

NEW JERSEY RESOURCES CORP
Form 10-Q
May 06, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission file number 001-8359

NEW JERSEY RESOURCES CORPORATION
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

22-2376465
(I.R.S. Employer
Identification Number)

1415 Wyckoff Road, Wall, New
Jersey 07719
(Address of principal
executive offices)

732-938-1480
(Registrant's telephone number,
including area code)

Securities registered pursuant to Section 12 (b) of the Act:
Common Stock - \$2.50 Par Value
(Title of each class)

New York Stock Exchange
(Name of each exchange on which
registered)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes: No:

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes: No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer: Accelerated filer: Non-accelerated filer: Smaller reporting company:
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes: No:

The number of shares outstanding of \$2.50 par value Common Stock as of May 4, 2010, was 41,295,564.

New Jersey Resources Corporation

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New Jersey Resources Corporation
Part I

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report, including, without limitation, statements as to management expectations and beliefs presented in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations," Part I, Item 3. "Quantitative and Qualitative Disclosures about Market Risk," Part II, Item I. "Legal Proceedings" and in the notes to the financial statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can also be identified by the use of forward-looking terminology such as "may," "intend," "expect," "believe" or "continue" or comparable terminology and made based upon management's current expectations and beliefs as of this date concerning future developments and their potential effect upon New Jersey Resources Corporation (NJR or the Company). There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Company will be those anticipated by management.

The Company cautions readers that the assumptions that form the basis for forward-looking statements regarding customer growth, customer usage, financial condition, results of operations, cash flows, capital requirements, market risk and other matters for fiscal 2010 and thereafter include many factors that are beyond the Company's ability to control or estimate precisely, such as estimates of future market conditions, the behavior of other market participants and changes in the debt and equity capital markets. The factors that could cause actual results to differ materially from NJR's expectations include, but are not limited to, those discussed in Risk Factors in Item 1A of NJR's 2009 Annual Report on Form 10-K, as well as the following:

- weather and economic conditions;
- NJR's dependence on operating subsidiaries;
- demographic changes in the New Jersey Natural Gas (NJNG) service territory;
- the rate of NJNG customer growth;
- volatility of natural gas and other commodity prices and their impact on customer usage, NJR Energy Services' (NJRES) operations and on the Company's risk management efforts;
- changes in rating agency requirements and/or credit ratings and their effect on availability and cost of capital to the Company;
- the impact of volatility in the credit markets that would result in the increased cost and/or limit the availability of credit at NJR to fund and support physical gas inventory purchases and other working capital needs at NJRES, and all other non-regulated subsidiaries, as well as negatively affect cost and access to the commercial paper market and other short-term financing markets by NJNG to allow it to fund its commodity purchases, capital expenditures and meet its short-term obligations as they come due;
- the ability to comply with debt covenants;
- continued failures in the market for auction rate securities;
- the impact to the asset values and resulting higher costs and funding obligations of NJR's pension and postemployment benefit plans as a result of downturns in the financial markets, and impacts associated with the Patient Protection and Affordable Care Act;
- the ability to maintain effective internal controls;
- accounting effects and other risks associated with hedging activities and use of derivatives contracts;
- commercial and wholesale credit risks, including the availability of creditworthy customers and counterparties and liquidity in the wholesale energy trading market;

- the ability to obtain governmental approvals and/or financing for the construction, development and operation of certain non-regulated energy investments;
- risks associated with the management of the Company's joint ventures and partnerships;
- the level and rate at which costs and expenses are incurred and the extent to which they are allowed to be recovered from customers through the regulatory process in connection with constructing, operating and maintaining NJNG's natural gas distribution system;
- dependence on third-party storage and transportation facilities for natural gas supply;
- operating risks incidental to handling, storing, transporting and providing customers with natural gas;
- access to adequate supplies of natural gas;
- the regulatory and pricing policies of federal and state regulatory agencies;
- the costs of compliance with present and future environmental laws, including potential climate change-related legislation;
- the ultimate outcome of pending regulatory proceedings;
- the disallowance of recovery of environmental-related expenditures and other regulatory changes; and
- environmental-related and other litigation and other uncertainties.

While the Company periodically reassesses material trends and uncertainties affecting the Company's results of operations and financial condition in connection with its preparation of management's discussion and analysis of results of operations and financial condition contained in its Quarterly and Annual Reports, the Company does not, by including this statement, assume any obligation to review or revise any particular forward-looking statement referenced herein in light of future events.

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Part I

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months		Six Months	
	Ended		Ended	
	March 31,		March 31,	
(Thousands, except per share data)	2010	2009	2010	2009
OPERATING REVENUES				
Utility	\$430,706	\$469,261	\$689,181	\$810,169
Nonutility	487,640	468,255	838,711	928,651
Total operating revenues	918,346	937,516	1,527,892	1,738,820
OPERATING EXPENSES				
Gas purchases:				
Utility	276,104	314,091	431,054	544,543
Nonutility	427,273	473,827	721,716	914,465
Operation and maintenance	37,018	37,365	73,309	73,773
Regulatory rider expenses	21,184	20,744	34,857	34,305
Depreciation and amortization	7,931	7,508	15,800	14,869
Energy and other taxes	26,824	31,981	43,759	55,614
Total operating expenses	796,334	885,516	1,320,495	1,637,569
OPERATING INCOME	122,012	52,000	207,397	101,251
Other income	1,028	1,058	2,147	1,916
Interest expense, net of capitalized interest	5,291	4,219	10,708	10,766
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	117,749	48,839	198,836	92,401
Income tax provision	45,258	17,638	76,187	33,442
Equity in earnings of affiliates, net of tax	1,726	787	3,470	1,301
NET INCOME	\$ 74,217	\$ 31,988	\$126,119	\$ 60,260
EARNINGS PER COMMON SHARE				
BASIC	\$1.79	\$0.76	\$3.04	\$1.43
DILUTED	\$1.78	\$0.75	\$3.02	\$1.41
DIVIDENDS PER COMMON SHARE	\$0.34	\$0.31	\$0.68	\$0.62
WEIGHTED AVERAGE SHARES OUTSTANDING				
BASIC	41,418	42,305	41,517	42,238
DILUTED	41,726	42,693	41,824	42,598

See Notes to Condensed Unaudited Consolidated Financial Statements

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ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Thousands)	2010	Six Months Ended March 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$126,119	\$60,260
Adjustments to reconcile net income to cash flows from operating activities:		
Unrealized (gain) loss on derivative instruments and related transactions	(19,208)	17,867
Depreciation and amortization	16,267	15,303
Allowance for equity used during construction	(917)	—
Allowance for bad debt expense	1,716	3,801
Deferred income taxes	48,979	(14,128)
Manufactured gas plant remediation costs	(1,755)	(9,851)
Equity in earnings of affiliates, net of distributions	(2,222)	(1,301)
Cost of removal – asset retirement obligations	(280)	(463)
Contributions to postemployment benefit plans	(6,187)	(563)
Changes in:		
Components of working capital	90,359	254,081
Other noncurrent assets	17,518	(17,426)
Other noncurrent liabilities	(25,394)	38,290
Cash flows from operating activities	244,995	345,870
CASH FLOWS USED IN INVESTING ACTIVITIES		
Expenditures for:		
Utility plant	(27,738)	(37,802)
Real estate properties and other	(93)	(240)
Cost of removal	(4,432)	(3,583)
Investments in equity investees	(4,300)	(28,525)
Release from restricted cash construction fund	—	4,200
Cash flows used in investing activities	(36,563)	(65,950)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Proceeds from issuance of common stock	6,371	6,959
Tax benefit from stock options exercised	230	993
Proceeds from sale-leaseback transaction	4,925	6,268
Payments of long-term debt	(3,204)	(57,594)
Purchases of treasury stock	(24,729)	(3,291)
Payments of common stock dividends	(27,395)	(24,384)
Net payments of short-term debt	(44,700)	(168,200)
Cash flows used in financing activities	(88,502)	(239,249)
Change in cash and temporary investments	119,930	40,671
Cash and temporary investments at beginning of period	36,186	42,626
Cash and temporary investments at end of period	\$156,116	\$83,297

CHANGES IN COMPONENTS OF WORKING CAPITAL

Receivables	\$(126,345)	\$ (25,651)
Inventories	123,460	378,188
Recovery of gas costs	(49,637)	41,865
Gas purchases payable	79,468	(144,421)
Prepaid and accrued taxes	49,699	115,528
Accounts payable and other	(9,154)	(3,140)
Restricted broker margin accounts	53,225	(65,546)
Customers' credit balances and deposits	(50,460)	(49,203)
Other current assets	20,103	6,461
Total	\$ 90,359	\$254,081

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS
INFORMATION

Cash paid for:

Interest (net of amounts capitalized)	\$ 8,944	\$12,277
Income taxes	\$23,775	\$ 9,227

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ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

ASSETS

(Thousands)	31, March 2010	September 30, 2009
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$1,467,547	\$1,438,945
Real estate properties and other, at cost	30,088	30,195
	1,497,635	1,469,140
Accumulated depreciation and amortization	(414,192)	(404,701)
Property, plant and equipment, net	1,083,443	1,064,439
CURRENT ASSETS		
Cash and temporary investments	156,116	36,186
Customer accounts receivable		
Billed	202,802	101,945
Unbilled revenues	29,583	8,616
Allowance for doubtful accounts	(3,258)	(6,064)
Regulatory assets	19,715	5,878
Gas in storage, at average cost	174,246	297,464
Materials and supplies, at average cost	5,784	6,026
Prepaid state taxes	4,075	37,886
Derivatives, at fair value	198,842	131,070
Restricted broker margin account	6,989	26,250
Deferred taxes	297	20,801
Other	20,908	18,131
Total current assets	816,099	684,189
NONCURRENT ASSETS		
Investments in equity investees	168,450	160,508
Regulatory assets	406,957	391,025
Derivatives, at fair value	11,607	9,536
Other	10,427	11,333
Total noncurrent assets	597,441	572,402
Total assets	\$2,496,983	\$2,321,030

See Notes to Unaudited Condensed Consolidated Financial Statements

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ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

CAPITALIZATION AND LIABILITIES

(Thousands)	31, March 2010	September 30, 2009
CAPITALIZATION		
Common stock equity	\$ 768,918	\$ 689,726
Long-term debt	436,474	455,492
Total capitalization	1,205,392	1,145,218
CURRENT LIABILITIES		
Current maturities of long-term debt	27,249	6,510
Short-term debt	98,700	143,400
Gas purchases payable	209,580	130,112
Accounts payable and other	35,427	44,448
Dividends payable	14,059	13,026
Deferred and accrued taxes	19,363	3,475
Regulatory liabilities	—	36,203
New Jersey clean energy program	11,591	10,920
Derivatives, at fair value	172,718	94,853
Restricted broker margin account	33,964	—
Customers' credit balances and deposits	22,759	73,218
Total current liabilities	645,410	556,165
NONCURRENT LIABILITIES		
Deferred income taxes	272,068	243,593
Deferred investment tax credits	6,710	6,870
Deferred revenue	7,287	8,203
Derivatives, at fair value	5,667	6,250
Manufactured gas plant remediation	146,700	146,700
Postemployment employee benefit liability	89,555	89,035
Regulatory liabilities	61,785	56,450
New Jersey clean energy program	23,804	28,449
Asset retirement obligation	25,599	25,097
Other	7,006	9,000
Total noncurrent liabilities	646,181	619,647
Commitments and contingent liabilities (Note 13)		
Total capitalization and liabilities	\$2,496,983	\$2,321,030

See Notes to Unaudited Condensed Consolidated Financial Statements

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ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

		Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	2010	2009	2010	2009	
Net income	\$74,217	\$31,988	\$126,119	\$60,260	
Unrealized gain (loss) on available for sale securities, net of tax of \$(349), \$444, \$(613) and \$64, respectively (1)	501	(637)	879	(92)	
Net unrealized (loss) on derivatives, net of tax of \$21, \$15, \$43 and \$34, respectively	(29)	(22)	(62)	(48)	
Other comprehensive income	472	(659)	817	(140)	
Comprehensive income	\$74,689	\$31,329	\$126,936	\$60,120	

(1) Available for sale securities are included in Investments in equity investees in the Unaudited Condensed Consolidated Balance Sheets.

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF THE BUSINESS

NJR provides regulated gas distribution services and certain non-regulated businesses primarily through the following subsidiaries:

New Jersey Natural Gas Company (NJNG) provides natural gas utility service in central and northern New Jersey and is subject to rate regulation by the New Jersey Board of Public Utilities (BPU). NJNG comprises the Natural Gas Distribution segment;

NJR Energy Services Company (NJRES) comprises the Energy Services segment and is the Company's principal non-utility subsidiary that maintains and trades a portfolio of natural gas storage and transportation positions and provides wholesale energy and energy management services;

NJR Energy Holdings Corporation (NJREH) primarily invests in energy-related ventures through its subsidiaries, NJNR Pipeline Company (Pipeline), which holds the Company's 5.53 percent ownership interest in Iroquois Gas and Transmission System, L.P. (Iroquois) and NJR Steckman Ridge Storage Company, which holds the Company's 50 percent combined interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a natural gas storage facility that began commercial operation in April 2009. Effective October 1, 2009, Iroquois and Steckman Ridge comprise the Midstream Assets segment;

NJR Retail Holdings Corporation (Retail Holdings) has two principal subsidiaries, NJR Home Services Company (NJRHS) and Commercial Realty & Resources Corporation (CR&R). Retail Holdings and NJR Energy Corporation (NJR Energy) are included in Retail and Other operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared by New Jersey Resources Corporation (NJR or the Company) in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The September 30, 2009 Balance Sheet data is derived from the audited financial statements of the Company. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and the notes thereto included in NJR's 2009 Annual Report on Form 10-K.

The Unaudited Condensed Consolidated Financial Statements include the accounts of NJR and its subsidiaries. In the opinion of management, the accompanying Unaudited Condensed Consolidated Financial Statements reflect all adjustments necessary, for a fair presentation of the results of the interim periods presented. These adjustments are of a normal and recurring nature. Because of the seasonal nature of NJR's utility and wholesale energy services operations, in addition to other factors, the financial results for the interim periods presented are not indicative of the results that are to be expected for the fiscal year ended September 30, 2010.

Intercompany transactions and accounts have been eliminated.

Change in Reportable Segments

Effective October 1, 2009, NJR established Midstream Assets as a new reportable segment to reflect the way it currently views and manages growth opportunities associated with investments in natural gas transportation and storage facilities. Consequently, the results of operations, assets and other financial information for Iroquois and

Steckman Ridge, previously included in Retail and Other operations, are now reported as components of the Midstream Assets segment. As required, prior year information for both Midstream Assets and Retail and Other operations has been restated throughout this report to be consistent with current year presentation (see Note 14. Business Segment and Other Operations Data and Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations).

Gas in Storage

The following table summarizes Gas in storage by company as of:

(\$ in thousands)	March 31, 2010		September 30, 2009	
	Assets	Bcf	Assets	Bcf
NJNG	\$ 19,972	2.3	\$175,201	21.9
NJRES	154,274	32.6	122,263	36.3
Total	\$174,246	34.9	\$297,464	58.2

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Part INOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Gas in storage decreased during the six months ended March 31, 2010, due primarily to an 89 percent decrease in NJNG's inventory volumes due to the end of the winter withdrawal period, offset by an increase in the average cost of gas at NJRES.

Customer Accounts Receivable

Customer accounts receivable include outstanding billings from the following subsidiaries as of:

(Thousands)	March 31, 2010		September 30, 2009	
NJNG	\$ 66,565	33%	\$ 21,239	21%
NJRES	127,709	63	73,451	72
NJRHS and other	8,528	4	7,255	7
Total	\$202,802	100%	\$101,945	100%

Accounts receivable increased during the six months ended March 31, 2010, due primarily to the impact of higher commodity prices on NJRES' receivables and to the seasonality of NJNG's revenues .

Capitalized Financing Costs and Deferred Interest

Included in the Unaudited Condensed Consolidated Balance Sheets are capitalized amounts associated with the debt and equity components of NJNG's Allowance for funds used during construction, (AFUDC), which are recorded in utility plant, as well as capitalized interest recorded in investments in equity investees. Corresponding amounts recognized in interest expense and other income, as appropriate, in the Unaudited Condensed Consolidated Statements of Income are as follows:

(Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
AFUDC:				
Debt	\$249	\$172	\$400	\$429
Equity	\$533	\$ —	\$917	\$ —
Weighted average rate	7.76%	2.00%	7.13%	3.00%
Investments in equity investees:				
Capitalized interest	\$ —	\$827	\$ —	\$1,670
Weighted average interest rates	—%	5.34%	—%	5.44%
Total capitalized costs	\$782	\$999	\$1,317	\$2,099
Net weighted average rate	7.76%	3.67%	7.13%	4.22%

Total financing costs capitalized during the three and six months ended March 31, 2010 decreased compared with the same periods in fiscal 2009 due to NJR no longer capitalizing interest costs related to its acquisition, development and construction of the Steckman Ridge natural gas storage facility, as the facility became operational during the third

quarter of fiscal 2009 (see Note 6. Investments in Equity Investees).

NJNG's base rates include the ability for NJNG to recover the cost of debt and equity associated with AFUDC and construction work in progress (CWIP). During the three and six months ended March 31, 2010, due to a reduction in NJNG's commercial paper borrowings relative to its CWIP, NJNG's capitalized costs included both a debt and equity portion associated with its AFUDC as noted above.

Pursuant to a BPU order, NJNG is permitted to recover carrying costs on uncollected balances related to Societal Benefits Clause (SBC) program costs (see Note 3. Regulation). Accordingly, other income includes interest related to these SBC program costs in the amount of \$415,000 and \$491,000 for the three months ended March 31, 2010 and 2009, respectively and \$900,000 and \$1.1 million for the six months ended March 31, 2010 and 2009, respectively.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Recent Updates to the Accounting Standards Codification (ASC)

Topic 715, Compensation—Retirement Benefits:

On December 30, 2008, the FASB issued guidance that requires additional disclosures surrounding postretirement benefit plans to provide users of financial statements information related to a company's plan assets, investment policies and strategies and significant concentrations of risk. Disclosures will include information related to the fair value of plan assets, including inputs and valuation techniques that are used to measure plan assets and the effect of Level 3 measurements on changes in plan assets. The guidance is effective for fiscal years ending after December 15, 2009. As it is a disclosure only standard, it will have no impact on the Company's statement of financial position, results of operations or cash flows.

Topic 810, Consolidation:

On December 4, 2007, the FASB amended consolidation guidance relating to the accounting and reporting for minority interests and clarified that a non-controlling interest in a subsidiary is considered to be an ownership interest in the consolidated entity and, therefore, should be reported as equity in the consolidated financial statements. The guidance is effective for fiscal years beginning after December 15, 2008, and early adoption is prohibited. The guidance became effective for the Company on October 1, 2009. There was no impact to the Company's statement of financial position, results of operations or cash flows upon adoption.

In June 2009, the FASB issued guidance requiring qualitative evaluations, which will replace the quantitative assessments currently in practice, when determining whether a company has a controlling financial interest in a variable interest entity (VIE). In addition, the assessments will be required on an ongoing basis, rather than limiting the reassessments to when certain triggering events occur. Additional disclosures will provide information on a company's involvement with VIE's. The guidance is effective at the beginning of a company's annual reporting period that begins after November 15, 2009, including interim reporting periods. The Company will adopt the provisions of the statement prospectively during its first quarter of fiscal 2011 and is evaluating the effect on its financial position, results of operations and cash flows.

Topic 820, Fair Value Measurements and Disclosures:

In August 2009, the FASB issued additional guidance for measuring the fair value of liabilities and clarifies that the quoted price for the identical liability, when traded as an asset in an active market, is a Level 1 measurement, providing there are no adjustments to the quoted price. Alternatively, when no quoted price is available, the guidance affirms the use of other permitted valuation techniques. The guidance became effective for the Company on October 1, 2009. There was no impact to the Company's statement of financial position, results of operations or cash flows upon adoption.

In January 2010, the FASB issued guidance expanding the requirement to disclose information about significant transfers into and out of Level 3 to all three levels of the fair value hierarchy. In addition, it requires a description of the valuation techniques and inputs used to determine Level 2 and Level 3 fair values and provides additional guidance on determining an appropriate level of disaggregation into classes of assets and liabilities in fair value disclosures. The guidance became effective for the first annual or interim period beginning after December 15, 2009.

There was no impact to the Company's statement of financial position, results of operations or cash flows upon adoption.

