



**New Jersey  
Natural Gas**

**QUARTERLY FINANCIAL STATEMENTS**

FOR THE PERIOD ENDING DECEMBER 31, 2008

(Unaudited)

# New Jersey Natural Gas Company

## STATEMENTS OF INCOME (Unaudited)

<i>(Thousands)</i>	Three Months Ended	
	December 31, 2008	2007
<b>OPERATING REVENUES</b>	<b>\$340,908</b>	\$284,360
<b>OPERATING EXPENSES</b>		
Gas purchases	230,452	190,148
Operation and maintenance	24,950	23,879
Regulatory rider expenses	13,561	12,165
Depreciation and amortization	7,161	9,233
Energy and other taxes	22,598	17,333
Total operating expenses	298,722	252,758
<b>OPERATING INCOME</b>	<b>42,186</b>	31,602
Other income	684	1,232
Interest charges, net	6,460	6,119
<b>INCOME BEFORE INCOME TAXES</b>	<b>36,410</b>	26,715
Income tax provision	13,336	10,045
<b>NET INCOME</b>	<b>\$23,074</b>	\$16,670

See Note to Condensed Unaudited Financial Statements

**New Jersey Natural Gas Company**  
**STATEMENTS OF CASH FLOWS (Unaudited)**

<i>(Thousands)</i>	<b>Three Months Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	<b>\$23,074</b>	\$16,670
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Depreciation and amortization	<b>7,380</b>	9,307
Allowance for funds (equity) used during construction	—	(373)
Deferred income taxes	<b>(5,177)</b>	8,771
Manufactured gas plant remediation costs	<b>(5,875)</b>	(4,041)
Cost of removal – asset retirement obligation	<b>(19)</b>	(177)
Contributions to employee benefit plans	<b>(182)</b>	(150)
Changes in:		
Components of working capital	<b>(66,500)</b>	(22,635)
Other noncurrent assets	<b>(34,128)</b>	5,084
Other noncurrent liabilities	<b>37,252</b>	(3,111)
Cash flows (used in) from operating activities	<b>(44,175)</b>	9,345
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for		
Utility plant	<b>(18,207)</b>	(13,526)
Cost of removal	<b>(1,462)</b>	(1,208)
Withdrawal from restricted cash construction fund	<b>4,200</b>	—
Cash flows used in investing activities	<b>(15,469)</b>	(14,734)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contribution from parent	<b>20,000</b>	—
Payments of common stock dividends to parent	<b>(11,187)</b>	(10,633)
Payments of long-term debt	<b>(30,974)</b>	(937)
Proceeds from short-term debt	<b>58,050</b>	10,197
Proceeds from sale-leaseback transaction	<b>6,268</b>	7,485
Cash flows from financing activities	<b>42,157</b>	6,112
Change in cash and temporary investments	<b>(17,487)</b>	723
Cash and temporary investments at beginning of period	<b>41,860</b>	2,078
Cash and temporary investments at end of period	<b>\$24,373</b>	\$2,801
<b>CHANGES IN COMPONENTS OF WORKING CAPITAL</b>		
Receivables	<b>\$(106,472)</b>	\$(101,878)
Inventories	<b>26,036</b>	29,910
Underrecovered gas costs	<b>25,017</b>	(18,883)
Accounts payable and other	<b>437</b>	(10,347)
Gas purchases payable	<b>9,267</b>	33,872
Prepaid and accrued taxes, net	<b>34,130</b>	19,652
Customers' credit balances and deposits	<b>(24,957)</b>	7,299
Restricted broker margin accounts	<b>(33,608)</b>	14,223
Other current assets	<b>3,650</b>	3,517
Total	<b>\$ (66,500)</b>	\$ (22,635)
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>		
Cash paid for		
Interest (net of amounts capitalized)	<b>\$4,075</b>	\$5,101
Income taxes	<b>\$3,013</b>	\$1,255

