

2. The TRIP charge shall not allow a regulated entity to earn in excess of its allowed return on common equity, as determined by the Board in the most recent base rate case for that regulated entity. Amounts not recoverable under this paragraph shall not be deferred;

3. The TRIP charge shall not be set at a level that results in a charge to residential customers that is greater than one percent of the average bill of a typical residential customer for that regulated entity; and

4. Any other limits or conditions necessary to ensure that the TRIP charge complies with (b) above.

(d) All TRIP charge calculations shall be supported as required under N.J.A.C. 14:3-10.5(a)7.

(e) The TRIP charge shall be calculated annually using the following formula:

$$\frac{(\text{ERI-ADEP-ADIT}) * \text{ATCR} * \text{RAF} + \text{ERI} * \text{DEP} + \text{PP}}{\text{PT}}$$

For the purposes of the above formula, the following terms are defined as follows:

1. "TRIP charge" means the charge that the Board authorizes the regulated entity to assess from each applicable customer to pay for approved ERI, as defined at (e)2 below, made under the TRIP;

2. "ERI" means the total accumulated eligible revitalization investments that:

i. Are eligible for TRIP coverage under N.J.A.C. 14:3-10.3;

ii. Have accumulated from the beginning of the first investment year (see (e)3 below for a definition of investment year); and

iii. Have been placed in service prior to the end of the most recent investment year;

3. "Investment year" means a period during which the regulated entity makes investments in infrastructure under the TRIP. The first investment year shall begin on the effective date of the initial Board order approving the TRIP, or on another date set forth in the Board order. The first investment year shall end one year later, or on a date specified by the Board. Each subsequent investment year shall run for one year, starting on the date after the end of the previous investment year;

4. "ADEP" means the total accumulated depreciation that the regulated entity has recovered through TRIP on the ERI. For example:

i. For the first annual TRIP adjustment, the ADEP would be zero;

ii. For the second annual TRIP adjustment, the ADEP would be (ERI made during the first investment year) x DEP (see (e)8 below for definition of DEP); and

iii. For the third annual TRIP adjustment, the ADEP would be ((ERI made during the first Investment Year) x DEP) + (ERI made during the first and second Investment Years) x DEP);

5. "ADIT" means the total accumulated deferred income taxes, which are attributable to the difference between the regulated entity's book depreciation expense and the tax depreciation expense associated with ERI under the TRIP;

6. "ATCR" means the after tax cost rate, which shall be calculated by multiplying the return on ERI under the TRIP by (1 minus the income tax rate that applies to the regulated entity). The return shall be the rate for seven-year constant maturity treasuries, as shown in the Federal Reserve Statistical Release published on or closest to the August 31 immediately prior to the annual TRIP adjustment approval, plus 60 basis points. For example:

i. If the return on ERI (that is, the rate for seven year constant maturity treasuries) is five percent, and the Federal Income Tax Rate is 35 percent, and the Corporate Business Tax is nine percent, the ATCR will be 3.31 percent. This is calculated using the combined income tax rate of 40.85 percent, using the above formula as follows (5 percent + .6 percent) x (1 - 40.85 percent);

7. "RAF" means the revenue adjustment factor that was set by the Board in the regulated entity's last rate case, updated for changes in taxes and assessments.

8. "DEP" means the depreciation rate applicable to ERI, as defined above. The DEP shall be the composite depreciation rate for each class of ERI, as determined by the Board in the regulated entity's most recent rate case;

9. "PP" means the amount over or under-recovered by the regulated entity through the TRIP charge during the prior recovery year;

10. "Recovery year" means the annual period beginning on a date set by the Board during the first TRIP charge adjustment proceeding. Each subsequent recovery year shall run for one year, starting on the day after the end of the previous recovery year;

11. "PT" means the firm throughput to applicable customers, which is projected to occur during the next recovery year, in therms, kwh, or gallons; and

12. "Applicable customers" means those gas and electric customers from whom a regulated entity is authorized to assess the Societal Benefits Charge (SBC), and all water customers.

(f) The amount derived from the formula described above shall be rounded to the nearest 1/100th of a cent per unit of throughput in therms, kwh, or gallons.