3. REGULATION

Base Rates

In October 2008, the BPU unanimously approved and made effective certain changes in the design of NJNG's base rates. As a result, NJNG received a revenue increase in its base rates of \$32.5 million, which is inclusive of an approximate \$13 million impact of a change to the Conservation Incentive Program (CIP) baseline usage rate. Other changes included an allowed rate of return of 7.76 percent that incorporates a return on equity component of 10.3 percent and a reduction to NJNG's depreciation expense component.

Conservation Incentive Program (CIP)

The CIP allows NJNG to recover utility gross margin variations related to both weather and customer usage. Recovery of such utility gross margin variations (filed for annually and recovered in the year following the end of the CIP usage year) is subject to additional conditions, including an earnings test and an evaluation of Basic Gas Supply Service (BGSS) related savings.

As of March 31, 2010, under the CIP, NJNG has accrued \$7.8 million to be recovered from residential and commercial customers, which includes \$4.4 million related to the weather component of the CIP and \$3.4 million related to the usage component of the CIP.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following are NJNG's BPU filings and results during fiscal 2009 and 2010 related to CIP:

• October 2008 – The BPU provisionally approved, effective October 3, 2008, NJNG's CIP petition filed in May 2008 requesting an additional \$6.8 million and modification to its CIP recovery rates. The additional amount brought the total recovery requested to \$22.4 million and included amounts accrued and estimated through September 30, 2008.

• April 2009 – NJNG submitted a proposal to extend its CIP mechanism, as currently structured, until October 1, 2010. The extension was requested due to the continuing nature of energy efficiency programs at the state and federal levels in concert with the issuance of the economic stimulus programs. As a result of no action being taken by the BPU as of September 30, 2009, the CIP remained in effect for an additional year or until a final order was issued by the BPU.

• June 2009 – The BPU issued their final order approving NJNG's recovery of \$6.8 million of CIP rates for fiscal 2008. In addition, NJNG filed its annual BGSS and CIP filing (2010 BGSS/CIP filing) for recoverable CIP amounts for fiscal 2009, requesting approval to modify its CIP recovery rates effective October 1, 2009, resulting in total annual recovery requested for fiscal 2009 of \$6.9 million, representing amounts accrued and estimated through September 30, 2009. NJNG also included a request to reduce the WNC rate to facilitate recovery of its remaining balance in fiscal 2010. The rates included in the filing were provisionally approved on September 16, 2009.

• December 2009 – NJNG submitted a petition requesting approval from the BPU for an extension of its CIP mechanism, as currently structured, through September 30, 2013. On January 20, 2010, the BPU approved an extension to NJNG's CIP through September 30, 2013.

In addition, NJNG and NJRES entered into an asset management agreement that began in January 2010 and ends in March 2013. Under the terms of this agreement, NJNG released certain transportation and storage contracts to NJRES for the entire term of the agreement. NJNG also sold approximately 1 Bcf of natural gas in storage at cost to NJRES. In return, NJNG will have the option to purchase index priced gas from NJRES at NJNG's city gate and other delivery locations to maintain operational reliability. These capacity release payments provide BGSS savings pursuant to the terms of the CIP as approved in the January 20, 2010 BPU Board Order, and reduces costs to NJNG's BGSS customers.

In conjunction with the CIP, NJNG incurs costs related to its obligation to fund programs that promote customer conservation efforts during the pilot program. As of March 31, 2010, NJNG had a remaining liability of \$120,000 related to these programs.

Basic Gas Supply Service (BGSS)

BGSS is a BPU-approved rate mechanism designed to allow for the recovery of natural gas commodity costs. NJNG occasionally adjusts its periodic BGSS rates for its residential and small commercial customers to reflect increases or decreases in the cost of natural gas sold to customers.

The following are NJNG's BGSS filings during fiscal 2009 and 2010 related to its requested rate adjustments and refunds to its residential and small commercial customers:

• December 2008 – NJNG provided notice that it would implement a \$30 million BGSS-related rate credit that would lower residential and small commercial sales customers' bills in January and February 2009. This rate credit was due primarily to a decline in wholesale commodity costs subsequent to the October 2008 BGSS price change. On February 20, 2009, NJNG provided notice to the BPU that its BGSS-related rate credit would be extended through March 31, 2009, to reduce BGSS charges by an additional \$15 million.

• June 2009 – NJNG proposed a decrease of 17.6 percent for the average residential heating customer in its 2010 BGSS/CIP filing of which 15.7 percent was due to the reduction in commodity costs based on the continuing decline in the wholesale natural gas market. The balance of the rate change was related to changes to the CIP rate, as discussed above, and a minor reduction to the rate related to collecting the remaining balance under the Weather Normalization Clause (WNC). In September 2009, the BPU approved on a provisional basis a stipulation in that case which included a decrease of approximately 19 percent to the average residential heating customer of which 17.2 percent was due to the reduction to the BGSS price and the balance of rate change was related to the CIP and WNC rates as discussed above.

• October 2009 – NJNG provided refunds of approximately \$37.4 million to residential and small commercial customers due to the decline in the wholesale price of natural gas.

• January 2010 – NJNG notified the BPU that bill credits would be provided to residential and small commercial customers, based on individual customer usage, in February 2010 and March 2010. NJNG provided credits of approximately \$35.3 million.

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• March 2010 – NJNG notified the BPU that it would extend the BGSS bill credit for residential and small business customers through April 30, 2010 and increase the overall savings by an additional \$21.4 million.

Other Incentive Programs

NJNG is eligible to receive financial incentives for reducing BGSS costs through a series of utility gross margin-sharing programs that include Off-System Sales, Capacity Release, Storage Incentive and Financial Risk Management (FRM) programs. In October 2008, the BPU approved the extension of the incentive programs through October 31, 2011, along with an increase to certain annual cost and volume limitations.

Societal Benefits Clause (SBC)

The SBC is comprised of three primary riders that allow NJNG to recover costs associated with the following programs:

Universal Service Fund (USF), which is a permanent statewide program for all natural gas and electric utilities for the benefit of income-eligible customers, Manufactured Gas Plant (MGP) Remediation, and the New Jersey Clean Energy Program (NJCEP), which is a statewide program designed to promote energy efficiency and renewable energy that all state utilities are required to fund. Recovery of SBC program costs is subject to BPU approval based on annual filings that include an updated report of expenditures incurred each year.

The following is a summary of regulatory actions related to SBC:

• October 2008 - The BPU released a final Order in the NJCEP, updating state utilities' funding obligations for the period from January 1, 2009, to March 31, 2012. As a result, NJNG recorded an obligation and a corresponding regulatory asset at a present value of \$44.3 million in the Unaudited Condensed Consolidated Balance Sheets. As of March 31, 2010, NJNG had a \$35.4 million obligation remaining.

• January 2009 - NJNG filed an application (January 2009 SBC filing) regarding its SBC to increase its MGP factor and its NJCEP factor while maintaining its effective rate on USF. This filing, if approved, will result in an overall increase of approximately 0.48 percent per month for an average residential bill.

• June 2009 – Natural gas utilities in the State of New Jersey collectively filed with the BPU to decrease the statewide USF rate, which was approved by the BPU on a provisional basis, effective October 12, 2009. The USF change decreased the average monthly bill of a residential heating customer by 0.6 percent.

In addition, the BPU approved NJNG's February 2008 SBC filing, which included recovery of MGP remediation expenditures incurred through June 30, 2007, resulting in an expected total annual recovery of \$17.7 million.

March 2010 - NJNG, BPU Staff and Rate Counsel executed a Settlement for the January 2009 SBC filing to allow for an increase in the MGP and NJCEP factors, while maintaining the current statewide USF factor. The new MGP factor recovers MGP incurred costs through September 30, 2008, resulting in an expected total annual recovery of approximately \$20 million. The Stipulation was approved by the BPU in a Final Decision and Order on April 28, 2010.

Economic Stimulus

In January 2009, NJNG filed two petitions with the BPU seeking approval to implement programs designed to both stimulate the state and local economy through infrastructure investments and encourage energy efficiency. The Accelerated Infrastructure Program (AIP) was approved in April 2009, and allows NJNG to expedite 14 previously planned infrastructure projects, with a cost of approximately \$70.8 million. The projects are designed to maintain safe and reliable service to NJNG's customers while creating the opportunity for approximately 75 to 100 new jobs. Approved as a 2-year program, the AIP will be funded through an annual adjustment to customers' base rates with the first adjustment expected in October 2010. The second filing, for an Energy Efficiency (EE) Program and associated cost recovery mechanism, requested BPU approval to implement various programs to encourage energy efficiency for residential and commercial customers. NJNG proposed to recover the EE Program costs of \$21.1 million, if fully subscribed, over a 4-year period through a clause mechanism similar to the SBC. A true-up to actual EE Program investments and costs is to be filed with the BPU on an annual basis. The BPU approved the EE Program in July 2009. Both the AIP and EE Programs include the recovery of NJNG's overall weighted average cost of capital on these investments.

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On March 29, 2010, NJNG filed for approval of its Regional Greenhouse Gas Initiative (RGGI) Program with the BPU. The RGGI Program includes a series of energy-efficiency and solar energy programs for residential and commercial customers through which enhanced rebates and incentives are provided to eligible customers. The RGGI Programs are designed to run for three years and if fully subscribed as proposed, the investment would be approximately \$102 million to be recovered through NJNG's current Energy-Efficiency Rider. The impact on a typical residential customer will average \$8.14 per year over a 15-year recovery period. Once approved by the BPU, customers will not see a change in rates until October 2011.

Regulatory Assets & Liabilities

The Company had the following regulatory assets, all related to NJNG, on the Unaudited Condensed Consolidated Balance Sheets:

(Thousands)	March 31, 2010	September 30, 2009	Recovery
Regulatory assets—current			
Underrecovered gas costs	\$ 13,434	\$ —	(1)
CIP	6,250	5,800	(1)
WNC	31	78	(2)
Total current	\$ 19,715	\$ 5,878	
Regulatory assets—noncurrent			
Remediation costs (Note 13)			
Expended, net of recoveries	\$ 75,656	\$ 85,461	(3)
Liability for future expenditures	146,700	146,700	(4)
CIP	1,575	—	(2)
Deferred income and other taxes	11,527	11,560	(1)
Derivatives, net (Note 4)	36,724	8,073	(5)
Energy Efficiency Program	—	1,174	(6)
New Jersey Clean Energy Program	35,396	39,369	(6)
Pipeline Integrity Management (PIM)	448	448	(7)
Postemployment benefit costs (Note 10)	97,803	94,305	(8)
Other regulatory assets	1,128	3,935	(6)
Total noncurrent	\$406,957	\$391,025	

- (1) Recoverable, subject to BPU approval, without interest.
- (2) Recoverable as a result of BPU approval in October 2008, without interest. This balance reflects the net results from winter period of fiscal 2006. No new WNC activity is being recorded since October 1, 2006 due to the existence of the CIP.
- (3) Recoverable, subject to BPU approval, with interest over rolling 7-year periods.
- (4) Estimated future expenditures. Recovery will be requested when actual expenditures are incurred (see Note 13. Commitments and Contingent Liabilities).
- (5) Recoverable, subject to BPU approval, through BGSS, without interest.

- (6) Recoverable with interest, subject to BPU approval.
- (7) Recoverable, subject to BPU review and approval in the next base rate case. NJNG is limited annually to recording a regulatory asset that does not exceed \$700,000. In addition, to the extent that project costs are lower than the approved PIM annual expense of \$1.4 million, NJNG will record a regulatory liability that will be refundable as a credit to customer's gas costs when the net cumulative liability exceeds \$1.0 million.
- (8) Recoverable, subject to BPU approval, without interest. Includes unrecognized service costs recorded, that NJNG has determined are recoverable in rates charged to customers (see Note 10. Employee Benefit Plans). Amount as of March 31, 2010 includes approximately \$3.3 million related to changes in the tax treatment for Medicare Subsidy D expenses as a result of the Patient Protection and Affordable Care Act enacted in March 2010.

If there are any changes in regulatory positions that indicate the recovery of regulatory assets is not probable, the related cost would be charged to income in the period of such determination.

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The Company had the following regulatory liabilities, all related to NJNG, on the Unaudited Condensed Consolidated Balance Sheets:

(Thousands)	March 31, 2010	September 30, 2009
Regulatory liabilities—current		
Overrecovered gas costs (1)	\$ —	\$36,203
Total current	\$ —	\$36,203
Regulatory liabilities—noncurrent		
Cost of removal obligation (2)	\$57,681	\$56,450
Energy Efficiency Program (3)	2,234	—
SBC and other regulatory liabilities (3)	1,870	—
Total noncurrent	\$61,785	\$56,450

(1) Refundable, subject to BPU approval, through BGSS with interest.

(2) NJNG accrues and collects for cost of removal in rates. This liability represents collections in excess of actual expenditures. Approximately \$23.2 million, including accretion of \$391,000 for the six months ended March 31, 2010, of regulatory assets relating to asset retirement obligations have been netted against the cost of removal obligation as of March 31, 2010 (see Note 11. Asset Retirement Obligations).

(3) Refundable with interest, subject to BPU approval.

4. DERIVATIVE INSTRUMENTS

The Company and its subsidiaries are subject to commodity price risk due to fluctuations in the market price of natural gas. To manage this risk, the Company and its subsidiaries enter into a variety of derivative instruments including, but not limited to, futures contracts, physical forward contracts, financial options and swaps to economically hedge the commodity price risk associated with its existing and anticipated commitments to purchase and sell natural gas. These contracts, with a few exceptions as described below, are accounted for as derivatives in accordance with the Derivatives and Hedging topic (ASC 815) of the ASC. Accordingly, all of the financial and certain of the Company's physical derivative instruments are recorded at fair value in the Unaudited Condensed Consolidated Balance Sheets. Since the Company chooses not to designate its derivatives as accounting hedges, changes in the fair value of the derivative instruments are concurrently recorded as a component of gas purchases or operating revenues, as appropriate for NJRES and NJR Energy, in the Unaudited Condensed Consolidated Statements of Income as unrealized gains or losses. For NJRES at settlement, realized gains and losses on all financial derivative instruments are recognized as a component of gas purchases and realized gains and losses on all physical derivatives follow the presentation of the related unrealized gains and losses as a component of either gas purchases or operating revenues. For NJR Energy, realized gains and losses on all financial derivatives are recorded as a component of operating revenues.

Changes in fair value of NJNG's derivative instruments, however, are recorded as a component of regulatory assets or liabilities in accordance with ASC 980 in the Unaudited Condensed Consolidated Balance Sheets, as NJNG has received regulatory approval to recover these amounts through future BGSS rates as an increase or decrease to the cost of natural gas in NJNG's tariff. For a more detailed discussion of the Company's fair value measurement policies and

level disclosures associated with the NJR's derivative instruments (see Note 5. Fair Value).

As a result of entering into transactions to borrow gas, commonly referred to as "park and loans," an embedded derivative is created related to potential differences between the fair value of the amount borrowed and the fair value of the amount that may ultimately be repaid, based on changes in forward natural gas prices during the contract term. This embedded derivative is accounted for as a forward sale in the month in which the repayment of the borrowed gas is expected to occur, and is considered a physical derivative transaction that is recorded at fair value on the balance sheet, with changes in value recognized in current period earnings.

The Company continues to elect normal treatment on all physical commodity contracts when appropriate at NJNG and NJR Energy. These contracts are accounted for on an accrual basis.

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The following table reflects the fair value of NJR's derivative assets and liabilities recognized in the Unaudited Condensed Consolidated Balance Sheets:

(Thousands)	Balance Sheet Location	Fair Value			
		March 31, 2010		September 30, 2009	
		Asset	Liability	Asset	Liability
		Derivatives	Derivatives	Derivatives	Derivatives
Derivatives not designated as hedging instruments under ASC 815:					
NJNG:					
Financial derivative commodity contracts	Derivatives - current	\$ 35,431	\$ 70,992	\$ 15,801	\$ 24,274
	Derivatives - noncurrent	—	1,163	1,077	677
NJRES:					
Physical forward commodity contracts	Derivatives - current	17,867	9,253	22,674	10,044
	Derivatives - noncurrent	7,253	54	3,878	214
Financial derivative commodity contracts	Derivatives - current	145,542	92,008	89,140	60,054
	Derivatives - noncurrent	4,354	4,450	4,157	5,316
NJR Energy:					
Financial derivative commodity contracts	Derivatives - current	2	465	3,455	481
	Derivatives - noncurrent	—	—	424	43
Total fair value of derivatives		\$210,449	\$178,385	\$140,606	\$101,103

NJRES utilizes financial derivatives to economically hedge the margin associated with the purchase of physical gas for injection into storage and the subsequent sale of physical gas at a later date. The gains (losses) on the financial transactions that are economic hedges of the cost of the purchased gas are recognized prior to the gains (losses) on the physical transaction, which are recognized in earnings when the natural gas is sold. Therefore, mismatches between the timing of the recognition of realized gains or losses on the financial derivative instruments and gains (losses) associated with the actual sale of the natural gas that is being economically hedged along with fair value changes in derivative instruments creates volatility in the results of NJRES, although the Company's intended economic results relating to the entire transaction are unaffected.

Gains (losses) recognized at NJRES and NJR Energy are as follows:

(Thousands)	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative			
		Three Months Ended March 31,		Six Months Ended March 31,	
		2010	2009	2010	2009 (1)

Derivatives not designated as hedging instruments
under ASC 815:

NJRES:

Physical commodity contracts	revenues	Operating	\$23,028	\$ 8,039	\$22,674	\$ 8,039
Physical commodity contracts	purchases	Gas	773	8,926	154	8,926
Financial derivatives	purchases	Gas	41,179	32,157	65,117	32,157
Subtotal NJRES			64,980	49,122	87,945	49,122
NJR Energy:						
Financial derivatives	revenues	Operating	(4,762)	(10,010)	(6,506)	(10,010)
Total NJRES and NJR Energy unrealized and realized gains			\$60,218	\$39,112	\$81,439	\$39,112

(1) Since the provisions of ASC 815-10-50 did not become effective for NJR until January 1, 2009, amounts for the six months ended March 31, 2009 only include gains and losses for the January 1, 2009 through March 31, 2009 period, therefore, is not comparative to the six months ended March 31, 2010.

Not included in the table above, are losses associated with NJNG's financial derivatives that totaled \$32 million and \$33.4 million for the three months ended March 31, 2010 and 2009, respectively and \$39.9 million and \$33.4 million for the six months ended March 31, 2010 and 2009, respectively. These derivatives are part of its regulated risk management activities that serve to mitigate BGSS costs passed on to its customers. As these transactions are entered into pursuant to and recoverable through regulatory riders, any changes in the value of NJNG's financial derivatives are deferred in regulatory assets or liabilities in accordance with ASC 980 and there is no impact to earnings.

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As of March 31, 2010 and September 30, 2009, NJNG, NJRES and NJR Energy had the following outstanding long (short) derivatives:

		Volume (Bcf)	
		March 31, 2010	September 30, 2009
NJNG	Futures	2.7	21.4
	Swaps	20.8	(14.5)
	Options	2.9	8.0
NJRES	Futures	(20.4)	(19.8)
	Swaps	11.8	(23.2)
	Options	1.3	4.0
	Physical	93.2	58.6
NJR Energy	Swaps	1.4	2.6

Generally, exchange-traded futures contracts require posted collateral, referred to as margin, usually in the form of cash. The amount of margin required is comprised of a fixed initial amount based on the contract and a variable amount based on market price movements from the initial trade price. The Company maintains broker margin for NJNG and NJRES. The balances are as follows:

(Thousands)	Balance Sheet Location	March 31, 2010	September 30, 2009
NJNG broker margin deposit	Broker margin – Current assets	\$ 6,989	\$16,458
	Broker margin – Current (liabilities)		
NJRES broker margin deposit	assets	\$(33,964)	\$ 9,792

Wholesale Credit Risk

NJNG, NJRES and NJR Energy are exposed to credit risk as a result of their wholesale marketing activities. NJR monitors and manages the credit risk of its wholesale marketing operations through credit policies and procedures that management believes reduce overall credit risk. These policies include a review and evaluation of current and prospective counterparties' financial statements and/or credit ratings, daily monitoring of counterparties' credit limits and exposure, daily communication with traders regarding credit status and the use of credit mitigation measures, such as collateral requirements and netting agreements. Examples of collateral include letters of credit and cash received for either prepayment or margin deposit. Collateral may be requested due to NJR's election not to extend credit or because exposure exceeds defined thresholds. Most of NJR's wholesale marketing contracts contain standard netting provisions. These contracts include those governed by the International Swaps and Derivatives Association (ISDA) and the North American Energy Standards Board (NAESB). The netting provisions refer to payment netting, whereby receivables and payables with the same counterparty are offset and the resulting net amount is paid to the party to which it is due.

