



QUARTERLY FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIODS ENDING DECEMBER 31, 2013

(Unaudited)

New Jersey Natural Gas Company

STATEMENTS OF OPERATIONS (Unaudited)

**Three Months Ended
December 31,
2013 2012**

(Thousands)

OPERATING REVENUES	\$ 233,469	\$ 218,849
OPERATING EXPENSES		
Gas purchases	115,544	112,161
Operation and maintenance	27,252	25,191
Regulatory rider expenses	19,832	13,982
Depreciation and amortization	9,835	9,277
Energy and other taxes	15,703	15,494
Total operating expenses	188,166	176,105
OPERATING INCOME	45,303	42,744
Other income	503	839
Interest expense, net of capitalized interest	3,984	3,584
INCOME BEFORE INCOME TAXES	41,822	39,999
Income tax provision	14,183	14,507
NET INCOME	\$ 27,639	\$ 25,492

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

STATEMENTS OF CASH FLOWS (Unaudited)

**Three Months Ended
December 31,
2013 2012**

(Thousands)

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	\$ 27,639	\$ 25,492
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	9,835	9,277
Allowance for funds used during construction	(213)	(606)
Amortization of deferred charges	115	197
Allowance for bad debt expense	354	508
Deferred income taxes	(6,428)	6,145
Manufactured gas plant remediation costs	(1,132)	(941)
Cost of removal – asset retirement obligation	(47)	(137)
Contributions to postemployment benefit plans	(1,535)	(21,465)
Changes in:		
Components of working capital	(9,757)	(27,342)
Other noncurrent assets	2,756	(14,611)
Other noncurrent liabilities	1,821	987
Cash flows from (used in) operating activities	23,408	(22,496)
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(30,277)	(32,869)
Cost of removal	(5,124)	(1,276)
Withdrawal from restricted cash construction fund	85	5
Cash flows (used in) investing activities	(35,316)	(34,140)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of common stock dividends to parent	—	(16,685)
Payments of long-term debt	(1,576)	(1,384)
Net proceeds from short-term debt	11,900	69,800
Proceeds from sale-leaseback transaction	7,576	7,076
Cash flows from financing activities	17,900	58,807
Change in cash and cash equivalents	5,992	2,171
Cash and cash equivalents at beginning of period	1,912	745
Cash and cash equivalents at end of period	\$ 7,904	\$ 2,916
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$ (96,682)	\$ (91,760)
Inventories	25,391	17,657
Underrecovered gas costs	5,513	371
Accounts payable and other	(9,191)	12,349
Gas purchases payable	6,542	12,672
Prepaid and accrued taxes, net	44,682	33,944
Customers' credit balances and deposits	3,988	(10,900)
Restricted broker margin accounts	6,200	703
Other current assets	2,338	(2,378)
Other current liabilities	1,462	—
Total	\$ (9,757)	\$ (27,342)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for		
Interest (net of amounts capitalized)	\$ 1,181	\$ 424
Income taxes	\$ —	\$ (5,180)
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Accrued capital expenditures	\$ (1,089)	\$ (1,059)

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

BALANCE SHEETS (Unaudited)

ASSETS

<i>(Thousands)</i>	December 31, 2013	September 30, 2013
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 1,701,521	\$ 1,681,585
Construction work in progress	126,721	114,961
Total property, plant and equipment	1,828,242	1,796,546
Accumulated depreciation and amortization	(390,680)	(383,895)
Property, plant and equipment, net	1,437,562	1,412,651
CURRENT ASSETS		
Cash and cash equivalents	7,904	1,912
Customer accounts receivable:		
Billed	92,108	43,045
Unbilled	56,718	7,429
Allowance for doubtful accounts	(5,381)	(5,287)
Regulatory assets	27,889	34,372
Gas in storage, at average cost	80,789	104,979
Materials and supplies, at average cost	11,806	13,007
Prepaid taxes	9,186	40,300
Derivatives, at fair value	6,586	3,502
Restricted broker margin account	—	213
Other	12,312	10,050
Total current assets	299,917	253,522
NONCURRENT ASSETS		
Regulatory assets	391,009	402,202
Derivatives, at fair value	—	121
Other	36,862	33,313
Total noncurrent assets	427,871	435,636
Total assets	\$ 2,165,350	\$ 2,101,809

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	December 31, 2013	September 30, 2013
CAPITALIZATION		
Common stock equity	\$ 707,903	\$ 697,913
Long-term debt	368,049	362,886
Total capitalization	1,075,952	1,060,799
CURRENT LIABILITIES		
Current maturities of long-term debt	69,527	68,643
Short-term debt	180,500	168,600
Gas purchases payable	37,286	30,744
Accounts payable and other	46,118	39,239
Deferred and accrued taxes	16,682	9,276
Regulatory liabilities	12,567	1,456
New Jersey clean energy program	12,809	14,532
Restricted broker margin account	5,987	—
Derivatives, at fair value	39	2,045
Customers' credit balances and deposits	28,244	24,256
Total current liabilities	409,759	358,791
NONCURRENT LIABILITIES		
Deferred income taxes	332,861	333,046
Deferred investment tax credits	5,503	5,584
Derivatives, at fair value	—	140
Manufactured gas plant remediation	183,600	183,600
Postemployment benefit liability	46,706	47,278
Regulatory liabilities	77,390	79,647
Asset retirement obligation	29,157	28,711
Other	4,422	4,213
Total noncurrent liabilities	679,639	682,219
Total capitalization and liabilities	\$ 2,165,350	\$ 2,101,809

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

1. GENERAL

New Jersey Natural Gas (the Company) is a local natural gas distribution company that provides regulated retail natural gas service to approximately 501,600 residential and commercial customers in central and northern New Jersey, and participates in the off-system sales and capacity release markets. The Company is the regulated utility subsidiary of New Jersey Resources Corporation. The Company maintains its accounts in accordance with the Uniform System of Accounts as prescribed by the New Jersey Board of Public Utilities (BPU). As a result of the impact of the ratemaking process and regulatory actions of the BPU, the Company is required to recognize the economic effects of rate regulation. Accordingly, the Company capitalizes or defers certain costs that are expected to be recovered from its customers as regulatory assets and recognizes certain obligations representing probable future expenditures as regulatory liabilities in the Balance Sheets.

Because of the seasonal nature of the the Company's utility operations and other factors, the results of operations for the interim periods presented are not indicative of the results to be expected for the entire year.