

# **QUARTERLY FINANCIAL STATEMENTS**

FOR THE THREE MONTH PERIODS ENDING DECEMBER 31, 2012

(Unaudited)

## **STATEMENTS OF OPERATIONS (Unaudited)**

		Three Months Ended December 31,		
(Thousands)	2012	2011		
OPERATING REVENUES	\$ 218,849	\$ 191,374		
OPERATING EXPENSES				
Gas purchases	112,161	86,487		
Operation and maintenance	25,191	25,940		
Regulatory rider expenses	13,982	12,543		
Depreciation and amortization	9,277	8,632		
Energy and other taxes	15,494	12,789		
Total operating expenses	176,105	146,391		
OPERATING INCOME	42,744	44,983		
Other income	839	324		
Interest expense, net of capitalized interest	3,584	3,737		
INCOME BEFORE INCOME TAXES	39,999	41,570		
Income tax provision	14,507	15,596		
NET INCOME	\$ 25,492	\$ 25,974		

See Notes to Unaudited Condensed Financial Statements

## STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended		
	December 31,		,
(Thousands)		2012	2011
CASH FLOWS (USED IN) OPERATING ACTIVITIES		6 T 40 C D	0.5.05.4
Net income	\$	25,492 \$	25,974
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation and amortization		9,277	8,632
Allowance for funds used during construction		(606)	(42)
Amortization of deferred charges		197	181
Allowance for bad debt expense		508	917
Deferred income taxes		6,145	4,158
Manufactured gas plant remediation costs		(941)	(2,099)
Cost of removal – asset retirement obligation		(137)	(341)
Contributions to postemployment benefit plans		(21,465)	(21,508)
Changes in:			
Components of working capital		(27,342)	(55,565)
Other noncurrent assets		(14,611)	8,440
Other noncurrent liabilities		987	1,436
Cash flows (used in) operating activities	·	(22,496)	(29,817)
CASH FLOWS (USED IN) INVESTING ACTIVITIES			
Expenditures for			
Utility plant		(32,869)	(19,395)
Cost of removal		(1,276)	(2,323)
Withdrawal from restricted cash construction fund		5	28
Cash flows (used in) investing activities		(34,140)	(21,690)
CASH FLOWS FROM FINANCING ACTIVITIES	'		,
Payments of common stock dividends to parent		(16,685)	_
Payments of long-term debt		(1,384)	(1,161)
Net proceeds from short-term debt		69,800	48,200
Proceeds from sale-leaseback transaction		7,076	6,522
Cash flows from financing activities	,	58,807	53,561
Change in cash and cash equivalents	,	2,171	2,054
Cash and cash equivalents at beginning of period		745	5
Cash and cash equivalents at end of period	\$	2,916 \$	2,059
CHANGES IN COMPONENTS OF WORKING CAPITAL	,		
Receivables	\$	(91,760) \$	(47,924)
Inventories		17,657	24,073
Underrecovered gas costs		371	26,444
Accounts payable and other		12,349	(2,595)
Gas purchases payable		12,672	2,911
Prepaid and accrued taxes, net		33,944	29,402
Customers' credit balances and deposits		(10,900)	(72,566)
Restricted broker margin accounts		703	(19,052)
Other current assets		(2,378)	3,742
Total	\$	(27,342) \$	(55,565)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION	Ψ	(=1,0TZ) D	(33,303)
Cash paid for			
Interest (net of amounts capitalized)	\$	424 \$	347
Income taxes	\$	(5,180) \$	10
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES	Ψ	(υ,100) ψ	10
Accrued capital expenditures	\$	(1,059) \$	(1,403)
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## **BALANCE SHEETS (Unaudited)**

#### **ASSETS**

(Thousands)	De	cember 31, S 2012	eptember 30, 2012
PROPERTY, PLANT AND EQUIPMENT			
Utility plant, at cost	\$	1,602,315 \$	1,591,532
Construction work in progress		122,949	102,420
		1,725,264	1,693,952
Accumulated depreciation and amortization		(400,967)	(402,308)
Property, plant and equipment, net		1,324,297	1,291,644
CURRENT ASSETS			
Cash and cash equivalents		2,916	745
Customer accounts receivable:			
Billed		77,931	33,093
Unbilled		53,957	7,017
Allowance for doubtful accounts		(5,191)	(4,665)
Regulatory assets		31,194	32,734
Gas in storage, at average cost		123,624	145,379
Materials and supplies, at average cost		10,659	6,561
Prepaid taxes		4,094	25,515
Derivatives, at fair value		2,713	6,203
Restricted broker margin account		1,011	1,713
Other		11,275	7,730
Total current assets		314,183	262,025
NONCURRENT ASSETS			
Regulatory assets		457,880	441,263
Derivatives, at fair value		_	1,000
Other		9,501	9,588
Total noncurrent assets		467,381	451,851
Total assets	\$	2,105,861 \$	2,005,520

See Notes to Unaudited Condensed Financial Statements

## CAPITALIZATION AND LIABILITIES

(Thousands)	De	cember 31, 2012	Sep	otember 30, 2012
CAPITALIZATION				
Common stock equity	\$	682,801	\$	673,994
Long-term debt		380,000		375,169
Total capitalization		1,062,801		1,049,163
CURRENT LIABILITIES				
Current maturities of long-term debt		8,646		7,760
Short-term debt		204,800		135,000
Gas purchases payable		37,152		24,480
Accounts payable and other		49,937		38,046
Deferred and accrued taxes		20,568		1,101
Regulatory liabilities		_		1,169
New Jersey clean energy program		13,621		5,619
Derivatives, at fair value		1,747		5,034
Customers' credit balances and deposits		37,469		48,368
Total current liabilities		373,940		266,577
NONCURRENT LIABILITIES				
Deferred income taxes		310,275		310,452
Deferred investment tax credits		5,824		5,905
Manufactured gas plant remediation		182,000		182,000
Postemployment benefit liability		71,054		91,530
Regulatory liabilities		66,743		67,077
Asset retirement obligation		28,312		27,983
Other		4,912		4,833
Total noncurrent liabilities		669,120		689,780
Total capitalization and liabilities	\$	2,105,861	\$	2,005,520

See Notes to Unaudited Condensed Financial Statements

#### 1. GENERAL

New Jersey Natural Gas (the Company) is a local natural gas distribution company that provides regulated retail natural gas service to approximately 493,700 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 (NJR). 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 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.