As a result of the inherent volatility in the prices of natural gas commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If a counterparty failed to perform the obligations under its contract (for example, failed to deliver or pay for natural gas), then the Company could sustain a loss.

The following is a summary of gross credit exposures grouped by investment and noninvestment grade counterparties, as of March 31, 2010. Internally-rated exposure applies to counterparties that are not rated by Standard & Poor's (S&P) or Moody's Investors Service, Inc. (Moody's). In these cases, the company's or guarantor's financial statements are reviewed, and similar methodologies and ratios used by S&P and/or Moody's are applied to arrive at a substitute rating. Gross credit exposure is defined as the unrealized fair value of physical and financial derivative commodity contracts plus any outstanding receivable for the value of natural gas delivered for which payment has not yet been received. The amounts presented below have not been reduced by any collateral received or netting and exclude accounts receivable for retail natural gas sales and services.

(Thousands)	Gross Credit Exposure
Investment grade	\$144,794
Noninvestment grade	10,132
Internally rated investment grade	24,090
Internally rated noninvestment grade	7,393
Total	\$186,409

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Conversely, certain of NJNG's, NJRES' and NJR Energy's derivative instruments are linked to agreements containing provisions that would require cash collateral payments from the Company if certain events occur. These provisions vary based upon the terms in individual counterparty agreements and can result in cash payments if NJNG's credit rating were to fall below its current level. NJNG's credit rating, with respect to S&P's, reflects the overall corporate credit profile. Specifically, most, but not all, of these additional payments will be triggered if NJNG's debt is downgraded by the major credit agencies, regardless of investment grade status. As well, some of these agreements include threshold amounts that would result in additional collateral payments if the values of derivative liabilities were to exceed the maximum values provided for in relevant counterparty agreements. Other provisions include payment features that are not specifically linked to ratings, but are based on certain financial metrics.

Collateral amounts associated with any of these conditions, are determined based on a sliding scale and are contingent upon the degree to which the Company's credit rating and/or financial metrics deteriorate, and the extent to which liability amounts exceed applicable threshold limits. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on March 31, 2010 and September 30, 2009 is \$29.7 million and \$22.3 million, respectively, for which the Company had not posted any collateral. If all the thresholds related to the credit-risk-related contingent features underlying these agreements had been invoked on March 31, 2010, the Company would have been required to post an additional \$20 million to its counterparties. If all the thresholds related to the credit-risk-related contingent features underlying these agreements had been invoked on September 30, 2009, the Company would not have been required to post any additional collateral to its counterparties. These amounts differ from the respective net derivative liabilities reflected in the Unaudited Condensed Consolidated Balance Sheets because the credit agreements also include clauses, commonly known as "Rights of Offset," that would permit the Company to offset its derivative assets against its derivative liabilities for determining additional collateral to be posted.

5. FAIR VALUE

Fair Value of Assets and Liabilities

The fair value of cash and temporary investments, commercial paper and borrowings under revolving credit facilities are estimated to equal their carrying amounts due to the short maturity of those instruments. The estimated fair value of long-term debt, excluding current maturities, is based on quoted market prices for similar issues and is as follows:

(Thousands)	March 31, 2010	September 30, 2009
Carrying value	\$463,700	\$462,000
Fair market value	\$480,100	\$477,900

NJR applies the fair value measurement provisions of ASC 820 to its financial assets and liabilities, as appropriate, which include financial derivatives and physical commodity contracts qualifying as derivatives, available for sale securities and other financial assets and liabilities. In addition, ASC 820 prescribes the use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the source of the data used to develop the price inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to inputs that are based on unobservable market data and include

the following:

Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets; NJR's Level 1 assets and liabilities include exchange traded financial derivative contracts, listed equities, and money market funds.

Level 2 Price data, other than Level 1 quotes, that is observed either directly or indirectly from publications or pricing services; NJR's Level 2 assets and liabilities include over-the-counter physical forward commodity contracts and swap contracts or derivatives that are initially valued using observable quotes and are subsequently adjusted to include time value, credit risk or estimated transport pricing components. These additional adjustments are not considered to be significant to the ultimate recognized values.

Level 3 Inputs derived from a significant amount of unobservable market data; these include NJR's best estimate of fair value and are derived primarily through the use of internal valuation methodologies. Certain of NJR's physical commodity contracts that are to be delivered to inactively traded points on a pipeline are included in this category.

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NJNG's, NJRES' and NJR Energy's financial derivatives portfolios consist mainly of futures, options and swaps. NJR primarily uses the market approach and its policy is to use actively quoted market prices when available. The principal market for its derivative transactions is the natural gas wholesale market; therefore, the primary source for its price inputs is the New York Mercantile (NYMEX) exchange. NJRES also uses Natural Gas Exchange (NGX) for Canadian delivery points and Platts and NYMEX ClearPort for certain over-the-counter physical forward commodity contracts. However, NJRES also engages in transactions that result in transporting natural gas to delivery points for which there is no actively quoted market price. In these cases, NJRES' policy is to use the best information available to determine fair value based on internal pricing models, which include estimates extrapolated from broker quotes or pricing services.

NJR Energy uses NYMEX settlement prices to value its long-dated swap contracts. NJR also has available for sale securities and other financial assets that include listed equities, mutual funds and money market funds for which there are active exchange quotes available.

When NJR determines fair values, measurements are adjusted, as needed, for credit risk associated with its counterparties, as well as its own credit risk. NJR determines these adjustments by using historical default probabilities that correspond to the applicable Standard and Poor's issuer ratings, while also taking into consideration collateral and netting arrangements that serve to mitigate risk.

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

(Thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of March 31, 2010:				
Assets:				
Physical forward commodity contracts	\$ —	\$25,120	\$ —	\$ 25,120
Financial derivative contracts	122,778	62,551	—	185,329
Available for sale securities (1)	9,363	—	—	9,363
Other assets	1,056	—	—	1,056
Total assets at fair value	\$133,197	\$87,671	\$ —	\$220,868
Liabilities:				
Physical forward commodity contracts	\$ —	\$ 9,307	\$ —	\$ 9,307
Financial derivative contracts	92,316	76,762	—	169,078
Other liabilities	905	—	—	905
Total liabilities at fair value	\$93,221	\$86,069	\$ —	\$179,290

As of September 30, 2009:

Assets:

Physical forward commodity contracts	\$ —	\$26,552	\$ —	\$ 26,552
Financial derivative contracts (2)	47,065	66,989	—	114,054
Available for sale securities (1)	7,872	—	—	7,872
Other assets	1,467	—	—	1,467
Total assets at fair value	\$56,404	\$93,541	\$ —	\$149,945

Liabilities:

Physical forward commodity contracts	\$ —	\$10,258	\$ —	\$ 10,258
Financial derivative contracts (2)	40,313	50,532	—	90,845
Other liabilities	1,467	—	—	1,467
Total liabilities at fair value	\$41,780	\$60,790	\$ —	\$102,570

(1) Included in Investments in equity investees in the Unaudited Condensed Consolidated Balance Sheets.

(2) Subsequent to the issuance of our 2009 Form 10-K we determined that the fair value table as of September 30, 2009, improperly classified certain exchange cleared financial instruments as Level 1 financial derivative contracts assets and liabilities. Accordingly, we have corrected the classification of such amounts previously reported in our 2009 Form 10-K as of September 30, 2009 by decreasing Level 1 financial derivative contracts-assets \$34.2 million with a corresponding increase in Level 2, and decreasing Level 1 financial derivative contracts-liabilities \$28.1 million with a corresponding increase in Level 2. These changes in the disclosed classification of the basis of valuation had no effect on the reported fair values of the related assets and liabilities.

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In January 2010, the FASB issues guidance expanding the requirement to disclose information about transfers into and out of Level 3 to all three levels of the fair value hierarchy, There was no impact to the Company's statement of financial position, results of operations or cash flow upon adoption. In addition, for the three and six months ended March 31, 2010 there were no Level 3 measurements.

A reconciliation of the beginning and ending balances of NJRES' derivatives measured at fair value based on significant unobservable inputs as of March 31, 2009 is as follows:

(Thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Three Months Ended	Six Months Ended
Beginning balance	\$123	\$937
Total gains realized and unrealized(1)	79	320
Purchases, sales, issuances and settlements, net	(200)	(772)
Net transfers in and/or out of level 3	—	(483)
Ending balance	\$ 2	\$ 2

Net unrealized gains included in net income relating to derivatives still held at March 31, 2009	\$2	\$2
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(1) Gains recognized in Operating revenues and Gas purchases for the three months ended March 31, 2009 are \$77,000 and \$2,000, respectively and for the six months ended March 31, 2009 are \$77,000 and \$243,000, respectively.

6. INVESTMENTS IN EQUITY INVESTEEES

NJR's Investments in equity investees include the following investments:

(Thousands)	March 31, 2010	September 30, 2009
Steckman Ridge	\$135,754	\$131,555
Iroquois	23,333	21,081
Other	9,363	7,872
Total	\$168,450	\$160,508

NJR uses the equity method of accounting for its investments in Steckman Ridge and Iroquois.

NJR's investment in Steckman Ridge increased \$4.2 million during the six months ended March 31, 2010, including cash investments of \$4.3 million and equity in earnings of \$5.4 million, less cash distributions received of \$5.5 million. Steckman Ridge became commercially operational during the third quarter of fiscal 2009 with approximately two-thirds of eventual capacity available for customer injections.

NJR's investment in Iroquois increased as a result of equity in earnings of \$2.2 million during the six months ended March 31, 2010.

NJRES and NJNG have entered into transportation, storage and park and loan agreements with Iroquois and Steckman Ridge. See Note 15. Related Party Transactions for more information on these intercompany transactions.

Other consists of an investment in equity securities of a publicly traded energy company and is accounted for as available for sale securities, with any change in the value of such investment recorded in accumulated other comprehensive income, a component of common stock equity. Unrealized gains (losses) associated with these equity securities were approximately \$879,000, net of tax of \$(613,000) and \$(92,000), net of tax of \$64,000 for the six months ended March 31, 2010 and 2009, respectively.

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7. EARNINGS PER SHARE

The following table sets forth the calculation of the Company's basic and diluted earnings per share:

(Thousands, except per share amounts)	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Net income, as reported	\$74,217	\$31,988	\$126,119	\$60,260
Basic earnings per share				
Weighted average shares of common stock outstanding—basic	41,418	42,305	41,517	42,238
Basic earnings per common share	\$1.79	\$0.76	\$3.04	\$1.43
Diluted earnings per share				
Weighted average shares of common stock outstanding—basic	41,418	42,305	41,517	42,238
Incremental shares (1)	308	388	307	360
Weighted average shares of common stock outstanding—diluted (2)	41,726	42,693	41,824	42,598
Diluted earnings per common share	\$1.78	\$0.75	\$3.02	\$1.41

(1) Incremental shares consist of stock options, stock awards and performance units.

(2) There were no anti-dilutive shares excluded from the calculation of diluted earnings per share for the three and six months ended March 31, 2010 and March 31, 2009.

8. DEBT

NJR

On March 15, 2009, NJR repaid its \$25 million, 3.75 percent, Unsecured Senior notes at maturity.

NJR has a \$325 million unsecured committed credit facility expiring in December 2012. As of March 31, 2010, NJR had \$98.7 million in borrowings outstanding under the facility.

As of March 31, 2010, NJR has three letters of credit outstanding, totaling \$7.6 million, on behalf of NJRES. Two of those letters of credit, totaling \$3.6 million, are used to secure the purchase and/or sale of natural gas; one expires on December 31, 2010, and the other expires on March 19, 2011. The other letter of credit, which totals \$4 million, is used for margin requirements for natural gas transactions and will expire on June 30, 2010. NJR also has a \$675,000 letter of credit outstanding on behalf of CR&R, which will expire on December 3, 2010. The letter of credit is in place to support development activities. These letters of credit reduce the amount available under NJR's committed credit facility by the same amount. NJR does not anticipate that these letters of credit will be drawn upon by the counterparties, and they will be renewed as necessary.

NJNG

On November 1, 2008, NJNG repaid its \$30 million, 6.27 percent, Series X First Mortgage bonds at maturity.

NJNG's agreement for standby letters of credit of up to \$50 million expired on December 15, 2009 and was not renewed.

NJNG's \$250 million committed credit facility expired in December 2009 and was replaced with a new \$200 million 3-year revolving unsecured committed credit facility on December 11, 2009. The credit facility is used to support NJNG's commercial paper program and provides for the issuance of letters of credit. As of March 31, 2010, NJNG had no outstanding borrowings under the credit facility.

In August 2009, NJNG filed a petition with the BPU, requesting authorization over a three-year period to issue debt, renew its expiring credit facility, enter into interest rate hedging transactions and increase the size of its meter leasing program should the necessity arise. On December 1, 2009, NJNG received approval to renew its expiring credit facility, with an allowed duration of up to three years. The other three requests have authorization from the BPU through September 30, 2011.

Neither NJNG's assets nor the results of its operations are obligated or pledged to support the NJR credit facility.

NJNG received \$4.9 million and \$6.3 million in December 2009 and 2008, respectively, in connection with the sale-leaseback of its natural gas meters. This sale-leaseback program is expected to be continued on an annual basis.

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NJRES

NJRES had a 3-year, \$30 million committed credit facility that expired in October 2009 and was not renewed.

A summary of NJR's and NJNG's long-term debt, committed credit facilities, which require annual commitment fees, and NJRES' committed facility that did not require a commitment fee, are as follows:

(Thousands)	March 31, 2010	September 30, 2009
NJR		
Long - term debt	\$ 50,000	\$ 50,000
Bank credit facilities (1)	\$325,000	\$325,000
Amount outstanding at end of period		
Notes payable to banks	\$ 98,700	\$143,400
Weighted average interest rate at end of period		
Notes payable to banks	0.52%	0.57%
NJNG		
Long - term debt (2)	\$349,800	\$349,800
Bank credit facilities (1)	\$200,000	\$250,000
Amount outstanding at end of period		
Commercial paper	\$ —	\$ —
Weighted average interest rate at end of period		
Commercial paper	—%	—%
NJRES		
Bank credit facilities (3)	\$ —	\$30,000
Amount outstanding at end of period		
Notes payable to banks	\$ —	\$ —
Weighted average interest rate at end of period		
Notes payable to banks	—%	—%

(1) Company is subject to commitment fees on outstanding and unused amounts.

(2) Long-term debt excludes lease obligations of \$63.9 million and \$62.2 million at March 31, 2010 and September 30, 2009, respectively.

(3) Facility expired in October 2009 and was not renewed.

9. STOCK-BASED COMPENSATION

On November 18, 2009, the Company granted 29,865 performance shares, which are market condition awards and 24,312 performance shares, which are subject to meeting certain performance milestones. Both performance share grants vest on September 30, 2012 subject to certain conditions. Also, on November 18, 2009 the Company granted 24,312 restricted shares, which vest in three equal installments on October 15, 2010, and on each of the two subsequent anniversaries of that date. As of March 31, 2010, 2,238,392 and 82,762 shares remain available for future issuance to employees and directors, respectively.

During the first six months of fiscal 2010, included in operation and maintenance expense is \$1.4 million related to stock based compensation. There is approximately \$3.1 million of deferred compensation expense related to unvested shares, options and performance units that are expected to be recognized over the next three years.

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10. EMPLOYEE BENEFIT PLANS

Pension and Other Postemployment Benefit Plans (OPEB)

The components of the net periodic cost for pension benefits, including NJR's Pension Equalization Plan, and OPEB costs (principally health care and life insurance) for employees and covered dependents were as follows:

(Thousands)	Pension				OPEB			
	Three Months Ended March 31,		Six Months Ended March 31,		Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009	2010	2009	2010	2009
Service cost	\$ 992	\$ 678	\$1,984	\$1,356	\$ 704	\$ 280	\$1,408	\$ 864
Interest cost	2,049	1,937	4,098	3,874	1,204	1,023	2,408	2,029
Expected return on plan assets	(2,577)	(2,188)	(5,154)	(4,376)	(485)	(351)	(970)	(998)
Recognized actuarial loss	681	139	1,362	278	570	215	1,140	534
Prior service cost amortization	14	14	28	28	19	19	38	39
Transition obligation amortization	—	—	—	—	89	90	178	179
Net periodic cost	\$1,159	\$ 580	\$2,318	\$1,160	\$2,101	\$1,276	\$4,202	\$2,647

The Company does not expect to be required to make additional contributions to fund the pension plans over the next three fiscal years based on current actuarial assumptions; however, funding requirements are uncertain and can depend significantly on changes in actuarial assumptions, returns on plan assets and changes in the demographics of eligible employees and covered dependents. In addition, as in the past, the Company may elect to make contributions in excess of the minimum required amount to the plans. NJR made a discretionary contribution of \$4.4 million to the pension plans on October 1, 2009. It is anticipated that the annual funding level to the OPEB plans will range from \$6.1 million to \$6.4 million over the next three years. Additional contributions may vary based on market conditions and various assumptions.

NJR's OPEB plans provide prescription drug benefits that are actuarially equivalent to those provided by Medicare Part D, for which NJR qualifies for federal subsidies. As a result of the Patient Protection and Affordable Care Act, which was enacted in March 2010, beginning in fiscal year 2014 the tax deduction available to NJR will be reduced to the extent its drug expenses are reimbursed under the Medicare Part D retiree drug subsidy program. Accordingly, NJR recorded a one-time, non-cash, after-tax adjustment of approximately \$2.6 million, of which, approximately \$1.9 million, relates to NJNG. Since NJR believes the \$1.9 million is recoverable through the regulatory process, NJNG has recognized a corresponding regulatory asset. In addition, the regulatory asset was grossed up by \$1.4 million associated with the recovery of NJNG's income taxes. The one-time, non-cash after-tax charge to NJR's non-regulated activities was \$620,000.

11. ASSET RETIREMENT OBLIGATIONS (ARO)

NJR recognizes AROs related to the costs associated with cutting and capping its main and service gas distribution pipelines of NJNG, which is required by New Jersey law when taking such gas distribution pipelines out of service.

The following is an analysis of the change in the ARO liability for the six month period ended March 31, 2010:

(Thousands)

Balance at October 1, 2009	\$25,097
Accretion	782
Additions	—
Retirements	(280)
Balance at March 31, 2010	\$25,599

Accretion amounts are not reflected as an expense on NJR's Unaudited Condensed Consolidated Statements of Income, but rather are deferred as a regulatory asset and netted against NJNG's regulatory liabilities, for presentation purposes, on the Unaudited Condensed Consolidated Balance Sheet.

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12. INCOME TAXES

The Company's federal income tax returns through fiscal 2006 have either been reviewed by the Internal Revenue Service (IRS), or the related statute of limitations has expired and all matters have been settled. The IRS has not yet begun to examine returns subsequent to fiscal 2006. Currently the Company has no reason to believe that there will be any additions to the reserve related to uncertain tax positions.

13. COMMITMENTS AND CONTINGENT LIABILITIES

Cash Commitments

NJNG has entered into long-term contracts, expiring at various dates through 2023, for the supply, storage and delivery of natural gas. These contracts include current annual fixed charges of approximately \$107.5 million at current contract rates and volumes, which are recoverable through the BGSS.

For the purpose of securing adequate storage and pipeline capacity, NJRES enters into storage and pipeline capacity contracts, which require the payment of certain demand charges by NJRES, in order to maintain the ability to access such natural gas storage or pipeline capacity, during a fixed time period, which generally range from one to five years. Demand charges are based on established rates as regulated by the FERC. These demand charges represent commitments to pay storage providers or pipeline companies for the right to store and transport natural gas utilizing their respective assets.

