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GOVERNOR CHRISTIE SIGNS NEW SOLAR LEGISLATION

On July 23, 2012, New Jersey Governor Chris Christie signed into law legislation designed to bring long-term stability to the state’s growing solar industry. The bill, S1925/A2966, was passed by the New Jersey legislature in June.

Background

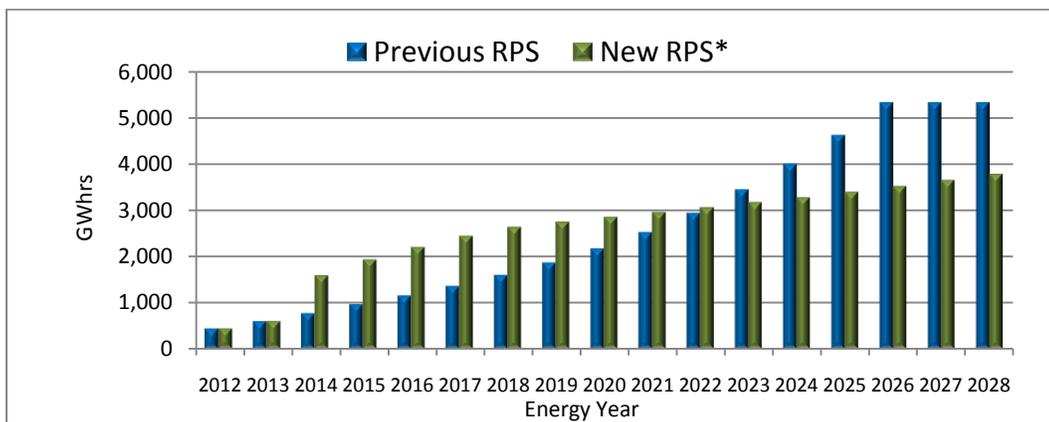
New Jersey requires entities that supply electricity to retail customers, or Load Serving Entities (LSEs), generate a portion of their load from renewable energy sources such as solar. State law requires 20 percent of total generation to come from renewable sources by 2021. This renewable portfolio standard (RPS) includes a specific carve out for solar, which prior to this new legislation required 5,316 gigawatt-hours (GWH) of solar by 2026. LSEs can meet their requirement in three ways: building or investing directly in solar projects, paying a Solar Alternative Compliance Payment (SACP), or purchasing market-based Solar Renewable Energy Certificates (SRECs) from solar projects built by third parties.

Available federal investment tax credits and grants (federal tax grants expired in December 2011) as well as bonus depreciation and relatively high SREC values created a solar building boom in New Jersey. While this has produced thousands of jobs and a budding industry, it has also led to an oversupply of SREC’s relative to the annual RPS requirement. This, in turn, caused the value of SRECs to decline, resulting in a loss of solar-related jobs, and a reluctance among some investors to commit new capital to projects. These factors led to the passing of the new law.

Features of the New Law

Renewable Portfolio Standard

Beginning with EY2014, the RPS is converted from a fixed annual number of GWH to a percentage of retail electricity sales. Essentially, the new RPS is doubled for the EY’s 2014-2016, and is higher than the previous standard through EY2022. After EY2022, the new RPS is lower than the previous level. The total RPS from 2013-2028 is the same, just over 44,000 GWH. Additionally, the holding period for an SREC is extended to five years from the current three years. A chart of previous and new RPS (with RPS percentages converted to estimated GWH) is provided below.



*New RPS utilizes retail electricity sales forecast provided by Rutgers Bloustein School (R/ECON, spring 2012)

Solar Alternative Compliance Payment

The SACP is reduced from \$625/megawatt hour to \$339/megawatt hour in energy year (EY) 2014 (an energy year is June 1 through May 31), and declines to \$239/megawatt hour in EY2028. From EY2014 to EY2028, the levelized SACP is approximately \$288/megawatt hour. This reduction reflects the decline in costs related to solar construction projects.

Controls on Grid-Connected Projects

The law requires the New Jersey Board of Public Utilities (BPU) to consider solar projects on farmland (grid-connected projects). Project owners will be required to apply to the BPU for approved designation that the facility is connected to the distribution system and eligible for SRECs. From EY's 2014 - 2016, grid-connected projects are capped at 80MW in aggregate each year, with no project larger than 10MW. After EY2016, all grid-connected projects will be prohibited. Projects can still make application, but would have to be put through a BPU test to be approved. Details of the test have not been specified.

Market Design and Operation

The BPU will develop a registration process within 180 days to improve transparency on the status of projects in the pipeline. In addition, within 24 months, the BPU must benchmark the SREC market against other national and international markets and make improvement recommendations.

New Projects

The law encourages solar development on landfills, brownfields and in communities, which can supply multiple buildings from one solar facility. The BPU has 180-270 days to develop new rules to support these projects.

Potential Impacts on SREC Market

NJR Clean Energy Ventures (NJRCEV) a subsidiary of New Jersey Resources, views the legislation as positive, indicating a strong level of bi-partisan political commitment to the industry, and avoiding the near term consequences of a severe reduction in SREC prices. Through RPS acceleration, reasonable restrictions on grid-connected projects, and new measures to be enacted by the BPU to improve pipeline transparency, the new law has the potential to reduce the oversupplied market, which should have a positive effect on SREC prices. A number of industry analysts have estimated that monthly installation rates in the 20MW-25MW range will allow the market to come back into balance in the next few years.

Since 2010, NJRCEV has built 27.6 megawatts of commercial and 6.4 megawatts of residential solar projects. Under normal operating conditions, these projects should generate in excess of 40,000 SRECs per year.

About New Jersey Resources

New Jersey Resources, a *Fortune 1000* company, provides safe and reliable natural gas and renewable energy services, including transportation, distribution and asset management in states from the Gulf Coast to the New England regions, including the Mid-Continent region, the West Coast and Canada, while investing in and maintaining an extensive infrastructure to support future growth. With \$3 billion in annual revenues, NJR safely and reliably operates and maintains 6,800 miles of natural gas transportation and distribution infrastructure to serve half a million customers; develops and manages a diverse portfolio of 1.5 Bcf/day of firm transportation and over 62.1 Bcf of firm storage capacity; offers low-carbon, clean energy solutions through its commercial and residential solar programs and provides appliance installation, repair and contract service to nearly 150,000 homes and businesses. Additionally, NJR holds investments in midstream assets through equity partnerships including Steckman Ridge and Iroquois. Through Conserve to Preserve®, NJR is helping customers save energy and money by promoting conservation and encouraging efficiency. For more information about NJR, visit www.njresources.com, "Like" us at facebook.com/NewJerseyNaturalGas or follow us on Twitter @NJNaturalGas.

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