Amended by R.2005 d.265, effective August 15, 2005.  
36 N.J.R. 5655(a), 37 N.J.R. 3046(b).  
Rewrote (b)1, added (e) and (f).

## SUBCHAPTER 11. (RESERVED)

## SUBCHAPTER 12. UTILITY MANAGEMENT AUDITS

**14:3-12.1 Applicability**

The rules of this subchapter shall be applicable to those utilities subject to the requirements set forth in N.J.S.A. 48:2-16.4.

**14:3-12.2 Initiation of audit**

Where the Board determines that an audit of a utility is necessary or desirable, it shall order the audit to be performed and shall establish the objective, scope, and other factors it deems pertinent to said audit.

**14:3-12.3 Performance of audit**

(a) Where the Board requires an audit to be performed by an independent management consulting firm under the supervision of designated members of the Board's staff, the following provisions shall apply:

1. The Board's staff shall establish and maintain a list of qualified consulting firms from which participants shall be selected to be invited to submit proposals to perform the audit, except that any consulting firm may request, in writing, to become a participant and shall be awarded the full privileges thereof;

2. The Board's staff shall prepare a request for proposals to be mailed to all participants setting forth all pertinent criteria to be used by the Board's staff in its evaluation of submitted proposals;

3. The Board's staff shall invite all participants to attend a conference, prior to the submission of proposals, for the purpose of reviewing the request for proposals with the Board's staff and representatives of the utility;

4. The Board's staff shall prepare, with the assistance of the utility, an evaluation of all submitted proposals for review by the Board, from which a consulting firm shall be selected to perform the audit; and

5. The Board's staff shall prepare a written agreement, setting forth all terms and conditions of the audit, to be signed by authorized representatives of the utility and the selected consulting firm.

(b) In lieu of selecting a consulting firm, the Board may require an audit to be performed by members of its staff.

**14:3-12.4 Results of audit**

Upon completion and review of an audit, the Board's staff shall permit the utility to review its findings of said audit and to provide written comments which shall be incorporated into the results filed with the Board.

**14:3-12.5 Implementation of results**

(a) The utility may adopt, or the Board may order, the implementation of new or altered practices and procedures, as determined by the results of the audit.

(b) The Board's staff shall formulate, with the assistance of the utility, detailed plans to implement new or altered practices and procedures.

(c) The Board's staff shall monitor, evaluate and modify, as necessary, the implementation of new or altered practices and procedures to ensure the promotion of efficient and adequate service to meet the public convenience and necessity.

SUBCHAPTER 13. INTEREST ON DEFERRED  
BALANCES OF LEVELIZED ENERGY  
ADJUSTMENT CLAUSES, LEVELIZED GAS  
ADJUSTMENT CLAUSES, PURCHASED  
WATER ADJUSTMENT CLAUSES AND  
PURCHASED SEWERAGE TREATMENT  
ADJUSTMENT CLAUSES

**14:3-13.1 Scope**

The rules contained in this subchapter shall apply to deferred balances which result from the operation of Levelized Energy Adjustment Clauses, Levelized Gas Adjustment Clauses, Purchased Water Adjustment Clauses and Purchased Sewerage Treatment Adjustment Clauses.

**14:3-13.2 Definitions**

The following words and terms, when used in this subchapter, shall have the following meanings unless the context clearly indicates otherwise:

"Applicable period" means the period or timeframe in which any adjustment clause is in effect, usually 12 months, or any other period as authorized by the Board.

"Base cost of energy" means the cost of energy produced, purchased and interchanged as established in the most recent base rate or adjustment clause case of an electric utility and collected via the base rates of that electric utility.

"Base cost of gas" means the cost of gas produced and/or purchased as established in the most recent base rate or adjustment clause case of a gas utility and collected via the base rates of that gas utility.

"Base cost of purchased sewerage treatment" means the cost of contractually purchased sewerage treatment as established in the most recent base rate or adjustment clause case of a wastewater utility. Actual cost shall be reflected as cost per 1,000 gallons or cost per 1,000,000 gallons unless otherwise specifically approved by the Board. (See N.J.A.C. 14:9-8.2.)