

NEW JERSEY RESOURCES CORP  
Form 10-Q  
May 04, 2012

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, 2012  
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 1 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:

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 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 filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

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 April 30, 2012 was 41,551,934.

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New Jersey Resources Corporation

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New Jersey Resources Corporation

## 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," "will" or "continue" or comparable terminology and are 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, qualifications for federal investment tax credits (ITCs) and Solar Renewable Energy Certificates (SRECs), financial condition, results of operations, cash flows, capital requirements, market risk and other matters for fiscal 2012 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 Item 1A. Risk Factors of NJR's 2011 Annual Report on Form 10-K and Part II, Item 1A of this Form 10-Q, as well as the following:

- weather and economic conditions;
- demographic changes in the New Jersey Natural Gas (NJNG) service territory and their effect on NJNG's customer growth;
- volatility of natural gas and other commodity prices and their impact on NJNG customer usage, NJNG's incentive programs, 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;
- the ability to comply with debt covenants;
- 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 a downturn in the financial markets, a lower discount rate, and impacts associated with the Patient Protection and Affordable Care Act;
- 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,
- liquidity in the wholesale energy trading market and the Company's ability to recover all of NJRES' funds in the MF Global liquidation proceedings;
- 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;
- risks associated with our investments in solar energy projects, including the availability of regulatory and tax incentives, logistical risks and potential delays related to construction, permitting, regulatory approvals and electric grid interconnection, the availability of viable projects and NJR's eligibility for ITCs, the future market for SRECs and operational risks related to projects in service;
- timing of qualifying for ITCs due to delays or failures to complete planned solar energy projects and the resulting effect on our effective tax rate and earnings;
-

the level and rate at which NJNG's costs and expenses are incurred and the extent to which they are allowed to be recovered from customers through the regulatory process;

access to adequate supplies of natural gas and 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;

risks related to our employee workforce;

the regulatory and pricing policies of federal and state regulatory agencies;

the costs of compliance with the proposed regulatory framework for over-the-counter derivatives;

the costs of compliance with present and future environmental laws, including potential climate change-related legislation;

risks related to changes in accounting standards;

the disallowance of recovery of environmental-related expenditures and other regulatory changes;

environmental-related and other litigation and other uncertainties; and

the impact of natural disasters, terrorist activities, and other extreme events.

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.

New Jersey Resources Corporation  
Part I

ITEM 1. FINANCIAL  
STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Thousands, except per share data)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2012	2011	2012	2011
<b>OPERATING REVENUES</b>				
Utility	\$ 226,023	\$ 433,248	\$ 417,397	\$ 723,924
Nonutility	386,898	543,739	837,935	966,215
Total operating revenues	612,921	976,987	1,255,332	1,690,139
<b>OPERATING EXPENSES</b>				
Gas purchases:				
Utility	78,301	235,001	163,931	395,450
Nonutility	382,055	548,618	788,472	977,865
Operation and maintenance	39,185	37,896	78,130	75,312
Regulatory rider expenses	18,443	24,304	30,986	41,002
Depreciation and amortization	10,439	8,477	20,039	16,931
Energy and other taxes	16,809	29,489	30,867	50,114
Total operating expenses	545,232	883,785	1,112,425	1,556,674
<b>OPERATING INCOME</b>	67,689	93,202	142,907	133,465
Other income	349	805	876	1,250
Interest expense, net of capitalized interest	5,427	5,078	10,432	10,341
<b>INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES</b>	62,611	88,929	133,351	124,374
Income tax provision	11,094	28,612	27,131	42,465
Equity in earnings of affiliates	3,018	3,610	5,672	6,527
<b>NET INCOME</b>	\$ 54,535	\$ 63,927	\$ 111,892	\$ 88,436
<b>EARNINGS PER COMMON SHARE</b>				
BASIC	\$1.31	\$1.55	\$2.70	\$2.14
DILUTED	\$1.31	\$1.54	\$2.68	\$2.13
<b>DIVIDENDS PER COMMON SHARE</b>	\$0.38	\$0.36	\$0.76	\$0.72
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>				
BASIC	41,509	41,352	41,472	41,316
DILUTED	41,711	41,553	41,673	41,516

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2012	2011	2012	2011
Net income	\$ 54,535	\$ 63,927	\$ 111,892	\$ 88,436
Other comprehensive income, net of tax				
Unrealized (loss) gain on available for sale securities, net of tax of \$575, \$(266), \$(25) and \$(552), respectively <sup>(1)</sup>	\$ (833 )	\$ 390	\$ 36	\$ 800
Net unrealized (loss) gain on derivatives, net of tax of \$18, \$(16), \$41 and \$(55), respectively	(30 )	26	(70 )	95

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Adjustment to postemployment benefit obligation, net of tax of \$(149), \$0, \$(299) and \$0, respectively	219	—	438	—
Other comprehensive income	\$(644 )	\$ 416	\$ 404	\$ 895
Comprehensive income	\$53,891	\$ 64,343	\$ 112,296	\$ 89,331

(1) Available for sale securities are included in other noncurrent assets in the Unaudited Condensed Consolidated Balance Sheets.

See Notes to Unaudited Condensed Consolidated Financial Statements

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New Jersey Resources Corporation  
Part I

ITEM 1. FINANCIAL STATEMENTS  
(Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Thousands)	Six Months Ended March 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$111,892	\$88,436
Adjustments to reconcile net income to cash flows from operating activities:		
Unrealized (gain) loss on derivative instruments	(15,353 )	58,049
Depreciation and amortization	20,039	17,369
Allowance for equity used during construction	(139 )	(499 )
Allowance for bad debt expense	1,586	2,572
Deferred income taxes	20,920	(6,374 )
Manufactured gas plant remediation costs	(4,964 )	(5,727 )
Equity in earnings of affiliates, net of distributions received	3,852	(13 )
Cost of removal - asset retirement obligations	(368 )	(456 )
Contributions to postemployment benefit plans	(22,982 )	(8,068 )
Changes in:		
Components of working capital	(31,567 )	9,862
Other noncurrent assets	11,690	16,234
Other noncurrent liabilities	10,018	9,624
Cash flows from operating activities	104,624	181,009
<b>CASH FLOWS (USED IN) INVESTING ACTIVITIES</b>		
Expenditures for		
Utility plant	(42,380 )	(43,581 )
Solar equipment	(61,786 )	(11,533 )
Real estate properties and other	(459 )	(367 )
Cost of removal	(6,765 )	(3,605 )
Withdrawal from restricted cash construction fund	136	38
Cash flows (used in) investing activities	(111,254 )	(59,048 )
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock	7,164	7,297
Tax benefit from stock options exercised	222	347
Proceeds from sale-leaseback transaction	6,522	5,901
Payments of long-term debt	(3,371 )	(23,919 )
Purchases of treasury stock	(4,800 )	(7,222 )
Payments of common stock dividends	(30,695 )	(28,917 )
Net proceeds from short-term debt	31,950	—
Cash flows from (used in) financing activities	6,992	(46,513 )
Change in cash and cash equivalents	362	75,448
Cash and cash equivalents at beginning of period	7,440	943
Cash and cash equivalents at end of period	\$7,802	\$76,391
<b>CHANGES IN COMPONENTS OF WORKING CAPITAL</b>		
Receivables	\$19,773	\$(106,839)
Inventories	118,920	141,246
Recovery of gas costs	(21,177 )	28,309



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Gas purchases payable	(80,941 )	(1,285 )
Prepaid and accrued taxes	47,025	78,809
Accounts payable and other	(4,573 )	(3,414 )
Restricted broker margin accounts	(14,249 )	(48,713 )
Customers' credit balances and deposits	(82,321 )	(77,917 )
Other current assets	(14,024 )	(334 )
Total	\$(31,567 )	\$9,862

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

Cash paid for:

Interest (net of amounts capitalized)	\$8,324	\$9,172
Income taxes	\$814	\$4,047

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES

Accrued capital expenditures	\$5,041	\$(3,472 )
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See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation  
Part I

ITEM 1. FINANCIAL STATEMENTS  
(Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

ASSETS

(Thousands)	March 31, 2012	September 30, 2011
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Utility plant, at cost	\$ 1,634,936	\$ 1,595,278
Real estate properties, solar and other, at cost	179,402	110,886
Total property, plant and equipment	1,814,338	1,706,164
Accumulated depreciation and amortization	(417,563 )	(410,237 )
Property, plant and equipment, net	1,396,775	1,295,927
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	7,802	7,440
Customer accounts receivable		
Billed	179,006	209,266
Unbilled revenues	16,428	7,333
Allowance for doubtful accounts	(4,806 )	(4,612 )
Regulatory assets	80,920	17,630
Gas in storage, at average cost	175,209	294,475
Materials and supplies, at average cost	7,741	7,395
Prepaid and accrued taxes	23,803	54,311
Derivatives, at fair value	103,506	100,338
Restricted broker margin accounts	66,515	22,595
Deferred taxes	—	1,498
Other	18,552	14,698
Total current assets	674,676	732,367
<b>NONCURRENT ASSETS</b>		
Investments in equity investees	157,049	159,063
Regulatory assets	410,901	434,185
Derivatives, at fair value	3,333	6,515
Other	27,005	21,387
Total noncurrent assets	598,288	621,150
Total assets	\$ 2,669,739	\$ 2,649,444

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation  
Part I

ITEM 1. FINANCIAL STATEMENTS  
(Continued)

CAPITALIZATION AND LIABILITIES

(Thousands)	March 31, 2012	September 30, 2011
<b>CAPITALIZATION</b>		
Common stock equity	\$ 862,242	\$ 776,257
Long-term debt	429,450	426,797
Total capitalization	1,291,692	1,203,054
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	8,117	7,575
Short-term debt	191,300	159,350
Gas purchases payable	171,750	252,691
Accounts payable and other	63,268	65,960
Dividends payable	15,780	14,912
Deferred and accrued taxes	17,295	778
Regulatory liabilities	—	4,633
New Jersey clean energy program	13,522	15,011
Derivatives, at fair value	92,028	68,698
Restricted broker margin accounts	29,671	—
Customers' credit balances and deposits	31,455	113,776
Total current liabilities	634,186	703,384
<b>NONCURRENT LIABILITIES</b>		
Deferred income taxes	353,237	327,782
Deferred investment tax credits	6,066	6,227
Deferred revenue	5,966	7,633
Derivatives, at fair value	3,751	6,341
Manufactured gas plant remediation	182,900	182,900
Postemployment employee benefit liability	95,176	114,305
Regulatory liabilities	63,391	59,837
New Jersey clean energy program	—	5,133
Asset retirement obligation	27,537	27,026
Other	5,837	5,822
Total noncurrent liabilities	743,861	743,006
Commitments and contingent liabilities (Note 11)		
Total capitalization and liabilities	\$ 2,669,739	\$ 2,649,444

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation  
Part I

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. NATURE OF THE BUSINESS

New Jersey Resources Corporation (NJR or the Company) 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 to approximately 499,500 retail customers 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 that maintains and transacts around a portfolio of natural gas storage and transportation positions and provides wholesale energy and energy management services;

NJR Clean Energy Ventures (NJRCEV) comprises the Clean Energy Ventures segment and reports the results of operations and assets related to the Company's capital investments in renewable energy projects, including commercial and residential solar projects;

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 Transmission 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). Iroquois and Steckman Ridge comprise the Energy Holdings segment (previously Midstream Assets);

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 NJR in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The September 30, 2011, 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 2011 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, 2012.

Intercompany transactions and accounts have been eliminated.

Gas in Storage

The following table summarizes gas in storage, at average cost by company as of:

(\$ in thousands)	March 31, 2012		September 30, 2011	
	Gas in Storage	Bcf	Gas in Storage	Bcf
NJNG	\$67,104	10.7	\$159,328	23.1
NJRES	108,105	41.9	135,147	36.8
Total	\$175,209	52.6	\$294,475	59.9

New Jersey Resources Corporation  
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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

Available for Sale Securities

Included in other noncurrent assets on the Unaudited Condensed Consolidated Balance Sheets are certain investments in equity securities of a publicly traded energy company that have a fair value of \$10.4 million and \$10.3 million as of March 31, 2012 and September 30, 2011, respectively. Total unrealized gains associated with these equity securities, which are included as a part of accumulated other comprehensive income, a component of common stock equity, were \$7.7 million (\$4.6 million, after tax) and \$7.7 million (\$4.5 million, after tax) as of March 31, 2012 and September 30, 2011, respectively.

Recent Updates to the Accounting Standards Codification (ASC)

Fair Value

In May 2011, the FASB issued an amendment to ASC Topic 820, Fair Value Measurements and Disclosures, clarifying certain guidance to ensure that U.S. generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards (IFRS) have the same fair value meaning, measurements and disclosure requirements. The amended guidance became effective for interim and annual periods beginning after December 15, 2011. There was no impact to the Company's financial position, results of operations or cash flows upon adoption.

Presentation of Comprehensive Income

In June 2011, the FASB issued an update to ASC Topic 220, Comprehensive Income, allowing two alternatives for the presentation of comprehensive income, eliminating the option to present the components of comprehensive income (OCI) as a part of the statement of changes in stockholder's equity and requiring that reclassification adjustments from OCI to income be presented on the face of the financial statements. The amended guidance requires that comprehensive income, including the components of net income and OCI, be presented in either one statement or in two separate but consecutive statements. In December 2011, the FASB issued a subsequent amendment indefinitely deferring the provisions requiring reclassification adjustments out of OCI to be presented on the face of the financial statements. The other portions of the original update remain unchanged and became effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. Effective September 30, 2011, NJR adopted the two-statement approach retrospectively. There was no impact to the Company's financial position, results of operations or cash flows upon adoption.

