NEW JERSEY RESOURCES CORP
Form 10-K
November 30, 2009

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009
OR
o 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	22-2376465
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1415 Wyckoff Road, Wall, New Jersey 07719	732-938-1480
(Address of principal executive offices)	(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:

Common Stock - $2.50 Par Value	New York Stock Exchange
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12 (g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes: x No: o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes: o No: x

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: x No: o

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: o No: o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer: x	Accelerated filer: o	Non-accelerated filer: o	Smaller reporting company: o
		(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: o No: x

The aggregate market value of the Registrant's Common Stock held by nonaffiliates was $1,417,456,420 based on the closing price of $33.98 per share on March 31, 2009 as reported on the New York Stock Exchange.

The number of shares outstanding of $2.50 par value Common Stock as of November 24, 2009 was 41,585,243.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareowners (Proxy Statement) to be held January 27, 2010, to be filed on or about December 15, 2009, are incorporated by reference into Part I and Part III of this report.

New Jersey Resources Corporation

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* Portions of Item 10 and Items 11-14 are Incorporated by Reference from the Proxy Statement.

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INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report, including, without limitation, statements as to management expectations and beliefs presented in Item 1.—Business, under the captions "Natural Gas Distribution—General;—Throughput;—Seasonal of Gas Revenues;—Gas Supply;—Regulation and Rates;—Competition"; "Energy Services"; "Retail and Other"; "Environ and Item 3.—"Legal Proceedings," and in Part II including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, and "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can also be identified by the use of forward-looking terminology such as "may," "intend," "expect," "believe" or "continue" or comparable terminology and are made based upon management's expectations and beliefs concerning future developments and their potential effect upon New Jersey Resources Corporation (NJR or the Company). There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Company will be those anticipated by management.

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

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

- the level and rate at which costs and expenses are incurred and the extent to which they are allowed to be recovered from customers through the regulatory process in connection with constructing, operating and maintaining NJNG's natural gas distribution system;
- dependence on third-party storage and transportation facilities;
- operating risks incidental to handling, storing, transporting and providing customers with natural gas;
- access to adequate supplies of natural gas;
- the regulatory and pricing policies of federal and state regulatory agencies;
- the ultimate outcome of pending regulatory proceedings, including the possible expiration of the Conservation Incentive Program (CIP);
- the availability of an adequate number of appropriate creditworthy counterparties and liquidity in the wholesale energy trading market;
- the disallowance of recovery of environmental-related expenditures and other regulatory changes;
- environmental-related and other litigation and other uncertainties; and
- the impact of NJR's charter and bylaws on a potential transaction.

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. BUSINESS

ORGANIZATIONAL STRUCTURE

New Jersey Resources Corporation (NJR or the Company) is a New Jersey corporation formed in 1981 pursuant to a corporate reorganization. The Company is an energy services holding company providing retail and wholesale energy services to customers in states from the Gulf Coast to the New England regions, including the Mid-Continent region, the West Coast and Canada. The Company is an exempt holding company under section 1263 of the Energy Policy Act of 2005. NJR's subsidiaries and businesses include:

New Jersey Natural Gas (NJNG), a local natural gas distribution company that provides regulated retail natural gas service to approximately 487,000 residential and commercial customers in central and northern New Jersey and participates in the off-system sales and capacity release markets. NJNG is regulated by the New Jersey Board of Public Utilities (BPU) and comprises the Company's Natural Gas Distribution segment.

NJR Energy Services (NJRES) is the Company's principal non-utility subsidiary. It maintains and transacts around a portfolio of physical assets consisting of natural gas storage and transportation contracts. Also, NJRES provides wholesale energy management services to other energy companies. NJRES comprises the Company's Energy Services segment.

