



July 9, 2021

Via Electronic Mail

Hon. Jacob S. Gertsman, ALJ
Office of Administrative Law
Post Office Box 49
Trenton, NJ 08625-0049

Re: I/M/O 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 N.J.S.A. 48:2-21.1; and For Changes to Depreciation Rates For Gas Property Pursuant to N.J.S.A. 48:2-18
OAL Docket Nos. PUC 04111-2021S
BPU Docket No. GR21030679

I/M/O the Petition of New Jersey Natural Gas Company For Approval of a Base Rate Adjustment Pursuant to the NJ RISE and SAFE II Programs
OAL Docket Nos. PUC 04113-2021S
BPU Docket No. GR21030680

Dear Judge Gertsman:

Consistent with the procedural schedule agreed to among New Jersey Natural Gas Company (the “Company”), the Staff of the Board of Public Utilities and the Division of Rate Counsel, the Company has updated its request in the above-referenced base rate case. Enclosed please find the following updated information based upon nine months of actual and three months of forecasted data in the Company’s pending base rate case:

Revised Direct Testimony of the James M. Corcoran, Director – Revenue Requirements, and related updated schedules (JMC-1 UPDATE-1 through JMC-30 UPDATE-1);

Updated schedules of Harold Walker (HW-1 UPDATE-1 and HW-25 UPDATE-1); and

Updated schedules of Angela Cahill (AMC-5 UPDATE-1, AMC-6 UPDATE-1, AMC-7 UPDATE-1, AMC-9 UPDATE-1, AMC-10 UPDATE-1, AMC-11 UPDATE-1, AMC-12 UPDATE-1, AMC-13 UPDATE-1, and AMC-14 UPDATE-1).

Hon. Jacob S. Gertsman, ALJ
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These updated schedules and Mr. Corcoran's Revised Direct Testimony and schedules are being provided electronically to the service list, with a hard copy to Your Honor. Please note that the Company intends to provide in the next several days workpapers supporting these revised materials.

Please contact me via email at adembia@njng.com should the Court have any questions regarding these materials. Thank you for your attention to this matter.

Respectfully submitted,



Andrew K. Dembia
Regulatory Affairs Counsel

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*I/M/O 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 N.J.S.A. 48:2-21.1; and for Changes to Depreciation Rates for
Gas Property Pursuant to N.J.S.A. 48:2-18
OAL Docket No. PUC 04111-21
BPU Docket No. GR21030679*

*I/M/O the Petition of New Jersey Natural Gas Company
For Approval of a Base Rate Adjustment Pursuant to the NJ RISE and SAFE II Programs,
N.J.S.A. 48:2-21, 48:2-21.1; 48:2-18 and 48:2-18
OAL Docket No. PUC 04113-21
BPU Docket No. GR21030680*

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BPU Docket No. GR21030679

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BPU Docket No. GR21030679

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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
18 Requirements. My responsibilities include supporting the Regulatory Affairs
19 department with the preparation of testimony regarding all rate recovery matters. I also
20 participate on behalf of NJNG in the New Jersey Resources financial reporting
21 committee.

22 As Director - Revenue Requirements, I perform the calculation of revenue

1 requirements for NJNG’s base rates as well as cost recovery riders.

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

3 **A.** Yes. I have submitted Direct Testimony before the Board in NJNG’s recent
4 Infrastructure Investment Program (BPU Docket No. GR19020278), its most recent
5 base rate cases (BPU Docket Nos. GR19030420 and GR15111304) and the NJ
6 Reinvestment in System Enhancement (“NJ RISE”) cost recovery petition (BPU
7 Docket No. GR15050638). In addition, I have provided testimony on behalf of PSEG
8 Power, LLC in a rate matter proceeding before the Connecticut Public Utilities
9 Regulatory Authority in PURA Docket No. 12-07-17.

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

12 **A.** On March 30, 2021, I filed Direct Testimony and associated financial schedules in
13 support of NJNG’s petition for rate relief utilizing five (5) months of actual data and
14 seven (7) months of forecasted data for the test year ending August 31, 2021 and related
15 post-test year adjustments through and including February 28, 2022. In this revision, I
16 have updated the financial information for nine (9) months of actual data and three (3)
17 months of forecasted data for the test year and revised the associated post-test year
18 adjustments, where necessary.

19 Schedule JMC-1 UPDATE-1 shows the operating income required to provide
20 a just and reasonable return on NJNG’s rate base, the pro forma operating income for
21 the test period, and the additional revenue necessary to satisfy the operating income
22 requirement. Schedule JMC-2 UPDATE-1 summarizes NJNG’s Rate Base and
23 Schedule JMC-12 UPDATE-1 reflects Operating Income as of August 31, 2021, on a
24 9-month actual and 3-month estimated basis. The Revenue Factor is presented on
25 Schedule JMC-4 UPDATE-1. The individual amounts shown on these Schedules are
26 further supported by NJNG’s accounting records and its operating and capital budgets
27 for the period ending August 31, 2021. The books and records of NJNG are maintained
28 in accordance with the Uniform System of Accounts prescribed by the Board and the
29 Federal Energy Regulatory Commission (“FERC”).

1 The balance of my testimony supports the Rate Base, Operating Income, and
2 the pro forma adjustments necessary for the period ending August 31, 2021. The
3 additional revenue of \$163.90 million requested in this case, as calculated on Schedule
4 JMC-1 UPDATE-1, is needed to provide NJNG the opportunity to recover operating
5 revenues through base rates sufficient to meet operating expenses, taxes and fixed
6 charges, and to provide a reasonable return on its Rate Base investments.

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

10 **Q. PLEASE IDENTIFY THE SCHEDULES ATTACHED TO THE PETITION**
11 **THAT ARE BEING SPONSORED BY COMPANY WITNESS ANGELA M.**
12 **CAHILL THAT HAVE BEEN UPDATED IN THIS FILING.**

13 **A.** The following schedules of Company witness Angela M. Cahill have been updated to
14 reflect the financial information for nine (9) months of actual data and three (3) months
15 of forecasted data for the test year: AMC-5 UPDATE-1, AMC-6 UPDATE-1, AMC-
16 7 UPDATE-1, AMC-9 UPDATE-1, AMC-10 UPDATE-1, AMC-11 UPDATE-1,
17 AMC-12 UPDATE-1, AMC-13 UPDATE-1, and AMC-14 UPDATE-1. Please note
18 that no changes were made to Ms. Cahill's direct pre-filed testimony.

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

20 **A.** NJNG's last base rate case decision was approved by the BPU in an Order dated
21 November 13, 2019 (Docket No. GR19030420). Since that time, the Company has
22 continued to provide safe, reliable and high-quality service to its customers, and is
23 committed to providing the same in the future.

24 The Company initiated this proceeding with a Petition filed on March 30, 2021,
25 seeking an increase in base rate revenues of \$165.67 million. With this update, the
26 Company is requesting an increase in its base rate revenues of \$163.90 million based
27 on the test year ending August 31, 2021, with known and measurable changes through
28 February 28, 2022. Financial integrity and strength are key components to the
29 Company's ability to employ the necessary capital and to cover the operating expenses
30 necessary to maintain and improve its distribution and transmission systems, and to

1 continue to provide safe, reliable and high-quality service to approximately 560,000
2 residential and commercial customers in its service territory. The health and safety of
3 NJNG's customers and employees is the Company's number one priority, and
4 maintaining a strong financial position in the marketplace is a necessary ingredient to
5 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, 2021. This updated filing consists of 9 months actual data ending May 31, 2021,
10 and 3 months estimated data through August 31, 2021.

