earn a reasonable return on its investment during the period when rates set from this process are in effect.

It is quite possible that additional pro forma adjustments may be necessary during the course of this proceeding as a result of changes to energy policy, capital investment and operating practices.

Q. HAS THE COMPANY INCLUDED ANY COSTS ASSOCIATED WITH SAFE II OR NJ RISE IN THIS INSTANT PROCEEDING?

1 **A.** No. The investments related to SAFE II and NJ RISE that have been placed in-service
2 from July 1, 2018 through June 30, 2019, are excluded from the Company's rate base.
3 On March 29, 2019, the Company filed its annual cost recovery petition for the SAFE
4 II/NJ RISE investments for the July 1, 2018 through June 30, 2019 period.

5 **Q.** **PLEASE SUMMARIZE YOUR TESTIMONY.**

6 **A.** The Company has continued to provide safe, reliable and high-quality service to
7 customers, as well as stable and reasonable base rates. The Company has now reached
8 the point where the cost of operations and the level of capital investments required to
9 serve its customers need to be updated from those reflected in NJNG's current base
10 rates. Company employees and management have worked hard to provide safe and
11 reliable gas service to a growing service territory at reasonable rates.

12 As further discussed in detail in other witnesses' testimonies, the Company has
13 consistently made efforts in all areas of its operations to provide service to NJNG's
14 customers in the most efficient and cost-effective ways possible. The Company's
15 proposed base rates are just and reasonable in terms of affording the Company an
16 opportunity to earn a fair rate of return and to provide safe and reliable cost-based
17 service to NJNG's customers. As demonstrated by the testimonies of the Company's
18 witnesses in this proceeding, an increase in base rates is required at this time and is in
19 the best interests of the Company and its ratepayers.

20 **Q.** **DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

21 **A.** Yes. I reserve my right to supplement and/or amend my testimony in the future.

NEW JERSEY NATURAL GAS COMPANY

DETERMINATION OF REVENUE REQUIREMENTS
(\$000)

Rate Base	\$	1,824,617
Rate of Return		<u>7.81%</u>
Operating Income Requirement	\$	142,524
Pro-Forma Operating Income	\$	<u>49,750</u>
Operating Income Deficiency	\$	92,774
Revenue Factor		<u>1.3995</u>
Revenue Requirements	\$	<u>129,838</u>
For Rate Design Purposes:		
<i>Revenue Requirement From:</i>		
Conservation Incentive Program	\$	<u>(326)</u>
Requested Additional Operating Revenue	\$	<u>129,512</u>

NEW JERSEY NATURAL GAS COMPANY

RATE BASE
(\$000)

	<u>Balance at</u> <u>August 31, 2019</u>
Plant In Service	\$ 2,511,085
Accumulated Depreciation Reserve	(512,702)
Customer Advances	(2,857)
Net Plant In Service	1,995,526
 Gas Supply & LNG Inventory	 72,089
 Working Capital:	
Cash (Lead/Lag)	\$ 119,120
Materials and Supplies	12,222
Prepayments	16,054
Net Working Capital	147,395
 Deferred Taxes	 (242,787)
Excess Deferred Tax	(143,822)
Consolidated Tax Adjustment	(3,785)
 Total Rate Base	 <u><u>\$ 1,824,617</u></u>

Source(s):

Workpaper	JMC-1 UPDATE	LL Summary
Workpaper	JMC-2 UPDATE	Excess DFIT
Workpaper	JMC-3 UPDATE	Consolidated Taxes

NEW JERSEY NATURAL GAS COMPANY

WEIGHTED AVERAGE COST OF CAPITAL
 (\$ MILLIONS)

	<u>Amount</u>	<u>Percent</u>	<u>Embedded Cost</u>	<u>Weighted Cost</u>	<u>Net of Tax</u>	<u>Pre-tax</u>
Long-Term Debt	\$ 920,212	43.51%	3.83%	1.67%	1.20%	1.67%
Common Equity	<u>\$ 1,194,896</u>	<u>56.49%</u>	<u>10.88%</u>	<u>6.14%</u>	<u>6.14%</u>	<u>8.55%</u>
Total	\$ 2,115,108	100.00%		<u>7.81%</u>	<u>7.34%</u>	<u>10.21%</u>

Source(s):

Workpaper JMC-4 UPDATE Long Term Debt

**EXHIBIT P-3
SCHEDULE JMC-4
R-1**

NEW JERSEY NATURAL GAS COMPANY

REVENUE FACTOR

Revenue Increase	100.0000	129,838
Uncollectible Rate	0.3230	419
BPU Assessment Rate	0.2311	300
Rate Counsel Assessment Rate	0.0553	72
Income before State of NJ Bus. Income Tax	99.3906	129,047
State of NJ Bus. Income Tax @ 9.00%	8.9452	11,614
Income Before Federal Income Taxes	90.4455	117,432
Federal Income Taxes @ 21%	18.9935	24,661
Return	71.4519	92,772
Revenue Factor	1.3995	1.3995