NJR also has retail and other operations (Retail and Other) , which includes the following companies:

Ÿ NJR Energy Investments (NJREI), an unregulated affiliate that consolidates the Company's unregulated energy-related investments. NJREI includes the following wholly owned subsidiaries:

* NJR Energy Holdings, a company that invests primarily in energy-related ventures through its subsidiary, NJNR Pipeline (Pipeline), which holds the Company's 5.53 percent interest in Iroquois Gas and Transmission System, LP (Iroquois) and another subsidiary, NJR Storage Holdings Company, which owns NJR Steckman Ridge Storage Company, which holds the Company's 50 percent combined interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a natural gas storage facility that has been developed with a partner in western Pennsylvania.

* NJR Investment, a company that makes and holds certain energy-related investments, primarily through equity instruments of public companies.

* NJR Energy Corporation (NJR Energy), a company that invests in energy-related ventures.

* NJR Clean Energy Ventures, a subsidiary formed in 2009, which the Company plans to use to invest in clean energy projects.

Ÿ NJR Retail Holdings (Retail Holdings), an unregulated affiliate that consolidates the Company's unregulated retail operations. Retail Holdings consists of the following wholly owned subsidiaries:

*

NJR Home Services (NJRHS), a company that provides heating, ventilation and cooling (HVAC) service repair and contract services.

* Commercial Realty & Resources (CR&R), a company that holds and develops commercial real estate.

* NJR Plumbing Services (NJRPS), a company that provides plumbing repair and installation services.

Ÿ NJR Service (NJR Service), an unregulated company that provides shared administrative services, including corporate communications, financial and planning, internal audit, legal, human resources and information technology for NJR and all subsidiaries.

BUSINESS SEGMENTS

The Company operates within two reportable business segments: Natural Gas Distribution and Energy Services.

The Natural Gas Distribution segment consists of regulated energy and off-system, capacity and storage management operations, and the Energy Services segment consists of unregulated wholesale energy operations.

ITEM 1. BUSINESS (Continued)

NATURAL GAS DISTRIBUTION

General

NJNG provides natural gas service to approximately 487,000 customers. Its service territory encompasses 1,516 square miles, covering 105 municipalities with an estimated population of 1.4 million people.

NJNG's service territory is in New Jersey's Monmouth and Ocean counties and parts of Burlington, Morris and Middlesex counties. It is primarily suburban, with a wide range of cultural and recreational activities and highlighted by approximately 100 miles of New Jersey coastline. It is in close proximity to New York City, Philadelphia and the metropolitan areas of northern New Jersey and is accessible through a network of major roadways and mass transportation. NJNG added 5,841 and 7,175 new customers and added natural gas heat and other services to another 709 and 728 existing customers in fiscal 2009 and 2008, respectively. NJNG's new customer annual growth rate of approximately 1.2 percent is expected to continue with projected additions in the range of approximately 12,000 to 14,000 new customers over the next two years. This anticipated customer growth represents approximately $3.4 million in expected new annual utility gross margin as calculated under NJNG's Conservation Incentive Program (CIP) tariff.

In assessing the potential for future growth in its service area, NJNG uses information derived from county and municipal planning boards that describes housing developments in various stages of approval. Furthermore, builders in NJNG's service area are surveyed to determine their development plans for future time periods. NJNG has also periodically engaged outside consultants to assist in its customer growth projections. In addition to customer growth through new construction, NJNG's business strategy includes aggressively pursuing conversions from other fuels, such as electricity, propane and oil. The Company estimates that, during fiscal 2010, approximately 50 percent of NJNG's projected customer growth will consist of conversions.

Throughput

For the fiscal year ended September 30, 2009, operating revenues and throughput by customer class were as follows:

	Operating Revenues (Thousands)			Throughput (Bcf)		
Residential	$686,798	63	%	43.6	33	%
Commercial and other	144,565	13		9.8	7	
Firm transportation	40,356	4		9.4	7	
Total residential and commercial	871,719	80		62.8	47	
Interruptible	5,711	1		4.1	3	
Total system	877,430	81		66.9	50	
Incentive programs	204,571	19		66.1	50	
Total	$1,082,001	100	%	133.0	100	%

In fiscal 2009, no single customer represented more than 10 percent of total NJNG operating revenue.