11 **Q. PLEASE DESCRIBE THE NJNG RATE BASE – SCHEDULE JMC-2 UPDATE-**
12 **1.**

13 **A.** Schedule JMC-2 UPDATE-1 presents total Rate Base at August 31, 2021 of \$2.54
14 billion. The NJNG Rate Base consists of the utility's investment in natural gas plant,
15 net of accumulated depreciation of utility plant; natural gas commodity in storage and
16 LNG inventory; materials and supplies; prepayments and cash working capital, offset
17 by customer advances and accumulated deferred income taxes; and a consolidated tax
18 adjustment. I will now address each individual component of the Company's Revenue
19 Requirement.

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

22 **A.** Yes. In accord with the Board's October 22, 2014 Order in Docket No. EO12121072
23 and the recently-adopted consolidated tax adjustment rule (*see* 51 N.J.R. 414(d) (March
24 18, 2019)), the Company has calculated a consolidated tax adjustment ("CTA"). The
25 calculated CTA reduces rate base by \$1.41 million. *See* Schedule JMC-2 UPDATE-1.

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

28 **A.** Schedule JMC-3 UPDATE-1 provides NJNG's capital structure components and their

1 respective embedded cost rates to calculate the requested weighted average cost of
2 capital (“WACC”) to establish the proper operating income requirement. The Direct
3 Testimony of Mr. Paul R. Moul supports the capital structure, the long-term debt cost
4 rate and the return on common equity utilized in the WACC. I have incorporated the
5 lower-end of recommendation of Mr. Moul and have utilized a 10.50% return on equity
6 in the Company’s capital structure.

7 **Q. PLEASE EXPLAIN THE REVENUE FACTOR – SCHEDULE JMC-4**
8 **UPDATE-1.**

9 **A.** The revenue factor utilized by the Company in this proceeding is 1.4081. The factor
10 includes State of New Jersey Corporate Business Tax, Federal Income Tax, the
11 Assessments for the Board and the New Jersey Division of Rate Counsel (“Rate
12 Counsel”) and Uncollectibles.

13 **Q. PLEASE EXPLAIN THE NJNG UTILITY PLANT IN SERVICE – SCHEDULE**
14 **JMC-5 UPDATE-1 AND SCHEDULE JMC-6 UPDATE-1.**

15 **A.** The NJNG utility plant in service, as shown on Schedule JMC-5 UPDATE-1, is \$3.29
16 billion at August 31, 2021. Since the settlement of our most recent base rate case, plant
17 in service has increased by approximately \$780 million. This growth is, in part,
18 attributable to the Southern Reliability Link being placed in service, investment in
19 Board-approved infrastructure programs for distribution and transmission mains and
20 services, as well as safety and reliability upgrades in the Company’s service territory.
21 Distribution and transmission plant investments were discussed in the testimony of Mr.
22 John B. Wyckoff. Schedule JMC-6 UPDATE-1 provides a further breakdown of the
23 Plant Additions summarized on Schedule JMC-5 UPDATE-1.

24 **Q. PLEASE DESCRIBE THE ACCUMULATED DEPRECIATION OF UTILITY**
25 **PLANT – SCHEDULE JMC-7 UPDATE-1.**

26 **A.** Plant in service investments have an estimated useful life, which normally extends over
27 many years as it provides natural gas service to customers. The systematic recovery of
28 these investments is accomplished by the recognition in rates and operating expense of

1 annual depreciation charges, with accumulated depreciation primarily representing the
2 cumulative recovery of depreciation expense. This accumulated recovery of
3 depreciation is used to reduce Rate Base. This has been, and continues to be, an
4 acceptable principle in developing Rate Base, since the accumulated depreciation
5 reserve balance infers that these amounts have already been charged to income and
6 recovered from customers. The accumulated depreciation reserve balance of \$571.18
7 million includes the accumulated recognition of depreciation expense, salvage and cost
8 of removal. The accumulated depreciation reserve balance does not recognize the legal
9 Asset Retirement Obligation liabilities associated with the Statement of Financial
10 Accounting Standards No. 143 and Financial Accounting Standards Board
11 Interpretation Number 47.

12 The Company has proposed new distribution depreciation rates based on a fiscal
13 year 2020 Gas Depreciation Study, supported by the testimony of Dr. Ronald E. White
14 (Exh. P-7). The proposed depreciation rates and related depreciation expense have
15 been annualized for plant balances at August 31, 2021 and are reflected in the
16 Company's revenue requirement.

17 As detailed on Schedule JMC-7 UPDATE-1, the Company has increased its
18 August 31, 2021 Accumulated Depreciation Reserve balance by \$19.53 million,
19 representing an adjustment equal to one-half of the annualized period-end depreciation
20 expense plus one-half of the annualized depreciation rate change impact. This test year
21 adjustment to the Accumulated Depreciation Reserve balance annualizes the period-end
22 depreciation expense and the proposed new depreciation rates resulting from Dr. White's
23 depreciation studies for plant balances at August 31, 2021.

24 **Q. PLEASE DESCRIBE NJNG'S CUSTOMER ADVANCES FOR**
25 **CONSTRUCTION – SCHEDULE JMC-8 UPDATE-1.**

26 **A.** As a normal part of utility business, the costs of construction related to advances made
27 by the Company's customers are capitalized and included in the Net Plant In Service
28 balance. Therefore, it is appropriate to reduce plant costs for these construction related
29 customer advances. As shown on Schedule JMC-2 UPDATE-1, Rate Base has been

1 reduced by \$2.56 million, based upon the 13-month average of actual customer
2 advances through May 31, 2021. This amount will be updated throughout the case.

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

6 **A.** Included in Rate Base is a representative amount of natural gas supply and LNG
7 inventory maintained by NJNG to serve its customers. The natural gas supply and LNG
8 inventory, in the amount of \$80.83 million, is based on a 13-month projected average
9 as of August 31, 2021.

10 **Q. PLEASE DESCRIBE THE WORKING CAPITAL COMPONENT OF RATE**
11 **BASE.**

12 **A.** The Company’s proposed working capital allowance is \$166.20 million, consisting of
13 three components: cash (Lead/Lag and Net Assets/Net Liabilities Analysis) of \$136.57
14 million, materials and supplies at a 13-month actual average of \$15.99 million and
15 prepayments at a 13-month actual average of \$13.64 million. The cash working capital
16 requirements associated with the Lead/Lag study are discussed in the testimony of
17 Harold Walker, III. (Exh. P-5). Schedules HW-1 UPDATE-1 and HW-25 UPDATE-
18 1 of Mr. Walker’s Direct Testimony have been updated and included in the Lead/Lag
19 component of my Schedule JMC-2 UPDATE-1. I will further discuss the rate treatment
20 for: 1) Materials and Supplies and 2) Prepayments.

21 **Materials and Supplies – Schedule JMC-9 UPDATE-1**

22 Included in Rate Base is \$15.99 million of materials and supplies necessary for ongoing
23 utility operations. This amount is a 13-month actual average balance representing
24 general store items held in NJNG’s inventory for operations and maintenance and
25 capital purposes as of May 31, 2021. This amount will be updated throughout the case.

26 **Prepayments - Schedule JMC-10 UPDATE-1**

27 The Company is required to make advance payments for certain operating costs, such
28 as insurance and assessments, prior to the amounts being charged to operating

1 expenses. The NJNG prepayments, which are similar to the materials and supplies,
2 represent a permanent, ongoing investment by the Company. Accordingly, I have
3 included in Rate Base the 13-month actual average of prepayments at May 31, 2021,
4 of \$13.64 million. This amount will be updated throughout the case.

5 **Q. PLEASE DESCRIBE THE ACCUMULATED DEFERRED TAXES PORTION**
6 **OF RATE BASE – SCHEDULE JMC-11 UPDATE-1.**

7 **A.** Deferred income taxes represent the accumulated tax effect for the timing differences
8 between when an item is recognized for tax purposes and when it is recognized for
9 book purposes in Utility Operating Income. Since the accumulated deferred tax
10 balances shown on Schedule JMC-11 UPDATE-1 relate either to utility assets included
11 in Rate Base or to expenses, both of which are utilized in setting customer rates, a Rate
12 Base deduction is appropriate. The accumulated deferred tax reduction to Rate Base is
13 estimated to be \$284.66 million at August 31, 2021.