Commitments as of March 31, 2010, for natural gas purchases and future demand fees, for the next five fiscal year periods, are as follows:

(Thousands)	2010	2011	2012	2013	2014	Thereafter
NJRES:						
Natural gas purchases	\$308,679	\$205,973	\$187,208	\$ 64,687	\$ —	\$ —
Storage demand fees	20,688	24,294	15,205	10,040	4,865	12,621
Pipeline demand fees	19,727	30,232	18,884	11,657	7,631	23,998
Sub-total NJRES	\$349,094	\$260,499	\$221,297	\$ 86,384	\$12,496	\$ 36,619
NJNG:						
Natural gas purchases	\$ 97,228	\$ 14,024	\$ —	\$ —	\$ —	\$ —
Storage demand fees	15,622	27,728	22,622	19,748	14,860	52,316
Pipeline demand fees	35,180	80,221	74,461	74,664	70,045	258,682
Sub-total NJNG	\$148,030	\$121,973	\$ 97,083	\$ 94,412	\$84,905	\$310,998
Total	\$497,124	\$382,472	\$318,380	\$180,796	\$97,401	\$347,617

Costs for storage and pipeline demand fees, included as a component of gas purchases on the Unaudited Condensed Consolidated Statements of Income, are as follows:

Three Months Ended March 31,	Six Months Ended March 31,
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(Millions)	2010	2009	2010	2009
NJRES	\$30.5	\$28.9	\$ 59.8	\$ 57.8
NJNG	25.1	22.3	48.3	42.8
Total	\$55.6	\$51.2	\$108.1	\$100.6

NJNG's capital expenditures are estimated at \$106.6 million for fiscal 2010, of which approximately \$33.6 million has been committed, and \$79.0 million for fiscal 2011, and consist primarily of its construction program to support customer growth, maintenance of its distribution systems and replacement needed under pipeline safety regulations. Fiscal 2010 and 2011 include an estimated \$44.2 and \$20.6 million, respectively, related to AIP construction costs.

The Company's future minimum lease payments under various operating leases are less than \$2.7 million annually for the next five years and \$1.4 million in the aggregate for all years thereafter.

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Guarantees

As of March 31, 2010, there were NJR guarantees covering approximately \$350 million of natural gas purchases and demand fee commitments of NJRES and NJNG not yet reflected in accounts payable on the Unaudited Condensed Consolidated Balance Sheet.

The Company enters into agreements to lease vehicles, generally over five-year terms, which qualify as operating leases. These agreements contain provisions that could require the Company to make additional cash payments at the end of the term for a portion of the residual value of the vehicles. As of March 31, 2010, the present value of the liability recognized in the Unaudited Condensed Consolidated Balance Sheets is \$492,000. In the event performance under the guarantee is required, the Company's maximum future payment would be \$767,000.

Legal Proceedings

Manufactured Gas Plant Remediation

NJNG is responsible for the remedial cleanup of five Manufactured Gas Plant (MGP) sites, dating back to gas operations in the late 1800s and early 1900s, which contain contaminated residues from former gas manufacturing operations. NJNG is currently involved in administrative proceedings with the New Jersey Department of Environmental Protection (NJDEP), as well as participating in various studies and investigations by outside consultants to determine the nature and extent of any such contaminated residues and to develop appropriate programs of remedial action, where warranted, under Administrative Consent Orders or Memoranda of Agreement with the NJDEP.

NJNG may, subject to BPU approval, recover its remediation expenditures, including carrying costs, over rolling 7-year periods pursuant to the Remediation Adjustment (RA) approved by the BPU. On January 27, 2009, NJNG filed an application regarding its SBC including MGP remediation expenditures incurred through September 30, 2008, resulting in an expected annual recovery of approximately \$20 million. The BPU approved the recovery of the remediation expenditures through September 30, 2008 on April 28, 2010. As of March 31, 2010, \$75.7 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in regulatory assets on the Unaudited Condensed Consolidated Balance Sheet.

In September 2009, NJNG updated an environmental review of the MGP sites, including a review of potential liability for investigation and remedial action. NJNG estimated at the time of the review that total future expenditures to remediate and monitor the five MGP sites for which it is responsible will range from approximately \$146.7 million to \$244.3 million. NJNG's estimate of these liabilities is based upon known facts, existing technology and enacted laws and regulations in place when the review was completed. However, NJNG expects actual costs to differ from these estimates. Where it is probable that costs will be incurred, but the information is sufficient only to establish a range of possible liability, and no point within the range is more likely than any other, it is NJNG's policy to accrue the lower end of the range. Accordingly, NJNG has recorded an MGP remediation liability and a corresponding regulatory asset of \$146.7 million on the Unaudited Condensed Consolidated Balance Sheet. The actual costs to be incurred by NJNG are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay and any insurance recoveries.

NJNG is presently investigating the potential settlement of alleged Natural Resource Damage claims that might be brought by the NJDEP concerning the five MGP sites. NJDEP has not made any specific demands for compensation for alleged injury to groundwater or other natural resources. NJNG's evaluation of these potential claims is in the early stages, and it is not yet possible to quantify the amount of compensation, if any that NJDEP might seek to recover. NJNG anticipates any costs associated with this matter would be recoverable through the RA.

NJNG will continue to seek recovery of MGP-related costs through the RA. If any future regulatory position indicates that the recovery of such costs is not probable, the related cost would be charged to income in the period of such determination. However, because recovery of such costs is subject to BPU approval, there can be no assurance as to the ultimate recovery through the RA or the impact on the Company's results of operations, financial position or cash flows, which could be material.

General

The Company is party to various other claims, legal actions and complaints arising in the ordinary course of business. In the Company's opinion, the ultimate disposition of these matters will not have a material adverse effect on its financial condition, results of operations or cash flows.

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14. BUSINESS SEGMENT AND OTHER OPERATIONS DATA

As stated on Note 2. Summary of Significant Accounting Policies, NJR established Midstream Assets as a new reportable segment to reflect the way it currently views and manages its investments in Iroquois, a natural gas pipeline operating with regulated rates, and Steckman Ridge, a storage facility that operates under market-based rates. Consequently, the results of operations, assets and other financial information for Iroquois and Steckman Ridge, previously included in Retail and Other operations, are now reported as components of the Midstream Assets segment. As required, prior year information for both Midstream Assets and Retail and Other operations has been restated below to be consistent with current year presentation.

NJR organizes its businesses based on its products and services as well as regulatory environment. As a result, the Company chooses to manage the businesses through the following reportable segments and other operations: the Natural Gas Distribution segment consists of regulated energy and off-system, capacity and storage management operations; the Energy Services segment consists of unregulated wholesale energy operations; as noted above, the Midstream Asset segment consists of NJR's investments in natural gas transportation and storage facilities; the Retail and Other operations consist of appliance and installation services, commercial real estate development, investments and other corporate activities.

Information related to the Company's various business segments and other operations, excluding capital expenditures at NJNG of \$27.7 million and at Retail and Other of \$93,000, and investments in equity method investees of \$4.3 million at Midstream Assets, is detailed below.

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2010	2009	2010	2009
Operating revenues				
Natural Gas Distribution	\$438,753	\$469,261	\$ 697,228	\$ 810,169
Energy Services	494,889	472,763	842,366	935,857
Midstream Assets	—	—	—	—
Segment subtotal	933,642	942,024	1,539,594	1,746,026
Retail and Other	3,701	(2,350)	9,745	(5,004)
Eliminations	(18,997)	(2,158)	(21,447)	(2,202)
Total	\$918,346	\$937,516	\$1,527,892	\$1,738,820
Depreciation and amortization				
Natural Gas Distribution	\$7,722	\$7,291	\$15,382	\$14,452
Energy Services	49	51	99	102
Midstream Assets	2	—	3	—
Segment subtotal	7,773	7,342	15,484	14,554
Retail and Other	158	166	316	315
Total	\$7,931	\$7,508	\$15,800	\$14,869
Interest income (1)				
Natural Gas Distribution	\$426	\$504	\$900	\$1,162
Energy Services	2	210	4	337
Midstream Assets	211	—	431	—

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Segment subtotal	639	714	1,335	1,499
Retail and Other	7	13	7	19
Eliminations	(209)	(209)	(426)	(319)
Total	\$437	\$518	\$916	\$1,199
Interest expense, net of capitalized interest				
Natural Gas Distribution	\$4,155	\$4,204	\$ 8,406	\$10,664
Energy Services	230	85	492	171
Midstream Assets	827	33	1,657	64
Segment subtotal	5,212	4,322	10,555	10,899
Retail and Other	79	106	153	186
Eliminations	—	(209)	—	(319)
Total	\$5,291	\$4,219	\$10,708	\$10,766

(1) Included in Other income in the Unaudited Condensed Consolidated Statement of Income.

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(Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Income tax provision (benefit)				
Natural Gas Distribution	\$24,801	\$24,767	\$39,245	\$38,103
Energy Services	21,537	(3,072)	38,822	3,760
Midstream Assets	(186)	—	(534)	(37)
Segment subtotal	46,152	21,695	77,533	41,826
Retail and Other	(1,248)	(4,057)	(2,020)	(8,339)
Eliminations	354	—	674	(45)
Total	\$45,258	\$17,638	\$76,187	\$33,442
Equity in earnings of affiliates, net of taxes				
Natural Gas Distribution	\$ —	\$ —	\$ —	\$ —
Energy Services	—	—	—	—
Midstream Assets (net of taxes of \$1.6 million, \$537,000, \$3.2 million and \$891,000, respectively)	2,200	815	4,535	1,353
Segment subtotal	2,200	815	4,535	1,353
Retail and Other	—	—	—	—
Eliminations	(474)	(28)	(1,065)	(52)
Total	\$1,726	\$787	\$3,470	\$1,301
Net financial earnings (loss)				
Natural Gas Distribution	\$40,476	\$41,588	\$63,978	\$ 64,662
Energy Services	23,517	31,078	26,011	40,461
Midstream Assets	1,514	725	3,390	1,179
Segment subtotal	65,507	73,391	93,379	106,302
Retail and Other	(1,496)	(963)	(1,955)	(1,396)
Total	\$64,011	\$72,428	\$91,424	\$104,906

The chief operating decision maker of the Company is the Chief Executive Officer (CEO). The CEO uses net financial earnings as a measure of profit or loss in measuring the results of the Company's segments and operations. A reconciliation of consolidated net financial earnings to consolidated net income, for the three and six months ended March 31, 2010 and 2009, respectively, is as follows:

(Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Consolidated net financial earnings	\$64,011	\$72,428	\$ 91,424	\$104,906
Less:				
Unrealized (gain) loss from derivative instruments and related transactions, net of taxes(1)	(7,845)	25,763	(11,950)	31,879
	(2,361)	14,677	(22,745)	12,767

Effects of economic hedging related to natural gas inventory, net of taxes

Consolidated net income	\$74,217	\$31,988	\$126,119	\$ 60,260
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(1) Excludes unrealized loss (gain) of \$30,000 and \$(128,000) related to an intercompany transaction between NJNG and NJRES that has been eliminated in consolidation for the three and six months ended March 31, 2010.

The company uses derivative instruments as economic hedges of purchases and sales of physical gas inventory. For GAAP purposes, these derivatives are recorded at fair value and related changes in fair value are included in reported earnings. Revenues and cost of gas related to physical gas flow is recognized as the gas is delivered to customers. Consequently, there is a mismatch in the timing of earnings recognition between the economic hedges and physical gas flows. Timing differences occur in two ways:

- Unrealized gains and losses on derivatives are recognized in reported earnings in periods prior to physical gas inventory flows; and
- Unrealized gains and losses of prior periods are reclassified as realized gains and losses when derivatives are settled in the same period as physical gas inventory movements occur.

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Net financial earnings is a measure of the earnings based on eliminating these timing differences, to effectively match the earnings effects of the economic hedges with the physical sale of gas. Consequently, to reconcile between GAAP and net financial earnings, current period unrealized gains and losses on the derivatives are excluded from net financial earnings as a reconciling item. Additionally, realized derivative gains and losses are also included in current period net income, however net financial earnings include only realized gains and losses related to natural gas sold out of inventory, effectively matching the full earnings effects of the derivatives with realized margins on physical gas flows.

The Company's assets for the various business segments and business operations are detailed below:

(Thousands)	March 31, 2010	September 30, 2009
Assets at end of period:		
Natural Gas Distribution	\$1,829,197	\$1,797,165
Energy Services	468,884	327,532
Midstream Assets	159,978	153,609
Segment Subtotal	2,458,059	2,278,306
Retail and Other	63,686	69,411
Intercompany assets (1)	(24,762)	(26,687)
Total	\$2,496,983	\$2,321,030

(1) Consists of transactions between subsidiaries that are eliminated and reclassified in consolidation.

NJRES' assets increased 43.2 percent from September 30, 2009 to March 31, 2010, due primarily to an increase in accounts receivable and gas in storage as a result of higher commodity prices.

15. RELATED PARTY TRANSACTIONS

During fiscal 2009, NJRES entered into park and loan agreements and firm storage contracts with Steckman Ridge, an affiliated FERC regulated natural gas storage facility, for up to 2 Bcf of natural gas storage with various terms ranging from April 2009 to March 2010. As of March 31, 2010, NJRES had demand fees, at market rates, payable to Steckman Ridge of approximately \$5.8 million annually.

In December 2009, NJNG and NJRES entered into an asset management agreement that began in January 2010 and ends in March 2013. Under the terms of this agreement, NJNG will release certain transportation and storage contracts to NJRES for the entire term of the agreement. NJNG also will sell approximately 1 Bcf of natural gas in storage at cost to NJRES. In return, NJNG will have the option to purchase index priced gas from NJRES at NJNG's city gate and other delivery locations to maintain operational reliability.

In January 2010, NJNG entered into a 10-year agreement beginning April 1, 2010 through March 31, 2020, for 3 Bcf of firm storage capacity with Steckman Ridge. Under the terms of the agreement, NJNG will incur demand fees, at market rates, of approximately \$9.3 million annually. These fees are recoverable through NJNG's BGSS mechanism.

As of March 31, 2010, NJRES had total fees payable to Steckman Ridge in the amount of \$910,000. Demand fees expensed as a component of gas purchases in the Unaudited Condensed Consolidated Statements of Income during the

three and six months ended March 31, 2010 were \$1.8 million and \$3.5 million, respectively. There were no intercompany transactions with Steckman Ridge during the three and six months ended March 31, 2009.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Overview

New Jersey Resources Corporation (NJR or the Company) is an energy services holding company providing retail natural gas service in New Jersey and wholesale natural gas and related energy services to customers in states from the Gulf Coast and Mid-Continent regions to the New England region, the West Coast and Canada through its two principal subsidiaries, New Jersey Natural Gas (NJNG) and NJR Energy Services (NJRES).

Comprising the Natural Gas Distribution segment, NJNG is a natural gas utility that provides regulated retail natural gas service in central and northern New Jersey and also participates in the off-system sales and capacity release markets. NJNG is regulated by the New Jersey Board of Public Utilities (BPU).

NJRES comprises the Energy Services segment. NJRES maintains and transacts around a portfolio of physical assets consisting of natural gas storage and transportation contracts. In addition, NJRES provides wholesale energy services to non-affiliated utility and energy companies.

Effective October 1, 2009, NJR established Midstream Assets as a reportable segment to reflect the way it currently views and manages growth opportunities associated with natural gas transportation and storage facilities. Specifically, the Midstream Asset segment includes NJR Energy Holdings Corporation (NJREH), which primarily invests in energy-related ventures through its subsidiaries, NJNR Pipeline Company (Pipeline), which holds the Company's 5.53 percent ownership interest in Iroquois Gas and Transmission System, L.P. (Iroquois) and NJR Steckman Ridge Storage Company, which holds the Company's 50 percent combined interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a natural gas storage facility that was jointly developed and is being marketed with a partner in Pennsylvania. The results of operations, assets and other financial information for Iroquois and Steckman Ridge, previously included in Retail and Other operations, are now reported as components of the Midstream Assets segment. As a result, prior year information for both Midstream Assets and Retail and Other operations has been restated to be consistent with current year presentation.

The retail and other business operations (Retail and Other) includes; NJR Energy Corporation (NJR Energy), a company that invests in energy-related ventures, NJR Clean Energy Ventures, a company that will invest in clean energy projects, NJR Home Services (NJRHS), which provides service, sales and installation of appliances; NJR Plumbing Services (NJRPS), which provides plumbing repair and installation services, Commercial Realty and Resources (CR&R), which holds and develops commercial real estate; and NJR Service Corporation (NJR Service), which provides support services to the various NJR businesses.

Assets by business segment and operations are as follows:

(Thousands)	March 31, 2010		September 30, 2009	
Assets:				
Natural Gas Distribution	\$1,829,197	73%	\$1,797,165	77%
Energy Services	468,884	19	327,532	14
Midstream Assets	159,978	6	153,609	7
Retail and Other	63,686	3	69,411	3
Intercompany assets (1)	(24,762)	(1)	(26,687)	(1)

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Total \$2,496,983 100% \$2,321,030 100%
 (1) Consists of transactions between subsidiaries that are eliminated and reclassified in consolidation.

Net income (loss) by business segment and operations are as follows:

(Thousands)	Three Months Ended March 31,				Six Months Ended March 31,			
	2010		2009		2010		2009	
Net income (loss)								
Natural Gas								
Distribution	\$40,476	54%	\$41,588	130%	\$ 63,978	50%	\$64,662	107%
Energy Services	35,441	48	(4,540)	(14)	63,085	50	6,342	11
Midstream Assets	1,514	2	725	2	3,390	3	1,179	2
Retail and Other	(3,244)	(4)	(5,785)	(18)	(4,206)	(3)	(11,923)	(20)
Intercompany net income (1)	30	—	—	—	(128	—	—	—
Total	\$74,217	100%	\$31,988	100%	\$126,119	100%	\$60,260	100%

(1) Consists of transactions between subsidiaries that are eliminated and reclassified in consolidation.

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Included in net income are unrealized gains (losses) in the Energy Services segment of \$9.6 million and \$(20.9) million, after taxes, for the three months ended March 31, 2010 and 2009, respectively and \$14.3 million and \$(21.4) million, after taxes, for the six months ended March 31, 2010 and 2009, respectively. Also included in net income are realized gains (losses) of \$2.4 million and \$(14.7) million, after taxes, for the three months ended March 31, 2010 and 2009, respectively, and \$22.7 million and \$(12.8) million, after taxes, for the six months ended March 31, 2010 and 2009, respectively, which are related to financial derivative instruments that have settled and are designed to economically hedge natural gas that is recognized in inventory.

NJR Energy, which is included in Retail and Other, records unrealized losses and gains with respect to the change in fair value of the financial natural gas swaps that are used to economically hedge a long-term natural gas sale contract. As a result, the net income includes unrealized (losses) of \$(1.7) million and \$(4.8) million, after taxes, for the three months ended March 31, 2010 and 2009, respectively, and \$(2.3) million and \$(10.5) million, after taxes, for the six months ended March 31, 2010 and 2009, respectively.

NJRES and NJR Energy account for their financial derivative instruments used to economically hedge the forecasted purchase, sale and transportation of natural gas at fair value. In addition, all physical commodity contracts at NJRES are accounted for at fair value on the Unaudited Condensed Consolidated Balance Sheets, with changes in fair value included as a component of operating revenue and gas purchases, as appropriate, on the Unaudited Condensed Consolidated Statements of Income. All physical commodity contracts at NJNG and NJR Energy are accounted for under accrual accounting. Accordingly, gains (losses) are recognized in earnings when the contract settles and the natural gas is delivered.

Unrealized losses and gains at NJRES and NJR Energy are the result of changes in the fair value of derivative instruments. The change in fair value of these derivative instruments at NJRES and NJR Energy over periods of time can result in substantial volatility in reported net income. When a financial instrument settles, the result is the realization of these gains or losses. NJRES utilizes certain financial instruments to economically hedge natural gas inventory placed into storage that will be sold at a later date, all of which were contemplated as part of an entire forecasted transaction. Volatility in earnings also occurs as a result of timing differences between the settlement of the financial derivative and the sale of the corresponding natural gas that was hedged with the financial instrument. When the financial instrument settles and the natural gas is placed in inventory, the realized gains (losses) associated with the financial instrument are recognized in earnings. However, the gains (losses) associated with the economically hedged natural gas are not recognized in earnings until the natural gas inventory is sold.

Natural Gas Distribution Segment

Natural Gas Distribution operations have been managed with the goal of growing profitably and providing safe and reliable service through several key initiatives including:

- Earning a reasonable rate of return on the investments in its natural gas distribution system, as well as recovery of all prudently incurred costs in order to provide safe and reliable service throughout NJNG's service territory;

- Working with the BPU and the Department of the Public Advocate, Division of Rate Counsel (Rate Counsel) on the implementation and continuing review of the Conservation Incentive Program

(CIP). The CIP allows NJNG to promote conservation programs to its customers while maintaining protection of its utility gross margin against potential losses associated with reduced customer usage. CIP usage differences are calculated annually and are recovered one year following the end of the CIP usage year;

• Managing the new customer growth rate which is expected to be approximately 1.2 percent annually over the next two years. In fiscal 2010 and 2011, NJNG currently expects to add, in total, approximately 12,000 to 14,000 new customers. The Company believes that this stable growth would increase utility gross margin under its base rates by approximately \$3.4 million annually, as calculated under NJNG's CIP tariff;

• Generating earnings from various BPU-authorized gross margin-sharing incentive programs; and

• Managing the volatility of wholesale natural gas prices through a hedging program designed to keep customers' Basic Gas Supply Service (BGSS) rates as stable as possible.

