



**New Jersey  
Natural Gas**

**QUARTERLY FINANCIAL STATEMENTS**

FOR THE THREE MONTH PERIOD ENDING DECEMBER 31, 2006

(Unaudited)



February 15, 2007

In the opinion of management, the following financial statements fairly present the financial position of New Jersey Natural Gas (a subsidiary of New Jersey Resources) as of December 31, 2006 and September 30, 2006, and the results of its operations and its cash flows for the three months ended December 31, 2006 and 2005. These statements were prepared with accounting principles generally accepted in the United States of America and reflect all adjustments necessary for a fair presentation of interim periods.

/s/ Jay Buth  
Jay Buth  
Controller

**NEW JERSEY NATURAL GAS  
STATEMENTS OF INCOME (Unaudited)  
THREE MONTHS ENDED DECEMBER 31, 2006 AND 2005**

*(Thousands)*

Three Months Ended December 31,	2006	2005
<b>OPERATING REVENUES</b>	\$239,407	\$394,346
<b>OPERATING EXPENSES</b>		
Gas purchases	150,993	305,132
Operation and maintenance	20,255	19,867
Regulatory rider expenses	9,466	9,458
Depreciation and amortization	8,738	8,423
Energy and other taxes	13,239	18,019
Total operating expenses	202,691	360,899
<b>OPERATING INCOME</b>	36,716	33,447
Other income	1,047	825
Interest charges, net	5,393	3,784
<b>INCOME BEFORE INCOME TAXES</b>	32,370	30,488
Income tax provision	12,462	11,805
<b>NET INCOME</b>	\$ 19,908	\$ 18,683

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS  
STATEMENTS OF CASH FLOWS (Unaudited)  
THREE MONTHS ENDED DECEMBER 31, 2006 AND 2005**

*(Thousands)*

Three Months Ended December 31,	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 19,908	\$ 18,683
Adjustments to reconcile net income to cash flows		
Depreciation and amortization	8,738	8,423
Amortization of deferred charges	75	75
Deferred income taxes	1,974	(2,834)
Manufactured gas plant remediation costs	(4,235)	(13,380)
Contribution to postretirement employee benefit	(150)	(150)
Changes in:		
Working capital	(2,959)	(140,847)
Other non-current assets	(39)	13,842
Other non-current liabilities	(6,361)	913
Cash flows from (used in) operating activities	16,951	(115,275)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from sale-leaseback transaction	5,482	4,090
Proceeds from long-term debt	-	35,800
Payments of long-term debt	(775)	(21,462)
Payments of cost removal obligation	(257)	-
Payments of common stock dividends	(10,056)	(9,366)
Net proceeds related to short-term debt	8,300	115,300
Cash flows from financing activities	2,694	124,362
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for		
Utility plant	(13,048)	(11,678)
Cost of removal	(1,283)	(777)
(Investment in) restricted cash construction fund	-	(12,500)
Cash flows used in investing activities	(14,331)	(24,955)
Net change in cash and temporary investments	5,314	(15,868)
Cash and temporary investments at September 30,	4,365	23,194
Cash and temporary investments at December 31,	\$ 9,679	\$ 7,326
<b>CHANGES IN COMPONENTS OF WORKING CAPITAL</b>		
Receivables	\$(45,136)	\$(115,374)
Inventories	28,716	4,936
Underrecovered gas costs	(28,758)	18,278
Gas purchases payable	29,391	12,424
Prepaid and accrued taxes, net	16,159	11,274
Accounts payable and other	(49)	(19,636)
Restricted broker margin accounts	6,122	(53,429)
Other current assets	644	(2,491)
Other current liabilities	(10,048)	3,171
Total	\$ (2,959)	\$(140,847)
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>		
Cash paid for		
Interest (net of amounts capitalized)	\$ 5,149	\$ 3,208
Income taxes	\$ 6,863	\$ 14,706

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS  
BALANCE SHEETS (Unaudited)  
DECEMBER 31, 2006 AND SEPTEMBER 30, 2006**

**ASSETS**

<i>(Thousands)</i>	<b>December 31, 2006</b>	<b>September 30, 2006</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Utility plant, at cost	\$1,223,003	\$1,214,456
Construction work in progress	34,074	29,160
	1,257,077	1,243,616
Accumulated depreciation and amortization	(331,679)	(326,298)
Property, plant and equipment, net	925,398	917,318
<b>CURRENT ASSETS</b>		
Cash and temporary investments	9,679	4,365
Customer accounts receivable	20,388	18,061
Unbilled revenues	55,585	12,543
Allowance for doubtful accounts	(2,912)	(2,679)
Regulatory assets	35,153	8,105
Gas in storage, at average cost	127,064	155,874
Materials and supplies, at average cost	2,882	2,788
Prepaid taxes	11,290	26,343
Derivatives, at fair value	16,252	25,045
Restricted broker margin accounts	24,711	30,833
Other	3,131	3,775
Total current assets	303,223	285,053
<b>NONCURRENT ASSETS</b>		
Regulatory assets	334,208	322,986
Derivatives, at fair value	5,166	10,431
Restricted cash construction fund	8,500	8,500
Prepaid pension	18,090	18,583
Other post employment benefit	5,023	-
Other	19,237	24,063
Total noncurrent assets	390,224	384,563
Total assets	\$1,618,845	\$1,586,934