Source(s):

Workpaper JMC-5 UPDATE Uncollectible Rate

NEW JERSEY NATURAL GAS COMPANY

UTILITY PLANT IN-SERVICE
 (\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
Beginning Balance @ September 1, 2018	\$ 2,230,638
Total Direct Additions	\$ 207,553
Retirements:	
Production	\$ -
Storage	(75)
Transmission	(1,063)
Distribution	(7,018)
General	-
Total Retirements	<u>\$ (8,157)</u>
Meter Lease	49,201
Building Lease	31,850
Total Additions	<u>81,051</u>
Total Utility Plant In-Service	<u>\$ 2,511,085</u>

Source(s):
 Workpaper JMC-6 UPDATE Plant-Depreciation
 Workpaper JMC-8 UPDATE Balance Sheet

NEW JERSEY NATURAL GAS COMPANY
DIRECT ADDITIONS TO PLANT IN-SERVICE
(\$000)

	Test Year August 31, 2019
Production	\$ -
Storage	1,697
Transmission	30,791
Distribution	152,611
General	22,454
Total Direct Additions	\$ 207,553

Source(s):

Workpaper JMC-6 UPDATE Plant-Depreciation

NEW JERSEY NATURAL GAS COMPANY

ACCUMULATED DEPRECIATION OF UTILITY PLANT
(\$000)

			<u>Test Year</u> <u>August 31, 2019</u>
Beginning Balance @ September 1, 2018		\$	(504,563)
Production		\$	-
Storage			(683)
Transmission			(7,909)
Distribution			(35,133)
General			(13,426)
SAFE II /RISE			925
Total Charge to Depreciation Expense		\$	(56,227)
Retirements		\$	8,157
SAFE COR/Retirements			14,890
Total Cost of Removal	40,032		
Cost of Removal	(11,459)		
Excess Cost of Removal - Test Year			28,573
Excess Cost of Removal - through August 31, 2018			15,522
Building Reserve			(3,048)
Accretion of ARO			2,972
Net Increase		\$	67,066
Ending Balance		\$	(493,723)
Annualization of Depreciation		\$	(18,978)
Balance - Accumulated Depreciation		\$	(512,702)

Source(s):

Workpaper JMC-6 UPDATE Plant-Depreciation

NEW JERSEY NATURAL GAS COMPANY
CUSTOMER ADVANCES FOR CONSTRUCTION (a)
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
Extensions/Deposits	\$ (2,857)
Total Customer Advances for Construction	<u>\$ (2,857)</u>

(a) 13-month Average Balance (May 2018 - May 2019)

Source(s):

Workpaper JMC-8 UPDATE Balance Sheet

NEW JERSEY NATURAL GAS COMPANY

WORKING CAPITAL - GAS INVENTORY AND MATERIALS & SUPPLIES
 (\$000)

	Test Year August 31, 2019
Gas Supply and LNG Inventory (a)	\$ 72,089
Materials and Supplies (b)	12,222
Total Materials and Supplies	\$ 84,311

(a) 13-month Forecasted Average Balance (August 2018 - August 2019)

(b) 13-month Average Balance (May 2018 - May 2019)

Source(s):

Workpaper	JMC-9 UPDATE	Inventory
Workpaper	JMC-8 UPDATE	Balance Sheet

NEW JERSEY NATURAL GAS COMPANY

WORKING CAPITAL - PREPAYMENTS

(\$000)

	Test Year
	<u>August 31, 2019</u>
Meter Lease (a)	\$ 645
Delta Dental (a)	32
Rents/Leases (a)	68
Real Estate Taxes (a)	139
Computer Lease (a)	3,060
Insurance (a)	1,741
Postage (a)	86
BPU & Rate Counsel Assessment	737
Uniform Transitional Utility Assessment (a)	9,546
Total Prepayments	<u>\$ 16,054</u>

(a) 13-month Average Balance (May 2018 - May 2019)

Source(s):

Workpaper JMC-8 UPDATE Balance Sheet

EXHIBIT P-3
SCHEDULE JMC-11
R-1

NEW JERSEY NATURAL GAS COMPANY
ACCUMULATED DEFERRED INCOME TAXES
(\$000)