Balance Sheet Offsetting

In December 2011, the FASB issued an amendment to ASC Topic 210, Balance Sheet, requiring additional disclosures about the nature of an entity's rights of setoff and related master netting arrangements associated with its financial and derivative instruments. The objective of the disclosures is to facilitate comparison between financial statements prepared on the basis of U.S. generally accepted accounting principles (U.S. GAAP) and those prepared on the basis of International Financial Reporting Standards (IFRS). The amended guidance will become effective for interim and annual periods beginning on or after January 1, 2013 and will be applied retrospectively. The Company has determined that the new guidance will not impact its financial position, results of operations or cash flows upon adoption.

### 3. REGULATION

NJNG is subject to cost-based regulation, therefore, it is permitted to recover authorized operating expenses and earn a reasonable return on its utility investment based on the BPU's approval, in accordance with accounting guidance applicable to regulated operations. Accordingly, NJNG capitalizes or defers certain costs that are expected to be recovered from its customers as regulatory assets and recognizes certain obligations representing amounts that are probable future expenditures as regulatory liabilities.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

Regulatory assets and liabilities included on the Unaudited Condensed Consolidated Balance Sheets are comprised of the following:

(Thousands)	March 31, 2012	September 30, 2011
Regulatory assets-current		
Conservation Incentive Program	\$ 20,871	\$ 9,178
Underrecovered gas costs	16,544	—
Derivatives, net	43,505	8,452
Total current	\$ 80,920	\$ 17,630
Regulatory assets-noncurrent		
Environmental remediation costs		
Expended, net of recoveries	\$ 61,259	\$ 75,646
Liability for future expenditures	182,900	182,900
Deferred income taxes	10,879	10,879
Energy Efficiency Program	17,913	11,906
New Jersey Clean Energy Program	13,522	20,144
Postemployment and other benefit costs	120,247	123,827
Other	4,181	8,883
Total noncurrent	\$ 410,901	\$ 434,185
Regulatory liability-current		
Overrecovered gas costs	\$ —	\$ 4,633
Total current	\$ —	\$ 4,633
Regulatory liabilities-noncurrent		
Cost of removal obligation	\$ 63,133	\$ 59,752
Other	258	85
Total noncurrent	\$ 63,391	\$ 59,837

NJNG's recovery of costs is facilitated through its base rates, Basic Gas Supply Service (BGSS) and other regulatory riders. As recovery of regulatory assets is subject to BPU approval, if there are any changes in regulatory positions that indicate recovery is not probable, the related cost would be charged to income in the period of such determination.

Recent regulatory filings and/or actions include the following:

On November 17, 2011, NJNG notified the BPU that it will provide bill credits to NJNG's residential and small commercial customers during December 2011 and January 2012, as a result of the decline in the wholesale prices of natural gas and a change in the methodology used to develop estimates of unaccounted-for gas. On January 25, 2012 and March 9, 2012, NJNG notified the BPU that it would extend bill credits through February 2012 and March 2012, respectively. In total, customers received approximately \$90.7 million in credits based on usage during the four-month period.

On January 18, 2012, the BPU approved an extension of NJNG's Energy Efficiency program (EE) for one year with an additional \$18.4 million of investments in customer incentives and financing earning a weighted average cost of capital of 7.1 percent, including a cost of equity of 10.3 percent.



On January 18, 2012, the BPU issued an Order approving NJNG's 2010 Societal Benefits Clause (SBC) filing, in which NJNG requested approval of its manufactured gas plant remediation expenditures incurred through September 30, 2009, as well as continuation of its existing overall SBC rate. In February 2012, NJNG filed its 2011 SBC filing, which requested approval of its MGP expenditures incurred through September 30, 2011, with no additional rate impact on customers.

On March 9, 2012, NJNG notified the BPU that it will implement a 3.6 percent decrease to its BGSS rate, effective April 1, 2012, with an annual impact of approximately \$19 million.

New Jersey Resources Corporation  
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

On March 20, 2012, NJNG filed a petition with the BPU seeking to implement a Safety Acceleration and Facility Enhancement (SAFE) program, whereby NJNG would invest up to \$204 million over a five-year period to replace portions of NJNG's gas distribution infrastructure. If approved, commencing in 2013, NJNG would file a petition with the BPU annually in June to recover costs over the life of the program, including an overall weighted average cost of capital of 7.76 percent, including a cost of equity of 10.3 percent.

#### 4. DERIVATIVE INSTRUMENTS

The Company and certain of 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 certain of 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. In addition, the Company may utilize foreign currency derivatives as cash flow hedges of Canadian dollar denominated gas purchases. These contracts, with a few exceptions as described below, are accounted for as derivatives. 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. 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.

Since the Company chooses not to designate its financial commodity and physical forward commodity derivatives as accounting hedges, changes in the fair value of these derivative instruments are recorded as a component of gas purchases or operating revenues, as appropriate for NJRES, in the Unaudited Condensed Consolidated Statements of Operations 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.

NJRES also enters into natural gas transactions in Canada and, consequently, is exposed to fluctuations in the value of Canadian currency relative to the US dollar. NJRES utilizes foreign currency derivatives to lock in the currency translation rate associated with natural gas transactions denominated in Canadian currency. The derivatives may include currency forwards, futures, or swaps and are accounted for as derivatives. These derivatives are being used to hedge future forecasted cash payments associated with transportation and storage contracts. The Company has designated these foreign currency derivatives as cash flow hedges of that exposure, and expects the hedge relationship to be highly effective throughout the term. Since NJRES designates its foreign exchange contracts as cash flow hedges, changes in fair value of the effective portion of the hedge are recorded in other comprehensive income (OCI). When the foreign exchange contracts are settled, realized gains and (losses) are recognized in gas purchases in the Unaudited Condensed Consolidated Statements of Operations.

As a result of NJRES 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 derivative transaction that is recorded at fair value in the Unaudited Condensed Consolidated Balance Sheets, with changes in value recognized in current period earnings.

Changes in fair value of NJNG's financial derivative instruments are recorded as a component of regulatory assets or liabilities in the Unaudited Condensed Consolidated Balance Sheets, as NJNG has received regulatory approval to defer and to recover these amounts through future BGSS rates as an increase or decrease to the cost of natural gas in NJNG's tariff.

The Company elects normal purchase/normal sale accounting treatment on all physical commodity contracts at NJNG. These contracts are accounted for on an accrual basis. Accordingly, gains or (losses) are recognized in earnings when the contract settles and the natural gas is delivered.

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Fair Value of Derivatives

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

(Thousands)	Balance Sheet Location	Fair Value			
		March 31, 2012		September 30, 2011	
		Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Derivatives designated as hedging instruments:					
NJRES:					
Foreign currency contracts	Derivatives - current	\$ 127	\$ 22	\$ 153	\$ 8
	Derivatives - noncurrent	93	43	127	6
Fair value of derivatives designated as hedging instruments		\$ 220	\$ 65	\$ 280	\$ 14
Derivatives not designated as hedging instruments:					
NJNG:					
Financial commodity contracts	Derivatives - current	\$ 6,049	\$ 49,717	\$ 5,424	\$ 13,258
	Derivatives - noncurrent	163	—	2	620
NJRES:					
Physical forward commodity contracts	Derivatives - current	21,541	11,150	33,240	10,570
	Derivatives - noncurrent	578	604	4,450	781
Financial commodity contracts	Derivatives - current	75,789	31,139	61,521	44,862
	Derivatives - noncurrent	2,499	3,104	1,936	4,934
Fair value of derivatives not designated as hedging instruments		\$ 106,619	\$ 95,714	\$ 106,573	\$ 75,025
Total fair value of derivatives		\$ 106,839	\$ 95,779	\$ 106,853	\$ 75,039

At March 31, 2012, the gross notional amount of the foreign currency transactions was approximately \$11.5 million, and ineffectiveness in the hedge relationship is immaterial to the financial results of NJR.

NJRES utilizes financial derivatives to economically hedge the gross 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 or (losses) on the financial transactions that are economic hedges of the cost of the purchased gas are recognized prior to the gains or (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 or (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.

The following table reflects the effect of derivative instruments on the Unaudited Condensed Consolidated Statements of Operations as of:

(Thousands)	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives	
		Three Months Ended	Six Months Ended

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		March 31,		March 31,	
Derivatives not designated as hedging instruments:		2012	2011	2012	2011
NJRES:					
Physical commodity contracts	Operating revenues	\$ 8,745	\$41,306	\$(3,163 )	\$24,837
Physical commodity contracts	Gas purchases	116	(9,448 )	4,391	(5,739 )
Financial commodity contracts	Gas purchases	40,511	496	102,965	(27,775 )
Total unrealized and realized gains (losses)		\$49,372	\$32,354	\$104,193	\$(8,677 )

Not included in the previous table, are (losses) associated with NJNG's financial derivatives that totaled \$(15.4) million and \$(2.2) million for the three months ended March 31, 2012 and 2011, respectively and \$(35.3) million and \$(4.9) million for the six months ended March 31, 2012 and 2011, respectively. These derivatives are part of its risk management activities that relate

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to its natural gas purchasing activities and BGSS incentive programs. 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 and there is no impact to earnings.

As previously noted, NJRES designates its foreign exchange contracts as cash flow hedges, therefore, changes in fair value of the effective portion of the hedges are recorded in OCI and, upon settlement of the contracts, realized gains and losses are reclassified from OCI to gas purchases in the Unaudited Condensed Consolidated Statements of Operations. The following table reflect the effect of derivative instruments designated as cash flow hedges on OCI as of:

(Thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Amount of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)		Amount of Gain or (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
Derivatives in cash flow hedging relationships:	2012	2011	2012	2011	2012	2011
Foreign currency contracts	\$ (25	)\$42	\$ (23	)\$ (50	)\$—	\$—

(Thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) <sup>(1)</sup>		Amount of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)		Amount of Gain or (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Six Months Ended March 31,		Six Months Ended March 31,		Six Months Ended March 31,	
Derivatives in cash flow hedging relationships:	2012	2011	2012	2011	2012	2011
Foreign currency contracts	\$ (75	)\$161	\$ (35	)\$ (59	)\$—	\$—

(1) The settlement of foreign currency transactions over the next twelve months is expected to result in the reclassification of \$105,000 from OCI into earnings. The maximum tenor is April 2015.

NJNG and NJRES had the following outstanding long (short) derivatives as of:

		Volume (Bcf)	
		March 31, 2012	September 30, 2011
NJNG	Futures	14.8	23.7
	Swaps	3.3	(1.8
	Options	2.4	1.1
NJRES	Futures	(26.0	)(13.8
	Swaps	(0.7	)(41.9

Options	—	—
Physical	24.6	58.3

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Broker Margin

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 accounts for NJNG and NJRES. The balances by company, are as follows:

(Thousands)	Balance Sheet Location	March 31, 2012	September 30, 2011
NJNG	Broker margin - Current assets	\$46,361	\$11,722
NJRES	Broker margin - Current assets	\$20,154	\$10,873
NJRES	Broker margin - Current (liabilities)	\$(29,671)	)\$—

Wholesale Credit Risk

NJNG and NJRES are exposed to credit risk as a result of their wholesale marketing activities. 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 (e.g., failed to deliver or pay for natural gas), then the Company could sustain a loss.

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.

The following is a summary of gross credit exposures grouped by investment and noninvestment grade counterparties, as of March 31, 2012. 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 wholesale receivable for the value of natural gas delivered and/or financial derivative commodity contract that has settled 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 NJNG retail natural gas sales and services.

(Thousands)	Gross Credit Exposure
Investment grade	\$107,085



Noninvestment grade	21,457
Internally rated investment grade	25,580
Internally rated noninvestment grade	7,451
Total	\$ 161,573

Conversely, certain of NJNG's and NJRES' 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, reflects the overall corporate credit profile of NJR. 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. In addition, 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.

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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, 2012 and September 30, 2011, was \$2.6 million and \$4.1 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, 2012 and September 30, 2011, the Company would have been required to post an additional \$2.2 million and \$1.7 million, respectively, to its counterparties. These amounts differ from the respective net derivative liabilities reflected in the Unaudited Condensed Consolidated Balance Sheets because the 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.

#### Liquidation of Clearing Broker

MF Global Inc. (MFGI) and MF Global UK Limited (UKMF), which operated as futures commission merchants and broker/dealer entities of MF Global Holdings Ltd. (collectively with its affiliates, MF Global), were NJRES' clearing brokers through which NJRES held positions in energy futures contracts, options on futures contracts, and swaps cleared on exchanges administered by the Chicago Mercantile Exchange (CME) and the Intercontinental Exchange (ICE). The CME and ICE both require NJRES to maintain adequate margin against NJRES' trading positions, which our former clearing brokers, MFGI and UKMF, were required to hold on our behalf in segregated or secured accounts. MF Global disclosed to the CME that it had a "significant shortfall" in its segregated customer accounts. Shortly thereafter, on October 31, 2011, the Securities Investor Protection Corporation announced that it had initiated the liquidation of MFGI under the Securities Investor Protection Act (SIPA) in the U.S. and the High Court in the U.K. appointed special administrators to conduct the liquidation of UKMF. The SIPA Trustee's latest estimate of the shortfall in commodities customers' segregated account funds is \$1.6 billion.