14 **Q. PLEASE DESCRIBE THE OPERATING INCOME LEVEL AT CURRENT**
15 **RATES.**

16 **A.** Schedule JMC-12 UPDATE-1 presents NJNG's income statement for the test year
17 ended August 31, 2021.

18 **Q. PLEASE DESCRIBE THE OPERATING INCOME AND THE PRO FORMA**
19 **ADJUSTMENTS AT AUGUST 31, 2021.**

20 **A.** I have made the following pro forma adjustments to Operating Income to recognize a
21 normalized test year ending August 31, 2021:

22 **Pro Forma Operating Income – Schedule JMC-13 UPDATE-1**

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

1 in effect.

2 **Annualization of Wages – Schedule JMC-14 UPDATE-1**

3 This adjustment of \$3.51 million (\$2.53 million, net) represents the annualization of
4 labor costs applicable to represented and non-represented employees at NJNG at
5 August 31, 2021, plus an adjustment for known and measurable changes to include in
6 the test year and the January 2022 wage increase.

7 The pro-forma adjustment utilizes annual percentage increases of 3.50 percent
8 in 2020 and 2021, respectively. For represented employees, this adjustment annualizes
9 the January 2021 wages and calculates the pro forma impact of the January 2022
10 increase for employees.

11 The adjustment also annualizes the January 2021 increase and calculates the
12 pro forma impact of a January 2022 increase applicable to the Company’s non-
13 represented employees. The identical percent increases afforded the represented work
14 force have been applied to the non-represented employees for calculating these impacts
15 for employees. The adjustment to labor expense also includes the wage increases
16 associated with the labor dollars charged to NJNG for the Service Company employees
17 in a similar manner.

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

22 **Annualization of Payroll Taxes – Schedule JMC-15 UPDATE-1**

23 This adjustment of \$269 thousand (\$193 thousand, net) annualizes the test year for
24 changes in payroll taxes and represents the increases in the Federal Insurance
25 Contribution Act (“FICA”) Tax for increases in taxable wages. The test period has
26 been annualized for the statutorily mandated rates of 6.2 percent and 1.45 percent for
27 Social Security and Medicare Benefits, respectively.

28 **Interest Synchronization (Tax Savings) – Schedule JMC-16 UPDATE-1**

29 The Board has historically adopted an adjustment to synchronize the federal income
30 tax savings associated with interest expense in the test period with the tax savings,

1 based on an interest calculation using the weighted average cost of debt in the capital
2 structure utilized to support Rate Base.

3 As shown on Schedule JMC-16 UPDATE-1, the interest-bearing components
4 of the capitalization supporting the NJNG Rate Base produce interest expenses of
5 \$39.74 million. This is \$5.18 million more than the recorded test year period interest
6 expense of \$34.56 million. This adjustment of \$5.18 million (\$1.46 million, net)
7 increases Operating Income attributable to the tax savings on the interest component.

8 **Pension and Benefits Expense – Schedule JMC-17 UPDATE-1**

9 An adjustment in the amount of \$946 thousand (\$680 thousand, net) represents an
10 operating expense decrease and reflects the necessary adjustments in pension, Other
11 Post-Employment Benefits (“OPEB”), and medical and dental expenses over the test
12 period amounts included in operating income. This level of expense reflects the
13 forecasted pension, OPEB, and medical and dental expenses through fiscal year 2022
14 (i.e., October 1, 2021 through September 30, 2022), and includes actuarial assumptions
15 and changes to the mortality tables as prepared by AON (the Company’s actuarial
16 consultant) and used by NJNG for U.S. Securities and Exchange Commission (“SEC”)
17 disclosure purposes in its financial statements.

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

24 **BPU and Rate Counsel Assessments – Schedule JMC-18 UPDATE-1**

25 In accordance with N.J.S.A. 48:2-60 and N.J.S.A. 52:27EE-52, the Company provides
26 funding to the State of New Jersey associated with the operations of the Board and Rate
27 Counsel. These assessments are predicated on rates established by the State of New
28 Jersey and are applied to each gross intrastate revenue dollar recorded by the Company
29 for the preceding year. The current assessment rates are 0.2154 percent for the Board
30 and 0.0535 percent for Rate Counsel. By applying these rates to year-end 2020

1 intrastate operating revenues, the Company has estimated its funding obligation for the
2 Board and Rate Counsel at \$1.88 million. The adjustment of \$575 thousand (\$413
3 thousand, net) increases the test year operating expenses to that level. The adjustment
4 recognizes test year expense for this item at a level that the Company will incur while
5 new rates are in effect, assuming the assessment rate remains stable, and is therefore,
6 appropriate to be adopted in this proceeding.

7 **Basic Gas Supply Service (“BGSS”) Incentive Margin – Schedule JMC-19**
8 **UPDATE-1**

9 Included in test period Operating Income is a level of net BGSS incentive margin that
10 should be excluded from the calculation of base rates in the amount of \$12.37 million
11 (\$8.90 million, net). This incentive margin should be excluded to prevent NJNG’s base
12 rates from being reduced, which would eliminate the incentive margins earned by
13 NJNG pursuant to the Board’s separately approved program.

14 **Outside Services Employed – Schedule JMC-20 UPDATE-1**

15 This adjustment represents a normalized level of expense incurred for rate case
16 expense. The expenses are then ratably amortized over an appropriate time to
17 determine an appropriate level of operating expense recovery in base rates. In accord
18 with the Board’s long-standing policy, I have reflected a 50%/50% sharing of rate case
19 expense between shareholders and NJNG’s customers. The resulting adjustment
20 represents an increase in operating expense of \$303 thousand (\$218 thousand, net).

21 **Annualization of Depreciation – Schedule JMC-21 UPDATE-1**

22 The depreciation rate changes reflect the results of the depreciation study completed by
23 Dr. White. The difference between the annualized depreciation expense at current rates
24 and the amount of depreciation expense included in the test year has been recognized,
25 as well as the annualization of the depreciation rate change on Plant In Service
26 investments at August 31, 2021. The adjustment to depreciation expense represents an
27 increase in operating expense of \$39.06 million (\$28.08 million, net). Depreciation
28 expense is a vital component of NJNG’s recovery of its investment in utility plant over
29 its service life, as well as the recovery of the cost of removal for the replacement of
30 existing structures and other plant investment.

1 **SAVEGREEN Margin – Schedule JMC-22 UPDATE-1**

2 Included in test period Operating Income is a level of SAVEGREEN margin that should
3 be excluded from the calculation of base rates in the amount of \$6.45 million (\$4.64
4 million, net). This margin should be excluded to prevent NJNG’s base rates from being
5 reduced, which would eliminate the margin earned by NJNG pursuant to the Board’s
6 separately approved program.

7 **Real Estate Taxes – Schedule JMC-23 UPDATE-1**

8 This adjustment of \$32 thousand (\$23 thousand, net) increases the test year operating
9 expense to be representative of the level of property real estate tax expense that is
10 expected to be accrued and paid by NJNG on its property in the 12-month period
11 following when new base rates go into effect.

12 **Insurance – Schedule JMC-24 UPDATE-1**

13 This adjustment addresses the items for which NJNG carries insurance policies with
14 outside vendors (e.g., Automobile & Workers Compensation) for which the Company
15 pays annual premiums of approximately \$5.65 million. This adjustment of \$320
16 thousand (\$230 thousand, net) for the test year operating expense increase is
17 representative of the level of insurance expense that is expected to be accrued and paid
18 in the 12-month period following when new base rates go into effect, i.e., the rate year.
19 The increase in insurance expense is estimated to be 6.0%.

20 **Annual Review of Commercial Customer Usage – Schedule JMC-25 UPDATE-1**

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

30 Schedule JMC-25 UPDATE-1 shows the adjustment necessary to reflect the

1 reduction in margin anticipated from the annual review of commercial customers'
2 usage. The adjustment results in a decrease to operating income of \$1.16 million (\$831
3 thousand, net). This adjustment will be updated throughout the case.