	Balance at August 31, 2019
Depreciation	\$ (202,225)
Cost of Removal	59,223
Repairs and Maintenance	(49,702)
Section 174 - R&D	1,725
Capitalized Interest	825
Contribution-in-Aid-of-Construction	732
NJ Corporate Business Tax	(60,086)
Depreciation Study	7,117
Deferred Taxes SAFE II/RISE	(396)
Total Accumulated Deferred Income Taxes	\$ (242,787)

Source(s):

Workpaper JMC-10 UPDATE DFIT

EXHIBIT P-3
SCHEDULE JMC-12
R-1

NEW JERSEY NATURAL GAS COMPANY

INCOME STATEMENT
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
Operating Revenues	758,184
<u>Operating Expenses:</u>	
Operation Expense	533,126
Maintenance Expense	13,748
Depreciation Expense	57,332
Taxes Other Than Income Taxes	44,984
Income Taxes - Current & Deferred	12,288
Total Utility Operating Expenses	<u>\$661,478</u>
Utility Operating Income	<u>\$96,706</u>

Source(s):

Workpaper JMC-11 UPDATE Income Statement

NEW JERSEY NATURAL GAS COMPANY

PRO-FORMA DISTRIBUTION OPERATING INCOME
(\$000)

			<u>Test Year</u> <u>August 31, 2019</u>	
Test Year Distribution Operating Income			\$	96,706
Adjustment #	Pro-Forma Adjustments:	Schedule #		
1	Wages	JMC - 14	\$	(2,329)
2	Payroll Taxes	JMC - 15		(178)
3	Interest Synchronization (Tax Savings)	JMC - 16		571
4	Pension & Fringe Benefits	JMC - 17		(1,989)
5	BPU/Rate Counsel Assessments	JMC - 18		(330)
6	BGSS Incentive Margin	JMC - 19		(6,238)
7	Outside Services	JMC - 20		(301)
8	Depreciation Annualization	JMC - 21		(27,287)
9	SAVEGREEN	JMC - 22		(3,713)
10	Real Estate Taxes	JMC - 23		(17)
11	Insurance	JMC - 24		(235)
12	Annual Review of Commercial Customers	JMC - 25		(831)
13	NEXT	JMC - 26		(3,987)
14	Revenue Adjustments	JMC - 27		197
15	Capital Additions	JMC - 28		(571)
16	Tax Reform	JMC - 29		10
17	CNG Credit	JMC - 30		158
18	Rate Case Expense	JMC - 31		114
	Total Pro-Forma Adjustments		\$	(46,956)
	Total Pro-Forma Distribution Operating Income		\$	49,750

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 1

Wages
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
<u>NJNG:</u>	
2019 Annualization	\$ 747
2020 Wage Increase	2,492
Operating Expense Increase before Taxes	\$ 3,240
Income Taxes @ 28.11%	911
Operating Income Increase (Decrease) After Taxes	\$ (2,329)

Source(s):

Workpaper JMC-12 UPDATE Wages

EXHIBIT P-3
SCHEDULE JMC-15
R-1

NEW JERSEY NATURALGAS COMPANY

Adjustment No. 2
Payroll Taxes
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
<u>NJNG:</u>	
2018 Annualization	\$ 57
2019 Wage Increase	191
Operating Expense Increase before Taxes	\$ 248
Income Taxes @ 28.11%	70
Operating Income Increase (Decrease) After Taxes	\$ (178)

NEW JERSEY NATURAL GAS COMPANY

**Adjustment No. 3
Interest Synchronization (Tax Savings)
(\$000)**

Rate Base			\$ 1,824,617
	Percent	Embedded Cost	Weighted Cost
<hr/>			
Debt Components:			
Long Term Debt	43.51%	3.83%	1.67%
Total Weighted Cost of Debt			<u>1.67%</u>
Annualized Interest Expense			\$ 30,426
Less: Test Period Interest Expense			<u>28,394</u>
Net Interest Expense Increase/Decrease			\$ 2,032
Income Tax Rate			<u>28.11%</u>
Operating Income Increase (Decrease) After Taxes			<u><u>\$ 571</u></u>

Source(s):

Workpaper JMC-11 UPDATE Income Statement

**EXHIBIT P-3
SCHEDULE JMC-17
R-1**

NEW JERSEY NATURAL GAS COMPANY

**Adjustment No. 4
Pension and Fringe Benefits
(\$000)**

Fiscal Year 2020	Pension/401(K)		\$ 7,044
	OPEB		11,734
	Medical		11,038
	Dental		548
	Fringe Transfer		(7,066)
		FY 2020 Total	\$ 23,299
<i>Less:</i>			
Test Year	Pension/401(K)		\$ 6,504
	OPEB		9,450
	Medical		10,514
	Dental		522
	Fringe Transfer		(6,458)
		Total	\$ 20,533
	Increase in Test Year Operating Expenses		\$ 2,766
	Income Taxes @ 28.11%		778
	Operating Income Increase (Decrease) After Taxes		\$ (1,989)