Seasonality of Gas Revenues

As a result of the heat-sensitive nature of NJNG's residential customer base, therm sales are significantly affected by weather conditions. Specifically, customer demand substantially increases during the winter months when natural gas is used for heating purposes. Weather conditions directly influence the volume of natural gas delivered to customers. The relative measurement of the impact of weather is in degree-days. Degree-day data is used to estimate amounts of energy required to maintain comfortable indoor temperature levels based on each day's average temperature. A degree-day is the measure of the variation in the weather based on the extent to which the average daily temperature falls below 65 degrees Fahrenheit. Each degree of temperature below 65 degrees Fahrenheit is counted as one heating degree-day. Normal heating degree-days are based on a 20-year average, calculated based upon three reference areas representative of NJNG's service territory.

Effective October 1, 2006, the New Jersey Board of Public Utilities (BPU) authorized a three-year CIP pilot program, which decoupled the link between customer usage and NJNG's utility gross margin, allowing NJNG to promote energy conservation measures. During the term of the pilot, the Weather Normalization Clause (WNC) was suspended and replaced with the CIP tracking mechanism, which addresses utility gross margin variations related to both weather and customer usage. Recovery of such utility gross margin is subject to additional conditions including an earnings test and an evaluation of Basic Gas Supply Service-related savings achieved. In May 2008, NJNG filed its Petition for the annual review of its CIP. On October 3, 2008, the BPU approved the CIP petition on a provisional basis, effective the date of the order, and on June 8, 2009, the BPU issued their final order approving the rates on a permanent basis. On April 1, 2009, NJNG submitted a proposal to extend its CIP mechanism, as currently structured, until October 1, 2010. The extension was requested due to the continuing nature of energy efficiency programs at the state and federal levels in concert with the issuance of the economic stimulus programs. As of October 1, 2009, the CIP will remain in effect for an additional year or until a final order is issued by the BPU.

As a result of increases in NJNG's operation, maintenance and capital costs, NJNG petitioned the BPU, on November 20, 2007, to increase base rates for delivery service. This request is consistent with NJNG's objectives of providing safe and reliable service to its customers and earning a market-based return on its regulated investments. On October 3, 2008, the BPU unanimously approved a revenue increase in NJNG's base rates of $32.5 million as well as certain changes in the design of its tariff rates.

For additional information regarding the CIP, see Management's Discussion and Analysis—Natural Gas Distribution Operations and Note 2. Regulation in the accompanying Consolidated Financial Statements.

Gas Supply

Firm Natural Gas Supplies

NJNG's gas supply portfolio consists of long-term (over seven months), winter-term (for the five winter months of November through March) and short-term contracts. In fiscal 2009, NJNG purchased gas from 95 suppliers under contracts ranging from one day to one year. In fiscal 2009, NJNG purchased over 10 percent of its natural gas from two suppliers, Southwestern Energy Services Company and Devon Gas Services, LP. NJNG believes the loss of any one or all of these suppliers would not have a material adverse impact on its results of operations, financial position or cash flows as an adequate number of alternative suppliers exist. NJNG believes that its supply strategy should adequately meet its expected firm load over the next several years.

Firm Transportation and Storage Capacity

In order to take delivery of firm natural gas supplies, which ensures the ability to reliably service its customers, NJNG maintains agreements for firm transportation and storage capacity with several interstate pipeline companies. NJNG receives natural gas at eight city gate stations located in Middlesex, Morris and Passaic counties in New Jersey.