As of the close of business on November 3, 2011, the market value of NJRES' MF Global account was \$27.8 million, of which \$10.6 million related to CME positions and \$17.2 million related to ICE positions. To date, NJRES has received distributions from the SIPA Trustee totaling \$7.6 million related to its CME positions. Accordingly, the remaining exposure as of March 31, 2012, is \$20.2 million.

NJRES has filed claims in both the MFGI and UKMF liquidation proceedings and intends to vigorously prosecute those claims to recover all of its funds, but it cannot estimate at this time, either how much of those funds will be recovered or when they will be recovered.

## 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, including current maturities is as follows:

(Thousands)	March 31, 2012	September 30, 2011
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Carrying value	\$437,567	\$434,372
Fair market value	\$478,010	\$471,022

Effective January 1, 2012, NJR changed its valuation technique from a market approach to an income approach. NJR considers the discounted cash flow method to provide a more consistently reliable fair value. Inputs include U.S. Treasury securities and credit spreads, both of which are observable inputs. Any adjustments to the measurement for duration, as applicable, are not considered to be significant, therefore, NJR classifies its debt within Level 2 of the fair value hierarchy.

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Fair Value Hierarchy

NJR applies fair value measurement guidance 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, authoritative accounting literature 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 futures contracts, listed equities, and money market funds.

Level 2 Price data, which includes both commodity and basis 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 for which no basis price is available. These additional adjustments are not considered 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.

NJNG's and NJRES' 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 most instances, the cost to transport to the final delivery location is not significant to the overall valuation. If required, NJRES' policy is to use the best information available to determine fair value based on internal pricing models, which would include estimates extrapolated from broker quotes or pricing services.

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.

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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, 2012:				
Assets:				
Physical forward commodity contracts	\$—	\$22,119	\$—	\$22,119
Financial derivative contracts - natural gas	47,212	37,288	—	84,500
Financial commodity contracts - foreign exchange	—	220	—	220
Available for sale equity securities - energy industry <sup>(1)</sup>	10,408	—	—	10,408
Other	3,865	—	—	3,865
Total assets at fair value	\$61,485	\$59,627	\$—	\$121,112
Liabilities:				
Physical forward commodity contracts	\$—	\$11,754	\$—	\$11,754
Financial commodity contracts - natural gas	61,351	22,609	—	83,960
Financial commodity contracts - foreign exchange	—	65	—	65
Other	729	—	—	729
Total liabilities at fair value	\$62,080	\$34,428	\$—	\$96,508
As of September 30, 2011:				
Assets:				
Physical forward commodity contracts	\$—	\$37,690	\$—	\$37,690
Financial derivative contracts - natural gas	25,617	43,266	—	68,883
Financial commodity contracts - foreign exchange	—	280	—	280
Available for sale equity securities - energy industry <sup>(1)</sup>	10,348	—	—	10,348
Other	2,820	—	—	2,820
Total assets at fair value	\$38,785	\$81,236	\$—	\$120,021
Liabilities:				
Physical forward commodity contracts	\$—	\$11,351	\$—	\$11,351
Financial derivative contracts - natural gas	23,715	39,959	—	63,674
Financial commodity contracts - foreign exchange	—	14	—	14
Other	616	—	—	616
Total liabilities at fair value	\$24,331	\$51,324	\$—	\$75,655

(1) Included in other noncurrent assets in the Unaudited Condensed Consolidated Balance Sheets.

## 6. INVESTMENTS IN EQUITY INVESTEES

NJR uses the equity method of accounting for its investments in Steckman Ridge and Iroquois. Earnings or losses from equity method investments are included in Equity in earnings of affiliates in the Unaudited Condensed Consolidated Statements of Operations.

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NJR's investments in equity investees include the following investments as of:

(Thousands)	March 31, 2012	September 30, 2011
Steckman Ridge	\$ 134,703	\$ 135,130
Iroquois	22,346	23,933
Total	\$ 157,049	\$ 159,063

As of March 31, 2012, the investment of Steckman Ridge includes loans with a total outstanding principal balance of \$70.4 million. The loans accrue interest at a variable rate that resets quarterly and are due December 31, 2017.

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NJRES and NJNG have entered into transportation, storage and park and loan agreements with Iroquois and Steckman Ridge. See Note 13. Related Party Transactions for more information on these affiliate transactions.

## 7. EARNINGS PER SHARE

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

(Thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	March 31, 2012	2011	March 31, 2012	2011
Net income, as reported	\$54,535	\$63,927	\$111,892	\$88,436
Basic earnings per share				
Weighted average shares of common stock outstanding-basic	41,509	41,352	41,472	41,316
Basic earnings per common share	\$1.31	\$1.55	\$2.70	\$2.14
Diluted earnings per share				
Weighted average shares of common stock outstanding-basic	41,509	41,352	41,472	41,316
Incremental shares <sup>(1)</sup>	202	201	201	200
Weighted average shares of common stock outstanding-diluted	41,711	41,553	41,673	41,516
Diluted earnings per common share <sup>(2)</sup>	\$1.31	\$1.54	\$2.68	\$2.13

(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, 2012 and 2011.

## 8. DEBT

NJR and NJNG finance working capital requirements and capital expenditures through the issuance of various long-term debt and other financing arrangements, including unsecured credit and private placement debt shelf facilities. Amounts available under credit facilities are reduced by bank or commercial paper borrowings, as applicable, and any outstanding letters of credit. Neither NJNG nor the results of its operations are obligated or pledged to support the NJR credit or debt shelf facilities.

A summary of NJR's and NJNG's debt shelf and credit facilities are as follows:

(Thousands)	March 31, 2012	September 30, 2011	Maturity Dates
<b>NJR</b>			
Debt shelf facilities <sup>(1) (2) (3)</sup>	\$175,000	\$175,000	Various <sup>(3)</sup>
Bank credit facilities <sup>(4)</sup>	\$325,000	\$325,000	December 2012
Notes payable outstanding at end of period	\$157,300	\$132,850	
Weighted average interest rate at end of period	0.53	% 0.54	%
Amount available at end of period	\$155,453	\$157,853	
<b>NJNG</b>			
Bank credit facility dedicated to EDA Bonds <sup>(2) (4)</sup>	\$100,000	\$100,000	August 2015
Bank credit facilities <sup>(4)</sup>	\$200,000	\$200,000	August 2014
Commercial paper outstanding at end of period	\$34,000	\$26,500	
Weighted average interest rate at end of period	0.16	% 0.24	%

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Amount available at end of period	\$ 166,000	\$ 173,500
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(1) Uncommitted, long-term debt shelf facilities, which require no commitment fees on the unused amounts.

(2) There were no borrowings outstanding as of March 31, 2012 and September 30, 2011, respectively.

(3) \$100 million debt shelf expires May 2013 and \$75 million debt shelf expires June 2014.

(4) Committed credit facilities, which require commitment fees on the unused amounts.

Other

NJNG received \$6.5 million and \$5.9 million in December 2011 and 2010, respectively, in connection with the sale-leaseback of its natural gas meters. This sale-leaseback program is expected to continue on an annual basis.



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9.EMPLOYEE BENEFIT PLANS

Pension and Other Postemployment Benefit Plans (OPEB)

The components of the net periodic cost for pension benefits, including the Company'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		Six Months Ended		Three Months Ended		Six Months Ended	
	March 31, 2012	2011	March 31, 2012	2011	March 31, 2012	2011	March 31, 2012	2011
Service cost	\$ 1,344	\$ 1,194	\$ 2,688	\$ 2,388	\$ 896	\$ 836	\$ 1,792	\$ 1,672
Interest cost	2,206	2,095	4,412	4,189	1,283	1,212	2,566	2,423
Expected return on plan assets	(3,171)	(2,873)	(6,342)	(5,745)	(686)	(618)	(1,372)	(1,236)
Recognized actuarial loss	1,254	987	2,508	1,973	724	653	1,448	1,306
Prior service cost amortization	11	12	22	24	6	19	12	38
Recognized net initial obligation	—	—	—	—	89	89	178	178
Net periodic benefit cost	\$ 1,644	\$ 1,415	\$ 3,288	\$ 2,829	\$ 2,312	\$ 2,191	\$ 4,624	\$ 4,381

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, interest rates 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 \$20 million to the pension plans in December 2011.

10. INCOME TAXES

NJR evaluates its tax positions to determine the appropriate accounting and recognition of potential future obligations associated with unrecognized tax benefits. During the six months ended March 31, 2012 and 2011, based on its analysis, the Company determined that there was no need to recognize any liabilities associated with uncertain tax positions.

The effective tax rates for the six months ended March 31, 2012 and 2011, are 19.5 percent and 32.4 percent, respectively. The decrease in the rate is due primarily to federal investment tax credits (ITC) of \$24.9 million and \$6.1 million, generated by NJRCEV's solar investments placed into service in the six months ended March 31, 2012 and 2011, respectively, and solar investments forecasted to be completed before the end of the fiscal year.

To calculate the estimated annual effective tax rate, NJR considers projects that are probable of being completed and available for use during the current fiscal year based on the best information available at each reporting period. The estimate includes an assessment of various factors, such as board of director approval, status of contractual agreements, permitting and interconnection. Adjustments to the effective tax rate and management's estimates will occur as information and assumptions change.

## 11. COMMITMENTS AND CONTINGENT LIABILITIES

### Cash Commitments

NJNG has entered into long-term contracts, expiring at various dates through November 2024, for the supply, storage and delivery of natural gas. These contracts include current annual fixed charges of approximately \$96 million at current contract rates and volumes, which are recoverable through BGSS.

For the purpose of securing storage and pipeline capacity, NJRES enters into storage and pipeline capacity contracts, which require the payment of certain demand charges by NJRES to maintain the ability to access such natural gas storage or pipeline capacity, during a fixed time period, which generally ranges 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.

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Commitments as of March 31, 2012, for natural gas purchases and future demand fees for the next five fiscal year periods are as follows:

(Thousands)	2012	2013	2014	2015	2016	Thereafter
NJRES:						
Natural gas purchases	\$ 264,023	\$ 181,858	\$ 6,555	\$ —	\$ —	\$ —
Storage demand fees	21,136	31,625	18,838	12,286	7,236	12,353
Pipeline demand fees	32,704	41,830	22,169	10,891	9,077	17,427
Sub-total NJRES	\$ 317,863	\$ 255,313	\$ 47,562	\$ 23,177	\$ 16,313	\$ 29,780
NJNG:						
Natural gas purchases	\$ 19,877	\$ 1,096	\$ —	\$ —	\$ —	\$ —
Storage demand fees	15,666	30,070	25,123	15,888	11,088	33,245
Pipeline demand fees	27,164	76,776	73,150	35,213	31,578	201,838
Sub-total NJNG	\$ 62,707	\$ 107,942	\$ 98,273	\$ 51,101	\$ 42,666	\$ 235,083
Total <sup>(1)</sup>	\$ 380,570	\$ 363,255	\$ 145,835	\$ 74,278	\$ 58,979	\$ 264,863

(1) Does not include amounts related to intercompany asset management agreements between NJRES and NJNG.

NJNG's capital expenditures are estimated at \$121.2 million and \$70 million in fiscal 2012 and 2013, respectively, and consist primarily of its construction program to support customer growth, maintenance of its distribution system and replacement needed under pipeline safety regulations. Approximately \$49.1 million has been committed or spent on capital expenditures, including accruals, during the six months ended March 31, 2012. The expected expenditures in fiscal 2012 include an estimate of \$49.9 million related to AIP II. NJNG has committed or spent \$14.9 million related to AIP II programs during the six months ended March 31, 2012.

The Company has entered into various agreements to install solar equipment involving both residential and commercial projects. Total solar-related capital expenditures during the six months ended March 31, 2012 were \$61.8 million. The Company currently estimates solar-related capital expenditures of \$82.6 million during fiscal 2012, of which \$79.8 million has been committed or spent. Solar-related capital expenditures in fiscal 2013 are estimated to be \$90 million. These investments are subject to a variety of factors, such as the identification of appropriate projects, the timing of construction schedules, the permitting and regulatory process and delays related to electric grid interconnection, which may affect our ability to commence operations at these projects on a timely basis or, at all.

#### 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 that 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 seven-year periods pursuant to a RA approved by the BPU. On January 18, 2012, the BPU approved the recovery of the remediation expenditures incurred through September 30, 2009, which maintained the expected annual recovery at approximately \$20 million. As of March 31, 2012, \$61.3 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 Sheets.

In September 2011, 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, including potential liabilities for Natural Resource Damages that might be brought by the NJDEP for alleged injury to groundwater or other natural resources concerning these sites, will range from approximately \$161.5 million to \$278.5 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, and the information is sufficient to establish a range of possible liability, NJNG

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accrues the best estimated amount in the range. If no point within the range is more likely than the 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 \$182.9 million on the Unaudited Condensed Consolidated Balance Sheets, based on the best estimate. 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 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 non-recoverable costs 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 effect on its financial condition, results of operations or cash flows.