Source(s):

Workpaper JMC-13 UPDATE Pensions & Fringe Benefits

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 5
BPU/Rate Counsel Assessment
(\$000)

	<u>BPU</u>	<u>Rate Counsel</u>	<u>Total</u>
Year 2018 Intrastate Revenues	\$ 617,322	\$ 617,322	
Assessment Rate	0.2311%	0.0553%	
Estimated Assessment	\$ 1,427	\$ 341	\$ 1,768
Less: Assessment Included in Test Year			
Operating Expenses	1,027	282	\$ 1,309
Operating Expense Increase Before Taxes	\$ 400	\$ 59	\$ 459
Income Taxes @ 28.11%	112	17	129
Operating Income Increase (Decrease) After Taxes	\$ (287)	\$ (42)	\$ (330)

Source(s):

Workpaper JMC-14 UPDATE Assessments

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 6
BGSS Incentive Margin
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
Net BGSS Incentive Margin	\$ 8,678
Income Taxes @ 28.11%	<u>2,439</u>
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (6,238)</u></u>

Source(s):

Workpaper JMC-15 UPDATE BGSS Incentives

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 7
Outside Services
(\$000)

Test Year
August 31, 2019

Rate Case:

Outside Counsel	\$	1,200	
Consultants		375	
Miscellaneous		100	
Total Rate Case Expense	\$	1,675	
50/50 Sharing	\$	837	
Amortization Period		2	
Normalized Rate Case Expense	\$		419
Income Taxes @ 28.11%			<u>118</u>
Operating Income Increase (Decrease) After Taxes	\$		<u><u>(301)</u></u>

Source(s):

Workpaper JMC-16 UPDATE Outside Services

NEW JERSEY NATURAL GAS COMPANY

**Adjustment No. 8
Annualization of Depreciation
(\$000)**

		<u>Test Year August 31, 2019</u>
Annualization of Depreciation Rate Change		\$ 32,910
Annualization of Depreciation at Current Rates	\$ 62,379	
Test Year Depreciation	<u>57,332</u>	
Difference		<u>\$ 5,046</u>
Operating Expense Increase Before Taxes		\$ 37,957
Income Taxes @ 28.11%		10,670
Operating Income Increase (Decrease) After Taxes		<u>\$ (27,287)</u>

Source(s):

Workpaper JMC-6 UPDATE	Plant-Depreciation
Workpaper JMC-11 UPDATE	Income Statement

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 9
SAVEGREEN
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
SAVEGREEN Margin	\$ 5,164
Operating Expense Increase Before Taxes	<u>\$ 5,164</u>
Income Taxes @ 28.11%	1,452
Operating Income Increase (Decrease) After Taxes	<u>\$ (3,713)</u>

Source(s): Workpaper JMC-17 UPDATE SAVEGREEN Margin

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 10
Real Estate Taxes
(\$000)

	Test Year August 31, 2019
Property Taxes	\$ 610
Test Year Property Taxes	<u>587</u>
Operating Expense Increase Before Taxes	\$ 23
Income Taxes @ 28.11%	7
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (17)</u></u>

Source(s):

Workpaper JMC-18 UPDATE Other Taxes

EXHIBIT P-3
SCHEDULE JMC-24
R-1

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 11
Insurance
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
Insurance Premium Expense	\$ 5,780
Test Year Insurance Premium Expense	<u>5,453</u>
Operating Expense Increase Before Taxes	\$ 327
Income Taxes @ 28.11%	92
Operating Income Increase (Decrease) After Taxes	<u>\$ (235)</u>

Source(s):

Workpaper JMC-19 UPDATE Insurance

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 12
Annual Review of Commercial Customer Usage
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
Class Change	976
HMAD	<u>181</u>
Operating Income Decrease Before Taxes	\$ 1,156
Income Taxes @ 28.11%	325
Operating Income Increase (Decrease) After Taxes	<u>\$ (831)</u>

Source(s):

Workpaper JMC-20 UPDATE Annual Review of Commercial Customer Usage

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 13
Program NEXT
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
Normalized Operation & Maintenance	\$ 10,216
Test Year Operation & Maintenance	<u>4,669</u>
Operating Expense Increase Before Taxes	\$ 5,547
Income Taxes @ 28.11%	1,559
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (3,987)</u></u>

Source(s):

Workpaper JMC-21 UPDATE NEXT O&M

EXHIBIT P-3
SCHEDULE JMC-27
R-1

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 14

Revenue

(\$000)