4 **Project NEXT– Schedule JMC-26 UPDATE-1**

5 Schedule JMC-26 UPDATE-1 reflects the normalization of operation and maintenance
6 (“O&M”) costs associated with Project NEXT.

7 This pro forma adjustment will normalize the anticipated O&M expenses
8 anticipated to be incurred for the duration of the Project NEXT build-out. Based on
9 the Company’s estimates, NJNG anticipates incurring total O&M of approximately
10 \$24.27 million for fiscal years 2022 and 2023 which equates to an annual average of
11 \$12.14 million for two years. The Company’s income statement currently forecasts
12 approximately \$8.37 million in test year expenses.

13 The adjustment represents an increase in operating expense of \$3.76 million
14 (\$2.71 million, net).

15 **Revenue– Schedule JMC-27 UPDATE-1**

16 Schedule JMC-27 UPDATE-1 reflects two adjustments to annualize the Company’s
17 revenues for its Conservation Incentive Program (CIP) and the SAFE II/NJ RISE
18 Program.

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

23 The SAFE II/NJ RISE Program adjustment annualizes the test year revenues
24 for the SAFE II/ NJ RISE rate change that occurred on October 1, 2020. As the
25 proposed Test Year for this rate case begins on September 1, 2020, the Company has
26 increased its revenues to reflect an additional month for this change.

27 In aggregate, this adjustment represents an increase in operating expense of
28 \$274 thousand (\$197 thousand, net).

29 **Rate Case Expense– Schedule JMC-28 UPDATE-1**

30 Schedule JMC-28 UPDATE-1 reflects an adjustment to remove the actual rate case

1 expenses incurred through May 31, 2021 from the Test Year Income Statement. As of
2 this date, the Company has paid approximately \$114 thousand. This adjustment
3 represents an increase to operating income by \$114 thousand (\$82 thousand, net) for
4 this matter.

5 **Capital Additions – Schedule JMC-29 UPDATE-1**

6 NJNG is in the process of completing major construction projects necessary to continue
7 its high level of service to its customers. The testimony of Mr. Wyckoff contains
8 descriptions of these projects and their benefits to NJNG customers.

9 Included in revenue requirements are adjustments to properly include capital
10 investments and the associated depreciation expense with the following three major
11 projects:

- 12 1. SAFE II Closeout – The installation of the remaining base
13 spend associated with this Program. Completion of this project
14 finalizes the removal of all unprotected bare steel from the
15 NJNG distribution system
- 16 2. Hydrogen Plant – This project, originally expected to be
17 completed during the test year, has an expected in-service date
18 of September 30, 2021, one month outside of the Test Year.
- 19 3. Safety Town – This extremely important project is anticipated
20 to be in-service by the end of the calendar year, i.e. December
21 31, 2021.

22 This adjustment represents an increase to operating expense by \$3.46 million
23 (\$3.16 million, net) for major system improvements.

24 **Southern Reliability Link Project – Schedule JMC-30 UPDATE-1**

25
26 The Company has received approvals in two Board Orders to undertake a major
27 transmission pipeline project referred to as the Southern Reliability Link (“SRL”) in
28 BPU Docket Nos. GE15040402 and GO15040403.

29 The SRL commenced construction in November 2018 and is anticipated to be
30 in-service by August 31, 2021, the end of the Test Year. The amounts included in the
31 Post Test Year encompass restoration and final permit costs after the SRL is providing

1 service to customers. The testimony of Mr. Wyckoff provided an overview of the SRL
2 project.

3 Schedule JMC-30 UPDATE-1 reflects the estimated revenue requirement to
4 reflect the return on capital investment, deferred taxes and the depreciation expense
5 associated with the SRL's post-test year costs. This adjustment represents an increase
6 to operating expense by \$1.56 million (\$1.43 million, net) for the SRL project.

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

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

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

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

18 **A.** No. The non-base spend investments related to SAFE II and NJ RISE that have been
19 placed in-service from July 1, 2020 through June 30, 2021, are excluded from the
20 Company's rate base. On March 29, 2021, the Company filed its annual cost recovery
21 petition for the SAFE II/NJ RISE investments for the July 1, 2020 through June 30,
22 2021 period.

23 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

24 **A.** With this filing, the Company has updated its test year results to reflect nine months of
25 actual data (i.e., through May 31, 2021) and three months of forecasted data (i.e., the
26 period June 1 through August 31, 2021). As supported by my updated direct testimony
27 and schedules, as well as certain updated schedules of Company witnesses Walker and
28 Cahill, the net result of this update is a decrease in the Company's requested rate relief

1 from \$165.67 million to \$163.90 million. The Company will continue to update its
2 request to reflect actual results through August 31, 2021, the end of the test year period.

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

4 **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	\$	2,540,201
Rate of Return		<u>7.47%</u>
Operating Income Requirement	\$	189,660
Pro-Forma Operating Income	\$	<u>73,259</u>
Operating Income Deficiency	\$	116,401
Revenue Factor		<u>1.4081</u>
Revenue Requirements	\$	<u><u>163,904</u></u>
For Rate Design Purposes:		
<i>Revenue Requirement From:</i>		
Conservation Incentive Program	\$	<u>(568)</u>
Requested Additional Operating Revenue	\$	<u><u>163,336</u></u>

NEW JERSEY NATURAL GAS COMPANY

**RATE BASE
(\$000)**

	<u>Balance at August 31, 2021</u>
Plant In Service	\$ 3,290,027
Accumulated Depreciation Reserve	(571,177)
Customer Advances	(2,561)
Net Plant In Service	<u>2,716,289</u>
 Gas Supply & LNG Inventory	 80,829
 Working Capital:	
Cash (Lead/Lag)	\$ 136,573
Materials and Supplies	15,994
Prepayments	13,636
Net Working Capital	<u>166,203</u>
 Deferred Taxes	 (284,660)
Excess Deferred Tax	(137,053)
Consolidated Tax Adjustment	<u>(1,405)</u>
 Total Rate Base	 <u><u>\$ 2,540,201</u></u>

Source(s):

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

NEW JERSEY NATURAL GAS COMPANY

WEIGHTED AVERAGE COST OF CAPITAL

	Amount	Percent	Embedded Cost	Weighted Cost	Net of Tax	Pre-tax
Long-Term Debt	\$ 1,184,615	43.79%	3.57%	1.56%	1.12%	1.56%
Common Equity	<u>\$ 1,520,615</u>	<u>56.21%</u>	10.50%	<u>5.90%</u>	<u>5.90%</u>	<u>8.21%</u>
Total	\$ 2,705,230	100.00%		<u><u>7.47%</u></u>	<u><u>7.03%</u></u>	<u><u>9.77%</u></u>

Source(s):

Workpaper - JMC-4 - UPDATE-1 - Long Term Debt
Workpaper - JMC-7 - UPDATE-1 - FERC Balance Sheet

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

NEW JERSEY NATURAL GAS COMPANY

REVENUE FACTOR

Revenue Increase	100.0000	163,904
Uncollectible Rate	0.9417	1,543
BPU Assessment Rate	0.2154	353
Rate Counsel Assessment Rate	<u>0.0535</u>	<u>88</u>
Income before State of NJ Bus. Income Tax	98.7895	161,920
State of NJ Bus. Income Tax @ 9.00%	<u>8.8911</u>	<u>14,573</u>
Income Before Federal Income Taxes	89.8984	147,347
Federal Income Taxes @ 21%	<u>18.8787</u>	<u>30,943</u>
Return	<u>71.0197</u>	<u>116,404</u>
Revenue Factor	<u><u>1.4081</u></u>	<u><u>1.4081</u></u>

Source(s):

