

YARDLEY & ASSOCIATES

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Presentation to the:
Pennsylvania Public
Utility Commission
Demand-Side Response
Working Group

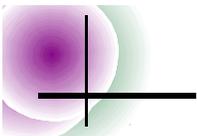
December 8, 2006

Gas Utility
~~**Decoupling**~~
Conservation Incentive Programs
in New Jersey

**A Case Study:
New Jersey Natural Gas
& South Jersey Gas**

Today's Discussion

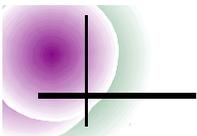
- ◆ Market and Regulatory Environment in New Jersey
- ◆ Timeline
- ◆ Key Features of NJNG and SJG Programs
- ◆ Public Policy Benefits of Programs



Market Conditions Affecting New Jersey Gas Consumers

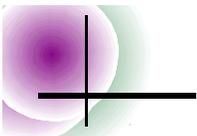
- ◆ Unfavorable commodity pricing environment
 - tight demand/supply conditions
 - commodity prices subject to rapid price fluctuations due to supply disruptions or demand increases
 - Unfavorable conditions expected to persist

- ◆ Utility purchasing and hedging practices can only partially shield customer from impact of higher commodity prices



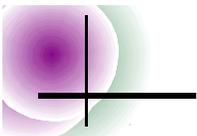
Regulatory Backdrop for Decoupling Proposals

- ◆ Traditional ratemaking approach
 - Historic test year
 - Majority of fixed costs recovered through variable charges
 - Decline in customer usage is detrimental to utility earnings
 - ✓ Utility promotes increased usage to increase profitability
 - ✓ Natural disincentive for utility-promoted energy efficiency
- ◆ Weather normalization clauses stabilize impact of abnormal weather on margin recoveries
- ◆ Significant commitment to conservation and energy efficiency through the New Jersey Clean Energy Program
 - Managed by the New Jersey Board of Public Utilities
 - Funded through public purpose assessment paid by all electric and gas customers



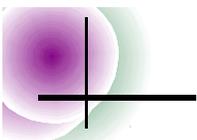
Timeline for Implementation

- ◆ December 5, 2005 – NJNG and SJG file coordinated proposals with the New Jersey BPU
- ◆ January through August 2006 – Discovery and negotiation
 - New Jersey BPU Energy Division Staff
 - New Jersey BPU Clean Energy Staff
 - New Jersey Rate Counsel (consumer representative)
- ◆ October 2006 – Stipulation filed with New Jersey BPU
- ◆ October 12, 2006 – New Jersey BPU approves stipulation
- ◆ October 1, 2006 – Implementation of three-year pilot program
- ◆ January 15, 2009 – Independent evaluation submitted to parties to consider extension or modification of programs



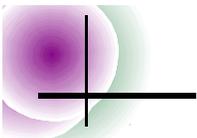
Key Features: New Customer Programs

- ◆ Highly customized customer communications
 - Leverage utility knowledge and contacts with individual customers
 - Millions of contacts per year
- ◆ Complement existing New Jersey Clean Energy programs and available Federal Tax incentives
 - Raise awareness
 - Offer additional benefits
- ◆ Sample programs funded by NJNG and SJG
 - Customized mailing detailing potential savings for implementing various conservation measures
 - Zero percent financing to accompany state efficiency rebates
- ◆ Investigate innovative programs for future years
 - Potential for advanced metering and inverted pricing



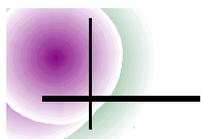
Key Features: Conservation Incentive Tariff

- ◆ Margin per customer decoupling accomplished via throughput rider
 - Rider replaces existing weather normalization clause
 - Margin impact of weather and non-weather related changes in customer usage from baseline included in rider
 - Baseline customer usage calculated for various customer class groups, e.g. residential heating, residential non-heating, and commercial groups
 - Rider adjusted once per year based on throughput for the annual period ending September 30th
- ◆ Non-weather related impacts of changes in customer usage subject to gas supply savings test
 - Gas supply savings generated through reduced peak consumption
 - Designed so that sales customers who do not lower usage do not receive a price increase

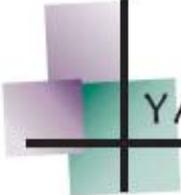


Public Policy Benefits

- ◆ Removes financial incentive for utility to grow throughput of existing customers
 - allows utility to aggressively promote energy efficiency and conservation public policy without suffering financial penalty
 - utility is uniquely positioned to drive additional penetration of measures by leveraging its direct customer relationships and contacts
 - promotes stronger partnership between utility and policy makers on conservation issues
- ◆ Customers receive new and innovative opportunities to participate in efficiency and conservation programs
 - savings opportunities are significant in a high commodity pricing environment
 - reductions in peak demand will contribute to lower costs for all customers
- ◆ Continue pricing incentives for customers to reduce energy consumption
 - retain delivery-based rate design framework
- ◆ Benefit the environment and future generations through reduced energy consumption
- ◆ Stabilize margin recovery
 - declines in customer consumption do not dampen utility financial performance
 - maintains investment community confidence in utility



For more information, please contact:



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