12. BUSINESS SEGMENT AND OTHER OPERATIONS DATA

NJR organizes its businesses based on its products and services as well as regulatory environment. As a result, the Company manages 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; the Clean Energy Ventures segment consist of capital investments in renewable energy projects; the Energy Holdings segment (previously Midstream Assets) 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, renewable energy and other investments and general corporate activities.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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Information related to the Company's various business segments and other operations is detailed below:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2012	2011	March 31, 2012	2011
Operating revenues				
Natural Gas Distribution				
External customers	\$ 226,023	\$ 433,248	\$ 417,397	\$ 723,924
Intercompany	—	—	—	—
Energy Services				
External customers	378,356	535,987	820,162	950,418
Intercompany	2,654	37,088	2,848	53,431
Clean Energy Ventures				
External customers	527	—	907	—
Segment subtotal	607,560	1,006,323	1,241,314	1,727,773
Retail and Other				
External customers	8,014	7,751	16,866	15,796
Intercompany	263	75	442	156
Eliminations	(2,916)	(37,162)	(3,290)	(53,586)
Total	\$ 612,921	\$ 976,987	\$ 1,255,332	\$ 1,690,139
Depreciation and amortization				
Natural Gas Distribution	\$ 8,749	\$ 8,235	\$ 17,381	\$ 16,458
Energy Services	16	15	32	31
Clean Energy Ventures	1,511	28	2,321	28
Energy Holdings	2	2	3	3
Segment subtotal	10,278	8,280	19,737	16,520
Retail and Other	161	197	302	411
Total	\$ 10,439	\$ 8,477	\$ 20,039	\$ 16,931
Interest income <sup>(1)</sup>				
Natural Gas Distribution	\$ 214	\$ 280	\$ 460	\$ 540
Energy Services	(5)	)3	26	8
Energy Holdings	285	224	533	452
Segment subtotal	494	507	1,019	1,000
Retail and Other	1	1	1	1
Eliminations	(268)	(217)	(503)	(438)
Total	\$ 227	\$ 291	\$ 517	\$ 563

(1) Included in other income in the Unaudited Condensed Consolidated Statements of Operations.

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(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2012	2011	2012	2011
Interest expense, net of capitalized interest				
Natural Gas Distribution	\$3,713	\$3,808	\$7,450	\$7,824
Energy Services	245	323	515	599
Clean Energy Ventures	198	3	340	7
Energy Holdings	683	817	1,397	1,625
Segment subtotal	4,839	4,951	9,702	10,055
Retail and Other	588	127	730	286
Total	\$5,427	\$5,078	\$10,432	\$10,341
Income tax provision (benefit)				
Natural Gas Distribution	\$27,016	\$26,278	\$42,612	\$40,879
Energy Services	(2,105)	)7,525	9,403	6,683
Clean Energy Ventures	(14,826)	)(6,071	)(26,997	)(6,710
Energy Holdings	1,393	1,487	2,624	2,670
Segment subtotal	11,478	29,219	27,642	43,522
Retail and Other	(312)	)(588	)(371	)(1,044
Eliminations	(72)	)(19	)(140	)(13
Total	\$11,094	\$28,612	\$27,131	\$42,465
Equity in earnings of affiliates				
Energy Holdings	\$3,967	\$4,360	\$7,582	\$7,980
Segment subtotal	3,967	4,360	7,582	7,980
Eliminations	(949)	)(750	)(1,910	)(1,453
Total	\$3,018	\$3,610	\$5,672	\$6,527
Net financial earnings (loss)				
Natural Gas Distribution	\$44,936	\$44,040	\$70,910	\$68,396
Energy Services	15,871	16,001	23,486	19,168
Clean Energy Ventures	11,862	5,171	21,959	5,225
Energy Holdings	2,021	2,145	3,804	3,858
Segment subtotal	74,690	67,357	120,159	96,647
Retail and Other	(543)	)(328	)(689	)(488
Eliminations	(21)	)—	(36	)—
Total	\$74,126	\$67,029	\$119,434	\$96,159
Capital expenditures				
Natural Gas Distribution	\$27,427	\$18,988	\$49,145	\$47,186
Clean Energy Ventures	14,175	9,038	61,786	9,937
Segment subtotal	41,602	28,026	110,931	57,123
Retail and Other	370	1,717	459	1,963
Total	\$41,972	\$29,743	\$111,390	\$59,086

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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 is as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2012	2011	March 31, 2012	2011
Consolidated net financial earnings	\$ 74,126	\$ 67,029	\$ 119,434	\$ 96,159
Less:				
Unrealized loss (gain) from derivative instruments and related transactions, net of taxes <sup>(1)</sup>	7,664	2,306	(9,708	) 36,710
Effects of economic hedging related to natural gas inventory, net of taxes	11,927	796	17,250	(28,987 )
Consolidated net income	\$ 54,535	\$ 63,927	\$ 111,892	\$ 88,436

(1) Excludes unrealized losses related to an intercompany transaction between NJNG and NJRES that have been eliminated in consolidation of approximately \$79,000 and \$30,000, for the three months ended March 31, 2012 and March 31, 2011, respectively, and \$197,000, and \$32,000 for the six months ended March 31, 2012 and 2011, respectively.

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.

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, 2012	September 30, 2011
Assets at end of period:		
Natural Gas Distribution	\$ 1,951,497	\$ 1,942,691
Energy Services	346,995	400,882



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Clean Energy Ventures	166,478	80,234
Energy Holdings	157,987	159,940
Segment subtotal	2,622,957	2,583,747
Retail and Other	66,742	87,066
Intercompany assets <sup>(1)</sup>	(19,960	)(21,369 )
Total	\$2,669,739	\$2,649,444

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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13. RELATED PARTY TRANSACTIONS

NJRES may periodically enter into storage, or park and loan agreements with its affiliated FERC-regulated natural gas storage facility, Steckman Ridge, or transportation agreements with its affiliated FERC-regulated interstate pipeline, Iroquois Gas Transmission. As of March 31, 2012, NJRES has entered into storage and park and loan transactions with Steckman Ridge for varying terms, all of which expire by October 2012. Additionally, NJRES has transportation capacity with Iroquois Gas Transmission that expires by March 2019. Demand fees associated with both Steckman Ridge and Iroquois Gas Transmission were \$2.1 million and \$4.1 million during the three and six months ended March 31, 2012, respectively. As of March 31, 2012, NJRES had fees payable of \$238,000 and \$392,000 to Steckman Ridge and Iroquois Gas Transmission, respectively.

In January 2010, NJNG entered into a ten-year agreement effective April 1, 2010, for 3 Bcf of firm storage capacity with Steckman Ridge. Under the terms of the agreement, NJNG incurs demand fees, at market rates, of approximately \$9.3 million annually. These fees are recoverable through NJNG's BGSS mechanism. Additionally, NJNG has transportation capacity with Iroquois Gas Transmission that expires by January 2019. Demand fees associated with both Steckman Ridge and Iroquois Gas Transmission were \$1.9 million and \$4 million during the three and six months ended March 31, 2012, respectively. As of March 31, 2012, NJNG had fees payable (receivable) to Steckman Ridge and Iroquois Gas Transmission in the amount of \$775,000 and \$(146,000), respectively.

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 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 has the option to purchase index priced gas from NJRES at NJNG's city gate and other delivery locations to maintain operational reliability. In September 2010, NJNG and NJRES entered into another asset management agreement that began in September 2010 and ends October 2014, whereby NJNG released additional transportation contracts to NJRES for the entire term of the agreement and has the option to purchase index priced gas from NJRES at NJNG's city gate.

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 Appalachian and Northeast regions, the West Coast and Canada through two of its 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.

NJR Clean Energy Ventures (NJRCEV) invests in renewable energy projects consisting primarily of residential and commercial rooftop and ground mount solar systems. NJRCEV comprises the Clean Energy Ventures segment.

The Energy Holdings segment (previously Midstream Assets) 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 Transmission 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 in Pennsylvania.

The retail and other business operations (Retail and Other) includes: NJR Home Services (NJRHS), which provides service, sales and installation of appliances, as well as solar installation projects; NJR Energy Corporation (NJR Energy), a company that invests in energy-related ventures; 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.

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(Continued)

Assets by business segment and operations are as follows:

(\$ in thousands)	March 31, 2012			September 30, 2011		
Assets						
Natural Gas Distribution	\$ 1,951,497	74	%	\$ 1,942,691	74	%
Energy Services	346,995	13		400,882	15	
Clean Energy Ventures	166,478	6		80,234	3	
Energy Holdings	157,987	6		159,940	6	
Retail and Other	66,742	2		87,066	3	
Eliminations <sup>(1)</sup>	(19,960)	(1)	)	(21,369)	(1)	)
Total	\$ 2,669,739	100	%	\$ 2,649,444	100	%

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

An increase in capital expenditures associated with solar investments at Clean Energy Ventures was the primary contributor to the increase in assets, partially offset by a decrease at Energy Services in both accounts receivable and gas in storage during the six months ended March 31, 2012.

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

(\$ in Thousands)	Three Months Ended				Six Months Ended				
	March 31, 2012		2011		March 31, 2012		2011		
Net Income (Loss)									
Natural Gas Distribution	\$ 44,936	82	%	\$ 44,040	69	%	\$ 70,910	63	%
Energy Services	(3,642)	(7)	)	12,929	20		16,141	14	
Clean Energy Ventures	11,862	22		5,171	8		21,959	20	
Energy Holdings	2,021	4		2,145	3		3,804	3	
Retail and Other	(543)	(1)	)	(328)	—		(689)	—	
Eliminations <sup>(1)</sup>	(99)	—		(30)	—		(233)	—	
Total	\$ 54,535	100	%	\$ 63,927	100	%	\$ 111,892	100	%

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

Included in net income are unrealized (losses) in the Energy Services segment of \$(7.6) million and \$(2.3) million, after taxes, for the three months ended March 31, 2012 and 2011, respectively and realized (losses) of \$(11.9) million and \$(796,000), after taxes, for the three months ended March 31, 2012 and 2011, respectively. Also included in net income are unrealized gains (losses) in the Energy Services segment of \$9.9 million and \$(36.7) million, after taxes, for the six months ended March 31, 2012 and 2011, respectively and realized (losses) gains of \$(17.3) million and \$29 million, after taxes, for the six months ended March 31, 2012 and 2011, respectively, which are related to financial derivative instruments that have settled and are designed to economically hedge natural gas still in inventory.

NJRES accounts for its physical commodity contracts and its financial derivative instruments used to economically hedge the forecasted purchase, sale and transportation of natural gas at fair value on the Unaudited Condensed Consolidated Balance Sheets. Changes in the fair value of these contracts are included in earnings as a component of operating revenue and gas purchases, as appropriate, in the Unaudited Condensed Consolidated Statements of Operations. All physical commodity contracts at NJNG are accounted for under accrual accounting. Accordingly,

gains and losses are recognized in earnings when the contract settles and the natural gas is delivered.

Unrealized gains and losses at NJRES are the result of changes in the fair value of derivative instruments. The change in fair value of these derivative instruments at NJRES 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 and losses associated with the financial instrument are recognized in earnings. However, the gains and losses associated with the economically hedged natural gas are not recognized in earnings until the natural gas inventory is sold.

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(Continued)

Management of the Company uses a non-Generally Accepted Accounting Principles (GAAP) measure (non-GAAP financial measure), noted as "net financial earnings," when evaluating the operating results of NJRES. Net financial earnings is a measure of the earnings based on eliminating timing differences surrounding the recognition of certain gains or losses as described above, to effectively match the earnings effects of the economic hedges with the physical sale of gas and, therefore, eliminates the impact of volatility to GAAP earnings associated with the derivative instruments.

Net financial earnings by business segment and operations are as follows:

(\$ in Thousands)	Three Months Ended			Six Months Ended				
	March 31,			March 31,				
	2012		2011	2012		2011		
Net Financial Earnings (Loss)								
Natural Gas Distribution	\$44,936	61 %	\$44,040	66 %	\$70,910	59 %	\$68,396	71 %
Energy Services	15,871	21	16,001	24	23,486	20	19,168	20
Clean Energy Ventures	11,862	16	5,171	8	21,959	18	5,225	5
Energy Holdings	2,021	3	2,145	3	3,804	3	3,858	4
Retail and Other	(543)	(1)	(328)	(1)	(689)	—	(488)	—
Eliminations <sup>(1)</sup>	(21)	—	—	—	(36)	—	—	—
Total	\$74,126	100 %	\$67,029	100 %	\$119,434	100 %	\$96,159	100 %

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

Natural Gas Distribution Segment

Our natural gas distribution segment has approximately 499,500 residential and commercial customers in its service territory and participates in the off-system sales and capacity release markets. NJNG's operations are managed with the goal of providing safe and reliable service, growing profitably and promoting clean energy programs. The business is subject to various risks, such as those associated with adverse economic conditions that can negatively impact customer growth, operating and financing costs, fluctuations in commodity prices, which can impact customer usage, customer conservation efforts, certain regulatory actions, and environmental remediation. It is often difficult to predict the impact of trends associated with these risks. NJNG employs certain strategies, which are described further below, to manage the challenges it faces, including pursuing customer conversions from other fuel sources and monitoring new construction markets through contact with developers, utilizing incentive programs through BPU-approved mechanisms to reduce gas costs, pursuing rate and other regulatory strategies designed to stabilize and decouple margin, and working actively with consultants and the New Jersey Department of Environmental Protection (NJDEP) to manage expectations related to its obligations associated with NJNG's manufactured gas plant (MGP) sites.

Conservation Incentive Program (CIP)

The CIP allows NJNG to recover utility gross margin variations related to both weather and customer usage subject to certain conditions. Effective October 1, 2010, the BPU approved recovery of \$12.1 million annually for accrued and estimated CIP amounts through September 30, 2010. In June 2011, NJNG filed for a change in the CIP rates, effective October 1, 2011. The proposed CIP rates result in a decrease to residential heat customers and a minor increase to all other customers. See the Results of Operations section of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for more information on the impact to utility gross margin.

As of March 31, 2012, NJNG has \$20.9 million in regulatory assets in the Unaudited Condensed Consolidated Balance Sheets related to accrued CIP to be recovered in future periods from customers.