Workpaper - JMC-5 - UPDATE-1 - Uncollectible Rate

**EXHIBIT P-3
SCHEDULE JMC-5
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

**UTILITY PLANT IN-SERVICE
(\$000)**

	<u>Test Year</u> <u>August 31, 2021</u>
Beginning Balance @ September 1, 2020	\$ 2,663,670
Total Direct Additions	\$ 596,295
Retirements:	
Production	\$ -
Storage	-
Transmission	(764)
Distribution	(7,585)
General	-
Total Retirements	\$ (8,348)
Meter Lease	38,409
Total Additions	38,409
Total Utility Plant In-Service	\$ 3,290,027

Source(s):

Workpaper - JMC-6 - UPDATE-1 - Depreciable Plant-Depreciation

**EXHIBIT P-3
SCHEDULE JMC-6
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

**DIRECT ADDITIONS TO PLANT IN-SERVICE
(\$000)**

	<u>Test Year</u> <u>August 31, 2021</u>
Production	\$ -
Storage	25
Transmission	302,392
Distribution	234,469
General	<u>59,409</u>
Total Direct Additions	<u><u>\$ 596,295</u></u>

Source(s):

Workpaper - JMC-6 - UPDATE-1 - Depreciable Plant-Depreciation

NEW JERSEY NATURAL GAS COMPANY

ACCUMULATED DEPRECIATION OF UTILITY PLANT
(\$000)

			Test Year August 31, 2021
Beginning Balance @ September 1, 2020	\$		(589,570)
Production	\$		-
Storage			(1,312)
Transmission			(9,176)
Distribution			(60,256)
General			(8,273)
SAFE II/NJ RISE			3
Total Charge to Depreciation Expense	\$		(79,014)
Retirements	\$		8,348
SAFE COR/Retirements			298
Total Cost of Removal		56,732	
Cost of Removal		(25,012)	
Excess Cost of Removal - Test Year			31,720
Excess Cost of Removal - through August 31, 2020			75,080
Accretion of ARO			1,493
Net Increase	\$		116,939
Ending Balance	\$		(551,645)
Annualization of Depreciation	\$		(19,532)
Balance - Accumulated Depreciation	\$		(571,177)

Source(s):

Workpaper - JMC-6 -UPDATE-1 - Depreciable Plant-Depreciation

NEW JERSEY NATURAL GAS COMPANY

CUSTOMER ADVANCES FOR CONSTRUCTION (a)
(\$000)

	Test Year August 31, 2021
Extensions/Deposits	\$ (2,561)
Total Customer Advances for Construction	\$ (2,561)

(a) 13-month Average Balance (May 2020 - May 2021)

Source(s):

Workpaper - JMC-7 - UPDATE-1 - FERC Balance Sheet

NEW JERSEY NATURAL GAS COMPANY

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

	Test Year August 31, 2021
Gas Supply and LNG Inventory (a)	\$ 80,829
Materials and Supplies (b)	15,994
Total Materials and Supplies	\$ 96,822

(a) 13-month Average Balance (August 2020 - August 2021)

(b) 13-month Average Balance (May 2020 - May 2021)

Source(s):

Workpaper -	JMC-8 - UPDATE-1 -	Inventory
Workpaper -	JMC-7 - UPDATE-1 -	FERC Balance Sheet

NEW JERSEY NATURAL GAS COMPANY

WORKING CAPITAL - PREPAYMENTS
(\$000)

	Test Year August 31, 2021
Meter Lease (a)	\$ 557
Delta Dental (a)	28
Rents/Leases (a)	(177)
Real Estate Taxes (a)	128
Computer Lease (a)	2,124
Insurance (a)	1,977
Postage (a)	47
BPU & Rate Counsel Assessment	785
Uniform Transitional Utility Assessment (a)	8,165
Total Prepayments	\$ 13,636

(a) 13-month Average Balance (May 2020 - May 2021)

Source(s):

Workpaper - JMC-7 - UPDATE-1 - FERC Balance Sheet

**EXHIBIT P-3
SCHEDULE JMC-11
UPDATE-1**

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

	<u>Balance at August 31, 2021</u>
Depreciation	\$ (231,051)
Cost of Removal	65,591
Repairs and Maintenance	(54,761)
Section 174 - R&D	1,652
Capitalized Interest	1,852
Contribution-in-Aid-of-Construction	1,512
NJ Corporate Business Tax	(74,939)
Depreciation Study	5,491
Deferred Taxes SAFE II/NJ RISE	<u>(6)</u>
Total Accumulated Deferred Income Taxes	<u><u>\$ (284,660)</u></u>

Source(s):

Workpaper - JMC-9 - UPDATE-1 - DFIT

NEW JERSEY NATURAL GAS COMPANY

INCOME STATEMENT
(\$000)

Test Year
August 31, 2021

Operating Revenues	740,632
<i><u>Operating Expenses:</u></i>	
Operation Expense	447,930
Maintenance Expense	17,227
Depreciation Expense	78,593
Taxes Other Than Income Taxes	48,806
Income Taxes - Current & Deferred	22,138
Total Utility Operating Expenses	<u>\$614,693</u>
Utility Operating Income	<u><u>\$125,939</u></u>

Source(s):

Workpaper - JMC-10 - UPDATE-1 - FERC Income Statement

**EXHIBIT P-3
SCHEDULE JMC-13
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

PRO-FORMA DISTRIBUTION OPERATING INCOME
(\$000)

**Test Year
August 31, 2021**

Test Year Distribution Operating Income

\$ 125,939

Adjustment #	Pro-Forma Adjustments:	Schedule #		
1	Wages	JMC - 14	\$	(2,525)
2	Payroll Taxes	JMC - 15	\$	(193)
3	Interest Synchronization (Tax Savings)	JMC - 16	\$	1,455
4	Pension & Fringe Benefits	JMC - 17	\$	(680)
5	BPU/Rate Counsel Assessments	JMC - 18	\$	(413)
6	BGSS Incentive Margin	JMC - 19	\$	(8,896)
7	Outside Services	JMC - 20	\$	(218)
8	Depreciation Annualization	JMC - 21	\$	(28,083)
9	SAVEGREEN	JMC - 22	\$	(4,639)
10	Real Estate Taxes	JMC - 23	\$	(23)
11	Insurance	JMC - 24	\$	(230)
12	Annual Review of Commercial Customers	JMC - 25	\$	(831)
13	NEXT	JMC - 26	\$	(2,706)
14	Revenue Adjustments	JMC - 27	\$	(197)
15	Rate Case Expense	JMC - 28	\$	82
16	Capital Additions	JMC - 29	\$	(3,155)
17	SRL	JMC - 30	\$	(1,428)
	Total Pro-Forma Adjustments		\$	<u>(52,681)</u>
	Total Pro-Forma Distribution Operating Income		\$	<u><u>73,259</u></u>

EXHIBIT P-3
SCHEDULE JMC-14
UPDATE-1

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 1

Wages
(\$000)

	<u>Test Year</u> <u>August 31, 2021</u>
<u>NJNG:</u>	
2021 Annualization	\$ 824
2022 Wage Increase	2,688
Operating Expense Increase before Taxes	\$ 3,512
Income Taxes @ 28.11%	<u>987</u>
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (2,525)</u></u>

Source(s):

Workpaper - JMC-11 - UPDATE-1 - Wages

**EXHIBIT P-3
SCHEDULE JMC-15
UPDATE-1**

NEW JERSEY NATURALGAS COMPANY

**Adjustment No. 2
Payroll Taxes
(\$000)**

	<u>Test Year August 31, 2021</u>
<i><u>NJNG:</u></i>	
2021 Annualization	\$ 63
2022 Wage Increase	<u>206</u>
Operating Expense Increase before Taxes	\$ 269
Income Taxes @ 28.11%	<u>76</u>
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (193)</u></u>

