



QUARTERLY FINANCIAL STATEMENTS

FOR THE THREE MONTH AND NINE MONTH PERIODS ENDING JUNE 30, 2012

(Unaudited)

New Jersey Natural Gas Company

STATEMENTS OF OPERATIONS (Unaudited)

<i>(Thousands)</i>	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
OPERATING REVENUES	\$ 106,764	\$ 138,149	\$ 524,161	\$ 862,073
OPERATING EXPENSES				
Gas purchases	46,780	76,772	214,934	527,371
Operation and maintenance	26,200	26,129	78,386	78,072
Regulatory rider expenses	5,835	6,518	36,821	47,520
Depreciation and amortization	8,860	8,192	26,241	24,650
Energy and other taxes	7,149	8,739	35,526	56,660
Total operating expenses	94,824	126,350	391,908	734,273
OPERATING INCOME	11,940	11,799	132,253	127,800
Other income	436	1,093	1,095	2,191
Interest expense, net of capitalized interest	3,717	3,630	11,167	11,454
INCOME BEFORE INCOME TAXES	8,659	9,262	122,181	118,537
Income tax provision	1,114	3,283	43,726	44,162
NET INCOME	\$ 7,545	\$ 5,979	\$ 78,455	\$ 74,375

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

STATEMENTS OF CASH FLOWS (Unaudited)

Nine Months Ended
June 30,
2012 2011

(Thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 78,455	\$ 74,375
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	26,241	24,650
Allowance for funds used during construction	(317)	(1,252)
Amortization of deferred charges	545	551
Allowance for bad debt expense	1,821	3,240
Deferred income taxes	27,038	6,260
Manufactured gas plant remediation costs	(6,125)	(10,818)
Cost of removal – asset retirement obligation	(912)	(711)
Contributions to postemployment benefit plans	(24,369)	(4,607)
Changes in:		
Components of working capital	(58,539)	79,177
Other noncurrent assets	4,064	13,322
Other noncurrent liabilities	9,702	6,378
Cash flows from operating activities	57,604	190,565
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(71,916)	(69,894)
Cost of removal	(10,634)	(8,075)
Withdrawal from restricted cash construction fund	126	67
Cash flows (used in) investing activities	(82,424)	(77,902)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of common stock dividends to parent	(31,524)	(29,740)
Payments of long-term debt	(4,855)	(25,690)
Net proceeds from short-term debt	55,500	(7,000)
Proceeds from sale-leaseback transaction	6,522	5,901
Cash flows from financing activities	25,643	(56,529)
Change in cash and cash equivalents	823	56,134
Cash and cash equivalents at beginning of period	5	—
Cash and cash equivalents at end of period	\$ 828	\$ 56,134
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$ 5,459	\$ (62,159)
Inventories	44,036	86,100
Underrecovered gas costs	(13,405)	36,329
Accounts payable and other	7,263	5,362
Gas purchases payable	(5,058)	(9,132)
Prepaid and accrued taxes, net	5,467	5,122
Customers' credit balances and deposits	(75,254)	10,157
Restricted broker margin accounts	(9,273)	6,207
Other current assets	(17,774)	1,191
Total	\$ (58,539)	\$ 79,177
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for		
Interest (net of amounts capitalized)	\$ 6,536	\$ 7,461
Income taxes	\$ 7,828	\$ 21,211
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Accrued capital expenditures	\$ (3,407)	\$ (4,245)

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

BALANCE SHEETS (Unaudited)

ASSETS

<i>(Thousands)</i>	June 30, 2012	September 30, 2011
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 1,549,194	\$ 1,502,451
Construction work in progress	111,612	92,827
	1,660,806	1,595,278
Accumulated depreciation and amortization	(400,803)	(397,267)
Property, plant and equipment, net	1,260,003	1,198,011
CURRENT ASSETS		
Cash and cash equivalents	828	5
Customer accounts receivable:		
Billed	38,643	45,092
Unbilled	6,695	7,333
Allowance for doubtful accounts	(4,665)	(4,472)
Regulatory assets	52,940	17,630
Gas in storage, at average cost	114,927	159,328
Materials and supplies, at average cost	6,488	6,123
Prepaid taxes	35,960	39,827
Derivatives, at fair value	4,416	5,424
Restricted broker margin account	20,995	11,722
Deferred taxes	4,231	14,878
Other	8,212	6,501
Total current assets	289,670	309,391
NONCURRENT ASSETS		
Regulatory assets	411,528	434,185
Derivatives, at fair value	698	2
Other	8,751	9,163
Total noncurrent assets	420,977	443,350
Total assets	\$ 1,970,650	\$ 1,950,752

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	June 30, 2012	September 30, 2011
CAPITALIZATION		
Common stock equity	\$ 679,138	\$ 648,011
Long-term debt	378,064	376,797
Total capitalization	1,057,202	1,024,808
CURRENT LIABILITIES		
Current maturities of long-term debt	8,034	7,575
Short-term debt	82,000	26,500
Gas purchases payable	27,270	32,328
Accounts payable and other	53,663	37,650
Deferred and accrued taxes	1,602	—
Regulatory liabilities	—	4,633
New Jersey clean energy program	7,434	15,011
Derivatives, at fair value	23,042	13,258
Customers' credit balances and deposits	38,368	113,622
Total current liabilities	241,413	250,577
NONCURRENT LIABILITIES		
Deferred income taxes	319,397	302,764
Deferred investment tax credits	5,985	6,227
Derivatives, at fair value	—	620
Manufactured gas plant remediation	182,900	182,900
Postemployment benefit liability	65,975	86,750
Regulatory liabilities	66,100	59,837
New Jersey clean energy program	—	5,133
Asset retirement obligation	27,433	27,026
Other	4,245	4,110
Total noncurrent liabilities	672,035	675,367
Total capitalization and liabilities	\$ 1,970,650	\$ 1,950,752

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 499,900 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 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.