#### Customer growth

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 political and regulatory policies, the delivered cost of natural gas compared with competing fuels, interest rates and general economic conditions.

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

(Continued)

During the six months ended March 31, 2012, NJNG added 3,492 new customers, or an increase of 13.7 percent compared with the six months ended March 31, 2011, and converted 261 existing customers to natural gas heat and other services. This customer growth is expected by NJNG to increase annual utility gross margin by approximately \$1.9 million. NJNG currently expects to add approximately 12,000 to 14,000 new customers during the two-year period of fiscal 2012 and 2013. We believe that this growth rate would increase utility gross margin under NJNG's base rates by approximately \$3.5 million annually, as calculated under NJNG's CIP tariff. See the Natural Gas Distribution Results of Operations section of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for a definition of utility gross margin.

Commodity prices

Our natural gas distribution segment is affected by the price of natural gas, which can have a significant impact on our cash flows, short-term financing costs, gas costs recovered from customers, NJNG's ability to collect accounts receivable, which impacts our bad debt expense, and our ability to maintain a competitive advantage over other fuel sources. Natural gas commodity prices may experience high volatility as indicated by New York Mercantile Exchange (NYMEX) settlement prices, which ranged from \$2.45 per MMBtu (Million Metric British thermal unit) to \$3.76 per MMBtu and from \$3.29 per MMBtu to \$4.32 per MMBtu during the six months ended March 31, 2012 and 2011, respectively. As of March 31, 2012, forward natural gas prices for the next twelve months on the NYMEX, which serve as a market indicator, averaged \$2.80 per MMBtu, 10.8 percent lower than the average settlement price of \$3.14 per MMBtu during the six months ended March 31, 2012.

NJNG occasionally adjusts its periodic Basic Gas Supply Service (BGSS) rates for its residential and small commercial customers to reflect changes in the cost of natural gas and can extend credits or refunds to its customers when the commodity cost is trending lower than the current BGSS rate. Accordingly, during the three and six-month periods ended March 31, 2012, NJNG issued credits of \$66.4 million and \$90.7 million, respectively, to residential and small commercial customers. In addition, on March 9, 2012, NJNG notified the BPU that it will implement a 3.6 percent decrease to its periodic BGSS rate, effective April 1, 2012. BGSS rates for its large commercial customers are changed monthly based on NYMEX prices.

A more detailed discussion of the impacts of the price of natural gas to operating revenues, gas purchases and cash flows can be found in the Results of Operations and Cash Flow sections of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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. Effective August 18, 2011, the BPU approved an extension of NJNG's BGSS incentive programs for four years through October 31, 2015, maintaining the existing margin-sharing percentages. This agreement also permits the Company to annually propose a process to evaluate and discuss alternative incentive programs, should performance of the existing incentives or market conditions warrant re-evaluation.

Utility gross margin from incentive programs was \$3.2 million and \$3.4 million during the three months ended March 31, 2012 and 2011, respectively, and \$6.1 million and \$6.2 million during the six months ended March 31,



2012 and 2011, respectively. A more detailed discussion of the impacts to margin can be found in the Results of Operations section of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### Environmental remediation

NJNG reviews the costs associated with its MGP annually, at the end of each fiscal year, and adjusts its liability and corresponding regulatory asset as necessary to reflect its expected obligation. As of March 31, 2012, NJNG has recognized a regulatory asset and an obligation of \$182.9 million, a decrease of \$18.7 million, or 9.3 percent, compared with the prior year. The decrease was due primarily to fiscal 2011 remediation expenditures that reduced the obligation along with the annual reassessment of the MGP remediation and related costs, which resulted in a decrease in three out of the five MGP sites.

NJNG is currently authorized to recover remediation costs of approximately \$20 million annually. If there are changes in the regulatory position on the recovery of these costs as determined by the BPU, such costs would be charged to income in the period of such determination.

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

(Continued)

### Infrastructure projects

NJNG has significant annual capital expenditures associated with the management of its natural gas distribution and transmission system and its associated pipeline integrity.

During fiscal 2011, the BPU approved an extension to NJNG's Accelerated Infrastructure Program (AIP), allowing for additional capital investments of \$60.2 million (AIP II) to be made through October 31, 2012, bringing the total approved investment, since the program commenced in fiscal 2009, to \$131 million. NJNG defers the costs associated with the AIP projects, including NJNG's weighted cost of capital, and upon regulatory approval recovers these investments through its base rates.

In June 2011, NJNG filed for AIP base rate cost recovery, requesting an increase of \$4.7 million to \$8.9 million annually, related to AIP infrastructure investments installed in NJNG's distribution and transmission systems. The base rate change was provisionally approved, effective on October 1, 2011. The rate changes included a weighted average cost of capital of 7.12 percent, including a cost of equity of 10.3 percent, for AIP II. The existing weighted average cost of capital of 7.76 percent, including a cost of equity of 10.3 percent, for the initial AIP projects remained the same. An additional filing will be submitted in October 2012, requesting rate changes to be effective in January 1, 2013.

NJNG has estimated capital expenditures for fiscal 2012 of \$121.2 million, of which \$49.9 million is related to AIP II. During the six months ended March 31, 2012, NJNG has committed or spent \$49.1 million, of which \$14.9 million is related to AIP II.

On March 20, 2012, NJNG filed a petition with the BPU seeking to implement a Safety Acceleration and Facility Enhancement (SAFE) program, whereby NJNG would invest up to \$204 million over a five-year period to replace portions of NJNG's gas distribution infrastructure. If approved, commencing in 2013, NJNG would file a petition with the BPU annually in June to recover costs over the life of the program, including an overall weighted average cost of capital of 7.76 percent, including a cost of equity of 10.3 percent.

### Other

NJNG administers BPU approved EE programs, which facilitate home energy audits and provide financing alternatives including rebates and other incentives designed to encourage the installation of high efficiency heating and cooling equipment. Depending on the specific initiative, NJNG recovers costs associated with the programs over a four to ten-year period. On January 18, 2012, the BPU approved the extension of the program through December 31, 2012, with an additional \$18.4 million of investments in customer incentives and financing earning a weighted average return of 7.1 percent, including a cost of equity of 10.3 percent. As of March 31, 2012, the BPU has approved total EE expenditures of \$44.3 million, of which NJNG has spent \$24.7 million.

On June 16, 2011, NJNG submitted a filing with the BPU seeking authority to invest up to \$15 million to build compressed natural gas vehicle refueling stations in Monmouth, Ocean and Morris counties. NJNG would submit a cost recovery filing to the BPU in October 2012, requesting a base rate change to be effective in early 2013, including an overall weighted average cost of capital of 7.76 percent, including a cost of equity of 10.3 percent. Proceeds from the delivery of the associated natural gas, along with any available federal and state incentives, are proposed to be

credited back to customers to help offset the cost of this investment.

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. A more detailed discussion can be found in the Liquidity and Capital Resources and Cash Flow sections of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
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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. NJRES' optimization activities are impacted by changes in pricing between geographic locations and/or time periods. Margins are affected by volatility in natural gas markets and as a result NJRES' financial performance can significantly differ during periods of low or high volatility.

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, natural gas producers 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 focuses on creating value from 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. On a forward basis, NJRES may lock in these price differentials through the use of financial instruments. In addition, NJRES seeks to optimize these assets on a daily basis as market conditions change by evaluating all the natural gas supplies and transportation to which it has access. When market conditions allow, NJRES is able to capture geographic pricing differences across these various regions as delivered natural gas prices change. NJRES focuses on earning a 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. This strategy is in large part dependent on volatility in natural gas markets, and is more challenging to execute in a period of economic downturn and resulting lower industrial gas consumption.

NJRES transacts with a variety of counterparties including local distribution companies, industrial companies, electric generators, retail aggregators, natural gas producers and other wholesale marketing companies. The physical sales

commitments to these counterparties allows NJRES to leverage its transportation and storage capacity. These physical sale commitments are managed in an aggregate fashion, and allows 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.

Beginning in fiscal 2010, there has been a significant expansion of natural gas resources in the Northeast region as a result of drilling in the Marcellus Shale, which caused a general decrease in volatility in natural gas pricing in the Northeast. This has generally reduced the value of transportation and storage capacity in the northeast, a core market for NJRES. This downturn in volatility and capacity values could have a lasting effect on the earnings of NJRES. NJRES has since looked into opportunities to provide asset management services to exploration and production companies working on the development of these natural gas resources.

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

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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.

Clean Energy Ventures Segment

NJRCEV actively pursues opportunities in the solar renewable energy markets and has entered into various agreements to install solar equipment involving both residential and commercial projects. Projects that are completed and placed in service qualify for a 30 percent federal investment tax credit (ITC) and once the projects commence operations, for each Megawatt hour (Mwh) of electricity produced, a Solar Renewable Energy Certificate (SREC) is created. NJRCEV currently estimates capital expenditures of approximately \$82.6 million in fiscal 2012, of which \$61.8 million was associated with projects placed in service during the six months ended March 31, 2012. These investments are subject to a variety of factors, including logistics associated with timing of construction schedules, the permitting and regulatory process, and any delays related to electric grid interconnection, which may affect our ability to commence operations at these projects on a timely basis or, at all. Projects not placed in service prior to a period end, would result in a failure to qualify for ITCs and SRECs and could have a material adverse impact on earnings and cash flow. In addition, since the primary contributors toward the value of qualifying renewable energy projects are the ITC and SRECs, changes in the federal statutes related to the ITC or in the markets surrounding SRECs, which can be traded or sold to load serving entities that need to comply with state renewable energy standards, could also significantly affect earnings and cash flow.

Energy Holdings Segment

NJR's subsidiary, NJR Energy Holdings Corporation, invests 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 regulated or market-based rates, 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 considering other potential opportunities that meet its investment and development criteria.

As of March 31, 2012, NJR's investments in Steckman Ridge and Iroquois, including capitalized costs and equity in earnings, net of cash distributions received, were \$134.7 million and \$22.3 million, respectively.

Retail and Other Operations

The financial results of Retail and Other have consisted primarily of the operating results of NJRHS, CR&R, and NJR Energy. NJRHS provides service, sales and installation of appliances to approximately 131,800 customers and has been focused on growing its installation business and expanding its service contract customer base. CR&R seeks additional opportunities to enhance the value of its undeveloped land and building. NJR Energy invests in other energy-related ventures through its operating subsidiaries. Retail and Other operations also include organizational expenses incurred at NJR.

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, 2011. NJR's critical accounting policies have not changed from those reported in the 2011 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.

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

Consolidated

A summary of the company's consolidated results is as follows:

(\$ in Thousands)	Three Months Ended March 31,			Six Months Ended March 31,		
	2012	2011	% change	2012	2011	% change
Operating revenues	\$ 612,921	\$ 976,987	(37.3 )%	\$ 1,255,332	\$ 1,690,139	(25.7 )%
Gas purchases	\$ 460,356	\$ 783,619	(41.3 )%	\$ 952,403	\$ 1,373,315	(30.6 )%
Net income	\$ 54,535	\$ 63,927	(14.7 )%	\$ 111,892	\$ 88,436	26.5 %

The primary drivers of the changes noted above, which are described in more detail in the individual segment discussions, are as follows:

Operating revenues and gas purchases decreased during the three and six months ended March 31, 2012, compared with the three and six months ended March 31, 2011, due primarily to:

- Bill credits issued to NJNG customers during the three and six months ended March 31, 2012, that did not occur during the comparable periods in fiscal 2011, as well as decreases in firm sales due to lower therm usage and off-system sales; partially offset by

- lower average commodity prices at NJRES, which correlate to the lower price levels on the NYMEX.

Net income decreased 14.7 percent during the three months ended March 31, 2012, to \$54.5 million from \$63.9 million for the three months ended March 31, 2011. Earnings for the three months ended March 31, 2012, were \$1.31 per basic share and \$1.31 per diluted share, compared with \$1.55 per basic share and \$1.54 per diluted share for the three months ended March 31, 2011. Changes in net income were primarily driven by an increase in unrealized and realized losses at NJRES.

Net income increased 26.5 percent during the six months ended March 31, 2012, to \$111.9 million, compared with \$88.4 million for the six months ended March 31, 2011. Earnings for the six months ended March 31, 2012, were \$2.70 per basic share and \$2.68 per diluted share, compared with \$2.14 per basic share and \$2.13 per diluted share for the six months ended March 31, 2011. Changes in net income were primarily driven by:

- an increase at Clean Energy Ventures associated with solar projects that were completed and placed into service during the three and six months ended March 31, 2012; and

- an increase at NJRES due primarily to higher revenue from fee based services and transportation arbitrage opportunities as compared to the prior year; and

- improved earnings at NJNG during the current fiscal period due primarily to customer growth.

Natural Gas Distribution Segment



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.

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(Continued)

Operating Results

NJNG's financial results are as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2012	2011	March 31, 2012	2011
Utility gross margin				
Operating revenues	\$ 226,023	\$ 433,248	\$ 417,397	\$ 723,924
Less:				
Gas purchases	81,667	272,948	168,154	450,599
Energy and other taxes	14,353	27,296	26,236	45,778
Regulatory rider expense	18,443	24,304	30,986	41,002
Total utility gross margin	111,560	108,700	192,021	186,545
Operation and maintenance expense	26,246	26,069	52,186	51,943
Depreciation and amortization	8,749	8,235	17,381	16,458
Other taxes not reflected in utility gross margin	1,235	1,064	2,141	2,143
Operating income	75,330	73,332	120,313	116,001
Other income	335	794	659	1,098
Interest expense, net of capitalized interest	3,713	3,808	7,450	7,824
Income tax provision	27,016	26,278	42,612	40,879
Net income	\$ 44,936	\$ 44,040	\$ 70,910	\$ 68,396

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.