NEW JERSEY NATURAL GAS COMPANY

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

Rate Base				\$ 2,540,201
	Percent	Embedded Cost	Weighted Cost	
<hr/>				
Debt Components:				
Long Term Debt	43.79%	3.57%	1.56%	
Total Weighted Cost of Debt				<u>1.56%</u>
Annualized Interest Expense				\$ 39,735
Less: Test Period Interest Expense				<u>34,559</u>
Net Interest Expense Increase/Decrease				\$ 5,177
Income Tax Rate				<u>28.11%</u>
Operating Income Increase (Decrease) After Taxes				<u><u>\$ 1,455</u></u>

Source(s):

Workpaper - JMC-10 - UPDATE-1 - FERC Income Statement

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

NEW JERSEY NATURAL GAS COMPANY

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

Fiscal Year 2022	Pension/401(K)	\$	7,231
	OPEB		6,350
	Medical, net of employee contributions		11,969
	Dental, net of employee contributions		618
	Fringe Transfer		<u>(5,513)</u>
	FY 2022 Total	\$	<u>20,655</u>
<i>Less:</i>			
Test Year	Pension/401(K)	\$	8,749
	OPEB		8,246
	Medical, net of employee contributions		11,044
	Dental, net of employee contributions		557
	Fringe Transfer		<u>(8,886)</u>
	Total	\$	<u>19,709</u>
	Increase in Test Year Operating Expenses	\$	946
	Income Taxes @ 28.11%		<u>266</u>
	Operating Income Increase (Decrease) After Taxes	\$	<u><u>(680)</u></u>

Source(s):

Workpaper - JMC-12 - UPDATE-1 - Pensions & 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 2020 Intrastate Revenues	\$ 700,890	\$ 700,890	
Assessment Rate (2021 Fiscal Year)	0.2154%	0.0535%	
Estimated Assessment	\$ 1,509	\$ 375	\$ 1,884
Less: Assessment Included in Test Year Operating Expenses	<u>1,027</u>	<u>282</u>	<u>\$ 1,309</u>
Operating Expense Increase Before Taxes	\$ 482	\$ 93	\$ 575
Income Taxes @ 28.11%	<u>136</u>	<u>26</u>	<u>162</u>
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (347)</u></u>	<u><u>\$ (67)</u></u>	<u><u>\$ (413)</u></u>

Source(s):

Workpaper - JMC-13 - UPDATE-1 - Assessment

NEW JERSEY NATURAL GAS COMPANY

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

	Test Year August 31, 2021
Net BGSS Incentive Margin	\$ 12,374
Income Taxes @ 28.11%	<u>3,478</u>
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (8,896)</u></u>

Source(s):

Workpaper - JMC-14 - UPDATE-1 - BGSS Incentive Margin

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 7
Outside Services
(\$000)

Test Year
August 31, 2021

Rate Case:

Outside Counsel	\$	850	
Consultants		360	
Miscellaneous		3	
Total Rate Case Expense	\$	1,213	
50/50 Sharing	\$	606	
Amortization Period		2	
Normalized Rate Case Expense			\$ 303
Income Taxes @ 28.11%			<u>85</u>
Operating Income Increase (Decrease) After Taxes			<u>\$ (218)</u>

Source(s):

Workpaper JMC-15 - UPDATE-1 - Outside Services

NEW JERSEY NATURAL GAS COMPANY

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

		<u>Test Year August 31, 2021</u>
Annualization of Depreciation Rate Change		\$ 27,096
Annualization of Depreciation at Current Rates	\$ 90,561	
Test Year Depreciation	<u>78,593</u>	
Difference		<u>\$ 11,968</u>
Operating Expense Increase Before Taxes		\$ 39,064
Income Taxes @ 28.11%		10,981
Operating Income Increase (Decrease) After Taxes		<u><u>\$ (28,083)</u></u>

Source(s):

Workpaper - JMC-6 - UPDATE-1 - Depreciable Plant-Depreciation
 Workpaper - JMC-10 - UPDATE-1 - FERC Income Statement

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 9
SAVEGREEN
(\$000)

	<u>Test Year</u> <u>August 31, 2021</u>
SAVEGREEN Margin	\$ 6,452
Operating Expense Increase Before Taxes	<u>\$ 6,452</u>
Income Taxes @ 28.11%	1,814
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (4,639)</u></u>

Source(s):

Workpaper - JMC-16 - UPDATE-1 - SAVEGREEN Margin

**EXHIBIT P-3
SCHEDULE JMC-23
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

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

	<u>Test Year</u> <u>August 31, 2021</u>
Property Taxes	\$ 836
Test Year Property Taxes	<u>804</u>
Operating Expense Increase Before Taxes	\$ 32
Income Taxes @ 28.11%	9
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (23)</u></u>

Source(s):

Workpaper - JMC-17 - UPDATE-1 - Taxes Other Than Income

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 11
Insurance
(\$000)

	<u>Test Year</u> <u>August 31, 2021</u>
Insurance Premium Expense	\$ 5,651
Test Year Insurance Premium Expense	<u>5,331</u>
Operating Expense Increase Before Taxes	\$ 320
Income Taxes @ 28.11%	90
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (230)</u></u>

Source(s):

Workpaper - JMC-18 - UPDATE-1 - Insurance

**EXHIBIT P-3
SCHEDULE JMC-25
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

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

	<u>Test Year August 31, 2021</u>
Class Change	1,298
HMAD	<u>(142)</u>
Operating Income Decrease Before Taxes	\$ 1,156
Income Taxes @ 28.11%	325
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (831)</u></u>

Source(s):

Workpaper - JMC-19 - UPDATE-1 - Annual Review of Commercial Customer Usage

**EXHIBIT P-3
SCHEDULE JMC-26
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

**Adjustment No. 13
Program NEXT
(\$000)**

	<u>Test Year August 31, 2021</u>
Normalized Operation & Maintenance	\$ 12,137
Test Year Operation & Maintenance	<u>8,373</u>
Operating Expense Increase Before Taxes	\$ 3,764
Income Taxes @ 28.11%	1,058
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (2,706)</u></u>

**EXHIBIT P-3
SCHEDULE JMC-27
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

**Adjustment No. 14
Revenue
(\$000)**

	<u>Test Year August 31, 2021</u>
SAFE II/NJ RISE	\$ (287)
CIP Impact (Non-Weather)	561
	<hr/>
Operating Expense Increase Before Taxes	\$ 274
Income Taxes @ 28.11%	77
	<hr/>
Operating Income Increase (Decrease) After Taxes	<u><u>\$ (197)</u></u>

Source(s):

Workpaper - JMC-20 - UPDATE-1 - SAFE II-NJ RISE
Workpaper - JMC-21 - UPDATE-1 - CIP Non-Weather

NEW JERSEY NATURAL GAS COMPANY

Adjustment No. 15
Rate Case Expense
(\$000)

Test Year
August 31, 2021

Rate Case Expense	\$	114
Operating Expense Decrease Before Taxes	\$	114
Income Taxes @ 28.11%		(32)
Operating Income Increase (Decrease) After Taxes	\$	82

**EXHIBIT P-3
SCHEDULE JMC-29
UPDATE-1**

NEW JERSEY NATURAL GAS COMPANY

**Adjustment No. 16
Capital Additions
(\$000)**

			<u>Amount</u>
<u>Capital Expenditure</u>			
SAFE II (Closeout)		\$	9,706
Hydrogen Plant			5,800
Safety Town			<u>18,400</u>
Total		\$	33,906
Net of Tax Rate of Return			7.03%
Return on Capital Investment		\$	2,382
<u>Depreciation on Capital</u>			
SAFE II (Closeout)	3.18%	\$	309
Hydrogen Plant	3.70%	\$	215
Safety Town	3.00%	\$	552
Total Depreciation		\$	<u>1,075</u>
<hr/>			
Total Net Expense Impact Before Tax		\$	1,075
Income Taxes @ 28.11%			302
			<u>773</u>
Operating Income Increase (Decrease) After Taxes		\$	<u><u>(3,155)</u></u>