	Test Year August 31, 2019
SAFE II/NJ RISE	\$ (200)
CIP Impact (Non-Weather)	324
Billing Cycle #240	(398)
Operating Expense Increase Before Taxes	\$ (275)
Income Taxes @ 28.11%	(77)
Operating Income Increase (Decrease) After Taxes	\$ 197

Source(s):

Workpaper	JMC-22 UPDATE	SAFE II-NJ RISE Revenue
Workpaper	JMC-23 UPDATE	CIP Non-Weather
Workpaper	JMC-24 UPDATE	Billing Cycle #240

EXHIBIT P-3
SCHEDULE JMC-28
R-1

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 15
Capital Additions
(\$000)

		<u>Amount</u>
<u>Capital Expenditure</u>		
Manahawkin	\$	2,500
Route 9 Pump - Phase I		1,300
Route 35 Bridge		2,500
Total	\$	6,300
 Net of Tax Rate of Return		 7.34%
 Return on Capital Investment	 \$	 463
 <u>Depreciation on Capital</u>		
Manahawkin	1.92% \$	48
Route 9 Pump - Phase I	2.71%	35
Route 35 Bridge	2.71%	68
Total Depreciation	\$	151
 <hr/>		
Total Net Expense Impact Before Tax	\$	151
 Income Taxes @ 28.11%		 42 109
Operating Income Increase (Decrease) After Taxes	\$	(571)

Source(s):

Workpaper JMC-6 UPDATE Plant-Depreciation

EXHIBIT P-3
SCHEDULE JMC-29
R-1

NEW JERSEY NATURAL GAS COMPANY

**Adjustment No. 16
Tax Cut & Jobs Act - True-up
(\$000)**

		Test Year August 31, 2019
Protected Plant Excess DFIT	\$	1,491
Unprotected Excess DFIT		(1,097)
Gross-Up		158
Total Protected Plant Excess DFIT	\$	552
Amortization Period:		
Protected Plant Excess DFIT	40.00	14
Operating Expense Decrease Before Taxes	\$	14
Income Taxes @ 28.11%		(4)
Operating Income Increase (Decrease) After Taxes	\$	10
Source(s):		
Workpaper JMC-25 UPDATE Tax Reform		

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 17
CNG Credit
(\$000)

	Test Year
	<u>August 31, 2019</u>
CNG	\$ 439
Total Deferral	<u>\$ 439</u>
Amortization Period	2
Operating Expense Decrease Before Taxes	\$ 219
Income Taxes @ 28.11%	<u>(62)</u>
Operating Income Increase (Decrease) After Taxes	<u><u>\$ 158</u></u>

Source(s):

Workpaper JMC-26 UPDATE CNG Credit

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 18
Rate Case Expense
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
Rate Case Expense	\$ 159
Operating Expense Decrease Before Taxes	\$ 159
Income Taxes @ 28.11%	(45)
Operating Income Increase (Decrease) After Taxes	<u>\$ 114</u>

Source(s):

Workpaper

JMC-27 UPDATE

Rate Case Expense

EXHIBIT P-3
SCHEDULE PHASE II - JMC-1
R-1

NEW JERSEY NATURAL GAS COMPANY

Phase II
Southern Reliability Link
(\$000)

			<u>Amount</u>
<u>Capital Expenditure</u>			
Southern Reliability Link		\$	220,000
Deferred Taxes ¹			(1,416)
Total		\$	<u>218,584</u>
Net of Tax Rate of Return			7.34%
Return on Capital Investment		\$	16,049
<u>Depreciation on Capital</u>			
Southern Reliability Link	2.71%	\$	5,962
Total Depreciation		\$	<u>5,962</u>
Total Net Expense Impact Before Tax		\$	5,962
Income Taxes @ 28.11%			1,676
			<u>4,286</u>
Operating Expense Increase After Taxes		\$	<u>20,335</u>
Revenue Factor			<u>1.3995</u>
Revenue Requirement		\$	<u>28,459</u>
 (1) Deferred Taxes:			
Southern Reliability Link		\$	220,000
Tax Depreciation	5.00%	\$	11,000
Book Depreciation	2.71%		5,962
Net		\$	<u>5,038</u>
Deferred Tax @ 28.11%		\$	1,416

NEW JERSEY NATURAL GAS COMPANY

INCOME STATEMENT
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
Operating Revenues	758,184
<i><u>Operating Expenses:</u></i>	
Operation Expense	533,126
Maintenance Expense	13,748
Depreciation Expense	57,332
Taxes Other Than Income Taxes	44,984
Income Taxes - Current & Deferred	12,288
Total Utility Operating Expenses	<u>\$661,478</u>
Utility Operating Income	<u>\$96,706</u>