In October 2008, the BPU unanimously approved and made effective certain changes in the design of NJNG's base rates. As a result, NJNG received a revenue increase in its base rates of \$32.5 million, which is inclusive of an approximate \$13 million impact of a change to the CIP baseline usage rate. Other changes included an allowed rate of return of 7.76 percent that incorporates a return on equity component of 10.3 percent and a reduction to NJNG's depreciation expense component.

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The CIP allows NJNG to recover utility gross margin variations related to both weather and customer usage. Recovery of such margin variations is subject to additional conditions including an earnings test, which includes a return on equity component of 10.3 percent, and an evaluation of BGSS-related savings achieved. An annual review of the CIP must be filed in June of each year, coincident with NJNG's annual BGSS filing.

In October 2008, the BPU provisionally approved recovery of an additional \$6.8 million of accrued margin for the CIP, resulting in a total recovery of \$22.4 million, which included amounts accrued and estimated through September 30, 2008. In June 2009, the BPU issued their final order approving NJNG's recovery of \$6.8 million of CIP rates for fiscal 2008. In addition, NJNG filed its annual BGSS and CIP filing for recoverable CIP amounts for fiscal 2009, requesting approval to modify its CIP recovery rates effective October 1, 2009, resulting in total annual recovery requested for fiscal 2009 of \$6.9 million, representing amounts accrued and estimated through September 30, 2009. In September 2009, the BPU provisionally approved the rates. As of March 31, 2010, NJNG has \$7.8 million related to CIP accrued to be recovered in regulatory assets in the Unaudited Condensed Consolidated Balance Sheets.

In April, 2009, NJNG filed a letter with the BPU requesting a 1-year extension to its CIP through October 1, 2010. As a result of no action by the BPU as of October 1, 2009, the CIP remained in effect for an additional year. Subsequently, in December 2009, NJNG submitted a petition requesting approval from the BPU for an extension of its CIP mechanism, as currently structured, through September 30, 2013. On January 20, 2010, the BPU approved the extension of the CIP through September 30, 2013.

NJNG occasionally adjusts its periodic BGSS rates for its residential and small commercial customers to reflect increases or decreases in the cost of natural gas sold to customers. In addition, to manage the cost of natural gas to customers during periods when the commodity cost declines in comparison to the established BGSS rate, NJNG will issue credits or refunds to its customers. During the second quarter of fiscal 2009, NJNG provided approximately \$45 million of rate credits to BGSS residential and small commercial customers and during the first quarter of fiscal 2010 NJNG provided refunds of approximately \$37.4 million. On January 19, 2010, NJNG notified the BPU that bill credits were to be provided to residential and small commercial sales customers, based on individual customer usage, in February 2010 and March 2010. As a result, NJNG issued bill credits of approximately \$35.3 million. In March 2010, NJNG notified the BPU that it will extend the BGSS bill credit for residential and small business customers through April 30, 2010 and increase the overall savings by an additional \$21.4 million.

In conducting NJNG's business, management focuses on factors it believes may have significant influence on its future financial results. NJNG's policy is to work with all stakeholders, including customers, regulators and policymakers, to achieve favorable results. These factors include the rate of NJNG's customer growth in its service territory, which can be influenced by general economic conditions as well as political and regulatory policies that may impact the new housing market. A portion of NJNG's customer growth comes from the conversion market, which is influenced by the delivered cost of natural gas compared with competing fuels, interest rates and other economic conditions.

As a regulated company, NJNG is required to recognize the impact of regulatory decisions on its financial statements. As a result, significant costs are deferred and treated as regulatory assets, pending BPU decisions regarding their ultimate recovery from customers. The most significant costs incurred that are subject to this accounting treatment include manufactured gas plant (MGP) remediation costs and wholesale natural gas costs (recovered through BGSS). Actual remediation costs may vary from management's estimates due to the developing nature of remediation requirements, regulatory decisions by the New Jersey Department of Environmental Protection (NJDEP) and related

litigation. If there are changes in the regulatory position on the recovery of these costs, such costs would be charged to income in the period of such determination.

In April 2009, the BPU approved NJNG's Accelerated Infrastructure Program (AIP) permitting NJNG to commence construction on 14 infrastructure projects. NJNG will make a filing for the recovery of infrastructure program investment costs in June 2010 to be effective October 1, 2010. The filing will allow an adjustment to base rates for the recovery of costs of the AIP construction activities for the period ending August 31, 2010, including the recovery of NJNG's overall weighted cost of capital on these investments.

In July 2009, the BPU approved NJNG's Energy Efficiency (EE) Program allowing approximately \$21.1 million, if fully subscribed, to support three EE Programs. A Tariff Rider Mechanism was approved by the BPU related to the recovery of the EE Program costs, effective August 1, 2009, and includes the recovery of NJNG's overall weighted cost of capital on these investments.

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On March 29, 2010, NJNG filed for approval of its Regional Greenhouse Gas Initiative (RGGI) Program with the BPU. The RGGI Program includes a series of energy-efficiency and solar energy programs for residential and commercial customers through which enhanced rebates and incentives are provided to eligible customers. The RGGI Programs are designed to run for three years and if fully subscribed as proposed, the investment would be approximately \$102 million to be recovered over 15 years through NJNG's current Energy-Efficiency Rider.

As a result of the Patient Protection and Affordable Care Act, which was enacted in March 2010, beginning in fiscal year 2014 a currently existing tax deduction available to NJR will be reduced to the extent its drug expenses are reimbursed under the Medicare Part D retiree drug subsidy program. Accordingly, NJR recorded a one-time, non-cash, after-tax adjustment of approximately \$2.6 million, of which, approximately \$1.9 million, relates to NJNG. Since NJR believes the \$1.9 million should be recoverable through the regulatory process, NJNG has recognized a corresponding regulatory asset. In addition, the regulatory asset was grossed up to include approximately \$1.4 million associated with the recovery of NJNG's income taxes.

Due to the capital-intensive nature of NJNG's operations and the seasonal nature of its working capital requirements, significant changes in interest rates can also impact NJNG's results.

Energy Services Segment

NJRES provides unregulated wholesale energy services and engages in the business of optimizing natural gas storage and transportation assets. The rights to these assets are contractually acquired in anticipation of delivering natural gas or performing asset management activities for customers or in conjunction with identifying arbitrage opportunities that exist in the marketplace. These arbitrage opportunities occur as a result of price differences between market locations and/or time horizons. These activities are conducted in the areas in which we have expertise and include states from the Gulf Coast and Mid-continent regions to the Appalachian and Northeast regions, the West Coast and Canada.

More specifically, NJRES activities consist of the following elements which provide for growth, while focusing on maintaining a low-risk operating and counterparty credit profile:

- Identifying and benefiting from variations in pricing of natural gas transportation and storage assets due to location or timing differences of natural gas prices to generate gross margin;
- Providing natural gas portfolio management services to nonaffiliated utilities and electric generation facilities;
- Leveraging transactions for the delivery of natural gas to customers by aggregating the natural gas commodity costs and transportation costs in order to minimize the total cost required to provide and deliver natural gas to NJRES' customers by identifying the lowest cost alternative with the natural gas supply, transportation availability and markets to which NJRES is able to access through its business footprint and contractual asset portfolio; and
- Managing economic hedging programs that are designed to mitigate adverse market price fluctuations in natural gas transportation and storage commitments.

NJRES views “financial margin” as a financial measurement metric. NJRES’ financial margin, which is a non-GAAP financial measure, represents revenues earned from the sale of natural gas less costs of natural gas sold, transportation and storage, and excludes any accounting impact from the change in fair value of derivative instruments designed to hedge the economic impact of its transactions that have not been settled, which represent unrealized gains and losses, and the effects of economic hedging on the value of our natural gas in storage. NJRES uses financial margin to gauge operating results against established benchmarks and earnings targets as it eliminates the impact of volatility in GAAP earnings that can occur prior to settlement of the physical commodity portion of the transactions or as a result of conditions in the markets and therefore is more representative of the overall expected economic result.

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NJRES focuses on creating value from underutilized natural gas assets, which are typically amassed through contractual rights to natural gas transportation and storage capacity. NJRES has developed a portfolio of natural gas storage and transportation capacity in states in the Northeast, Gulf Coast, Mid-continent, Appalachian, and West Coast regions of the United States and Canada. These assets become more valuable when prices change between these areas and across time periods. NJRES is able to capture financial margin by locking in the differential between purchasing natural gas at a low future price and, in a related transaction, selling that natural gas at a higher future price, all within the constraints of its risk management policies. In addition, NJRES seeks to optimize these assets on a daily basis as market conditions change by evaluating all the natural gas supplies, transportation and opportunities to which it has access. This enables NJRES to capture geographic pricing differences across these various regions as delivered natural gas prices change as a result of market conditions. NJRES focuses on earning a financial margin on a single original transaction and then utilizing that transaction and the changes in prices across the regions or across time periods, as the basis to further improve the initial result.

NJRES transacts with a variety of counterparties including local distribution companies, industrial companies, electric generators, retail aggregators and other wholesale marketing companies. The physical sales commitments to these counterparties allow NJRES to leverage its transportation and storage capacity. These physical sale commitments are managed in an aggregate fashion, and, as a result, give NJRES the ability to extract more value from its portfolio of natural gas storage and pipeline transportation capacity. NJRES' portfolio management customers include nonaffiliated utilities and electric generation plants. Services provided by NJRES include optimization of underutilized natural gas assets and basic gas supply functions.

In conducting its business, NJRES mitigates risk by following formal risk management guidelines, including transaction limits, approval processes, segregation of duties, and formal contract and credit review and approval procedures. NJRES continuously monitors and seeks to reduce the risk associated with its credit exposures with its various counterparties. The Risk Management Committee (RMC) of NJR oversees compliance with these established guidelines.

Midstream Assets Segment

NJR utilizes a subsidiary, NJR Energy Holdings Corporation, to develop its investments in natural gas "midstream" assets, such as natural gas transportation and storage facilities. NJR believes that acquiring, owning and developing these midstream assets, which operate under a tariff structure that has either a regulated or market-based rate, can provide a growth opportunity for the Company. To that end, NJR has ownership interests in Iroquois, a natural gas pipeline operating with regulated rates and Steckman Ridge, a storage facility that operates under market-based rates, and is pursuing other potential opportunities that meet its investment and development criteria.

In April 2009, Steckman Ridge received authorization to place certain injection related facilities into commercial operation and customers began to inject natural gas inventory in preparation for the initial withdrawal season. An additional drilling program will be reviewed in the third quarter of fiscal 2010. As of March 31, 2010, NJR had invested \$121.3 million in Steckman Ridge inclusive of cash distributions of \$5.5 million. This amount excludes capitalized interest and other direct costs. Total project costs related to the development of the storage facility are currently estimated at approximately \$265 million, of which NJR is obligated to fund 50 percent or approximately \$132.5 million. Steckman Ridge may seek non-recourse project financing upon full completion of the construction and development of its facilities, thereby potentially reducing the final expected recourse obligation of NJR. There can

be no assurances that such non-recourse project financing will be secured or available for Steckman Ridge.

As of March 31, 2010, NJR investments in Steckman Ridge and Iroquois, including capitalized costs, were \$135.8 million and \$23.3 million, respectively.

Retail and Other Operations

The financial results of Retail and Other consist primarily of the operating results of NJRHS, which provides service, sales and installation of appliances to approximately 146,000 customers and is focused on growing its installation business and expanding its service contract customer base, CR&R, which seeks additional opportunities to enhance the value of its undeveloped land and investments made by NJR Energy, an investor in other energy-related ventures through its operating subsidiaries. Also included within Retail and Other operations are organizational expenses incurred at NJR.

During the second quarter of fiscal 2010, NJR initiated a solar program, whereby NJR's subsidiary NJRHS will invest up to \$4 million to install solar panels on residences. NJRHS will lease the system to the homeowners. NJR's investments will qualify for a 30 percent federal investment tax credit and may be eligible for customer rebates under the New Jersey Clean Energy Program.

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Critical Accounting Policies

A summary of NJR's critical accounting policies is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of its Annual Report on Form 10-K for the period ended September 30, 2009. NJR's critical accounting policies have not changed from those reported in the 2009 Annual Report on Form 10-K.

Recently Issued Accounting Standards

Refer to Note 2. Summary of Significant Accounting Policies, for discussion of recently issued accounting standards.

Results of Operations

Consolidated

Net income for the three months ended March 31, 2010, increased by 132 percent to \$74.2 million, compared with \$32 million for the same period last fiscal year. Basic earnings per share (EPS) increased 136 percent to \$1.79 compared with \$0.76 for the same period last fiscal year, and diluted EPS increased 137 percent to \$1.78 compared with \$0.75 for the same period last fiscal year.

Net income for the six months ended March 31, 2010, increased by 109 percent to \$126.1 million, compared with \$60.3 million for the same period last fiscal year. Basic earnings per share (EPS) increased 113 percent to \$3.04 compared with \$1.43 for the same period last fiscal year, and diluted EPS increased 114 percent to \$3.02 compared with \$1.41 for the same period last fiscal year. The increase in net income during both the three and six months ended March 31, 2010, was primarily due to the favorable impact of the value of derivative contracts at NJRES.

The Company's operating revenues and gas purchases are as follows:

(Thousands)	Three Months Ended			Six Months Ended		
	2010	March 31, 2009	% Change	2010	March 31, 2009	% Change
Operating revenues	\$918,346	\$937,516	(2.0)%	\$1,527,892	\$1,738,820	(12.1)%
Gas purchases	\$703,377	\$787,918	(10.7)%	\$1,152,770	\$1,459,008	(21.0)%

Operating revenues decreased \$19.2 million and gas purchases decreased \$84.5 million in the three months ended March 31, 2010, compared with the same period of the prior fiscal year due primarily to:

• a decrease in operating revenues of \$30.5 million and gas purchases of \$25.3 million at NJNG primarily as a result of a decrease in Firm sales due to a decrease in the average periodic BGSS rate for residential and small commercial customers ; partially offset by

• an increase in operating revenues of \$22.1 million at NJRES stemming from higher average sales and a decrease in gas purchases of \$41.5 million due primarily to a favorable change of \$57.5 million in the value of derivatives, partially offset by a net \$16.2 million increase in gas purchases

as a result of an increase in volumes purchased and the economic effects of hedging related to natural gas in storage; and

• an increase in operating revenues of \$6.1 million at Retail and Other due primarily to lower unrealized losses at NJR Energy, as a result of the settlement of certain natural gas swap contracts, which reduced NJR Energy's exposure to shifts in market pricing during the three months ended March 31, 2010. NJR Energy had open swap contracts representing 1.4 Bcf's and 3.8 Bcf's as of March 31, 2010 and 2009, respectively.

Operating revenues decreased \$210.9 million and gas purchases decreased \$306.2 million in the six months ended March 31, 2010, compared with the same period of the prior fiscal year due primarily to:

• a decrease in operating revenues of \$112.9 million and gas purchases of \$100.5 million at NJNG as a result of a decrease in Firm sales and a customer refund in the first quarter of fiscal 2010 that did not occur in the same period in the prior year;

• a decrease in operating revenues of \$93.5 million and gas purchases of \$184.7 million at NJRES stemming from lower average sales and gas purchase prices, which correlate to the lower price levels on the NYMEX that averaged \$4.46 during the six months ended March 31, 2010 compared with \$6.27 during the six months ended March 31, 2009. The decrease in gas costs is also due to a favorable change of \$69.9 million in the value of derivatives, an increase of \$57.7 million in physical gas purchases and a decrease of \$56.7 million relating to the effects of economic hedging related to natural gas in storage; partially offset by

• an increase in operating revenues of \$14.7 million at Retail and Other due primarily to lower unrealized losses at NJR Energy, as a result of the settlement of certain natural gas swap contracts as noted above.

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Natural Gas Distribution Segment

NJNG is a local natural gas distribution company that provides regulated retail energy services to approximately 490,200 residential and commercial customers in central and northern New Jersey and participates in the off-system sales and capacity release markets.

NJNG's business is seasonal by nature, as weather conditions directly influence the volume of natural gas delivered. Specifically, customer demand substantially increases during the winter months when natural gas is used for heating purposes. As a result, NJNG receives most of its gas distribution revenues during the first and second fiscal quarters and is subject to variations in earnings and working capital during the year.

The Electric Discount and Energy Competition Act (EDECA) provides the framework for New Jersey's retail energy markets, which are open to competition from other electric and natural gas suppliers. Currently, NJNG's residential markets are open to competition. Under an existing order from the BPU, BGSS can be provided by suppliers other than the state's natural gas utilities. Its rates are segregated between BGSS (natural gas commodity) and delivery (i.e., transportation) components. NJNG earns no utility gross margin on the commodity portion of its natural gas sales. NJNG earns utility gross margin through the delivery of natural gas to its customers.

NJNG's unaudited financial results are as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	2010	March 31, 2009	2010	March 31, 2009
Utility gross margin				
Operating revenues	\$438,753	\$469,261	\$697,228	\$810,169
Less:				
Gas purchases	288,814	314,091	444,088	544,543
Energy and other taxes	24,685	29,791	39,217	51,378
Regulatory rider expense	21,208	20,744	34,920	34,305
Total utility gross margin	104,046	104,635	179,003	179,943
Operation and maintenance expense	26,817	26,836	51,695	51,786
Depreciation and amortization	7,722	7,291	15,382	14,452
Other taxes not reflected in utility gross margin	1,094	977	2,242	1,988
Operating income	68,413	69,531	109,684	111,717
Other income	1,019	1,028	1,945	1,712
Interest charges, net	4,155	4,204	8,406	10,664
Income tax provision	24,801	24,767	39,245	38,103
Net income	\$ 40,476	\$ 41,588	\$ 63,978	\$ 64,662

The following table summarizes Utility Gross Margin and throughput in billion cubic feet (Bcf) of natural gas by type:

	Three Months Ended	Six Months Ended
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	March 31,				March 31,			
	2010		2009		2010		2009	
(\$ in thousands)	Margin	Bcf	Margin	Bcf	Margin	Bcf	Margin	Bcf
Residential	\$ 71,878	20.5	\$ 72,060	21.4	\$121,828	32.9	\$121,747	34.7
Commercial, industrial & other	16,681	4.1	17,966	4.7	29,672	6.7	31,347	7.9
Transportation	12,466	4.4	10,420	3.9	21,960	7.7	18,851	6.9
Total utility firm gross margin	101,025	29.0	100,446	30.0	173,460	47.3	171,945	49.5
Incentive programs	2,943	22.0	4,119	20.1	5,381	44.1	7,843	32.3
Interruptible	78	1.0	70	0.7	162	1.8	155	1.6
Total utility gross margin/throughput	\$104,046	52.0	\$104,635	50.8	\$179,003	93.2	\$179,943	83.4

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Utility Gross Margin

NJNG's utility gross margin is a non-GAAP financial measure defined as natural gas revenues less natural gas purchases, sales tax, a Transitional Energy Facilities Assessment (TEFA) and regulatory rider expenses, and may not be comparable to the definition of gross margin used by others in the natural gas distribution business and other industries. Utility gross margin is comprised of the following three major categories:

- Utility firm gross margin, which is derived from residential and commercial customers who receive natural gas service from NJNG through either sales or transportation tariffs;
- Incentive programs, where margins generated or savings achieved from BPU-approved Off-system Sales, Capacity Release, Financial Risk Management (defined in Incentive Programs) or Storage Incentive programs are shared between customers and NJNG; and
- Utility gross margin from interruptible customers who have the ability to switch to alternative fuels.

Management believes that utility gross margin provides a more meaningful basis than revenue for evaluating utility operations since natural gas costs, sales tax, TEFA and regulatory rider expenses are included in operating revenue and passed through to customers and, therefore, have no effect on utility gross margin.

Natural gas costs are charged to operating expenses on the basis of therm sales at the prices in NJNG's BGSS tariff approved by the BPU. The BGSS tariff rate includes projected natural gas costs, net of supplier refunds, the impact of hedging activities and credits from non-firm sales and transportation activities. Any underrecoveries or overrecoveries from the projected amounts are deferred and reflected in the BGSS tariff rate in subsequent years.