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS  
BALANCE SHEETS (Unaudited)  
DECEMBER 31, 2006 AND SEPTEMBER 30, 2006**

**CAPITALIZATION AND LIABILITIES**

<i>(Thousands)</i>	December 31, 2006	September 30, 2006
<b>CAPITALIZATION</b>		
Common stock equity	\$ 474,092	\$ 464,742
Long-term debt	311,725	307,332
Total capitalization	785,817	772,074
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	4,053	3,739
Short-term debt	159,800	151,500
Regulatory liabilities	-	1,710
Gas purchases payable	68,635	39,244
Accounts payable and other	39,427	36,757
Postretirement employee benefit liability	91	-
Accrued taxes	19,795	9,076
Derivatives, at fair value	66,315	61,553
Clean energy program	8,024	8,244
Customers credit balances and deposits	50,896	60,945
Total current liabilities	417,036	372,768
<b>NONCURRENT LIABILITIES</b>		
Deferred income taxes	159,098	166,744
Deferred investment tax credits	7,755	7,835
Derivatives, at fair value	43,156	56,290
Manufactured gas plant remediation	105,400	105,400
Asset retirement obligation	-	23,293
Clean energy program	9,194	13,138
Regulatory liabilities	60,371	64,220
Other	31,018	5,172
Total noncurrent liabilities	415,992	442,092
Total capitalization and liabilities	\$ 1,618,845	\$ 1,586,934

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS  
STATEMENTS OF CAPITALIZATION (Unaudited)  
DECEMBER 31, 2006 AND SEPTEMBER 30, 2006**

<i>(Thousands)</i>	December 31, 2006	September 30, 2006
<b>COMMON STOCK EQUITY</b>		
Common stock, \$5 par value; authorized 4,750,000 shares; outstanding 3,214,923 shares	\$ 16,075	\$ 16,075
Premium on common stock	11,269	11,269
Contribution from parent	246,753	246,753
Accumulated other comprehensive income, net of tax	(82)	(73)
Retained earnings	200,077	190,718
<b>Total Common stock equity</b>	<b>474,092</b>	<b>464,742</b>
<b>LONG-TERM DEBT</b>		
<i>First mortgage bonds</i>	<i>Maturity date</i>	
6.27% Series X	November 1, 2008	30,000
Variable Series AA	August 1, 2030	25,000
Variable Series BB	August 1, 2030	16,000
6.88% Series CC	October 1, 2010	20,000
Variable Series DD	September 1, 2027	13,500
Variable Series EE	January 1, 2028	9,545
Variable Series FF	January 1, 2028	15,000
Variable Series GG	April 1, 2033	18,000
5% Series HH	December 1, 2038	12,000
4.5% Series II	August 1, 2030	10,300
4.6% Series JJ	August 1, 2024	10,500
4.9% Series KK	October 1, 2040	2,500
4.77% Unsecured senior notes	March 15, 2014	60,000
Loan with state authority	October 1, 2040	12,500
Capital lease obligation Buildings	June 1, 2021	27,701
Capital lease obligation Meters	October 1, 2012	33,232
Less: Current maturities of long-term debt		(4,053)
<b>Total Long-term debt</b>		<b>311,725</b>
<b>Total Capitalization</b>		<b>\$785,817</b>
		<b>\$772,074</b>

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS**

**STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)  
THREE MONTHS ENDED DECEMBER 31, 2006 AND 2005**

*(Thousands)*

Three Months Ended December 31,	2006	2005
Net income	\$19,908	\$18,683
Other comprehensive income:		
Change in fair value of derivatives, net of tax of \$ 6 and \$(25)	(9)	36
Other comprehensive income	(9)	36
Comprehensive income	\$19,899	\$18,719

See Note to Condensed Unaudited Financial Statements

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

### **1. GENERAL**

New Jersey Natural Gas (NJNG) is a local natural gas distribution company that provides regulated retail natural gas service to more than 474,000 residential and commercial customers in central and northern New Jersey, and participates in the off-system sales and capacity release markets. NJNG is the principal regulated utility subsidiary of New Jersey Resources (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.

These financial statements should be read in conjunction with the financial statements and the notes thereto included in NJR's 2006 Annual Report on Form 10-K, as well as the December 31, 2006, Quarterly Report on Form 10-Q that have been filed with the Securities and Exchange Commission. 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.