NEW JERSEY NATURAL GAS COMPANY

DISTRIBUTION SALES BY CLASS OF BUSINESS
(Therms - 000)

Test Year
August 31, 2019

Residential:

Residential Service	458,082
Transportation	25,003

Commercial:

Commercial Service	96,386
Transportation	111,373

Industrial:

Interruptible	-
Transportation	15,242
Street and Yard Light Service	3
Off-System Sales and Other	811,627

Total Distribution Sales By Class Of Business

1,517,716

NEW JERSEY NATURAL GAS COMPANY

CUSTOMERS BILLED BY CLASS OF BUSINESS

	<u>Test Year</u> <u>August 31, 2019</u>
<u>Residential:</u>	
Residential Service	485,096
Transportation	23,970
<u>Commercial:</u>	
Commercial Service	28,499
Transportation	9,323
<u>Industrial:</u>	
Interruptible	-
Transportation	27
Street and Yard Light Service	2
Off-System Sales and Other	87
Total Customers Billed By Class Of Business	<u><u>547,005</u></u>

NEW JERSEY NATURAL GAS COMPANY
CUSTOMER ACCOUNTS AND INFORMATION
(\$000)

Test Year
August 31, 2019

Customer Accounts Expenses:

Operation:

901	Supervision	\$	744
902	Meter Reading Expenses		5,773
903	Customer Records and Collection Expenses		11,149
904	Uncollectible Accounts		1,317
905	Miscellaneous Customer Accounts Expenses		18,797
	Total Customer Accounts Expenses	\$	<u>37,780</u>

Customer Service and Informational Expenses:

Operation:

908	Customer Assistance Expenses	\$	13,829
909	Informational/Instruction Exp		462
910	Misc. Customer Service and Informational Expenses		131
	Total Customer Service and Informational Expenses	\$	<u>14,422</u>

Sales Expenses:

Operation:

911	Supervision	\$	893
912	Demonstration and Selling Expenses		1,839
913	Advertising Expense		98
914	Economic Development		20
916	Miscellaneous Sales Expenses		(8,027)
	Total Sales Expenses	\$	<u>(5,176)</u>

Total Customer Accounts and Information

\$ 47,026

NEW JERSEY NATURAL GAS COMPANY

ADMINISTRATIVE AND GENERAL SALARIES AND EXPENSES

(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>	
<u>Operations:</u>		
Salaries & Wages	\$	29,984
Supplies & Expenses		7,909
Administrative Exp Transferr-Cr		(35)
Outside Services		18,861
Property Insurance		267
Injuries and Damages		5,735
Pension/Benefits		21,984
Regulatory Commission Expenses		5,485
Duplicate Charges		-
General publicity		-
General Advertising		248
Miscellaneous		407
Rents		2,317
Total Operation	\$	<u>93,163</u>
Maintenance of General Plant		-
Total Maintenance	\$	<u>-</u>
Total Administrative and General Salaries and Expenses	\$	<u><u>93,163</u></u>

NEW JERSEY NATURAL GAS COMPANY

DEPRECIATION
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
Depreciation	\$ 57,332
Total Depreciation	\$ 57,332

NEW JERSEY NATURAL GAS COMPANY

TAXES OTHER THAN INCOME TAXES
(\$000)

	<u>Test Year</u> <u>August 31, 2019</u>
Real Estate	\$ 587
FICA	5,446
State Unemployment	229
Federal Unemployment	31
Municipal and State Taxes	38,692
Total Taxes Other Than Income	<u><u>\$44,984</u></u>

NEW JERSEY NATURAL GAS COMPANY

CURRENT AND DEFERRED INCOME TAXES

(\$000)

		<u>Test Year</u> <u>August 31, 2019</u>	
<u>Current:</u>			
Federal		\$	908
State			130
ITC			(322)
	Total Current	\$	716
<u>Deferred:</u>			
Deferred		\$	11,571
	Total Deferred	\$	11,571
	Net Income Taxes		12,287

NEW JERSEY NATURAL GAS COMPANY

Exhibit P-4
Schedule AMC - 14
Page 1 of 10
R-1

INCOME ACCOUNT
12 MONTHS ENDING August 31, 2019 *
(Thousands)

Operating Revenues	758,184
Operating Expenses	<u>661,478</u>
Operating Income	96,706
Other Income and Deductions:	
Other Income	10,040
Taxes on Other Income and Deductions	<u>(1,261)</u>
Total	8,779
Income Before Interest Charges	105,485
Interest Charges	<u>(24,873)</u>
Net Income	<u><u>\$80,612</u></u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

REVENUE BY CLASS OF BUSINESS
12 MONTHS ENDING August 31, 2019 *

(Thousands)