TEFA, which is included in energy and other taxes in the Unaudited Condensed Consolidated Statements of Income, is calculated on a per-therm basis and excludes sales to cogeneration facilities, other utilities and off-system sales. TEFA represents a regulatory allowed assessment imposed on all energy providers in the state of New Jersey, as TEFA has replaced the previously used utility gross receipts tax formula.

Regulatory rider expenses consist of recovery of state-mandated programs, the remediation adjustment (RA) and energy efficiency costs. These expenses are offset by corresponding revenues and are calculated on a per-therm basis.

NJNG's operating revenues decreased by \$30.5 million, or 6.5 percent, and gas purchases decreased by \$25.3 million, or 8 percent, for the three months ended March 31, 2010, respectively, compared with same period in the prior fiscal year as a result of:

- a decrease in operating revenues and gas purchases related to firm sales in the amount of \$63.7 million and \$61.5 million, respectively, as a result of a decrease in the average periodic BGSS rate for residential customers of \$0.226 per therm and a decrease of \$0.222 per therm for small commercial customers, offset by an increase of \$0.038 per therm for large commercial customers and an increase in riders of \$0.004 per therm; and

• a decrease in operating revenues and gas purchases related to firm sales in the amount of \$17.2 million and \$12.4 million, respectively, due to lower therm usage due primarily to customer conservation and weather being 6 percent warmer than the same period of the prior fiscal year, partially offset by an increase in operating revenue of \$3.5 million, as a result of higher accruals relating to the CIP during the three months ended March 31, 2010; partially offset by

• an increase in operating revenues and gas purchases related to off-system sales in the amount of \$34.6 million and \$35.1 million, respectively, as a result of 27.9 percent higher volumes due primarily to greater opportunities in the wholesale energy market;

• an increase in operating revenues and gas purchases in the amount of \$11.8 million and \$12.9 million, respectively, related to lower BGSS bill credits in the second quarter of fiscal 2010 in the amount of \$35.3 million, including sales tax in the amount of \$2.3 million as compared with the second quarter of fiscal 2009 in the amount of \$47.1 million, including sales tax in the amount of \$1.3 million.

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NJNG's operating revenues decreased by \$112.9 million, or 13.9 percent, and gas purchases decreased by \$100.5 million, or 18.4 percent, for the six months ended March 31, 2010, respectively, compared with same period in the prior fiscal year as a result of:

• a decrease in operating revenues and gas purchases related to firm sales in the amount of \$106.8 million and \$102.9 million, respectively, as a result of a decrease in the average periodic BGSS rate as noted above;

• a decrease in operating revenues and gas purchases in the amount of \$25.6 million and \$22.1 million, respectively, due to a combination of refunds and bill credits in fiscal 2010 of \$72.7 million compared with bill credits of \$47.1 million, inclusive of sales tax refunds of \$4.7 million and \$1.3 million, respectively. NJNG extends refunds and credits to customers to manage reductions in the cost to acquire wholesale natural gas, as compared with the established rate included in its BGSS tariff ;

• a decrease in operating revenues and gas purchases related to firm sales in the amount of \$37.9 million and \$27.4 million, respectively, due to lower therm usage due primarily to customer conservation and weather being 6.5 percent warmer than the same period of the prior fiscal year, partially offset by an increase in operating revenue of \$7 million, as a result of higher accruals relating to the CIP during the six months ended March 31, 2010; partially offset by

• an increase in operating revenues and gas purchases related to off-system sales in the amount of \$49.4 million and \$49 million, respectively, as a result of 50.2 percent higher volumes due primarily to greater opportunities in the wholesale energy market.

Sales tax and TEFA, which are presented as both components of operating revenues and operating expenses in the Unaudited Condensed Consolidated Statements of Income, totaled \$24.7 million and \$29.8 million for the three months ended March 31, 2010 and 2009, respectively. For the six months ended March 31, 2010 and 2009, sales tax and TEFA totaled \$39.2 million and \$51.4 million, respectively. The decrease for both periods was due primarily to a decrease in operating revenue from firm sales of \$76.3 million and \$182.1 million for the three and six months ended March 31, 2010, respectively.

Regulatory rider expenses are calculated on a per-therm basis and totaled \$21.2 million and \$20.7 million for the three months ended March 31, 2010 and 2009, respectively and \$34.9 million and \$34.3 million for the six months ended March 31, 2010 and 2009, respectively. The increase is due primarily to an additional EE rider of 0.0119 per therm that went into effect August 2009 offset by a decrease in the USF rider of 0.0078 per therm that went into effect as of October 12, 2009.

Utility Firm Gross Margin

Utility firm gross margin is earned from residential and commercial customers who receive natural gas service from NJNG through either sales or transportation tariffs.

As a result of NJNG's implementation of the CIP, utility gross margin is no longer linked to customer usage. The CIP eliminates the disincentive to promote conservation and energy efficiency and facilitates normalizing NJNG's utility gross margin recoveries for variances not only in weather but also in other factors affecting usage, including customer conservation. Recovery of utility gross margin for the non-weather variance through the CIP is limited to the amount of certain gas supply cost savings achieved and is subject to an earnings test, which contains a return on equity component of 10.3 percent.

NJNG's total utility gross margin is not negatively affected by customers who use its transportation service and purchase natural gas from another supplier because its tariff is designed so that no profit is earned on the commodity portion of sales to firm customers. All customers who purchase natural gas from another supplier continue to use NJNG for transportation service.

Utility firm gross margin from residential service sales remained flat for the three and six months ended March 31, 2010, as compared with the same period in the last fiscal year.

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Utility firm gross margin from commercial service sales decreased to \$16.7 million for the three months and \$29.7 million for the six months ended March 31, 2010, as compared with \$18 million for the three months and \$31.3 million for the six months ended March 31, 2009. NJNG delivered 4.1 Bcf for its firm customers in the three months ended March 31, 2010, compared with 4.7 Bcf for the same period ended March 31, 2009. NJNG delivered 6.7 Bcf for its firm customers in the six months ended March 31, 2010, compared with 7.9 Bcf for the same period ended March 31, 2009. The decrease in natural gas delivered and resulting lower margin was due primarily to a decrease of 1,800 commercial customers. The majority of these customers transferred to the transportation class of customers. The effect of the decreases in Bcf on utility firm gross margin was mitigated somewhat by the CIP mechanism.

Utility firm gross margin from transportation service increased to \$12.5 million and \$22 million, respectively for the three and six months ended March 31, 2010, as compared with \$10.4 million and \$18.9 million, respectively for the three and six months ended March 31, 2009. NJNG transported 4.4 Bcf for its firm customers in the three months and 7.7 Bcf in the six months ended March 31, 2010, compared with 3.9 Bcf in the three months and 6.9 Bcf in the six months ended March 31, 2009. The increase was due primarily to the increase in transportation customers.

NJNG had 16,771 and 12,461 residential customers and 7,323 and 5,420 commercial customers using its transportation service at March 31, 2010 and 2009, respectively. The increase in transportation customers for the six month period ended March 31, 2010, was due primarily to an increase in marketing activity by third party natural gas providers in NJNG's distribution territory.

The weather for the three months ended March 31, 2010 was 2.3 percent warmer-than-normal, based on a 20-year average, which resulted in an accrual of utility gross margin under the weather component of the CIP of \$2.2 million, compared with 4.2 percent colder-than-normal weather for the same period last fiscal year, which resulted in a negative adjustment of utility gross margin of \$(1.8) million. The weather for the six months ended March 31, 2010 was 3.5 percent warmer-than-normal, which resulted in an accrual of \$4.5 million, compared with 3.2 percent colder-than-normal weather for the same period last fiscal year, which resulted in a negative adjustment of utility gross margin of \$(2) million. Under the provisions of the CIP, accruals related to the weather portion are dependent on the occurrence of degree days and the magnitude of the variance in relation to a normal degree day.

Customer usage was lower than the established CIP benchmark during the three months ended March 31, 2010, which resulted in an accrual of utility gross margin under the CIP of \$889,000 compared with \$1.4 million during the three months ended March 31, 2009. Customer usage was lower than the established benchmark during the six months ended March 31, 2010, which resulted in an adjustment of utility gross margin under the CIP of \$3 million, compared with \$2.4 million, during the six months ended March 31, 2009. The change in the weather and non-weather components of the CIP include the effect of adjustments, normal degree days, consumption factors and benchmarks related to the baseline use per customer.

NJNG added 2,491 and 3,147 new customers during the six months ended March 31, 2010 and 2009, respectively. In addition, NJNG converted 284 and 366 existing customers to natural gas heat and other services during the same periods for fiscal 2010 and 2009, respectively. The decline in customer growth is driven by a slower new construction market and weak economic conditions. This customer growth represents an estimated annual increase of approximately 0.31 Bcf in sales to firm customers, assuming normal weather and usage, which would contribute approximately \$1.3 million to utility gross margin.

Incentive Programs

To reduce the overall cost of its natural gas supply commitments, NJNG has entered into contracts to sell natural gas to wholesale customers outside its franchise territory when natural gas is not needed for firm system requirements. These off-system sales enable NJNG to reduce its overall costs applicable to BGSS customers. NJNG also participates in the capacity release market on the interstate pipeline network when the capacity is not needed for its firm system requirements. NJNG retains 15 percent of the utility gross margin from these sales, with 85 percent credited to firm customers through the BGSS.

The Financial Risk Management (FRM) program is designed to provide price stability to NJNG's natural gas supply portfolio. The FRM program includes an incentive mechanism designed to encourage the use of financial instruments to economically hedge NJNG's natural gas costs. Gross margin is generated by entering into financial option positions that have a strike price below a published quarterly benchmark, minus premiums and associated fees. NJNG retains 15 percent of the utility gross margin, with 85 percent credited to firm customers through the BGSS.

The Storage Incentive program shares gains and losses on an 80 percent and 20 percent basis between customers and NJNG, respectively. This program measures the difference between the actual cost of natural gas injected into storage and a benchmark established with the purchase of a portfolio of futures contracts applicable to the April-through-October natural gas injection season.

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On October 3, 2008, the BPU approved the Rate Order, which extends the incentive programs through October 31, 2011, and provides changes to certain volume and cost limitations surrounding these incentive programs.

Sales under NJNG's incentive programs totaled 22 Bcf and generated \$2.9 million of utility gross margin for the three months ended March 31, 2010, compared with 20.1 Bcf and \$4.1 million of utility gross margin during the same period last fiscal year and totaled 44.1 Bcf and generated \$5.4 million of utility gross margin for the six months ended March 31, 2010, compared with 32.3 Bcf and \$7.8 million of utility gross margin for the six months ended March 31, 2009. The decrease in utility gross margin was due primarily to a decrease of \$343,000 and \$1.7 million for the three and six months ended March 31, 2010, respectively, in the FRM program due primarily to lack of market opportunities, a decrease of \$114,000 and \$1 million for the three and six months ended March 31, 2010, respectively related to the storage incentive program due to timing of physical injections and associated hedging gains and a decrease of \$512,000 for the three months ended March 31, 2010 related to off system sales.

Interruptible Revenues

As of March 31, 2010, NJNG serves 45 customers through interruptible transportation and sales services. Interruptible customers are those customers whose service can be temporarily halted as they have the ability to utilize an alternate fuel source. Although therms transported and sold to interruptible customers represented 1 Bcf, or 1.9 percent, and 1.8 Bcf, or 1.9 percent, of total throughput for the three and six months ended March 31, 2010, respectively, and 0.7 Bcf, or 1.4 percent and 1.6 Bcf, or 1.9 percent of the total throughput during the same periods in the prior fiscal year, respectively, they accounted for less than 1 percent of the total utility gross margin in each fiscal year.

Operation and Maintenance Expense

Operation and maintenance expense remained relatively flat, during the three and six months ended March 31, 2010, as compared with the same period in the last fiscal year, with offsetting variances in the following:

• Decreased bad debt expense of \$1.6 million and \$2.2 million, during the three months ended March 31, 2010 and the six months ended March 31, 2010, respectively, due primarily to lower reserve requirements during fiscal 2010 as a result of BGSS customer credits; offset by

• Increased pension and OPEB costs in the amount of \$830,000 and \$1.7 million, during the three months ended March 31, 2010 and the six months ended March 31, 2010, respectively, due primarily to the impact of a decline in the returns on plan assets and the decline in the discount rate used to measure plan liabilities; and

• Increased charitable contributions of \$500,000 during the three and six months ended March 31, 2010.

Operating Income

Operating income decreased \$1.1 million, or 1.6 percent, for the three months ended March 31, 2010, as compared with the same period in the last fiscal year, due primarily to:

• A decrease in total utility gross margin of \$589,000, as discussed above; and

• An increase in depreciation expense of \$431,000, as a result of additional utility plant being placed into service.

Operating income decreased \$2 million, or 1.8 percent, for the six months ended March 31, 2010, as compared with the same period in the last fiscal year, due primarily to:

• A decrease in total utility gross margin of \$940,000, as discussed above; and

• An increase in depreciation expense of \$930,000, as a result of additional utility plant being placed into service.

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Interest Expense

Interest expense remained relatively flat, during the three months ended March 31, 2010, compared to the same period in the prior fiscal year, but decreased \$2.3 million for the six months ended March 31, 2010, respectively, compared with the same period in the last fiscal year, due primarily to:

• A decrease of \$1.2 million associated with long-term debt due to lower interest rates on variable rate debt bonds and the repayment of a \$30 million bond in November 2008; and

• A decrease of \$1 million associated with short-term debt due primarily to lower average interest rates and balances related to NJNG's commercial paper program.

Net Income

Net income decreased \$1.1 million during the three months ended March 31, 2010, compared to the same period in the prior fiscal year, due primarily to a decrease in operating income as discussed above. Net income decreased \$684,000 during the six months ended March 31, 2010, compared to the same period in the prior fiscal year, due primarily to a decrease in operating income of approximately \$2 million, as discussed above, and higher income tax expense of \$1.1 million, due primarily to a combination of higher accrued expense associated with higher pre-tax income in the current fiscal year and the reversal of accrued interest during the six months ended March 31, 2009, as a result of the settlement of a tax audit. These decreases to net income were partially offset by lower interest expense of \$2.3 million, as discussed above.

Energy Services Segment

NJRES is a non-regulated natural gas marketer principally engaged in the optimization of natural gas storage and transportation assets. Through the use of its contracts for natural gas storage and pipeline capacity, NJRES is able to take advantage of pricing differences between geographic locations, commonly referred to as "locational or basis spreads," and pricing differences across time horizons, commonly referred to as "time spreads." To capture these price differences, NJRES enters into contracts for the future delivery and sales of physical natural gas and simultaneously enters into financial derivative contracts to establish an initial financial margin for each of its forecasted physical commodity transactions. The financial derivative contracts serve to protect the cash flows of the transaction from volatility in commodity prices and can include futures, options, and swap contracts, which are all predominantly actively quoted on the NYMEX.

Typically, periods of greater price volatility provide NJRES with additional opportunities to generate financial margin by managing its financial hedge transactions with the intent of further improving the respective time or locational spreads on a forward basis.

The strategies used in capturing the value associated with these price differences include, but are not limited to the following:

• **Storage:** NJRES attempts to take advantages of differences in market prices occurring over different time periods (time spreads) as follows:

- * NJRES can purchase gas to inject into storage and concurrently lock in gross margin with a contract to sell the natural gas at a higher price at a future date;
- * NJRES can purchase a future contract with an early delivery date at a lower price and simultaneously sell another future contract with a later delivery date having a higher price; and
- * NJRES can “borrow” gas from a pipeline or storage operator and repay that gas at a later date, and earn a margin by selling the gas at a later date at a higher price and/or by receiving a fee.

•Transportation (Basis): Similarly, NJRES benefits from pricing differences between various receipt and delivery points along a natural gas pipeline as follows:

- * NJRES can utilize its pipeline capacity by purchasing natural gas at a lower price location and transporting to a higher value location. NJRES can enter into a basis swap contract, a financial commodity derivative based on the price of natural gas at two different locations, when it will lead to positive cash flows and financial margin for NJRES.

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Because NJRES has physical storage and transportation capacity contracts it is able to take advantage of the continuous daily changes in supply and demand in the market areas in which it operates. By utilizing those contracts to assist natural gas marketers, local distribution companies, industrial companies, electric generators and retail aggregators in managing their gas supply needs, NJRES has opportunities to deliver the gas from storage, purchase flowing gas, or move the gas along a more economically advantageous transportation route than originally planned thereby improving the initial financial margin. The combination of strategically positioned natural gas storage and transportation assets and physical purchase and sales contracts provides NJRES with a significant amount of arbitrage opportunities that are typically more prevalent during periods of high daily price volatility.

Predominantly all of NJRES' physical purchases and sales of natural gas result in the physical delivery of natural gas. These physical commodity contracts are recorded at fair value in the Unaudited Condensed Consolidated Balance Sheets with any changes in fair value related to its forward physical sale and purchase contracts recognized as a component of operating revenues and gas purchases, respectively, in the Unaudited Condensed Consolidated Statements of Income.

The changes in fair value of NJRES' financial derivative instruments, which are financial futures, swaps and option contracts, are also recognized in the Unaudited Condensed Consolidated Statements of Income, as a component of gas purchases.

NJRES' financial and physical contracts will result, over time, in earning a gross margin on the entire transaction. For financial reporting purposes under GAAP, the change in fair value associated with derivative instruments used to economically hedge these transactions are recorded as a component of gas purchases in the Unaudited Condensed Consolidated Statements of Income during the duration of the financial instrument or commodity contract. These changes in fair value are referred to as unrealized gains and losses. In other instances, certain financial contracts designed to economically fix or hedge the price of natural gas that is purchased and placed into storage, to be sold at a later date, settle and result in realized gains, which are also recorded as a component of gas purchases in the Unaudited Condensed Consolidated Statements of Income.

These unrealized gains or losses from the change in fair value of unsettled financial instruments and physical commodity contracts, or realized gains or losses related to financial instruments that economically hedge natural gas inventory that has not been sold as part of a planned transaction, cause large variations in the reported gross margin and earnings of NJRES. NJRES will continue to earn the gross margin established at inception of the transaction over the duration of the forecasted transaction and may be able to capitalize on events in the marketplace that enable it to increase the initial margin; however, gross margin or earnings during periods prior to the delivery of the natural gas will not reflect the underlying economic result.

NJRES recognizes its demand charges, which represent the right to use natural gas pipeline and storage capacity assets of a third-party, over the term of the related natural gas pipeline or storage contract. The term of these contracts vary from less than one year to ten years.

Operating Results

NJRES' financial results are summarized as follows:

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(Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Operating revenues	\$494,889	\$472,763	\$842,366	\$935,857
Gas purchases	434,537	475,989	731,994	916,666
Gross margin	60,352	(3,226)	110,372	19,191
Operation and maintenance expense	2,745	3,868	6,978	8,228
Depreciation and amortization	49	51	99	102
Other taxes	353	596	900	925
Operating (loss) income	57,205	(7,741)	102,395	9,936
Other income	3	214	4	337
Interest expense	230	85	492	171
Income tax (benefit) provision	21,537	(3,072)	38,822	3,760
Net income (loss)	\$ 35,441	\$ (4,540)	\$ 63,085	\$ 6,342

NJRES records its financial derivative instruments using fair market values. The mark-to-market changes on these financial instruments are reflected as a component of gas purchases in the Unaudited Condensed Consolidated Statements of Income.

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As of March 31, 2010, NJRES' portfolio of financial derivative instruments was comprised of:

• 26.9 Bcf of net short futures contracts and fixed swap positions; and

• 18.3 Bcf of net long basis swap positions.

As of March 31, 2009, NJRES' portfolio of financial derivative instruments was comprised of:

• 6.3 Bcf of net short futures contracts and fixed swap positions; and

• 39.9 Bcf of net short basis swap positions.

Gross Margin

Gross margin for the three months ended March 31, 2010 increased by \$63.6 million, as compared with the same period in the last fiscal year, due primarily to higher realized and unrealized gains during the first fiscal quarter of 2010.