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, which include fees paid to pipelines and storage facilities, and the impact of hedging activities and incentive programs. Any underrecoveries or overrecoveries from the projected amounts are deferred and reflected in the BGSS tariff rate in subsequent years.

NJNG's operating revenues and gas purchases decreased by \$207.2 million, or 47.8 percent, and by \$191.3 million, or 70.1 percent, respectively, during the three months ended March 31, 2012, compared with the three months ended March 31, 2011, as a result of:

a decrease in operating revenues and gas purchases related to firm sales in the amount of \$79.6 million and \$48.6 million, respectively, as a result of lower therm usage due primarily to weather being 22 percent warmer than the prior

year, partially offset by an increase in operating revenue of \$20.7 million, as a result of higher CIP accruals;

a decrease in operating revenues and gas purchases in the amount of \$66.4 million and \$62.1 million, respectively, due to bill credits, inclusive of sales tax refunds of \$4.3 million, during the three months ended March 31, 2012, that did not occur during the three months ended March 31, 2011;

a decrease in operating revenues and gas purchases related to off-system sales in the amount of \$60 million and \$58.1 million, respectively, due primarily to a 41.4 percent reduction in volumes of natural gas sold as a result of an increase in the utilization of NJNG's transport capacity for capacity release activity, coupled with a 47 percent decrease in average cost;

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a decrease in operating revenues and gas purchases related to firm sales in the amount of \$22.3 million and \$20.9 million, respectively, as a result of a decrease in the average BGSS rate per therm; partially offset by

an increase in operating revenue of \$1 million due primarily to the increase in base rates related to AIP.

NJNG's operating revenues and gas purchases decreased by \$306.5 million, or 42.3 percent, and by \$282.4 million, or 62.7 percent, respectively, during the six months ended March 31, 2012, compared with the six months ended March 31, 2011, as a result of:

a decrease in operating revenues and gas purchases related to firm sales in the amount of \$131.6 million and \$79.9 million, respectively, as a result of lower therm usage due primarily to weather being 23.1 percent warmer than the prior year, partially offset by an increase in operating revenue of \$34.6 million, as a result of higher CIP accruals;

a decrease in operating revenues and gas purchases in the amount of \$90.7 million and \$84.8 million, respectively, due to bill credits, inclusive of sales tax refunds of \$5.9 million, during the six months ended March 31, 2012, that did not occur during the six months ended March 31, 2011;

a decrease in operating revenues and gas purchases related to off-system sales in the amount of \$84 million and \$81.6 million, respectively, due primarily to a 35.2 percent reduction in volumes of natural gas sold as a result of an increase in the utilization of NJNG's transport capacity for capacity release activity, coupled with a 32.5 percent decrease in average cost;

a decrease in operating revenues and gas purchases related to firm sales in the amount of \$36.1 million and \$33.7 million, respectively, as a result of a decrease in the average BGSS rate per therm; partially offset by

an increase in operating revenue of \$2.1 million due primarily to the increase in base rates related to AIP.

Sales tax and TEFA, which are presented as both components of operating revenues and energy and other taxes in the Unaudited Condensed Consolidated Statements of Operations, totaled \$14.4 million and \$27.3 million during the three months ended March 31, 2012 and 2011, respectively and \$26.2 million and \$45.8 million during the six months ended March 31, 2012, and 2011, respectively. The fluctuation in sales tax correlates directly to the changes in operating revenue from firm sales. The decrease of \$8.2 million during the three months ended March 31, 2012 was due primarily to a decrease of \$195.2 million in operating revenue subject to sales tax, compared with the three months ended March 31, 2011. The decrease of \$14.3 million during the six months ended March 31, 2012, was due primarily to a decrease of \$286.3 million in operating revenue subject to sales tax, compared with the six months ended March 31, 2011. TEFA, which is calculated on a per-therm basis, decreased \$703,000 and \$1.4 million during the three and six months ended March 31, 2012, primarily due to lower usage compared with the three and six months ended March 31, 2011. TEFA will be phased out over a three-year period commencing January 1, 2012.

Regulatory rider expenses, which are calculated on a per-therm basis, consist of recovery of state-mandated programs, the RA and energy efficiency costs. During the three and six months ended March 31, 2012, the decrease in expense, which is offset by a corresponding decrease in operating revenue, was due primarily to a 2.6 percent and 2.3 percent decrease in rates and a 22.2 percent and 22.6 percent decrease in usage compared with the three and six months ended March 31, 2011, respectively.

NJNG's utility gross margin is comprised of the following components:

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; Utility firm gross margin is earned from residential and commercial customers who receive natural gas service from NJNG through either sales tariffs, which include a commodity and delivery component, or transportation tariffs, which include a delivery component only.

Incentive programs, where gross margins generated or savings achieved from BPU-approved off-system sales, capacity release, financial risk management 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.

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

(\$ in thousands)	Three Months Ended March 31,				Six Months Ended March 31,			
	2012		2011		2012		2011	
	Margin	Bcf	Margin	Bcf	Margin	Bcf	Margin	Bcf
Utility gross margin/throughput								
Residential	\$73,496	15.6	\$72,711	20.9	\$124,726	25.8	\$123,557	34.6
Commercial, industrial and other	17,401	3.0	16,903	4.0	30,511	5.0	29,893	6.7
Firm transportation	17,351	4.7	15,571	5.3	30,531	8.1	26,766	9.3
Total utility firm gross margin/throughput	108,248	23.3	105,185	30.2	185,768	38.9	180,216	50.6
Incentive programs	3,220	23.2	3,431	28.4	6,059	48.8	6,155	55.7
Interruptible	92	1.0	84	1.2	194	3.1	174	2.6
Total utility gross margin/throughput	\$111,560	47.5	\$108,700	59.8	\$192,021	90.8	\$186,545	108.9

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 tariffs, which include a commodity and delivery component, or transportation tariffs, which include a delivery component only.

Total utility firm gross margin increased \$3.1 million and \$5.6 million due primarily to customer growth during the three and six months ended March 31, 2012, compared with the three and six months ended March 31, 2011, respectively.

Utility firm gross margin from transportation service increased \$1.8 million to \$17.4 million during the three months ended March 31, 2012, from \$15.6 million during the three months ended March 31, 2011, and increased \$3.8 million to \$30.5 million during the six months ended March 31, 2012, from \$26.8 million during the six months ended March 31, 2011. The improvement was due primarily to an increase in customers that transferred from residential and commercial sales to transportation due to marketing activity by third party natural gas providers in NJNG's distribution territory. NJNG had 34,549 and 28,360 residential customers and 9,086 and 8,743 commercial customers using its transportation service at March 31, 2012 and 2011, respectively.

NJNG added 3,492 and 3,070 new customers and converted 261 and 305 existing customers to natural gas heat and other services during the six months ended March 31, 2012, and 2011, respectively. The customer growth represents an estimated annual increase of approximately 0.4 Bcf in sales to firm customers, which would contribute approximately \$1.9 million annually to utility gross margin assuming normal weather and usage.

NJNG's total utility firm gross margin includes the following adjustments related to the CIP mechanism:

(Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Weather <sup>(1)</sup>	\$17,013	\$(36)	)\$25,973	\$(2,850)

Usage	5,374	1,678	10,240	4,499
Total	\$22,387	\$1,642	\$36,213	\$1,649

Compared with the twenty-year average, weather was 22.5 percent and 21.4 percent warmer-than-normal during (1) the three and six months ended March 31, 2012, respectively and 0.6 percent and 3.5 percent colder-than-normal during the three and six months ended March 31, 2011, respectively.

#### Incentive Programs

Utility gross margin generated by NJNG's incentive programs decreased slightly during the three and six months ended March 31, 2012, compared with the three and six months ended March 31, 2011, due primarily to a decrease in off system sales, offset by an increase in FRM, storage incentive and capacity release margins.

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Operating Expenses

Operations and maintenance and other taxes remained relatively consistent during the three and six months ended March 31, 2012, compared with the three and six months ended March 31, 2011. Depreciation expense during the three and six months ended March 31, 2012, increased \$514,000 and \$923,000 compared with the three and six months ended March 31, 2011, as a result of additional utility plant being placed into service.

Operating Income

Operating income increased \$2 million, or 2.7 percent, during the three months ended March 31, 2012, compared with the three months ended March 31, 2011, due primarily to an increase in total utility gross margin of \$2.9 million, partially offset by an increase in depreciation expense, as previously discussed. Operating income increased \$4.3 million, or 3.7 percent, during the six months ended March 31, 2012, compared with the six months ended March 31, 2011, due primarily to an increase in total utility gross margin of \$5.5 million, partially offset by an increase in depreciation expense, as previously discussed.

Interest Expense

Interest expense decreased slightly during the three and six months ended March 31, 2012, compared with the three and six months ended March 31, 2011, due primarily to lower interest and commitment fees as a result of the refinancing of NJNG's variable rate long-term debt and credit facility, respectively.

Net Income

Net income increased \$896,000, or 2 percent, to \$44.9 million during the three months ended March 31, 2012 compared with the three months ended March 31, 2011, due primarily to the factors discussed above, partially offset by an increase in income tax expense of \$738,000 correlating to the higher operating income.

Net income increased \$2.5 million, or 3.7 percent, to \$70.9 million during the six months ended March 31, 2012 compared with the six months ended March 31, 2011, due primarily to the factors discussed above, partially offset by an increase in income tax expense of \$1.7 million correlating to the higher operating income.

Energy Services Segment

Operating Results

NJRES' financial results are summarized as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2012	2011	March 31, 2012	2011
Operating revenues	\$381,010	\$573,075	\$823,010	\$1,003,849
Gas purchases (including demand charges) <sup>(1)</sup>	382,432	548,677	789,195	977,992
Gross margin	(1,422	)24,398	33,815	25,857
Operation and maintenance expense	3,755	3,309	7,096	6,480



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Depreciation and amortization	16	15	32	31
Other taxes	304	301	654	595
Operating (loss) income	(5,497	)20,773	26,033	18,751
Other income	(5	)4	26	8
Interest expense, net	245	323	515	599
Income tax (benefit) provision	(2,105	)7,525	9,403	6,683
Net (loss) income	\$(3,642	)\$12,929	\$16,141	\$11,477

NJRES recognizes its demand charges, which represent the right to use natural gas pipeline and storage capacity (1) 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.

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As of March 31, 2012, NJRES' portfolio of financial derivative instruments was comprised of:

- 34.9 Bcf of net short futures contracts and fixed swap positions, and;
- 8.2 Bcf of net long basis swap positions.

As of March 31, 2011, NJRES' portfolio of financial derivative instruments was comprised of:

- 32.9 Bcf of net short futures contracts and fixed swap positions, and;
- 5.0 Bcf of net long basis swap positions.

Operating revenues and gas purchases

Natural gas commodity prices are the primary factor for changes in operating revenues and gas purchases at NJRES. During the three and six months ended March 31, 2012, operating revenue decreased \$192.1 million and \$180.8 million, respectively and gas purchases decreased \$166.2 million and \$188.8 million, respectively, due primarily to lower average prices, which correlate to the lower price levels on the NYMEX. NYMEX prices averaged \$2.74 per MMBtu during the three months ended March 31, 2012 compared with \$4.11 per MMBtu during the three months ended March 31, 2011 and averaged \$3.14 per MMBtu during the six months ended March 31, 2012 compared with \$3.95 per MMBtu during the six months ended March 31, 2011.

Gross margin

NJRES' gross margin is a non-GAAP financial measure defined as natural gas revenues less natural gas purchases (including demand charges), and may not be comparable to the definition of gross margin used by others in the natural gas distribution, energy marketing and other industries. Gross margin during the three months ended March 31, 2012, was lower by approximately \$25.8 million compared with the three months ended March 31, 2011, due primarily to higher unrealized and realized losses during fiscal 2012 compared with fiscal 2011. During the six months ended March 31, 2012, gross margin was higher by approximately \$8 million compared with the six months ended March 31, 2011, due primarily to higher revenue from fee based elements of transactions executed with producers in the Marcellus shale region, and an improvement in the results of transportation arbitrage opportunities as compared with the prior year. Exploration and production of shale gas in the Northeastern region continued to contribute to a compression in natural gas prices and a general decrease in opportunities to generate margin from the optimization of transportation and storage assets in NJRES' market area.

NJRES had unrealized (losses) of \$(12) million and \$(3.6) million during the three months ended March 31, 2012 and 2011, respectively, unrealized gains (losses) of \$15.7 million and \$(58) million during the six months ended March 31, 2012 and 2011, respectively, relating to physical commodity and financial derivative contracts that have not yet settled. These unrealized amounts represent the change in price of natural gas from the original hedge price compared with the market price of natural gas at each reporting date. When transactions are settled any previously recognized unrealized amounts related to these transactions are realized.

NJRES also had realized (losses) of \$(18.9) million and \$(1.3) million during the three months ended March 31, 2012 and 2011, respectively and realized (losses) gains of \$(27.3) million and \$45.8 million during the six months ended March 31, 2012 and 2011, respectively, relating to the effects of economic hedging related to natural gas inventory. The realized (losses) gains pertain to the settlement of certain purchased futures and fixed swap contracts, which economically hedge planned natural gas purchases. The changes resulted from less favorable settlement prices compared with the prior year.