Exhibit P-4
Schedule AMC - 14
Page 2 of 10
R-1

Residential-Service	465,722
- Transportation	13,517
Commercial-Service	106,212
- Transportation	52,026
Industrial- Interruptible	-
- Transportation	1,905
Street and Yard Light Service	4
Off-system Sales and Other	108,418
CIP Rider Revenue	10,381
Total Natural Gas Service Revenues	<u>758,184</u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

Exhibit P-4
Schedule AMC - 14
Page 3 of 10
R-1

OPERATING EXPENSES
12 MONTHS ENDING August 31, 2019 *

(Thousands)

Production Expenses:	
Gas Supply Expenses	\$343,359
Gas Production	7,352
Manufactured Gas Production	127
Other Storage	2,509
LPG Expense	-
Total Production Expenses	<u>353,348</u>
Transmission:	
Operation	\$4,362
Maintenance	\$898
Total Transmission	<u>5,260</u>
Distribution:	
Operation	\$36,750
Maintenance	\$11,325
Total Distribution	<u>48,076</u>
Customer Accounts and Information:	
Customer Accounts	\$37,780
Customer Service and Informational	\$14,422
Total Customer Accounts and Information	<u>52,203</u>
Sales	(5,176)
Administrative and General:	
Operation	93,163
Total Administrative and General	<u>93,163</u>
Depreciation	57,332
Taxes other than Income Taxes	44,984
Income taxes:	
Current	7,604
Deferred (Net)	4,684
Total Income Taxes	<u>12,288</u>
Total Gas Operating Expenses	<u>\$661,477</u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

ADJUSTMENTS - INCREASE OR (DECREASE) - PRESENT RATES
12 MONTHS ENDING August 31, 2019 *

Exhibit P-4
Schedule AMC - 14
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R-1

(Thousands)	
Test Year Distribution Operating Income	<u>\$96,706</u>
Wages	(3,240)
Federal and State Income Taxes @ 28.11%	911
Payroll Taxes	(248)
Federal and State Income Taxes @ 28.11%	70
Interest Synchronization (Tax Savings)	571
Pension and Benefit Expenses	(2,766)
Federal and State Income Taxes @ 28.11%	778
BPU/Rate Counsel Assessments	(459)
Federal and State Income Taxes @ 28.11%	129
BGSS Incentive Margin	(8,678)
Federal and State Income Taxes @ 28.11%	2,439
Outside Services Employed	(419)
Federal and State Income Taxes @ 28.11%	118
Depreciation Annualization	(37,957)
Federal and State Income Taxes @ 28.11%	10,670
SAVEGREEN Margin	(5,164)
Federal and State Income Taxes @ 28.11%	1,452
Real Estate Taxes	(23)
Federal and State Income Taxes @ 28.11%	7
Insurance	(327)
Federal and State Income Taxes @ 28.11%	92

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

Exhibit P-4
Schedule AMC - 14
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R-1

ADJUSTMENTS - INCREASE OR (DECREASE) - PRESENT RATES
12 MONTHS ENDING August 31, 2019 *

<u>(Thousands)</u>	
Commercial Customer Usage	(1,156)
Federal and State Income Taxes @ 28.11%	325
Program NEXT	(5,547)
Federal and State Income Taxes @ 28.11%	1,559
Revenue Adjustments	275
Federal and State Income Taxes @ 28.11%	(77)
Capital Additions	(614)
Federal and State Income Taxes	42
Tax Reform	14
Federal and State Income Taxes @ 28.11%	(4)
CNG Credit	219
Federal and State Income Taxes @ 28.11%	(62)
Rate Case Expense	159
Federal and State Income Taxes @ 28.11%	(45)
 Total Pro-Forma Adjustments	 <u>(46,956)</u>
 Total Pro-Forma Distribution Operating Income	 <u>\$49,750</u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

PRO FORMA OPERATING INCOME - PROPOSED RATES
12 MONTHS ENDING August 31, 2019 *
(Thousands)

Exhibit P-4
Schedule AMC - 14
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R-1

Operating Income Pro Forma - Present Rates	\$	49,750
Adjustment:		
1. Net Increase in Revenues Resulting from proposed Rates		129,838
2. Increase in BPU / RC Assessment and Uncollectible Resulting from Increase Revenue		(788)
3. Increase in State Income Taxes		(11,614)
4. Increase in Federal Income Taxes		<u>(24,661)</u>
Total Pro Forma Adjustments		<u>92,775</u>
Operating Income Pro Forma - Proposed Rates	\$	<u>142,524</u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

OPERATING INCOME, YEAR-END RATE BASE AND RATE OF RETURN
12 MONTHS ENDING August 31, 2019 *

(Thousands)