NJRES had realized gains (losses) of \$3.8 million and \$(24.1) million during the three months ended March 31, 2010 and 2009, respectively, relating to the effects of economic hedging related to natural gas inventory. The realized gains pertain to the settlement of certain purchased futures and fixed swap contracts, which economically hedge planned natural gas purchases. The gains incurred during the current fiscal period resulted from a lower settlement price as compared with the original hedge price (or trade price), which is consistent with a general decline in the market price of natural gas. In addition to the amounts discussed above, NJRES had unrealized gains (losses) of \$15.5 million and \$(34.3) million during the three months ended March 31, 2010 and 2009, respectively, relating to physical and financial contracts that have not yet settled and serve to lock in a sale price on physical gas that will be sold in the future. These unrealized amounts represent the change in price of natural gas from the original hedge price as compared with the market price of natural gas at each reporting date. When NJRES sells the purchased gas, the associated financial hedges will be settled and any previously recognized unrealized amounts related to these transactions will be realized.

Offsetting the higher margin that resulted from the higher net gains discussed above, was a decrease in realized margin associated with physical sale of natural gas during the three months ended March 31, 2010, as described further in the discussion of financial margin in the Non-GAAP measures section.

During the six months ended March 31, 2010, gross margin was higher by approximately \$91.2 million as compared with the six months ended March 31, 2009, due primarily to higher realized and unrealized gains during fiscal 2010.

NJRES had realized gains (losses) of \$36.9 million and \$(19.8) million during the six months ended March 31, 2010 and 2009, respectively, relating to the effects of economic hedging related to natural gas inventory. The realized gains pertain to the settlement of certain purchased futures and fixed swap contracts, which economically hedge planned natural gas purchases. The gains incurred during the six months ended March 31, 2010, resulted from a lower settlement price as compared with the original hedge price (or trade price), which is consistent with a general decline in the market price of natural gas.

NJRES also had unrealized gains (losses) of \$23.2 million and \$(36.2) million during the six months ended March 31, 2010 and 2009, respectively, relating to physical and financial contracts that have not yet settled and serve to lock in a sale price on physical gas that will be sold in the future. These unrealized amounts represent the change in price of natural gas from the original hedge price as compared with the market price of natural gas at each reporting date. When NJRES sells the purchased gas, the associated financial hedges will be settled and any previously recognized unrealized amounts related to these transactions will be realized.

Offsetting the higher margin that resulted from the higher net gains discussed above, was a decrease in realized margin associated with physical sale of natural gas during the six months ended March 31, 2010, as described further in the discussion of financial margin in the Non-GAAP measures section.

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Non-GAAP measures

Additionally, management of the Company uses non-GAAP measures, noted as "financial margin" and "net financial earnings", when evaluating the operating results of NJRES. Since NJRES economically hedges its natural gas purchases and sales with derivative instruments, management uses these measures to compare NJRES' results against established benchmarks and earnings targets as it eliminates the impact of volatility to GAAP earnings associated with the derivative instruments. Volatility can occur as a result of timing differences surrounding the recognition of certain gains and losses. These timing differences can impact GAAP earnings in two ways:

• Unrealized gains and losses on derivatives are recognized in reported earnings in periods prior to physical gas inventory flows; and

• Unrealized gains and losses of prior periods are reclassified as realized gains and losses when derivatives are settled in the same period as physical gas inventory movements occur.

Net financial earnings is a measure of the earnings based on eliminating these timing differences, to effectively match the earnings effects of the economic hedges with the physical sale of gas. Consequently, to reconcile from GAAP to both financial margin and net financial earnings, current period unrealized gains and losses on the derivatives are excluded as a reconciling item. Additionally, the effects of economic hedging on the value of our natural gas in storage is also included in current period net loss, however financial margin and net financial earnings include only realized gains and losses related to natural gas sold out of inventory, effectively matching the full earnings effects of the derivatives with realized margins on physical gas flows.

Management views financial margin and net financial earnings as more representative of the overall expected economic result. To the extent that there are unanticipated changes in the markets or to the effectiveness of the economic hedges, NJRES' non-GAAP results can be different than was originally planned at the beginning of the transaction.

The following table is a computation of financial margin of NJRES:

(Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Operating revenues	\$494,889	\$472,763	\$842,366	\$935,857
Less: Gas purchases	434,537	475,989	731,994	916,666
Add:				
Unrealized (gain) loss on derivative instruments and related instruments	(15,493)	34,348	(23,235)	36,165
Effects of economic hedging related to natural gas inventory	(3,773)	24,072	(36,886)	19,797
Financial margin	\$ 41,086	\$ 55,194	\$ 50,251	\$ 75,153

A reconciliation of Operating income (loss), the closest GAAP financial measurement, to the Financial margin of NJRES is as follows:

(Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Operating income (loss)	\$57,205	\$ (7,741)	\$102,395	\$ 9,936
Add:				
Operation and maintenance expense	2,745	3,868	6,978	8,228
Depreciation and amortization	49	51	99	102
Other taxes	353	596	900	925
Subtotal – Gross margin	60,352	(3,226)	110,372	19,191
Add:				
Unrealized (gain) loss on derivative instruments and related instruments	(15,493)	34,348	(23,235)	36,165
Effects of economic hedging related to natural gas inventory	(3,773)	24,072	(36,886)	19,797
Financial margin	\$41,086	\$55,194	\$50,251	\$75,153

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A reconciliation of NJRES' Net income (loss) to Net financial earnings is as follows:

(Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Net income (loss)	\$35,441	\$ (4,540)	\$63,085	\$ 6,342
Add:				
Unrealized (gain) loss on derivative instruments and related transactions, net of taxes	(9,563)	20,941	(14,329)	21,352
Effects of economic hedging related to natural gas, net of taxes	(2,361)	14,677	(22,745)	12,767
Net financial earnings	\$23,517	\$31,078	\$26,011	\$40,461

Financial margin for the three and six months ended March 31, 2010, was \$41.1 million and \$50.3 million, respectively, and for the three and six months ended March 31, 2009 was \$55.2 million and \$75.2 million, respectively. The decrease of \$14.1 million and \$24.9 million, respectively, is due to a combination of factors including:

- a decrease in opportunities to optimize transportation assets because of the lack of volatility in the marketplace caused by a decrease in the demand for natural gas in the second quarter of fiscal 2010 as compared with the prior year. The decrease in demand is attributed to lower industrial consumption as a result of the economy; and
 - a decrease overall in basis spreads, which lowered the overall value of the transportation portfolio.

Operation and Maintenance Expense

Operation and maintenance expense decreased \$1.1 million, or 29 percent, and \$1.3 million, or 15.2 percent, during the three and six months ended March 31, 2010, respectively, as compared with the comparable periods in fiscal 2009, due primarily to a decrease of \$1.3 million in incentive compensation that correlates with lower net financial earnings for both periods.

Future results are subject to NJRES' ability to maintain and expand its wholesale marketing activities and are contingent upon many other factors, including an adequate number of appropriate counterparties, volatility in the natural gas market, availability of storage arbitrage opportunities, sufficient liquidity in the energy trading market and continued access to the capital markets.

Midstream Assets Segment

The consolidated financial results of Midstream Assets are summarized as follows:

(Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Equity in earnings of affiliates (1)	\$3,763	\$1,352	\$7,723	\$2,244

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Operation and maintenance expense	\$ 254	\$ 109	\$ 449	\$ 214
Interest expense	\$ 827	\$ 33	\$1,657	\$ 64
Net income	\$1,514	\$ 725	\$3,390	\$1,179

(1) Excludes taxes of \$505,000 and \$537,000 for Iroquois for the three months ended March 31, 2010 and 2009, respectively, and \$918,000 and \$891,000 for Iroquois for the six months ended March 31, 2010 and 2009, respectively and \$1.1million and \$2.3 million for Steckman Ridge for the three and six months ended March 31, 2010.

Equity in earnings from Iroquois is driven by the underlying performance of natural gas transportation through its existing pipeline, which is based on FERC regulated tariffs. Equity in earnings from Steckman Ridge is driven by storage revenues, which are based on market rates. The \$2.4 million increase in equity in earnings during the three months ended March 31, 2010, was due primarily to a contribution of \$2.6 million from Steckman Ridge, which began generating storage revenues when it became commercially operational during the third quarter of fiscal 2009. Equity in earnings in Iroquois decreased slightly as compared with the same period in the prior fiscal year.

The \$5.5 million increase in equity in earnings during the six months ended March 31, 2010, was due to the contribution of earnings from Steckman Ridge. Equity in earnings in Iroquois remained relatively flat at \$2.3 million for both the six months ended March 31, 2010 and 2009.

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Operation and maintenance expenses for the three and six months ended March 31, 2010, increased \$145,000 and \$235,000, respectively, as compared with the same periods in fiscal 2009 due primarily to the allocation of shared service costs of \$195,000 and \$313,000 respectively, to Steckman Ridge this fiscal year, offset partially by lower consulting and engineering fees.

Interest expenses for the three and six months ended March 31, 2010, increased \$794,000 and \$1.6 million, respectively, as compared with the same periods in fiscal 2009, due primarily to interest no longer being capitalized on Steckman Ridge since it became operational during the third quarter of fiscal 2009.

Net income for the three and six months ended March 31, 2010, increased \$789,000 and \$2.2 million, respectively, compared with the same period in fiscal 2009, due primarily to an increase in equity in earnings related to operating results at Steckman Ridge, offset by the increases in the operation and maintenance expense and interest expense, as noted above.

Retail and Other Operations

The unaudited consolidated financial results of Retail and Other are summarized as follows:

(Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Operating revenues	\$ 3,701	\$(2,350)	\$ 9,745	\$ (5,004)
Operation and maintenance expense	\$ 7,270	\$ 6,603	\$14,306	\$ 13,648
Net (loss)	\$(3,244)	\$(5,785)	\$ (4,206)	\$(11,923)

Retail and Other includes NJR Energy, which has economically hedged a long-term fixed-price contract to sell gas to a counterparty. Unrealized gains or losses at NJR Energy, recorded in operating revenues, are the result of the changes in values associated with financial derivative instruments designed to economically hedge the long-term fixed-price contracts.

Operating revenue increased \$6.1 million, or 257.5 percent for the three months ended March 31, 2010, to \$3.7 million as compared with \$(2.4) million for the three months ended March 31, 2009. Operating revenue increased \$14.7 million, or 294.7 percent for the six months ended March 31, 2010, to \$9.7 million as compared with \$(5) million for the six months ended March 31, 2009. The increase in both periods were due primarily to lower unrealized losses at NJR Energy of \$(3) million and \$(3.8) million, respectively, during the three and six months ended March 31, 2010, as compared with \$(8.2) million and \$(17.9) million, respectively, for the three and six months ended March 31, 2009.

Operation and maintenance expenses for the three and six months ended March 31, 2010, increased \$667,000 and \$658,000, respectively, as compared with the same period in fiscal 2009 due primarily to increases in shared service costs, pension costs, contractor expenses and advertising in NJRHS.

Net loss for the three and six months ended March 31, 2010, decreased \$2.5 million and \$7.7 million, respectively, compared with the same period in the prior fiscal year, due primarily to the decreased operating loss at NJR Energy

partially offset by higher income tax expense as a result of the decreased operating loss.

Additionally, management of the Company uses the non-GAAP measure “net financial earnings”, when viewing the results of NJR Energy to monitor the operational results without the impact of unsettled derivative instruments.

A reconciliation of net (loss) to net financial (loss), a non-GAAP measure, is as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2010	2009	2010	2009
Net (loss)	\$(3,244)	\$(5,785)	\$(4,206)	\$(11,923)
Add:				
Unrealized loss on derivative instruments, net of taxes	1,748	4,822	2,251	10,527
Net financial (loss)	\$(1,496)	\$ (963)	\$(1,955)	\$ (1,396)

Net financial loss for the three and six months ended March 31, 2010, increased as a result of a tax charge in the amount of approximately \$595,000 related to a change in the deductibility of federal subsidies associated with Medicare Part D as a result of the Patient Protection and Affordable Care Act enacted in March 2010.

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Liquidity and Capital Resources

NJR's objective is to maintain a consolidated capital structure that reflects the different characteristics of each business segment and provides adequate financial flexibility for accessing capital markets as required.

NJR's consolidated capital structure was as follows:

	March 31, 2010	September 30, 2009
Common stock equity	58%	53%
Long-term debt	33	35
Short-term debt	9	12
Total	100%	100%

Common stock equity

NJR satisfies its external common equity requirements, if any, through issuances of its common stock, including the proceeds from stock issuances under its Automatic Dividend Reinvestment Plan (DRP) and proceeds from the exercise of options issued under the Company's long-term incentive program. The DRP allows NJR, at its option, to use shares purchased on the open market, treasury shares or newly issued shares.

In 1996, the NJR Board of Directors ("Board") authorized the Company to implement a share repurchase program, which has been expanded several times since the inception of the program. On January 27, 2010, the Board of Directors authorized an increase in the number of shares of NJR common stock authorized for repurchase under NJR's Share Repurchase Plan by 2 million shares to a total of 8.8 million shares. As of March 31, 2010, the Company repurchased approximately 6.9 million of those shares and had the ability to repurchase approximately 1.8 million additional shares under the approved program.

Debt

NJR and its unregulated subsidiaries generally rely on cash flows generated from operating activities and utilization of committed credit facilities to provide liquidity to meet working capital and external debt-financing requirements. NJR may from time to time look to access the capital markets to fund long-life assets. NJR currently has \$50 million in fixed-rate debt, issued through the private placement market, maturing in 2017.

As of March 31, 2010, NJR and NJNG had committed credit facilities of \$525 million with approximately \$418.1 million available under these facilities (see Note 8. Debt).

NJR believes that as of March 31, 2010, NJR and NJNG were, and currently are, in compliance with all debt covenants.

NJR believes that existing borrowing availability and cash flow from operations will be sufficient to satisfy it and its subsidiaries' working capital, capital expenditure and dividend requirements for the foreseeable future. NJR, NJNG and NJRES currently anticipate that its financing requirements for the next twelve months will be met through the

issuance of short-term debt, meter sale lease-backs and proceeds from the Company's DRP. While U.S. credit markets continue to improve compared with last year, the impact of the credit crisis is still being felt across the economy. A return to the constrictive credit availability seen last year could possibly affect management's ability to borrow.

NJR

In March 2009, NJR repaid its \$25 million, 3.75 percent, Unsecured Senior notes at maturity.

NJR has a \$325 million, five-year, revolving, unsecured credit facility expiring December 2012, which permits the borrowing of revolving loans and swing loans, as well as the issuance of letters of credit. Swing loans are loans made available on a same-day basis for an aggregate principal amount of up to \$50 million and repayable in full within a maximum of seven days of borrowing. The credit facility also permits an increase to the facility, from time to time, with the existing or new lenders, in a minimum of \$5 million increments up to a maximum \$100 million at the lending banks' discretion. Borrowings under the facility are conditional upon compliance with a maximum leverage ratio, as defined in the new credit facility, of not more than 0.65 to 1.00 at any time. In addition, certain of NJR's non-regulated subsidiaries have guaranteed to the lenders all of NJR's obligations under the new credit facility. Depending on borrowing levels and credit ratings, NJR's interest rate can either be, at its discretion, the London inter-bank offered rate ("LIBOR") or the Federal Funds Open Rate plus an applicable spread and facility fee. As of March 31, 2010, NJR's effective rate was 0.52 percent on outstanding borrowings of \$98.7 million under this credit facility.

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As of March 31, 2010, NJR has three letters of credit outstanding, totaling \$7.6 million, on behalf of NJRES. Two of those letters of credit, totaling \$3.6 million, are used to secure the purchase and/or sale of natural gas; one expires on December 31, 2010, and the other expires on March 19, 2011. The other letter of credit, which totals \$4 million, is used for margin requirements for natural gas transactions and will expire on June 30, 2010. NJR also has a \$675,000 letter of credit outstanding on behalf of CR&R, which will expire on December 3, 2010. The letter of credit is in place to support development activities. These letters of credit reduce the amount available under NJR's committed credit facility by the same amount. NJR does not anticipate that these letters of credit will be drawn upon by the counterparties, and they will be renewed as necessary.

NJR uses its short-term borrowings primarily to finance its share repurchases, to satisfy NJRES' short-term liquidity needs and to finance, on an initial basis, unregulated investments. NJRES' use of high-injection, high-withdrawal storage facilities and anticipated pipeline park-and-loan arrangements, combined with related economic hedging activities in the volatile wholesale natural gas market, create significant short-term cash requirements.

NJNG

NJNG satisfies its debt needs by issuing short- and long-term debt based upon its own financial profile. The seasonal nature of NJNG's operations creates large short-term cash requirements, primarily to finance natural gas purchases and customer accounts receivable. NJNG obtains working capital for these requirements, and for the temporary financing of construction and MGP remediation expenditures and energy tax payments, through the issuance of commercial paper and short-term bank loans.

In November 2008, upon maturity, NJNG redeemed its \$30 million, 6.27 percent, Series X First Mortgage bonds.

In October 2007, NJNG entered into an agreement for standby letters of credit that could have been drawn upon through December 15, 2009, for up to \$50 million. Upon expiration, the agreement was not renewed.

To support the issuance of commercial paper, NJNG had a \$250 million committed credit facility with several banks, with a 5-year term, that expired on December 16, 2009. On December 11, 2009, NJNG entered into a new 3-year, \$200 million unsecured committed credit facility expiring December 2012, which replaced the one that expired and permits the borrowing of revolving loans and swing loans, as well as the issuance of letters of credit. It also permits an increase to the facility, from time to time, with the existing or new lenders, in a minimum of \$10 million increments up to a maximum of \$50 million at the lending banks' discretion. Depending on borrowing levels and credit ratings, NJNG's interest rate can either be, at its discretion, based upon Prime Rate, the Federal Funds Open Rate or the Euro-Rate, in each case, plus an applicable spread and facility fee. In addition, borrowings under NJNG's credit facility are conditioned upon compliance with a maximum leverage ratio, as defined in the credit facility, of not more than 0.65 to 1.00 at any time and a minimum interest coverage ratio, as defined in the credit facility, of less than 2.50 to 1.00. NJNG had no borrowings supported by the credit facility as of March 31, 2010.

NJNG is obligated with respect to loan agreements securing six series of variable rate bonds totaling approximately \$97 million of variable-rate debt backed by securities issued by the New Jersey Economic Development Authority (EDA). The EDA bonds are commonly referred to as auction rate securities (ARS) and have an interest rate reset every 7 or 35 days, depending upon the applicable series. On those dates, an auction is held for the purposes of determining the interest rate of the securities. The interest rate associated with the NJNG variable-rate debt is based on

the rates on the EDA ARS. For the three months ended March 31, 2010, all of the auctions surrounding the EDA ARS have failed, resulting in those bonds bearing interest at their maximum rates, defined as the lesser of (i) 175 percent of 30-day LIBOR or (ii) 10 to 12 percent per annum, as applicable to such series of ARS.

While the failure of the ARS auctions does not signify or constitute a default by NJNG, the EDA ARS does impact NJNG's borrowing costs of the variable-rate debt. As of March 31, 2010, the 30-day LIBOR rate was 0.25 percent. As such, NJNG currently has a weighted average interest rate of 0.43 percent as of March 31, 2010, compared with a weighted average interest rate of 0.44 percent as of September 30, 2009.

There can be no assurance that the EDA ARS will have enough market liquidity to avoid failed auctions in the future, which could potentially have an adverse impact on NJNG's borrowing costs if LIBOR rates increase. NJR reviews alternative methods for refinancing the ARS at NJNG on a continuing basis; however, it cannot assure that alternative sources of financing can be implemented in a timely manner.

Neither NJNG nor its assets are obligated or pledged to support the NJR or NJRES borrowings .

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NJRES

NJRES had a 3-year, \$30 million committed credit facility with a multinational financial institution that expired in October 2009. Borrowings under this facility were guaranteed by NJR. Upon expiration, the credit facility was not renewed.

Contractual Obligations

The following table is a summary of NJR, NJNG and NJRES contractual cash obligations and financial commitments and their applicable payment due dates as of March 31, 2010:

(Thousands)	Total	Up to 1 Year	2-3 Years	4-5 Years	After 5 Years
Long-term debt (1)	\$ 552,964	\$ 36,283	\$ 31,190	\$ 88,328	\$397,163
Capital lease obligations (1)	83,326	10,976	22,702	16,357	33,291
Operating leases (1)	9,147	2,745	3,602	1,379	1,421
Short-term debt	98,700	98,700	—	—	—
New Jersey Clean Energy Program (1)	35,396	11,591	23,805	—	—
Construction obligations	3,238	3,238	—	—	—
Accelerated Infrastructure Program (AIP)	55,782	35,226	20,556	—	—
Remediation expenditures (2)	146,700	12,741	31,000	11,100	91,859
Natural gas supply purchase obligations—NJNG	111,252	111,252	—	—	—
Demand fee commitments—NJNG	746,149	107,455	196,295	154,815	287,584
Natural gas supply purchase obligations—NJRES	766,547	429,436	326,539	10,572	—
Demand fee commitments—NJRES	199,842	74,909	66,960	25,712	32,261
Total contractual cash obligations	\$2,809,043	\$934,552	\$722,649	\$308,263	\$843,579

(1) These obligations include an interest component, as defined under the related governing agreements or in accordance with the applicable tax statute.

