



**New Jersey  
Natural Gas**

**QUARTERLY FINANCIAL STATEMENTS**

FOR THE THREE AND NINE MONTH PERIODS ENDING JUNE 30, 2010

(Unaudited)

# New Jersey Natural Gas Company

## STATEMENTS OF INCOME (Unaudited)

<i>(Thousands)</i>	Three Months Ended		Nine Months Ended	
	June 30, 2010	2009	June 30, 2010	2009
<b>OPERATING REVENUES</b>	<b>\$105,130</b>	\$148,826	<b>\$802,358</b>	\$958,995
<b>OPERATING EXPENSES</b>				
Gas purchases	<b>48,401</b>	87,169	<b>492,489</b>	631,712
Operation and maintenance	<b>25,856</b>	27,351	<b>77,551</b>	79,137
Regulatory rider expenses	<b>6,183</b>	6,280	<b>41,103</b>	40,585
Depreciation and amortization	<b>7,939</b>	7,668	<b>23,321</b>	22,120
Energy and other taxes	<b>5,637</b>	10,649	<b>47,096</b>	64,015
Total operating expenses	<b>94,016</b>	139,117	<b>681,560</b>	837,569
<b>OPERATING INCOME</b>	<b>11,114</b>	9,709	<b>120,798</b>	121,426
Other income	<b>1,215</b>	822	<b>3,160</b>	2,534
Interest charges, net	<b>4,139</b>	4,028	<b>12,545</b>	14,692
<b>INCOME BEFORE INCOME TAXES</b>	<b>8,190</b>	6,503	<b>111,413</b>	109,268
Income tax provision	<b>2,081</b>	2,369	<b>41,326</b>	40,472
<b>NET INCOME</b>	<b>\$ 6,109</b>	\$ 4,134	<b>\$ 70,087</b>	\$ 68,796

See Note to Condensed Unaudited Financial Statements

# New Jersey Natural Gas Company

## STATEMENTS OF CASH FLOWS (Unaudited)

<i>(Thousands)</i>	Nine Months Ended	
	June 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$70,087	\$ 68,796
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Depreciation and amortization	23,904	22,788
Allowance for equity used during construction	(1,474)	(233)
Allowance for bad debt expense	1,989	4,849
Deferred income taxes	46,838	(739)
Manufactured gas plant remediation costs	(2,925)	(12,280)
Cost of removal – asset retirement obligation	(676)	(508)
Contributions to employee benefit plans	(7,866)	(1,768)
Changes in:		
Components of working capital	12,392	112,853
Other noncurrent assets	14,983	(15,324)
Other noncurrent liabilities	(4,317)	34,553
Cash flows from operating activities	152,935	212,987
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for		
Utility plant	(49,696)	(51,042)
Cost of removal	(6,252)	(4,014)
Withdrawal from restricted cash construction fund	—	4,200
Cash flows used in investing activities	(55,948)	(50,856)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contribution from parent	—	80,000
Payments of common stock dividends to parent	(41,233)	(36,078)
Tax provision from stock options exercised	(344)	—
Payments of long-term debt	(4,684)	(33,860)
Net payments of short-term debt	—	(145,500)
Proceeds from sale-leaseback transaction	4,925	6,268
Cash flows used in financing activities	(41,336)	(129,170)
Change in cash and temporary investments	55,651	32,961
Cash and temporary investments at beginning of period	35,468	41,860
Cash and temporary investments at end of period	\$91,119	\$ 74,821
<b>CHANGES IN COMPONENTS OF WORKING CAPITAL</b>		
Receivables	\$ 7,967	\$ 4,240
Inventories	72,598	76,090
Recovery of gas costs	(77,529)	58,836
Accounts payable and other	(557)	(156)
Gas purchases payable	18,432	(19,625)
Prepaid and accrued taxes, net	(977)	30,143
Customers' credit balances and deposits	(17,150)	(43,177)
Restricted broker margin accounts	11,005	(7,928)
Other current assets	(1,397)	14,430
Total	\$12,392	\$112,853
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>		
Cash paid for		
Interest (net of amounts capitalized)	\$ 8,071	\$ 11,358
Income taxes	\$13,738	\$ 3,013

See Note to Condensed Unaudited Financial Statements

# New Jersey Natural Gas Company

## BALANCE SHEETS (Unaudited)

### ASSETS

<i>(Thousands)</i>	<b>June 30, 2010</b>	September 30, 2009
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Utility plant, at cost	<b>\$1,437,588</b>	\$1,400,259
Construction work in progress	<b>50,997</b>	38,686
	<b>1,488,585</b>	1,438,945
Accumulated depreciation and amortization	<b>(405,934)</b>	(393,275)
Property, plant and equipment, net	<b>1,082,651</b>	1,045,670
<b>CURRENT ASSETS</b>		
Cash and temporary investments	<b>91,119</b>	35,468
Customer accounts receivable		
Billed	<b>11,315</b>	21,239
Unbilled	<b>8,333</b>	8,616
Allowance for doubtful accounts	<b>(3,046)</b>	(3,297)
Regulatory assets	<b>49,306</b>	5,878
Gas in storage, at average cost	<b>100,947</b>	175,201
Materials and supplies, at average cost	<b>6,711</b>	5,055
Prepaid state taxes	<b>42,958</b>	41,836
Derivatives, at fair value	<b>13,621</b>	15,801
Broker margin account	<b>5,453</b>	16,458
Deferred taxes	<b>—</b>	20,801
Other	<b>7,384</b>	8,089
Total current assets	<b>334,101</b>	351,145
<b>NONCURRENT ASSETS</b>		
Regulatory assets	<b>388,253</b>	391,025
Derivatives, at fair value	<b>—</b>	1,077
Other	<b>7,971</b>	8,248
Total noncurrent assets	<b>396,224</b>	400,350
Total assets	<b>\$1,812,976</b>	\$1,797,165