NEW JERSEY NATURAL GAS COMPANY

**Adjustment No. 17
Southern Reliability Link - RESTORATION
(\$000)**

	<u>Amount</u>
<u>Capital Expenditure</u>	
Southern Reliability Link	\$ 15,760
Deferred Taxes ¹	(76)
Total	<u>\$ 15,684</u>
Net of Tax Rate of Return	7.03%
Return on Capital Investment	\$ 1,102
<u>Depreciation on Capital</u>	
Southern Reliability Link	2.88% \$ 454
Total Depreciation	<u>\$ 454</u>
Total Net Expense Impact Before Tax	\$ 454
Income Taxes @ 28.11%	<u>128</u> 326
Operating Expense Increase After Taxes	<u>\$ 1,428</u>
Revenue Factor	<u>1.4081</u>
Revenue Requirement	<u>\$ 2,011</u>

(1) Deferred Taxes:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Tax Depreciation Basis	14,499	14,499	
MACRS Rate	5.00%	5.00%	
Tax Depreciation	<u>725</u>	<u>725</u>	
Book Depreciation Basis	15,760	15,760	
Book Rate	2.88%	2.88%	
Book Depreciation	<u>454</u>	<u>454</u>	
Difference	(271)	(271)	
Tax Rate	<u>19.11%</u>	<u>9.00%</u>	
	(52)	(24)	(76)

NEW JERSEY NATURAL GAS COMPANY
Summary of Other Cash Working Capital
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2020

(THOUSANDS)

	<u>Other Cash Working Capital</u>
Amount Required to Recover Cost of Service	\$82,104
Net Assets and Liabilities	<u>54,469</u>
Total Other Cash Working Capital	<u><u>\$136,573</u></u>

NEW JERSEY NATURAL GAS COMPANY
NET ASSETS/NET LIABILITIES
13-MONTH AVERAGE BALANCE ENDING MAY 31, 2021

	13-Month Average Balance Ending January 31, 2021
<u>Assets:</u>	
CASH BALANCES	\$29,643,305
WORK ORDERS	296,888
THIRD PARTY DAMAGE	606,989
NJ LIFELINE	85,624
LI HEAP	292,971
EMPLOYEES	9,488
BILLING IN PROGRESS	7,255,410
ACCOUNT RECEIVABLES	(615,652)
BCBS	1,674,041
DAMAGE CLAIMS	8,238
PREPAID COMM'L PAPER INTEREST	(11)
PREPAID COMMITMENT FEES	419,549
PENSION/OPEB ASSET	177,715,740
CSV LIFE INSURANCE	1,421,843
Total Assets	\$218,814,424
 <u>Liabilities</u>	
PENSION/OPEB LIABILITY	(\$128,943,787)
VOUCHERS	(18,399,353)
UNDISTRIBUTED INVOICES	77,316
DENTAL CLAIM RESERVE	(49,900)
ACCOUNT PAYABLES	(150,951)
VIP LIFE INSURANCE DEDUCTION	(70,562)
ALLSTATE SUPPLEMENTAL INSURANCE	(13,684)
CREDIT CARD PROCESSING	(290,567)
RETAINAGE PAYABLE	(2,864,612)
CUSTOMER DEPOSITS	(13,105,144)
CURRENT AND ACCRUED LIABILITIES	(9,812)
SUPPLEMENTAL RETIREMENT	(524,150)
Total Liabilities	(\$164,345,204)
 Net Assets/Liability	 \$54,469,220

NEW JERSEY NATURAL GAS COMPANY

INCOME STATEMENT
(\$000)

Test Year
August 31, 2021

Operating Revenues	740,632
<i><u>Operating Expenses:</u></i>	
Operation Expense	447,930
Maintenance Expense	17,227
Depreciation Expense	78,593
Taxes Other Than Income Taxes	48,806
Income Taxes - Current & Deferred	22,138
Total Utility Operating Expenses	<u>\$614,693</u>
Utility Operating Income	<u><u>\$125,939</u></u>

NEW JERSEY NATURAL GAS COMPANY

DISTRIBUTION SALES BY CLASS OF BUSINESS

(Therms - 000)

Test Year
August 31, 2021

Residential:

Residential Service	458,427
Transportation	20,802

Commercial:

Commercial Service	84,614
Transportation	114,407

Industrial:

Interruptible	-
Transportation	15,192

Street and Yard Light Service	3
-------------------------------	---

Off-System Sales and Other	1,293,769
----------------------------	-----------

Total Distribution Sales By Class Of Business	<u>1,987,214</u>
--	-------------------------

NEW JERSEY NATURAL GAS COMPANY

CUSTOMERS BILLED BY CLASS OF BUSINESS

Test Year
August 31, 2021

Residential:

Residential Service	502,251
Transportation	22,216

Commercial:

Commercial Service	29,745
Transportation	8,929

Industrial:

Interruptible	-
Transportation	25
Street and Yard Light Service	2
Off-System Sales and Other	77

Total Customers Billed By Class Of Business

563,245

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

Test Year
August 31, 2021

Customer Accounts Expenses:

Operation:

901	Supervision	\$	737
902	Meter Reading Expenses		6,539
903	Customer Records and Collection Expenses		17,336
904	Uncollectible Accounts		10,669
905	Miscellaneous Customer Accounts Expenses		3,080
	Total Customer Accounts Expenses	\$	38,361

Customer Service and Informational Expenses:

Operation:

908	Customer Assistance Expenses	\$	26,968
909	Informational/Instruction Exp		224
910	Misc. Customer Service and Informational Expenses		-
	Total Customer Service and Informational Expenses	\$	27,192

Sales Expenses:

Operation:

911	Supervision	\$	735
912	Demonstration and Selling Expenses		3,274
913	Advertising Expense		77
914	Economic Development		-
916	Miscellaneous Sales Expenses		161
	Total Sales Expenses	\$	4,247

Total Customer Accounts and Information

\$ 69,799

NEW JERSEY NATURAL GAS COMPANY

ADMINISTRATIVE AND GENERAL SALARIES AND EXPENSES
(\\$000)

	<u>Test Year</u> <u>August 31, 2021</u>
<i>Operations:</i>	
920 Salaries & Wages	\$ 4,804
921 Supplies & Expenses	1,249
922 Adminstrative Exp Transferr-Cr	-
923 Outside Services	49,649
924 Property Insurance	321
925 Injuries and Damages	5,051
926 Pension/Benefits	25,748
928 Regulatory Commission Expenses	4,378
929 Duplicate Charges	-
930 General publicity	-
930.1 General Advertising	129
930.2 Miscellaneous	2,191
931 Rents	312
Total Operation	\$ 93,833
Maintenance of General Plant	-
Total Maintenance	\$ -
Total Administrative and General Salaries and Expenses	\$ 93,833

NEW JERSEY NATURAL GAS COMPANY

DEPRECIATION
(\$000)

	Test Year August 31, 2021
<u>Depreciation and Amortization:</u>	
403 Depreciation	\$ 78,593
Total Depreciation	<u>\$ 78,593</u>

NEW JERSEY NATURAL GAS COMPANY

TAXES OTHER THAN INCOME TAXES

(\$000)

	<u>Test Year</u> <u>August 31, 2021</u>
Real Estate	\$ 804
FICA	5,719
State Unemployment	212
Federal Unemployment	(3)
Municipal and State Taxes	42,074
Total Taxes Other	<hr/>
Than Income	\$48,806 <hr/> <hr/>

Real Estate
FICA
State Unemployment
Federal Unemployment
Municipal and State Taxes
Total Taxes Other
Than Income

NEW JERSEY NATURAL GAS COMPANY

CURRENT AND DEFERRED INCOME TAXES

(\$000)

		Test Year
		August 31, 2021
<i><u>Current:</u></i>		
Federal		\$ 4,123
State		(3,633)
ITC		(322)
	Total Current	<u>\$ 168</u>
<i><u>Deferred:</u></i>		
Deferred		\$ 21,969
	Total Deferred	<u>\$ 21,969</u>
	Net Income Taxes	<u><u>22,138</u></u>