(2) Expenditures are estimated.

The Company has no minimum pension funding requirements, however, funding requirements are uncertain and can depend significantly on changes in actuarial assumptions, returns on plan assets and changes in demographic factors. In fiscal 2009, NJR made discretionary contributions of \$25.6 million to the Pension plan. These contributions brought the plan to the Transition Target Funding level under the Pension Protection Act. An additional contribution of \$4.4 million was made on October 1, 2009. This amount is expected to cover the additional cost of benefits accruing during fiscal 2010. There are no Federal requirements to pre-fund OPEB benefits. However, the Company is required to fund certain amounts due to regulatory agreements with the BPU. In 2004, the Company elected to pre-fund most of the annual required contributions expected for the subsequent five fiscal years. The Company

contributed approximately \$1.9 million in fiscal 2009 to its OPEB plan and expects future funding to range from \$6.1 million to \$6.4 million annually over the next three years in accordance with BPU requirements. Actual contributions may be higher or lower based on market conditions and various assumptions.

As of March 31, 2010, there were NJR guarantees covering approximately \$350 million of natural gas purchases and demand fee commitments of NJRES and NJNG, included in natural gas supply purchase obligations above, not yet reflected in accounts payable on the Unaudited Condensed Consolidated Balance Sheet.

The Company is obligated to fund up to \$132.5 million associated with the construction and development of Steckman Ridge. As of March 31, 2010, NJR has invested approximately \$121.3 million in Steckman Ridge inclusive of cash distributions of \$5.5 million. Steckman Ridge may seek non-recourse project financing for a portion of the facility once construction activities are completed, therefore potentially reducing the aggregate recourse amount funded by NJR. There can be no assurances that Steckman Ridge will eventually secure such non-recourse project financing.

Total capital expenditures for fiscal 2010 and 2011 are estimated at \$106.6 million and \$79 million, respectively, including estimates of \$44.2 million and \$20.6 million, respectively, related to the AIP construction costs.

Off-Balance-Sheet Arrangements

The Company does not have any off-balance-sheet financing arrangements.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Cash Flow

Operating Activities

As presented in the Unaudited Condensed Consolidated Statements of Cash Flows, cash flow used in operating activities totaled \$245 million for the six months ended March 31, 2010, compared with cash flow from operations of \$345.9 million for the same period in fiscal 2009. NJR employs the indirect method when preparing its Unaudited Condensed Consolidated Statement of Cash Flows. Net income is adjusted for any non-cash items, such as depreciation, accruals and certain amortization amounts that impact earnings during the period. In addition, operating cash flows are primarily affected by variations in working capital, which can be impacted by the following:

- seasonality of NJR's business;
- fluctuations in wholesale natural gas prices;
- timing of storage injections and withdrawals;
- management of the deferral and recovery of gas costs;
- changes in contractual assets utilized to optimize margins related to natural gas transactions; and
- timing of the collections of receivables and payments of current liabilities.

Net income increased \$65.9 million during the six months ended March 31 2010, as compared with the same period in the prior fiscal year, due primarily to higher realized gains associated with natural gas in inventory at NJRES, as well as higher unrealized gains associated with decreases in the values of financial derivative instruments at NJRES. Changes in working capital that offset the increase in net income and were the primary contributors to the increase in cash used in operating activities are as follows:

- higher natural gas inventory cost at NJRES during the six months ended March 31, 2010, relative to the prior fiscal year coupled with a decrease in volumes during the six months ended March 31, 2009. NJRES average cost of gas during the six months ended March 31, 2010 increased approximately 40 percent from \$3.37 to \$4.73 as compared with a 45 percent reduction in average cost of gas during the comparable period in fiscal 2009 from \$9.62 to \$5.29;
- a decrease in NJNG's gas costs recovered during the six months ended March 31, 2010 due primarily to a BPU approved BGSS rate decrease, coupled with refunds and bill credits issued to customers totaling \$72.7 million during the six months ended March 31, 2010 compared with bill credits of \$47.1 million during fiscal 2009; offset by
- a favorable change in margin requirements of \$118.8 million as a result of higher NYMEX prices which allowed NJRES to withdraw cash as a result of an increase in realized and unrealized gains during the current fiscal year, whereas in the same period during the prior fiscal year unfavorable changes in NYMEX prices in relation to the fixed price on hedges related to

NJNG's storage incentive program resulted in additional margin deposits.

NJNG's MGP expenditures are currently expected to total \$12.7 million in fiscal 2010 (see Note 13. Commitments and Contingent Liabilities).

Investing Activities

Cash flow used in investing activities totaled \$36.6 million for the six months ended March 31, 2010, compared with \$66 million in the same period in fiscal 2009. The decrease in cash used was due primarily to lower amounts of cash invested in Steckman Ridge, as it became commercially operational during the third quarter of fiscal 2009 and construction on the facility has subsided, in addition to lower utility plant expenditures at NJNG due primarily to slower customer growth as well as expenditures during fiscal 2009 associated with a meter reading project that did not recur in the first quarter of fiscal 2010. These were offset by lower amounts of cash generated as a result of a final drawdown of \$4.2 million from NJNG's restricted cash construction fund during fiscal 2009 that did not recur in the six months ended March 31, 2010.

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In April 2009, Steckman Ridge received authorization to place certain injection related facilities into commercial operation and customers began to inject natural gas inventory in preparation for the initial withdrawal season. An additional drilling program will be reviewed in the third quarter of fiscal 2010. As of March 31, 2010, NJR has invested \$121.3 million in Steckman Ridge inclusive of cash distributions of \$5.5 million. This amount excludes capitalized interest and other direct costs. Total project costs related to the development of the storage facility are currently estimated at approximately \$265 million, of which NJR is obligated to fund 50 percent or approximately \$132.5 million. Steckman Ridge may seek non-recourse financing upon full completion of the construction and development of its facilities, thereby potentially reducing the final expected recourse obligation of NJR. There can be no assurances that such non-recourse project financing will be secured or available for Steckman Ridge.

NJNG's capital expenditures result primarily from the need for services, mains and meters to support its continued customer growth, mandated pipeline safety rulemaking and general system improvements. NJNG's capital expenditures are expected to increase in fiscal 2010 when compared with the capital spending in fiscal 2009, due primarily to accelerated spending related to the AIP projects, which are estimated at \$44.2 million. As of March 31, 2010, capital expenditures for AIP totaled \$12.5 million.

Retail and Other capital expenditures each year have been made primarily in connection with investments made to preserve the value of real estate holdings. At March 31, 2010, CR&R owned 83 acres of undeveloped land and a 56,400-square-foot building on 5 acres of land.

NJRES does not currently anticipate any significant capital expenditures in fiscal 2010.

Financing Activities

Cash flow used in financing activities totaled \$88.5 million for the six months ended March 31, 2009, compared with \$239.2 million for the same period in the prior fiscal year due primarily to lower short-term borrowings at NJR and the repayment of long-term debt of \$30 million and \$25 million, respectively, at NJNG and NJR during fiscal 2009 that did not recur during fiscal 2010, offset by additional share repurchases and dividend payments during fiscal 2010.

NJNG received \$4.9 million and \$6.3 million in December 2009 and 2008, respectively, related to the meter program, which is expected to be continued on an annual basis.

NJNG provides funding for certain of its infrastructure projects through tax exempt, variable-rate debt, which has been issued to back six series of auction rate securities (ARS) through the Economic Development Authority of New Jersey (EDA), and are based on the borrowing costs of the ARS. During periods of reduced liquidity for ARS, NJNG's rate on its variable rate debt could default to a maximum rate of the lesser of (i) 175 percent of the 30-day LIBOR or (ii) 10 to 12 percent, as applicable to a particular series of ARS. Although its average weighted interest rate has decreased to a rate of 0.43 percent as of March 31, 2010, NJNG continues to review alternatives that would eliminate or mitigate the inherent interest rate risk associated with its variable rate debt.

Credit Ratings

The table below summarizes NJNG's current credit ratings issued by two rating entities, Standard and Poor's (S&P) and Moody's Investors Service, Inc. (Moody's):

	Standard and Poor's	Moody's
Corporate Rating	A	N/A
Commercial Paper	A-1	P-1
Senior Secured	A+	Aa3
Ratings Outlook	Stable	Stable

NJNG's S&P and Moody's ratings are investment-grade ratings. S&P and Moody's give NJNG's commercial paper the highest rating within the Commercial Paper investment-grade category. NJR is not a rated entity. On April 30, 2009, S&P affirmed its ratings and changed its outlook from negative to stable. On December 22, 2009, Moody's affirmed NJNG's Aa3 secured long-term debt rating and short-term P-1 rating and changed its outlook from negative to stable.

NJNG is not party to any lending agreements that would accelerate the maturity date of any obligation caused by a failure to maintain any specific credit rating. If such ratings are downgraded below investment grade, borrowing costs could increase, as will the costs of maintaining certain contractual relationships and for future financing. Even if ratings are downgraded without falling below investment grade, NJR and NJNG may still face increased borrowing costs under their respective credit facilities. A rating set forth above is not a recommendation to buy, sell or hold the Company's or NJNG's securities and may be subject to revision or withdrawal at any time. Each rating set forth above should be evaluated independently of any other rating.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The timing and mix of any external financings will target a common equity ratio that is consistent with maintaining the Company's current short-term and long-term credit ratings.

Financial Risk Management

Commodity Market Risks

Natural gas is a nationally traded commodity, and its prices are determined effectively by the New York Mercantile Exchange (NYMEX) and over-the-counter markets. The prices on the NYMEX and over-the-counter markets generally reflect the notional balance of natural gas supply and demand, but are also influenced significantly from time to time by other events.

The regulated and unregulated natural gas businesses of the Company and its subsidiaries are subject to market risk due to fluctuations in the price of natural gas. To economically hedge against such fluctuations, the Company and its subsidiaries have entered into futures contracts, options agreements and swap agreements. To manage these derivative instruments, the Company has well-defined risk management policies and procedures that include daily monitoring of volumetric limits and monetary guidelines. The Company's natural gas businesses are conducted through three of its operating subsidiaries. First, NJNG is a regulated utility that uses futures, options and swaps to economically hedge against price fluctuations, and its recovery of natural gas costs is governed by the BPU. Second, NJRES uses futures, options, swaps and physical contracts to economically hedge purchases and sales of natural gas. Finally, NJR Energy has entered into two swap transactions related to an 18-year fixed-price contract, expiring in October 2010, to sell remaining volumes of approximately 1.4 Bcf of natural gas (Gas Sales Contract) to an energy marketing company.

The following table reflects the changes in the fair market value of financial derivatives related to natural gas purchases and sales from September 30, 2009 to March 31, 2010:

(Thousands)	Balance September 30, 2009	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance March 31, 2010
NJNG	\$ (8,073)	\$(39,268)	\$(10,617)	\$(36,724)
NJRES	27,926	67,725	42,213	53,438
NJR Energy	3,355	(6,507)	(2,689)	(463)
Total	\$23,208	\$ 21,950	\$ 28,907	\$ 16,251

There were no changes in methods of valuations during the six months ended March 31, 2010.

The following is a summary of fair market value of financial derivatives related to natural gas purchases and sales at March 31, 2010, by method of valuation and by maturity for each fiscal year period:

(Thousands)	2010	2011	2012-2015	After 2015	Total Fair Value
Price based on NYMEX	\$16,978	\$13,738	\$ (189)	—	\$30,527
Price based on other external data	(17,869)	4,547	(954)	—	(14,276)
Total	\$ (891)	\$18,285	\$(1,143)	—	\$16,251

The following is a summary of financial derivatives by type as of March 31, 2010:

		Volume (Bcf)	Price per Mmbtu	Amounts included in Derivatives (Thousands)
NJNG	Futures	2.7	\$3.87 - \$6.35	\$ (4,415)
	Swaps	20.8	\$3.74 - \$6.02	(32,375)
	Options	2.9	\$0.08 - \$0.08	66
NJRES	Futures	(20.4)	\$3.86 - \$10.35	34,867
	Swaps	11.8	\$2.89 - \$10.38	18,561
	Options	1.3	\$0.01 - \$0.02	10
NJR Energy	Swaps	1.4	\$3.55 - \$4.41	(463)
Total				\$16,251

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(Continued)

The following table reflects the changes in the fair market value of physical commodity contracts from September 30, 2009 to March 31, 2010:

(Thousands)	Balance September 30, 2009	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance March 31, 2010
NJRES	\$16,295	\$11,840	\$12,322	\$15,813

The Company uses a value-at-risk (VaR) model to assess the market risk of its net futures, options and swap positions. VaR represents the potential loss in value of NJRES' trading portfolio due to adverse market movements over a defined time horizon (NJRES utilizes holding periods of 1 day and 10 days) with a specified confidence level (NJRES utilizes either a 95 percent or 99 percent confidence level). As an example, utilizing a 1 day holding period with a 95 percent confidence level would indicate that there is a 5 percent chance that the liquidation value of the NJRES portfolio would fall below the expected trading value by an amount at least as large as the calculated VaR.

The VaR at March 31, 2010, using the variance-covariance method with a 95 percent confidence level and a 1-day holding period, was \$356,000. The VaR with a 99 percent confidence level and a 10-day holding period was \$1.6 million. The calculated VaR represents an estimate of the potential change in the value of the net positions. These estimates may not be indicative of actual results because actual market fluctuations may differ from forecasted fluctuations.

Wholesale Credit Risk

NJNG, NJRES and NJR Energy engage in wholesale marketing activities. NJR monitors and manages the credit risk of its wholesale marketing operations through credit policies and procedures that management believes reduce overall credit risk. These policies include a review and evaluation of prospective counterparties' financial statements and/or credit ratings, daily monitoring of counterparties' credit limits, daily communication with traders regarding credit status and the use of credit mitigation measures, such as minimum margin requirements, collateral requirements and netting agreements. Examples of collateral include letters of credit and cash received for either prepayment or margin deposit.

The Company's Risk Management Committee (RMC) continuously monitors NJR's credit risk management policies and procedures. The RMC is comprised of individuals from NJR-affiliated companies that meet twice a month and, among other things, evaluates the effectiveness of existing credit policies and procedures, reviews material transactions and discusses emerging issues.

The following is a summary of gross and net credit exposures, grouped by investment and noninvestment grade counterparties, as of March 31, 2010. Gross credit exposure is defined as the unrealized fair value of derivative and energy trading contracts plus any outstanding receivable for the value of natural gas delivered for which payment has not yet been received. Net credit exposure is defined as gross credit exposure reduced by collateral received from counterparties and/or payables, where netting agreements exist. The amounts presented below exclude accounts receivable for retail natural gas sales and services.

Unregulated counterparty credit exposure as of March 31, 2010, is as follows:

(Thousands)	Gross Credit Exposure	Net Credit Exposure
Investment grade	\$116,834	\$83,853
Noninvestment grade	10,055	937
Internally rated investment grade	20,974	12,717
Internally rated noninvestment grade	6,244	—
Total	\$154,107	\$97,507

NJNG's counterparty credit exposure as of March 31, 2010, is as follows:

(Thousands)	Gross Credit Exposure	Net Credit Exposure
Investment grade	\$27,960	\$24,588
Noninvestment grade	77	—
Internally rated investment grade	3,116	2,836
Internally rated noninvestment grade	1,149	—
Total	\$32,302	\$27,424

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

Due to the inherent volatility in the prices of natural gas commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If a counterparty failed to perform the obligations under its contract (for example, failed to deliver or pay for natural gas), then the Company could sustain a loss. This loss would comprise the loss on natural gas delivered but not paid for and/or the cost of replacing natural gas not delivered at a price higher than the price in the original contract. Any such loss could have a material impact on the Company's financial condition, results of operations or cash flows.

Interest Rate Risk—Long-Term Debt

As of March 31 2010, NJNG is obligated with respect to loan agreements securing six series of auction-rate bonds totaling approximately \$97 million of variable-rate debt backed by securities issued by the Economic Development Authority (EDA). The EDA bonds are ARS and have an interest rate reset every 7 or 35 days, depending upon the applicable series, when an auction is held for the purposes of determining the interest rate pricing of the securities. The interest rate associated with the NJNG variable-rate debt is based on the rates the EDA receives from its ARS. As of March 31, 2010, all of the auctions surrounding the EDA ARS have failed, resulting in the securities bearing interest at their maximum rates, as defined in the ARS, as the lesser of (i) 175 percent of 30-day LIBOR or (ii) 10 to 12 percent per annum, as applicable to such series of ARS. While the failure of the ARS auctions has no default impact on NJNG's variable-rate debt, it does impact its borrowing costs of the variable-rate debt. As of March 31, 2010, the 30-day LIBOR rate was 0.25 percent. As such, NJNG currently has a weighted average interest rate of 0.43 percent as of March 31, 2010. There can be no assurance that the EDA ARS will have enough market liquidity to avoid failed auctions in the future, which could potentially have an adverse impact on NJNG's borrowing costs if LIBOR rates increase. NJR is reviewing alternative methods for refinancing the ARS at NJNG on a continuing basis, however, it cannot assure that alternative sources of financing can be implemented in a timely manner.

At March 31, 2010, the Company (excluding NJNG) had no variable-rate long-term debt.

Effects of Inflation

Although inflation rates have been relatively low to moderate in recent years, any change in price levels has an effect on operating results due to the capital-intensive and regulated nature of the Company's utility subsidiary. The Company attempts to minimize the effects of inflation through cost control, productivity improvements and regulatory actions where appropriate.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) (the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that, as of end of

the period covered by this report, the Company's disclosure controls and procedures are effective, to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

NJR continually reviews its disclosure controls and procedures and makes changes, as necessary, to ensure the quality of its financial reporting. There have been no changes in internal control over financial reporting that occurred during the second quarter of 2010 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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ITEM 1. LEGAL PROCEEDINGS

Information regarding reportable legal proceedings is contained in Part I, "Item 3. Legal Proceedings" in NJR's Annual Report on Form 10-K for the year ended September 30, 2009, and is set forth in Part I, Item 1, Note 13. Commitment and Contingent Liabilities—Legal Proceedings in the Unaudited Condensed Consolidated Financial Statements. No legal proceedings became reportable during the quarter March 31, 2010, and there have been no material developments during such quarter regarding any previously reported legal proceedings, which have not been previously disclosed.

ITEM 1A. RISK FACTORS

While NJR attempts to identify, manage and mitigate risks and uncertainties associated with its business to the extent practical, under the circumstances, some level of risk and uncertainty will always be present. Part I, Item 1A, "Risk Factors," of NJR's 2009 Annual Report on Form 10-K includes a detailed discussion of NJR's risk factors. These risks and uncertainties have the potential to materially affect NJR's financial condition and results of operations. There have not been any material changes from the risk factors as previously disclosed by NJR in the 2009 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

In 1996, the NJR Board of Directors ("Board") authorized the Company to implement a share repurchase program, which has been expanded several times since the inception of the program. On January 27, 2010, the Board authorized an increase to the plan to permit the repurchase, in the open market or in privately negotiated transactions, of 2 million shares, bringing the total permitted repurchases to 8.8 million shares as of that date. As of March 31, 2010, the Company has 1.8 million shares of its common stock still available for repurchase.

The following table sets forth NJR's repurchase activity for the quarter ended March 31, 2010:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
01/01/10 – 01/31/10	281,200	\$36.90	281,200	1,967,471
02/01/10 – 02/28/10	25,000	\$36.54	25,000	1,942,471
03/01/10 – 03/31/10	120,400	\$36.92	120,400	1,822,071
Total	426,600	\$36.88	426,600	1,822,071

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) An annual meeting of shareholders was held on January 27, 2010 and information regarding such meeting was included in the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2009, which is incorporated herein by reference.

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ITEM 6. EXHIBITS

31.1 Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act

31.2 Certification of the Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act

32.1 Certification of the Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act*

32.2 Certification of the Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act*

*This certificate accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by NJR for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEW JERSEY RESOURCES CORPORATION
(Registrant)

Date: May 5, 2010

By:/s/ Glenn C. Lockwood
Glenn C. Lockwood
Senior Vice President and
Chief Financial Officer