See Note to Condensed Unaudited Financial Statements

# New Jersey Natural Gas Company

## BALANCE SHEETS (Unaudited)

### CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	<b>June 30, 2010</b>	September 30, 2009
<b>CAPITALIZATION</b>		
Common stock equity	<b>\$ 620,730</b>	\$ 593,202
Long-term debt	<b>384,927</b>	405,492
Total capitalization	<b>1,005,657</b>	998,694
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	<b>27,320</b>	6,510
Gas purchases payable	<b>46,979</b>	28,547
Accounts payable and other	<b>41,112</b>	41,181
Deferred and accrued taxes	<b>1,607</b>	—
Regulatory liabilities	—	36,203
New Jersey clean energy program	<b>12,402</b>	10,920
Derivatives, at fair value	<b>28,348</b>	24,274
Customers' credit balances and deposits	<b>55,939</b>	73,089
Total current liabilities	<b>213,707</b>	220,724
<b>NONCURRENT LIABILITIES</b>		
Deferred income taxes	<b>276,820</b>	252,244
Deferred investment tax credits	<b>6,629</b>	6,870
Derivatives, at fair value	<b>636</b>	677
Manufactured gas plant remediation	<b>146,700</b>	146,700
Postemployment benefit liability	<b>54,908</b>	56,134
Regulatory liabilities	<b>58,726</b>	56,450
New Jersey clean energy	<b>19,393</b>	28,449
Asset retirement obligation	<b>25,594</b>	25,097
Other	<b>4,206</b>	5,126
Total noncurrent liabilities	<b>593,612</b>	577,747
Total capitalization and liabilities	<b>\$1,812,976</b>	\$1,797,165

See Note to Condensed Unaudited Financial Statements

# New Jersey Natural Gas Company

## STATEMENTS OF CAPITALIZATION (Unaudited)

<i>(Thousands, except share amounts)</i>	<b>June 30, 2010</b>	September 30, 2009
<b>COMMON STOCK EQUITY</b>		
Common stock, \$5 par value; authorized 4,750,000 shares; outstanding 3,214,923 shares	<b>\$ 16,075</b>	\$ 16,075
Premium on common stock	<b>11,269</b>	11,269
Contribution from parent and other	<b>358,529</b>	358,873
Retained earnings	<b>234,857</b>	206,985
<b>Total common stock equity</b>	<b>620,730</b>	593,202
<b>LONG-TERM DEBT</b>		
<i>First mortgage bonds:</i>	<i>Maturity date:</i>	
Variable Series AA	August 1, 2030	<b>25,000</b>
Variable Series BB	August 1, 2030	<b>16,000</b>
6.88% Series CC	October 1, 2010	<b>20,000</b>
Variable Series DD	September 1, 2027	<b>13,500</b>
Variable Series EE	January 1, 2028	<b>9,545</b>
Variable Series FF	January 1, 2028	<b>15,000</b>
Variable Series GG	April 1, 2033	<b>18,000</b>
5.00% Series HH	December 1, 2038	<b>12,000</b>
4.50% Series II	August 1, 2023	<b>10,300</b>
4.60% Series JJ	August 1, 2024	<b>10,500</b>
4.90% Series KK	October 1, 2040	<b>15,000</b>
5.60% Series LL	May 15, 2018	<b>125,000</b>
4.77% Unsecured senior notes	March 15, 2014	<b>60,000</b>
Capital lease obligation—Buildings	June 1, 2021	<b>25,221</b>
Capital lease obligation—Meters	Various maturities between October 1, 2012 and December 15, 2019	<b>36,360</b>
Capital lease obligation—Equipment	December 31, 2013	<b>821</b>
Less: Current maturities of long-term debt		<b>(27,320)</b>
<b>Total long-term debt</b>		<b>405,492</b>
<b>Total capitalization</b>		<b>\$998,694</b>

See Note to Condensed Unaudited Financial Statements

## New Jersey Natural Gas Company

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

<i>(Thousands)</i>	Three Months Ended		Nine Months Ended	
	June 30, 2010	2009	June 30, 2010	2009
Net income	<b>\$6,109</b>	\$4,134	<b>\$70,087</b>	\$68,796
Other comprehensive income:				
Net unrealized gain on derivatives, net of tax of \$0, \$8, \$0 and \$23, respectively	—	11	—	33
Other comprehensive income	—	11	—	33
Comprehensive income	<b>\$6,109</b>	\$4,145	<b>\$70,087</b>	\$68,829

See Note to Condensed Unaudited Financial Statements

# **New Jersey Natural Gas Company**

## **NOTE TO CONDENSED UNAUDITED FINANCIAL STATEMENTS**

### **1. GENERAL**

New Jersey Natural Gas Company (NJNG) is a local natural gas distribution company that provides regulated retail natural gas service to approximately 490,800 residential and commercial customers in central and northern New Jersey, and participates in the off-system sales and capacity release markets. NJNG is the regulated utility subsidiary of New Jersey Resources Corporation (NJR). NJNG maintains its accounts in accordance with the Uniform System of Accounts as prescribed by the New Jersey Board of Public Utilities. As a result of the ratemaking process, the accounting principles applied by NJNG differ in certain respects from those applied by unregulated businesses.

Because of the seasonal nature of the NJNG'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.