See Note to Condensed Unaudited Financial Statements

# New Jersey Natural Gas Company

## BALANCE SHEETS (Unaudited)

### ASSETS

<i>(Thousands)</i>	December 31, 2008	September 30, 2008
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Utility plant, at cost	\$1,356,771	\$1,336,960
Construction work in progress	27,541	29,277
	<b>1,384,312</b>	1,366,237
Accumulated depreciation and amortization	<b>(375,091)</b>	(368,172)
Property, plant and equipment, net	<b>1,009,221</b>	998,065
<b>CURRENT ASSETS</b>		
Cash and temporary investments	24,373	41,860
Customer accounts receivable		
Billed	62,824	21,398
Unbilled	75,008	9,417
Allowance for doubtful accounts	<b>(5,116)</b>	(4,571)
Regulatory assets	21,080	51,376
Gas in storage, at average cost	163,808	189,828
Materials and supplies, at average cost	4,076	4,092
Prepaid state taxes	9,641	37,271
Derivatives, at fair value	6,614	12,039
Broker margin account	74,884	41,276
Other	6,098	4,477
Total current assets	<b>443,290</b>	408,463
<b>NONCURRENT ASSETS</b>		
Regulatory assets	407,014	340,670
Derivatives, at fair value	—	751
Restricted cash	—	4,200
Other	8,793	9,814
Total noncurrent assets	<b>415,807</b>	355,435
Total assets	<b>\$1,868,318</b>	\$1,761,963

See Note to Condensed Unaudited Financial Statements

# New Jersey Natural Gas Company

## BALANCE SHEETS (Unaudited)

### CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	<b>December 31, 2008</b>	September 30, 2008
<b>CAPITALIZATION</b>		
Common stock equity	<b>\$ 503,058</b>	\$ 472,417
Long-term debt	<b>410,708</b>	405,117
Total capitalization	<b>913,766</b>	877,534
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	<b>5,844</b>	35,119
Short-term debt	<b>203,550</b>	145,500
Gas purchases payable	<b>64,462</b>	55,195
Accounts payable and other	<b>39,150</b>	49,091
Deferred and accrued taxes	<b>19,642</b>	26,572
New Jersey clean energy program	<b>12,513</b>	3,056
Derivatives, at fair value	<b>75,147</b>	42,842
Customers' credit balances and deposits	<b>38,414</b>	63,370
Total current liabilities	<b>458,722</b>	420,745
<b>NONCURRENT LIABILITIES</b>		
Deferred income taxes	<b>198,389</b>	190,128
Deferred investment tax credits	<b>7,111</b>	7,192
Derivatives, at fair value	<b>8,996</b>	19,558
Manufactured gas plant remediation	<b>120,230</b>	120,730
Postemployment benefit liability	<b>35,137</b>	34,089
Regulatory liabilities	<b>61,820</b>	63,419
New Jersey clean energy	<b>34,030</b>	—
Asset retirement obligation	<b>24,768</b>	24,416
Other	<b>5,349</b>	4,152
Total noncurrent liabilities	<b>495,830</b>	463,684
Total capitalization and liabilities	<b>\$1,868,318</b>	\$1,761,963

See Note to Condensed Unaudited Financial Statements

# New Jersey Natural Gas Company

## STATEMENTS OF CAPITALIZATION (Unaudited)

<i>(Thousands, except share amounts)</i>	<b>December 31, September 30,</b>	
	<b>2008</b>	<b>2008</b>
<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	<b>273,269</b>	253,270
Accumulated other comprehensive income, net of tax	<b>(24)</b>	(34)
Retained earnings	<b>202,469</b>	191,837
<b>Total common stock equity</b>	<b>503,058</b>	472,417
<b>LONG-TERM DEBT</b>		
<i>First mortgage bonds:</i>	<i>Maturity date:</i>	
6.27% Series X	November 1, 2008	—
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>26,371</b>
Capital lease obligation—Meters	Various maturities between October 1, 2012 and December 15, 2019	<b>39,179</b>
Capital lease obligation—Equipment	December 31, 2013	<b>1,157</b>
Less: Current maturities of long-term debt		<b>(5,844)</b>
<b>Total long-term debt</b>		<b>410,708</b>
<b>Total capitalization</b>		<b>\$913,766</b>
		<b>\$877,534</b>

See Note to Condensed Unaudited Financial Statements

# New Jersey Natural Gas Company

## STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

<i>(Thousands)</i>	<b>Three Months Ended</b>	
	<b>2008</b>	<b>2007</b>
Net income	<b>\$23,074</b>	\$16,670
Other comprehensive income		
Net unrealized gain (loss) on derivatives, net of tax of \$(8) and \$2, respectively	<b>11</b>	(3)
Other comprehensive income	<b>11</b>	(3)
Comprehensive income	<b>\$23,085</b>	\$16,667

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 486,000 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.