As these financial contracts settle, the physical gas is purchased and injected into storage. These physical gas injections and the associated financial hedges are part of the NJRES' business strategy to subsequently sell the natural gas from storage in the future. The realized amounts are a component of the anticipated financial margin associated with the overall strategy, and as a result of certain accounting requirements, are recognized in current earnings and result in a timing difference until the related gas is sold at which time, NJRES will realize the entire margin on the transaction.

In addition, there was an increase in realized margin associated with physical sale of natural gas during the three and six months ended March 31, 2012, as described further in the discussion of financial margin in the Non-GAAP measures section below.

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

(Continued)

Non-GAAP measures

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 sales of physical gas inventory flows; and

• Settlement of economic hedges that result in realized gains and losses prior to when the related physical gas inventory movements occur.

Net financial earnings and net financial margin are measures of the earnings and margin 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 differ from what was originally planned at the beginning of the transaction.

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

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2012	2011	March 31, 2012	2011
Operating revenues	\$ 381,010	\$ 573,075	\$ 823,010	\$ 1,003,849
Less: Gas purchases	382,432	548,677	789,195	977,992
Add:				
Unrealized loss (gain) on derivative instruments and related instruments	11,996	3,598	(15,665)	)58,005
Effects of economic hedging related to natural gas inventory	18,862	1,258	27,280	(45,843)
Financial margin	\$ 29,436	\$ 29,254	\$ 45,430	\$ 38,019

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

(Continued)

A reconciliation of operating income, the closest GAAP financial measurement, to NJRES' financial margin is as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2012	2011	2012	2011
Operating (loss) income	\$ (5,497	) \$ 20,773	\$ 26,033	\$ 18,751
Add:				
Operation and maintenance expense	3,755	3,309	7,096	6,480
Depreciation and amortization	16	15	32	31
Other taxes	304	301	654	595
Subtotal - Gross margin	(1,422	) 24,398	33,815	25,857
Add:				
Unrealized loss (gain) on derivative instruments and related instruments	11,996	3,598	(15,665	) 58,005
Effects of economic hedging related to natural gas inventory	18,862	1,258	27,280	(45,843
Financial margin	\$ 29,436	\$ 29,254	\$ 45,430	\$ 38,019

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

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2012	2011	2012	2011
Net (loss) income	\$ (3,642	) \$ 12,929	\$ 16,141	\$ 11,477
Add:				
Unrealized loss (gain) on derivative instruments and related instruments, net of taxes	7,586	2,276	(9,905	) 36,678
Effects of economic hedging related to natural gas inventory, net of taxes	11,927	796	17,250	(28,987
Net financial earnings	\$ 15,871	\$ 16,001	\$ 23,486	\$ 19,168

Financial margin remained relatively flat during the three months ended March 31, 2012, compared with the three months ended March 31, 2011. Financial margin increased \$7.4 million to \$45.4 million during the six months ended March 31, 2012. The increase was due primarily to higher revenue from fee based elements of transactions executed with producers in the Marcellus shale region, and an improvement in the results of transportation arbitrage opportunities as compared with the prior year. Exploration and production of shale gas in the Northeastern region continued to contribute to a compression in natural gas prices and a general decrease in opportunities to generate margin from the optimization of transportation and storage assets in NJRES' market area.

Despite the favorable results in the first and second quarters, the fundamental change in the supply of shale gas and related market volatility is expected to continue to challenge NJRES' financial margin and net financial earnings.

#### Operating Expenses

Operation and maintenance expense increased \$446,000, or 13.5 percent, during the three months ended March 31, 2012, and increased \$616,000, or 9.5 percent, during the six months ended March 31, 2012, compared with the three

and six months ended March 31, 2011, respectively, due primarily to an increase in salaries and shared corporate services costs.

#### Net Financial Earnings

Net financial earnings remained relatively flat during the three months ended March 31, 2012, compared with the three months ended March 31, 2011. Net financial earnings increased \$4.3 million during the six months ended March 31, 2012, compared with the six months ended March 31, 2011, due primarily to higher financial margin, as previously described, partially offset by applicable income taxes.

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(Continued)

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, supply and demand for natural gas and continued access to the capital markets.

Clean Energy Ventures Segment

Operating Results

The financial results of NJRCEV are summarized as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2012	2011	2012	2011
Operating revenues	\$ 527	\$—	\$ 907	\$—
Operation and maintenance expense	\$ 1,691	\$ 833	\$ 3,142	\$ 1,401
Income tax (benefit)	\$(14,826)	\$(6,071)	\$(26,997)	\$(6,710)
Net income	\$ 11,862	\$ 5,171	\$ 21,959	\$ 5,225

NJRCEV enters into agreements to invest, own and operate commercial solar installations in the State of New Jersey. There were no commercial projects placed into service during the three months ended March 31, 2012. There were two commercial roof-top projects totaling 2 MWs placed into service during the three months ended March 31, 2011. During the six months ended March 31, 2012, NJRCEV constructed and placed into service four roof-top and ground mounted commercial projects totaling approximately 20.2 MW of solar capacity. In addition, NJRCEV placed into service the remaining 25 percent of the 4.7 MW system in Vineland, New Jersey.

In addition, during the three months ended March 31, 2012, NJRCEV's residential solar leasing program installed approximately 1 MW of capacity on 132 homes and installed approximately 2 MW of capacity on 272 homes during the six months ended March 31, 2012. This compares with installations of approximately 0.16 MW of capacity on 23 homes during the three months ended March 31, 2011, and 0.25 MW of capacity on 35 homes during the six months ended March 31, 2011, which were recorded at NJRHS as part of the Retail and Other operations. The residential solar leasing program and related assets were transferred to NJRCEV during the third quarter of fiscal 2011.

Operating revenues generated during the three and six months ended March 31, 2012, consisted primarily of the sale of SRECs.

Operation and maintenance expense increased by \$858,000 and \$1.7 million during the three and six months ended March 31, 2012, as compared with the three and six months ended March 31, 2011, due primarily to increased costs, as a result of compensation, shared corporate services costs, consulting costs and other administrative expenses.

Income tax benefit during the three months ended March 31, 2012 and 2011, includes \$13.6 million and \$5.7 million, respectively, related to ITCs and \$24.9 million and \$6.1 million during the six months ended March 31, 2012 and 2011, respectively. GAAP requires that for interim reporting, companies forecast their earnings and income taxes, including ITC's, for the year and apply that estimated effective tax rate to the period-to-date pretax income. Total ITC-eligible capital expenditures in fiscal 2012 are forecasted to be \$111.7 million, including \$100.5 million

associated with solar projects placed into service during the six months ended March 31, 2012.

Net income in the three and six months ended March 31, 2012, increased \$6.7 million and \$16.7 million, compared with the three and six months ended March 31, 2011, due primarily to increased ITCs, partially offset by operation and maintenance expense, as discussed above.



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

(Continued)

Energy Holdings Segment

Operating Results

The financial results of Energy Holdings are summarized as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2012	2011	2012	2011
Equity in earnings of affiliates	\$ 3,967	\$ 4,360	\$ 7,582	\$ 7,980
Operation and maintenance expense	\$ 155	\$ 133	\$ 273	\$ 275
Interest expense, net	\$ 398	\$ 593	\$ 864	\$ 1,173
Net income	\$ 2,021	\$ 2,145	\$ 3,804	\$ 3,858

Equity in earnings, which is driven primarily by transportation revenues generated by Iroquois and storage revenues generated by Steckman Ridge is as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2012	2011	2012	2011
Iroquois	\$ 1,592	\$ 1,449	\$ 2,837	\$ 2,627
Steckman Ridge	2,375	2,911	4,745	5,353
Total equity in earnings	\$ 3,967	\$ 4,360	\$ 7,582	\$ 7,980

Net income decreased slightly during the three and six months ended March 31, 2012, compared with the three and six months ended March 31, 2011, due primarily to slightly lower equity in earnings offset by lower interest expense resulting from a reduction in debt.

Retail and Other Operations

Operating Results

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

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2012	2011	2012	2011
Operating revenues	\$ 8,277	\$ 7,826	\$ 17,308	\$ 15,952
Operation and maintenance expense	\$ 7,554	\$ 7,500	\$ 15,813	\$ 15,213
Net (loss)	\$(543)	\$(328)	\$(689)	\$(488)

Operating revenues increased \$451,000, or 5.8 percent, during the three months ended March 31, 2012, to \$8.3 million compared with \$7.8 million during the three months ended March 31, 2011, and \$1.4 million, or 8.5 percent, during the six months ended March 31, 2012, to \$17.3 million compared with \$16 million during the six months ended March 31, 2011. The improvement was due primarily to increased installations and service contracts at NJRHS.

Operation and maintenance expense remained relatively flat during the three months ended March 31, 2012, compared with the three months ended March 31, 2011. Operation and maintenance expense increased during the six months ended March 31, 2012, compared with the six months ended March 31, 2011, due primarily to increased compensation cost and advertising expense at NJRHS.

Net loss during the three and six months ended March 31, 2012, increased slightly, compared with the three and six months ended March 31, 2011, due primarily to higher equipment costs and increased operation and maintenance expense, as discussed above, partially offset by increased operating revenue. The residential solar pilot program generated \$199,000 and \$326,000 of net income during the three and six months ended March 31, 2011. All solar activity was transferred to NJRCEV in the third quarter of fiscal 2011.

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Liquidity and Capital Resources

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

NJR's consolidated capital structure was as follows:

	March 31, 2012	September 30, 2011	
Common stock equity	58	% 57	%
Long-term debt	29	31	
Short-term debt	13	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. In January 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 8.75 million shares. As of March 31, 2012, the Company repurchased a total of approximately 7.4 million of those shares and may repurchase an additional 1.3 million 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 believes that its existing borrowing availability and cash flow from operations will be sufficient to satisfy its and its subsidiaries' working capital, capital expenditures and dividend requirements for the foreseeable future. NJR, NJNG, NJRCEV and NJRES currently anticipate that its financing requirements for the next twelve months will be met primarily through the issuance of short-term debt, meter sale-leasebacks, proceeds from the Company's DRP and may also include the issuance of long-term debt depending on timing of capital investments.

NJR believes that as of March 31, 2012, NJR and NJNG were, and currently are, in compliance with all debt covenants.

Long-Term Debt

NJR has a \$50 million, 6.05 percent senior unsecured note, issued through the private placement market, maturing in September 2017.

As of March 31, 2012, NJNG's long-term debt consisted of \$172.8 million in secured fixed-rate debt issuances, with maturities ranging from 2018 to 2040, a \$60 million, 4.77 percent unsecured senior note maturing in March 2014, \$97 million in secured variable rate debt with maturities ranging from 2027 to 2041 and \$49.6 million in capital leases with various maturities ranging from 2012 to 2021.

In addition, NJR has a \$100 million and a \$75 million uncommitted private placement shelf note agreement, expiring in May 2013 and June 2014, respectively, allowing NJR to issue senior notes, the terms and conditions of which, including interest rates and maturity dates, will be agreed upon at the time of each issuance. As of March 31, 2012, NJR had no borrowings outstanding under these agreements.

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Credit Facilities

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. NJR's short-term debt consists of borrowings under an unsecured \$325 million committed credit facility, which expires in December 2012 (NJR Credit Facility). The NJR 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 NJR Credit Facility, of not more than 0.65 to 1.00 at any time. Depending on borrowing levels and credit ratings, NJR's interest rate can either be, at its discretion, the LIBOR or the Federal Funds Open Rate plus an applicable spread and facility fee.

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 an unsecured \$200 million credit facility that allows for the issuance of commercial paper and short-term bank loans, which expires in August 2014 (NJNG Credit Facility). It also permits an increase to the facility, from time to time, with the existing or new lenders, in a minimum of \$15 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 Daily LIBOR Rate, in each case, plus an applicable spread and facility fee. In addition, borrowings under the NJNG' 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.

Due to the seasonal nature of natural gas prices and demand, NJR and NJNG's short-term borrowings tend to peak in the winter months. As of March 31, 2012, NJR and NJNG had \$155.5 million and \$166 million, respectively, available under the NJR Credit Facility and NJNG Credit Facility, respectively. In addition, NJNG has a \$100 million credit facility to provide liquidity support for its variable rate long-term debt that has not been used to date.

Short-term borrowings were as follows:

	Three Months Ended March 31, 2012	Six Months Ended	
(\$ in thousands)			
NJR			
Notes Payable to banks:			
Balance at end of period	\$ 157,300	\$ 157,300	
Weighted average interest rate at end of period	0.53	%0.53	%
Average balance for the period	\$ 203,950	\$ 202,795	
Weighted average interest rate for average balance	0.60	%0.59	%
Month end maximum for the period	\$ 208,500	\$ 241,800	
NJNG			
Commercial Paper:			

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Balance at end of period	\$ 34,000	\$ 34,000	
Weighted average interest rate at end of period	0.16	%0.16	%
Average balance for the period	\$ 56,427	\$ 52,652	
Weighted average interest rate for average balance	0.14	%0.14	%
Month end maximum for the period	\$ 67,200	\$ 74,700	

NJR

As noted above, during the six months ended March 31, 2012, NJR's average interest rate was 0.59 percent, resulting in interest expense of \$607,600. Based on average borrowings under the NJR Credit Facility of \$202.8 million during the period, a 100 basis point change in the underlying average interest rate would have caused a change in interest expense of approximately \$1 million during the six months ended March 31, 2012.

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As of March 31, 2012, NJR has five letters of credit outstanding totaling \$12.2 million, which reduces the amount available under the NJR Credit Facility by the same amount.