Exhibit P-4
Schedule AMC - 14
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R-1

Present Rates

Operating Income	\$ 49,750
Year-End Rate Base	<u>\$1,824,617</u>
Rate of Return	<u>2.73%</u>

Proposed Rates

Operating Income	\$ 142,524
Year-End Rate Base	<u>\$1,824,617</u>
Rate of Return	<u>7.81%</u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

RATE BASE - ESTIMATED
12 MONTHS ENDING August 31, 2019 *

(Thousands)

Exhibit P-4
Schedule AMC - 14
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R-1

Plant in Service	\$2,511,085
Accumulated Depreciation Reserve	(\$512,702)
Customer Advances	(\$2,857)
Net Plant	<u>1,995,526</u>
Gas Supply & LNG Inventory	72,089
Working Capital	
Cash (Lead/Lag)	119,120
Materials and Supplies	12,222
Prepayments	16,054
Net Working Capital	<u>147,395</u>
Net Plant and Working Capital	<u>2,215,010</u>
Deferred Taxes	(242,787)
Excess Deferred Tax	(143,822)
Consolidated Tax Adjustment	<u>(3,785)</u>
Total Rate Base	<u>\$1,824,617</u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY
OPERATING INCOME, AVERAGE NET INVESTMENT RATE
BASE AND RATE OF RETURN FOR
TEST YEAR ENDING August 31, 2019*

Exhibit P-4
Schedule AMC - 14
Page 9 of 10
R-1

PRO FORMA PRESENT AND PROPOSED RATES

(Thousands)

Present rates

Operating Income	\$49,750
Average Net Investment Rate Base	\$1,720,285
Rate of Return	2.89%

Proposed Rates

Operating Income	\$ 142,524
Average Net Investment Rate Base	\$1,720,285
Rate of Return	8.28%

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY
AVERAGE NET INVESTMENT RATE BASE
AT AUGUST 31, 2019
(Thousands)

Exhibit P-4
Schedule AMC - 14
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R-1

Plant in Service	\$2,423,253
Accumulated Depreciation Reserve	(\$508,632)
Customer Advances	(\$2,816)
Net Plant	<u>1,911,804</u>
Gas Supply Inventory	64,177
Working Capital	
Cash (Lead/Lag)	109,935
Materials and Supplies	11,674
Prepayments	15,251
Net Working Capital	<u>136,859</u>
Net Plant and Working Capital	<u>2,112,840</u>
Deferred Taxes	(388,769)
Consolidated Tax Adjustment	<u>(3,785)</u>
Total Rate Base	<u>\$1,720,285</u>

NEW JERSEY NATURAL GAS COMPANY
CASH WORKING CAPITAL ANALYSIS

CASH WORKING CAPITAL	\$ 66,326
ASSETS/LIABILITIES, net	<u>52,793</u>
TOTAL	<u>\$ 119,120</u>

**13-MONTH
AVERAGE
BALANCE
ENDING May 31,
2019**

ASSETS:

CASH BALANCES	\$ 1,346,389
WORK ORDERS	330,500
THIRD PARTY DAMAGE	638,456
NJ LIFELINE	155,447
LI HEAP	265,235
EMPLOYEES	8,683
BILLING IN PROGRESS	8,115,293
ACCOUNT RECEIVABLES	786,628
BLUE CROSS/BLUE SHIELD	29,417
DAMAGE CLAIMS	6,777
PLANT MATERIAL AND SUPPLIES	12,160,039
FORMS INVENTORY	61,959
PREPAID COMM'L PAPER INTEREST	27,718
PREPAID COMMITMENT FEES	82,268
PENSION/OPEB ASSET	141,683,315
CSV LIFE INSURANCE	1,301,969
TOTAL ASSETS	<u>\$ 167,000,091</u>

LIABILITIES

PENSION/OPEB LIABILITY	\$ (80,626,070)
VOUCHERS	(20,797,600)
UNDISTRIBUTED INVOICES	(148,967)
DENTAL CLAIM RESERVE	(49,685)
ACCOUNT PAYABLES	(364,715)
VIP LIFE INSURANCE DEDUCTION	(40,880)
ALLSTATE SUPPLEMENTAL INSURANCE	(25,339)
CREDIT CARD PROCESSING	(384,676)
RETAINAGE PAYABLE	(1,436,637)
CUSTOMER DEPOSITS	(9,834,792)
CURRENT AND ACCRUED LIABILITIES	(13,730)
SUPPLEMENTAL RETIREMENT	(483,753)
TOTAL LIABILITIES	<u>\$ (114,206,844)</u>
NET ASSETS/LIABILITY	<u>\$ 52,793,247</u>