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December 30, 2020

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

Re: In the Matter of the Acquisition of Elizabethtown Gas, A Division of Pivotal Utility Holdings, Inc. by ETG Acquisition Corp., A Subsidiary of South Jersey Industries, Inc. and Related Transactions
BPU Docket No. GM17121309

Dear Secretary Camacho-Welch:

In connection with the Order dated June 22, 2018 issued in BPU Docket No. GM17121309, please see the attached Audit Report concerning certain issues related to the Asset Management Agreement between Elizabethtown Gas Company and South Jersey Resources Group LLC.

Elizabethtown Gas is suspending the submission of a hard copy and hereby files Asset Management Agreement Audit Report via electronic mail only per Board Order in Docket No. EO20030254 dated March 19, 2020 and May 20, 2020.

If you have any questions regarding the Report, please do not hesitate to contact me.

Respectfully,

A handwritten signature in black ink that reads "Deborah M. Franco".

Deborah M. Franco

DMF:cj
Attachment

cc: Stacy Peterson
Stefanie Brand
Jacqueline Galka
Felicia Thomas-Friel, Esq.

Elizabethtown Gas Co.
Asset Management Agreement
Audit Report No. 28-2020
December 23, 2020

Elizabethtown Gas Co.
Asset Management Agreement Audit
Audit Report No. 28-2020

Background

The New Jersey Board of Public Utilities (NJBPU) in their stipulation approving the acquisition of Elizabethtown Gas Company (ETG) by South Jersey Industries (SJI) identified a benefit to ETG customers related to the assignment of an asset management agreement ETG had with Sequent Energy Management to South Jersey Resources Group (SJRJG). The NJBPU allowed a five-year extension of the asset agreement upon SJRG taking over the AMA in exchange for a guaranteed minimum \$26.25 million credit to customers over the five-year period. Essentially, SJRG is paying ETG an annual fee for the right to act as ETG's gas supplier and capacity management agent.

The stipulation specified that ETG would credit back to ETG customers the entire fee received from SJRG. The Basic Gas Supply Service – Periodic (BGSS-P) clause would be used to return the fee to the customers. The fee consists of a minimum fixed annual payment and margin sharing.

The margin sharing formula results in an overall sharing of approximately thirty percent (30%) of margins/credits to SJRG and seventy percent (70%) of such margins/credits to ETG's BGSS-P clause if total margins/credits for any annual period are between \$8.0 million and \$14.0 million.

The current AMA for gas procurement and asset management services between ETG and SJRG was made effective on April 1, 2019. Under the terms of the AMA margin is derived from three general activities: 1) optimization of Sales to ETG, 2) Third Party Sales, and 3) Storage Arbitrage.

The stipulation requires, following the completion of the first year of the term of the AMA Replacement Agreement, and each year thereafter that an Internal Audit be conducted. The stipulation requires that the scope of the audit to determine whether margins were properly credited to ETG's BGSS-P clause and that SJRG was treating ETG in a non-discriminatory manner in relation to other SJRG asset management arrangements.

Internal Audit's procedures performed included:

- Interviewing ETG and SJRG process owners;
- Verifying margin sharing was determined in accordance with the AMA;
- Verifying margins were properly credited to ETG's BGSS-P clause; and
- Assessing whether SJRG treated ETG in a non-discriminatory manner in relation to other SJRG AMA's

Conclusion

As a result of the procedures performed, Internal Audit did not identify any deficiencies to indicate that margin sharing was not determined in accordance with the AMA and/or not

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properly credited to ETG's BGSS-P clause. Additionally, there was no indication that SJRG did not treat ETG in a non-discriminatory manner in relation to other SJRG AMA's

Our review conforms with the International Standards for the Professional Practice of Internal Auditing. This report is intended solely, for the information and use of the Board of Directors and management of South Jersey Industries, Inc. and subsidiaries and should not be used by anyone other than these specified parties.