NEW JERSEY NATURAL GAS COMPANY

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

INCOME ACCOUNT
12 MONTHS ENDING August 31, 2021*

(Thousands)

Operating Revenues	740,632
Operating Expenses	<u>614,693</u>
Operating Income	125,939
Other Income and Deductions:	
Other Income	21,837
Other Deductions	(632)
Taxes on Other Income and Deductions	-
Total	<u>21,205</u>
Income Before Interest Charges	147,144
Interest Charges	<u>(34,559)</u>
Net Income	<u><u>\$112,586</u></u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

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

REVENUE BY CLASS OF BUSINESS
12 MONTHS ENDING August 31, 2021*

(Thousands)

Residential-Service	516,652
- Transportation	15,228
Commercial-Service	102,601
- Transportation	65,349
Industrial- Interruptible	-
- Transportation	2,007
Street and Yard Light Service	7
Off-system Sales and Other	43,105
CIP Rider Revenue	<u>(4,317)</u>
Total Natural Gas Service Revenues	<u><u>740,632</u></u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

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

OPERATING EXPENSES
12 MONTHS ENDING August 31, 2021*

(Thousands)

Production Expenses:	
Gas Supply Expenses	\$229,807
Gas Production	9,498
Manufactured Gas Production	-
Other Storage	3,223
LPG Expense	-
Total Production Expenses	<u>242,528</u>
Transmission:	
Operation	\$6,572
Maintenance	\$1,287
Total Transmission	<u>7,860</u>
Distribution:	
Operation	\$37,222
Maintenance	\$13,915
Total Distribution	<u>51,137</u>
Customer Accounts and Information:	
Customer Accounts	\$38,361
Customer Service and Informational	\$27,192
Total Customer Accounts and Information	<u>65,553</u>
Sales	4,247
Administrative and General:	
Operation	93,833
Total Administrative and General	<u>93,833</u>
Depreciation	78,593
Taxes other than Income Taxes	48,806
Income taxes:	
Current	(151)
Deferred (Net)	22,288
Total Income Taxes	<u>22,138</u>
Total Gas Operating Expenses	<u><u>\$614,693</u></u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

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

ADJUSTMENTS - INCREASE OR (DECREASE) - PRESENT RATES
12 MONTHS ENDING August 31, 2021*

(Thousands)

Test Year Distribution Operating Income	\$125,939
Wages	(3,512)
Federal and State Income Taxes @ 28.11%	987
Payroll Taxes	(269)
Federal and State Income Taxes @ 28.11%	76
Interest Synchronization (Tax Savings)	1,455
Pension and Benefit Expenses	(946)
Federal and State Income Taxes @ 28.11%	266
BPU/Rate Counsel Assessments	(575)
Federal and State Income Taxes @ 28.11%	162
BGSS Incentive Margin	(12,374)
Federal and State Income Taxes @ 28.11%	3,478
Outside Services Employed	(303)
Federal and State Income Taxes @ 28.11%	85
Depreciation Annualization	(39,064)
Federal and State Income Taxes @ 28.11%	10,981
SAVEGREEN Margin	(6,452)
Federal and State Income Taxes @ 28.11%	1,814
Real Estate Taxes	(32)
Federal and State Income Taxes @ 28.11%	9
Insurance	(320)
Federal and State Income Taxes @ 28.11%	90

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

Exhibit P-4
Schedule AMC - 14 -
Update 1
Page 5 of 10

ADJUSTMENTS - INCREASE OR (DECREASE) - PRESENT RATES
12 MONTHS ENDING August 31, 2021*

(Thousands)

Commercial Customer Usage	(1,156)
Federal and State Income Taxes @ 28.11%	325
Program NEXT	(3,764)
Federal and State Income Taxes @ 28.11%	1,058
Revenue Adjustments	(274)
Federal and State Income Taxes @ 28.11%	77
Capital Additions	(3,458)
Federal and State Income Taxes @ 28.11%	302
Rate Case Exp	114
Federal and State Income Taxes @ 28.11%	(32)
SRL	(1,556)
Federal and State Income Taxes @ 28.11%	128
Total Pro-Forma Adjustments	<u>(52,681)</u>
Total Pro-Forma Distribution Operating Income	<u><u>\$73,259</u></u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

**Exhibit P-4
Schedule AMC - 14 -
Update 1
Page 6 of 10**

**PRO FORMA OPERATING INCOME - PROPOSED RATES
12 MONTHS ENDING August 31, 2021*
(Thousands)**

Operating Income Pro Forma - Present Rates	\$ 73,259
Adjustment:	
1. Net Increase in Revenues Resulting from proposed Rates	163,904
2. Increase in BPU / RC Assessment and Uncollectible Resulting from Increase Revenue	(1,984)
3. Increase in State Income Taxes	(14,573)
4. Increase in Federal Income Taxes	<u>(30,943)</u>
Total Pro Forma Adjustments	<u>116,404</u>
Operating Income Pro Forma - Proposed Rates	<u><u>\$ 189,663</u></u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

**Exhibit P-4
Schedule AMC - 14 -
Update 1
Page 7 of 10**

**OPERATING INCOME, YEAR-END RATE BASE AND RATE OF RETURN
12 MONTHS ENDING August 31, 2021*
(Thousands)**

<u>Present Rates</u>	
Operating Income	\$ 73,259
Year-End Rate Base	<u>\$2,540,201</u>
Rate of Return	<u>2.88%</u>
<u>Proposed Rates</u>	
Operating Income	\$ 189,663
Year-End Rate Base	<u>\$2,540,201</u>
Rate of Return	<u>7.47%</u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

Exhibit P-4
Schedule AMC - 14 -
Update 1
Page 8 of 10

RATE BASE - ESTIMATED
12 MONTHS ENDING August 31, 2021*

(Thousands)

Plant in Service	\$3,290,027
Accumulated Depreciation Reserve	(\$571,177)
Customer Advances	(\$2,561)
Net Plant	<u>2,716,289</u>
Gas Supply & LNG Inventory	80,829
Working Capital	
Cash (Lead/Lag)	136,573
Materials and Supplies	15,994
Prepayments	13,636
Net Working Capital	<u>166,203</u>
Net Plant and Working Capital	<u>2,963,320</u>
Deferred Taxes	(284,660)
Excess Deferred Tax	(137,053)
Consolidated Tax Adjustment	<u>(1,405)</u>
Total Rate Base	<u><u>\$2,540,201</u></u>

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

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

OPERATING INCOME, AVERAGE NET INVESTMENT RATE
BASE AND RATE OF RETURN FOR
TEST YEAR ENDING August 31, 2021*

PRO FORMA PRESENT AND PROPOSED RATES

(Thousands)

Present rates

Operating Income	\$73,259
Average Net Investment Rate Base	\$2,291,003
Rate of Return	3.20%

Proposed Rates

Operating Income	\$ 189,663
Average Net Investment Rate Base	\$2,291,003
Rate of Return	8.28%

* 9 Months Actual and 3 Months Estimated

NEW JERSEY NATURAL GAS COMPANY

Exhibit P-4
Schedule AMC - 14 -
Update 1
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AVERAGE NET INVESTMENT RATE BASE
AT AUGUST 31, 2021

(Thousands)

Plant in Service	\$3,036,861
Accumulated Depreciation Reserve	(\$546,787)
Customer Advances	(\$2,591)
Net Plant	2,487,484
Gas Supply Inventory	83,505
Working Capital	
Cash (Lead/Lag)	114,567
Materials and Supplies	15,059
Prepayments	12,308
Net Working Capital	141,933
Net Plant and Working Capital	2,712,922
Deferred Taxes	(420,514)
Consolidated Tax Adjustment	(1,405)
Total Rate Base	\$2,291,003