NJNG

During the six months ended March 31, 2012, NJNG's weighted average interest rate under the NJNG Credit Facility was 0.14 percent, resulting in interest expense of \$36,400. Based on average borrowings under the facility of \$52.7 million during the period, a 100 basis point change in the underlying average interest rate would have caused a change in interest expense of approximately \$266,200 during six months ended March 31, 2012.

Neither NJNG nor its assets are obligated or pledged to support the NJR Credit Facility.

Sale-Leaseback

NJNG received \$6.5 million and \$5.9 million in December 2011 and 2010, respectively, in connection with the sale-leaseback of its natural gas meters. This sale-leaseback program is expected to continue on an annual basis.

Contractual Obligations

In conjunction with NJR's goal to promote clean energy, NJR has entered into various agreements to install solar equipment involving both residential and commercial projects. NJR expects capital expenditures related to the purchase and installation of the equipment associated with these contracts to be approximately \$82.6 million in fiscal 2012, of which \$79.8 million has either been spent or committed. Capital expenditures are expected to be \$90 million fiscal 2013. The capital expenditures related to these projects are subject to a variety of factors, including logistics associated with the start-up of residential and commercial solar projects, such as timing of construction schedules, the permitting and regulatory process and any delays related to electric grid interconnection, which may affect our ability to commence operations at these projects on a timely basis or, at all.

NJNG's total capital expenditures are estimated at \$121.2 million and \$70 million in fiscal 2012 and 2013, respectively, and consist primarily of its construction program to support customer growth, maintenance of its distribution and transmission system and replacement needed under pipeline safety regulations. Capital expenditures in fiscal 2012 include an estimated \$49.9 million related to AIP II. As of March 31, 2012, NJNG's capital expenditures spent or committed were \$49.1 million, of which, \$14.9 million was related to the AIP II program. Effective October 2011, NJNG is recovering in base rates approximately \$8.9 million annually, based on AIP expenditures incurred through August 31, 2011.

Off-Balance-Sheet Arrangements

The Company does not have any off-balance-sheet arrangements, with the exception of guarantees covering approximately \$363 million of natural gas purchases and demand fee commitments and outstanding letters of credit totaling \$12.2 million, as noted above.

Cash Flow

## Operating Activities

As presented in the Unaudited Condensed Consolidated Statements of Cash Flows, cash flow generated from operating activities totaled \$104.6 million during the six months ended March 31, 2012, compared with \$181 million during the six months ended March 31, 2011. 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;
- the deferral and recovery of gas costs;

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- changes in contractual assets utilized to optimize margins related to natural gas transactions;
- timing of the collections of receivables and payments of current liabilities; and
- volumes of natural gas purchased and sold.

Net income increased \$23.5 million during the six months ended March 31, 2012, compared with the six months ended March 31, 2011, due primarily to an increase of \$46.4 million in unrealized gains, net of tax, associated with changes in the values of financial derivative instruments.

In addition, the decrease of \$76.4 million in cash generated from operations during the six months ended March 31, 2012 as compared with the six months ended March 31, 2011, was impacted by:

lower overall commodity prices, which contributed toward favorable changes at NJRES of \$69.3 million in receivables balances and \$34.6 million in gas in storage, offset by a decrease in cash associated with gas purchases payables at NJRES of \$81.3 million.

a decrease of \$67.6 million in broker margin balances at NJRES resulting from an overall decrease in market price of natural gas and resulting favorable impact on open positions held as of March 31, 2012; partially offset by

a discretionary contribution of \$20 million to the Company's pension plan during fiscal 2012 compared with a contribution of \$4.9 million during fiscal 2011; and

credits of \$80.7 million issued to NJNG's customers during fiscal 2012 for overrecovered gas costs;

#### Investing Activities

Cash flow used in investing activities totaled \$111.3 million during the six months ended March 31, 2012, compared with \$59 million during the six months ended March 31, 2011. The increase was due primarily to higher capital expenditures at NJRCEV related to its solar projects.

#### Financing Activities

Financing cash flows generally are seasonal in nature and are impacted by the volatility in pricing in the natural gas markets. NJNG's inventory levels are built up during its natural gas injection season (April through October) and reduced during withdrawal season (November through March) in response to the supply requirements of its customers. Changes in financing cash flows can also be impacted by the funding demands of NJRES' gas management and marketing functions.

Cash flow generated from financing activities totaled \$7 million during the six months ended March 31, 2012, compared with \$(46.5) million used during the six months ended March 31, 2011. The increase is due primarily to higher short-term borrowings at NJR and a non-recurring redemption of long-term debt during fiscal 2011.

#### 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. NJR is not a rated entity.

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

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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 would the costs of maintaining certain contractual relationships and future financing. Even if ratings are downgraded without falling below investment grade, NJR and NJNG could still face increased borrowing costs under their 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.

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.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Financial Risk Management

#### Commodity Market Risks

Natural gas is a nationally traded commodity. Its prices are determined effectively by the NYMEX and over-the-counter markets. The prices on the NYMEX and over-the-counter markets generally reflect the national balance of natural gas supply and demand, but are also significantly influenced from time to time by other events.

The regulated and unregulated natural gas businesses of NJR and its subsidiaries are subject to market risk due to fluctuations in the price of natural gas. To economically hedge against such fluctuations, NJR and its subsidiaries have entered into forwards, futures contracts, options agreements and swap agreements. To manage these derivative instruments, NJR has well-defined risk management policies and procedures that include daily monitoring of volumetric limits and monetary guidelines. NJR's natural gas businesses are conducted through three of its operating subsidiaries. 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. NJRES uses futures, options, swaps and physical contracts to economically hedge purchases and sales of natural gas and NJR Energy from time to time may enter into energy-related ventures.

The following table reflects the changes in the fair market value of financial derivatives related to natural gas purchases and sales from September 30, 2011 to March 31, 2012:

(Thousands)	Balance September 30, 2011	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance March 31, 2012
NJNG	\$(8,452 )	\$(33,353 )	\$ 1,700	\$(43,505 )
NJRES	13,661	83,696	53,312	44,045
Total	\$ 5,209	\$ 50,343	\$ 55,012	\$ 540

There were no changes in methods of valuations during the year ended March 31, 2012.

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The following is a summary of fair market value of financial derivatives at March 31, 2012, excluding foreign exchange contracts discussed below, by method of valuation and by maturity for each fiscal year period:

(Thousands)	2012	2013	2014 - 2016	After 2016	Total Fair Value
Price based on NYMEX	\$(14,594 )	\$428	\$28	\$—	\$(14,138 )
Price based on other external data	12,452	4,696	(2,459 )	(11 )	14,678
Total	\$(2,142 )	\$5,124	\$(2,431 )	\$(11 )	\$540

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The following is a summary of financial derivatives by type as of March 31, 2012:

		Volume Bcf	Price per MMBtu	Amounts included in Derivatives (Thousands)
NJNG	Futures	14.8	\$2.19 - \$4.56	\$(44,588 )
	Swaps	3.3	\$0.00 - \$3.85	1,394
	Options	2.4	\$0.07 - \$0.26	(311 )
NJRES	Futures	(26.0 )	\$2.13 - \$4.94	30,450
	Swaps	(0.7 )	\$1.47 - \$6.75	13,595
Total				\$540

The following table reflects the changes in the fair market value of physical commodity contracts from September 30, 2011 to March 31, 2012:

(Thousands)	Balance September 30, 2011	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance March 31, 2012
NJRES - Prices based on other external data	\$26,339	(10,160 )	5,814	\$10,365

The Company's market price risk is predominately related to changes in the price of natural gas at Henry Hub, which is the delivery point for the NYMEX natural gas futures contracts. As the fair value of futures and our fixed swaps is derived from this location, the price sensitivity analysis below has been prepared for all open Henry Hub natural gas futures and fixed swap positions. Based on this, an illustrative 10 percent movement in Henry Hub natural gas futures contract prices for example, increases (decreases) the reported derivative fair value of all open, unadjusted Henry Hub natural gas futures and fixed swap positions by approximately \$11.1 million. This analysis does not include potential changes to reported credit adjustments embedded in the \$39.7 million reported fair value.

## Derivative Fair Value Sensitivity Analysis

(Thousands)	Henry Hub Futures and Fixed Price Swaps				
	—%	5%	10%	15%	20%
Percent increase in NYMEX natural gas futures prices	—%	5%	10%	15%	20%
Estimated change in derivative fair value	\$—	\$(5,574 )	\$(11,148 )	\$(16,721 )	\$(22,295 )
Ending derivative fair value	\$39,739	\$34,165	\$28,591	\$23,018	\$17,444
Percent decrease in NYMEX natural gas futures prices	—%	(5)%	(10)%	(15)%	(20)%
Estimated change in derivative fair value	\$—	\$5,574	\$11,148	\$16,721	\$22,295
Ending derivative fair value	\$39,739	\$45,313	\$50,887	\$56,460	\$62,034

## Wholesale Credit Risk

The following is a summary of gross and net credit exposures, grouped by investment and noninvestment grade counterparties, as of March 31, 2012. Gross credit exposure is defined as the unrealized fair value of derivative and energy trading contracts plus any outstanding wholesale receivable for the value of natural gas delivered and/or financial derivative commodity contract that has settled 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 NJNG retail natural gas sales and services.

NJRES' counterparty credit exposure as of March 31, 2012, is as follows:

(Thousands)	Gross Credit Exposure	Net Credit Exposure
Investment grade	\$ 99,850	\$ 72,563
Noninvestment grade	21,366	20,292
Internally rated investment grade	23,727	9,880
Internally rated noninvestment grade	6,015	—
Total	\$ 150,958	\$ 102,735

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

NJNG's counterparty credit exposure as of March 31, 2012, is as follows:

(Thousands)	Gross Credit Exposure	Net Credit Exposure
Investment grade	\$ 7,235	\$ 6,513
Noninvestment grade	91	5
Internally rated investment grade	1,853	1,538
Internally rated noninvestment grade	1,436	965
Total	\$ 10,615	\$ 9,021

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), 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 or received at a price that is unfavorable to 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.

#### Liquidation of Clearing Broker

MF Global Inc. (MFGI) and MF Global UK Limited (UKMF), which operated as futures commission merchants and broker/dealer entities of MF Global Holdings Ltd. (collectively with its affiliates, MF Global), were NJRES' clearing brokers through which NJRES held positions in energy futures contracts, options on futures contracts, and swaps cleared on exchanges administered by the Chicago Mercantile Exchange (CME) and the Intercontinental Exchange (ICE). The CME and ICE both require NJRES to maintain adequate margin against NJRES' trading positions, which our former clearing brokers, MFGI and UKMF, were required to hold on our behalf in segregated or secured accounts. MF Global disclosed to the CME that it had a "significant shortfall" in its segregated customer accounts. Shortly thereafter, on October 31, 2011, the Securities Investor Protection Corporation announced that it had initiated the liquidation of MFGI under the Securities Investor Protection Act (SIPA) in the U.S. and the High Court in the U.K. appointed special administrators to conduct the liquidation of UKMF. The SIPA Trustee's latest estimate of the shortfall in commodities customers' segregated account funds is \$1.6 billion.

As of the close of business on November 3, 2011, the market value of NJRES' MF Global account was \$27.8 million, of which \$10.6 million related to CME positions and \$17.2 million related to ICE positions. To date, NJRES has received distributions from the SIPA Trustee totaling \$7.6 million related to its CME positions. Accordingly, the remaining exposure as of March 31, 2012, is \$20.2 million.

NJRES has filed claims in both the MFGI and UKMF liquidation proceedings and intends to vigorously prosecute those claims to recover all of its funds, but it cannot estimate at this time, either how much of those funds will be recovered or when they will be recovered.

#### Interest Rate Risk

Information regarding NJR's interest rate risk can be found in Item 7A. Quantitative and Qualitative Disclosures About Market Risks 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, 2011 and the Liquidity and Capital Resources -

Debt section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 when appropriate.



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#### 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

There has been no change in internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended March 31, 2012, that has materially affected, or is 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, 2011, and is set forth in Part I, Item 1, Note 11. Commitment and Contingent Liabilities-Legal Proceedings in the Unaudited Condensed Consolidated Financial Statements. No legal proceedings became reportable during the quarter ended March 31, 2012, 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 2011 Annual Report on Form 10-K includes a detailed discussion of NJR's risk factors. Those risks and uncertainties have the potential to materially affect NJR's financial condition and results of operations. NJR does not believe that there have been any material changes from the risk factors as previously disclosed by NJR in the 2011 Annual Report on Form 10-K.

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

The following table sets forth NJR's repurchase activity for the quarter ended March 31, 2012:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
01/01/12 - 01/31/12	23,000	\$47.09	23,000	1,336,570
02/01/12 - 02/29/12	—	\$—	—	1,336,570
03/01/12 - 03/31/12	—	—	—	1,336,570
Total	23,000	\$47.09	23,000	1,336,570

The stock repurchase plan, which was authorized by our Board of Directors, became effective in September 1996 and includes 8,750,000 shares of common stock for repurchase, of which, as of March 31, 2012, 1,336,570 shares (1) remained for repurchase. The stock repurchase plan will expire when we have repurchased all shares authorized for repurchase thereunder, unless the repurchase plan is earlier terminated by action of our Board of Directors or further shares are authorized for repurchase.

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ITEM 6.  
EXHIBITS

Exhibit Number	Exhibit Description
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
101+	Interactive Data File (Form 10-Q, for the fiscal period ended March 31, 2012, furnished in XBRL (eXtensible Business Reporting Language)).

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+Filed herewith.

† 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 4, 2012

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

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