

SERC and BPU Partnership

New Jersey's Natural Gas Sector

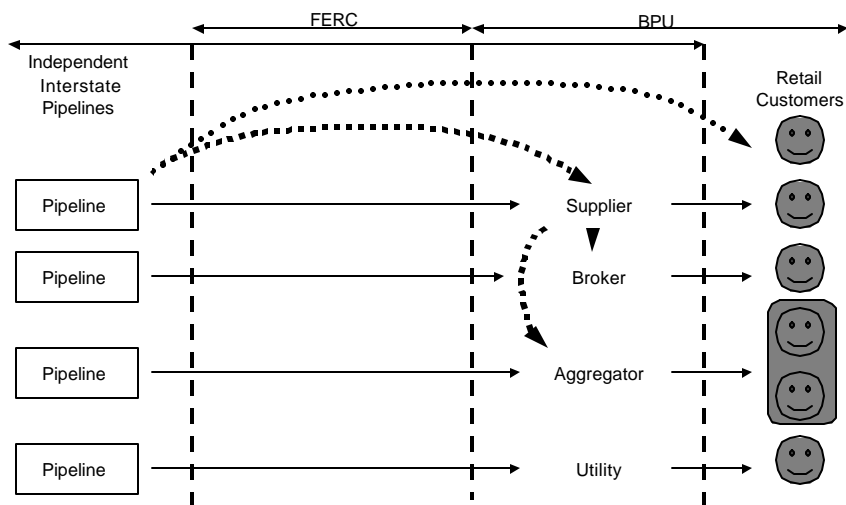
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New Jersey's Natural Gas Market



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Federal Energy Regulatory Commission (FERC)

- Regulates the interstate transmission of natural gas
 - Approves new pipelines and capacity additions
 - Approves rates and tariffs
 - Ensures non-discriminatory access to utilities, suppliers and end-users

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BPU Reliability Controls on Transmission Pipelines

- Inspects all natural gas transmission pipelines in New Jersey
 - Maintains separate inspection unit that acts on behalf of Federal government
 - Receives Federal funding for inspection activities
- Maintains geographic information system (GIS) for all natural gas (and electric) transmission facilities in New Jersey

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Natural Gas Franchises

- Every gas utility must enter into franchise agreements with every municipality it serves
 - There are 566 municipalities in New Jersey
- Each franchise must be renewed every 50 years
- The BPU must approve every franchise renewal
 - BPU reviews prior service performance record

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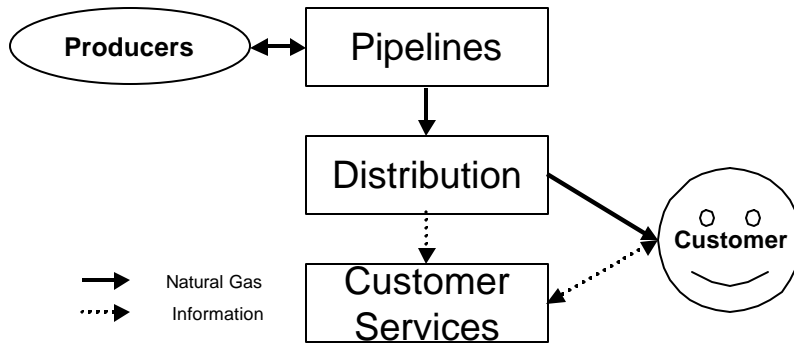


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Fully Regulated Utility



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Deregulation

- 1985 – FERC Order 436 increased access to retail customers by natural gas suppliers
 - The utility was no longer the only retail merchant
- 1992 – FERC Order 636 eliminated interstate pipelines as merchants of natural gas
 - Provided retail customers additional access to interstate markets to benefit from competition

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Deregulation (cont'd)

- 1993 – BPU issued its “Guidelines for Further Unbundling of New Jersey’s Natural Gas Service”
 - Encouraged and promoted unrestricted access to natural gas and natural gas related services for all customers except residential customers
- 1994 – BPU approved unbundling plans for all four natural gas utilities for all non-residential customers

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Deregulation (cont'd)

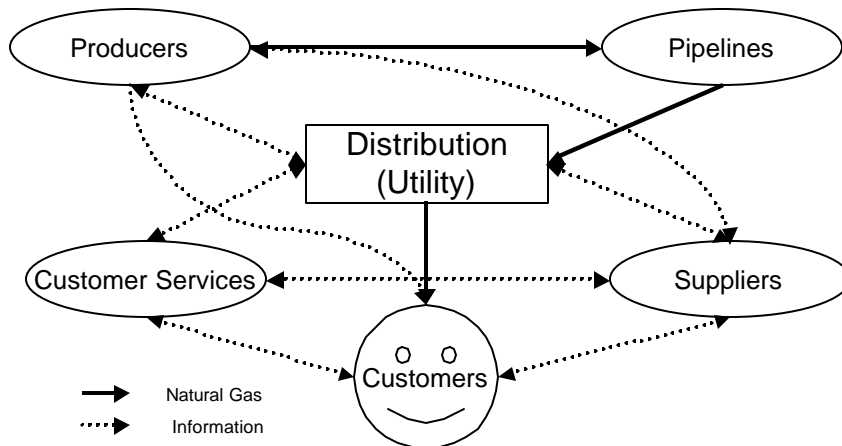
- 1997 – BPU approved first of several residential pilot programs for residential retail choice
- 2000 – BPU approved unbundling plans for all residential customers

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Fully Deregulated Natural Gas Utility



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BPU

- Regulates the retail distribution of natural gas by utilities to customers
- Issues licenses to alternate natural gas suppliers
- Approves distribution rates and tariffs
- Resolves issues among utilities, natural gas suppliers and customers
- Ensures nondiscriminatory practices by utilities and natural gas suppliers
- Encourages conservation and load reduction programs by utilities

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Regulatory Oversight Criteria

- New Jersey Statutes
 - Provide legislative direction
 - Establish broad policy objectives
- New Jersey Administrative Code
 - Provides generic rules and regulations
- Board Orders
 - Provide specific direction

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New Jersey Administrative Code

- Provides generic rules and regulations for all utilities
 - Utility plant
 - Service
 - Meters
 - Offices
 - Records
 - Bills and Payments
 - Extension of Service
 - Utility management audits

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New Jersey Administrative Code (cont'd)

- Provides specific rules and regulations for the following categories of natural gas regulation
 - Utility Plant
 - Service
 - Meters
 - Accounting

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Utility Plant

- Construction
- Leak tests and Inspections
- Inspections
- Shutoff valves
- Excavations

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Utility Service

- Service connections
- Customer pipe test
- Heating value of natural gas
- Pressure requirements
- Odorization

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Utility Meters

- Meter testing
 - All meters replaced every 10 years, unless a sampling program has been approved
- Meter accuracy
 - Within + or – 2% at flow rates of 20%-35%

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Utility Accounting

- Adoption of Uniform System of Accounts promulgated by the FERC
- Records must be preserved in accordance with rules promulgated by the National Association of Regulatory Utility Commissioners (NARUC)

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BPU Experiences

- New Jersey's natural gas utilities provide reliable service at the distribution level, even during times of significant stress
 - Recent seasonal peak demands were met without disruption of service
 - Voluntary "interruptible service" programs at the transmission level have been successful
- There are little, if any, theft of service problems

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Additional Information

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