The pipeline companies that provide firm transportation service to NJNG's city gate stations, the maximum daily deliverability of that capacity in dekatherms (dths) and the contract expiration dates are as follows:

Pipeline	Maximum daily deliverability (dths)	Expiration
Algonquin Gas Transmission	12,000	2011
Columbia Gas Transmission Corp.	20,000	2024
Tennessee Gas Pipeline Co.	35,894	Various dates between 2011 and 2013
Texas Eastern Transmission, L.P.	488,738	Various dates between 2014 and 2023
Transcontinental Gas Pipe Line Corp.	22,531	2014
	579,163	

The pipeline companies that provide firm contract transportation service for NJNG and supply the above pipelines are ANR Pipeline Company, Iroquois Gas Transmission System, Tennessee Gas Pipeline, Dominion Transmission Corporation and Columbia Gulf Transmission Company.

In addition, NJNG has storage and related transportation contracts that provide additional maximum daily deliverability to NJNG's city gate stations of 102,941 dths from storage fields in its Northeast market area. The storage suppliers, the maximum daily deliverability of that storage capacity and the contract expiration dates are as follows:

Pipeline	Maximum daily deliverability (dths)	Expiration
Texas Eastern Transmission, L.P.	94,557	2014
Transcontinental Gas Pipe Line Corp.	8,384	2014
	102,941	

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ITEM 1. BUSINESS (Continued)

NJNG also has upstream storage contracts, maximum daily deliverability and contract expiration dates as follows:

Company	Maximum daily deliverability (dths)	Expiration
ANR Pipeline Company	39,831	2013
Central NY Oil & Gas (Stagecoach)	47,065	2011
Dominion Transmission Corporation	103,714	Various dates between 2012 and 2016
	190,610	

NJNG utilizes its transportation contracts to transport gas from the ANR, Dominion and Stagecoach storage fields to NJNG's city gates.

Peaking Supply

To manage its winter peak day demand NJNG maintains two liquefied natural gas (LNG) facilities with a combined deliverability of approximately 170,000 dths per day, which represents approximately 21 percent of its estimated peak day sendout. See Item 2. Properties–NJNG for additional information regarding the LNG storage facilities.

Basic Gas Supply Service

Wholesale natural gas prices are, by their very nature, volatile. NJNG has mitigated the impact of volatile price changes on customers through the use of financial derivative instruments, which are part of its financial risk management program, its storage incentive program and its Basic Gas Supply Service (BGSS) clause. BGSS is a BPU-approved clause designed to allow for the recovery of natural gas commodity costs. The clause also requires all New Jersey natural gas utilities to make an annual filing by each June 1 for review of BGSS rates and to request a potential rate change to be effective the following October 1. The BGSS also is designed to allow each natural gas utility to provisionally increase residential and small commercial customer BGSS rates up to 5 percent on December 1 and February 1 on a self-implementing basis, after proper notice and BPU action on the June filing. Such increases are subject to subsequent BPU review and final approval. Decreases in the BGSS rate and BGSS refunds can be implemented upon five days' notice to the BPU.

In March 2008, NJNG, the BPU Staff and the New Jersey Department of the Public Advocate, Division of Rate Counsel (Rate Counsel) entered into a stipulation to resolve certain matters related to NJNG's fiscal 2007 BGSS filing. This stipulation was approved by the BPU in May 2008, and resulted in NJNG recording a non-recurring settlement charge to its BGSS costs of $300,000.

In May 2008, NJNG filed for an increase to the periodic BGSS factor to be effective October 1, 2008, that would increase an average residential heating customer's bill by approximately 18.0 percent due to an increase in the price of wholesale natural gas. Subsequent to the filing, wholesale natural gas prices moderated and, on September 22, 2008, NJNG, the Staff of the BPU, and Rate Counsel signed an agreement for an increase to the periodic BGSS factor that would increase an average residential heating customer's bill by approximately 8.9 percent. On October 3, 2008, and

June 8, 2009, the BPU and Rate Counsel approved the BGSS increase on a provisional and final basis, respectively, effective the date of the BPU order.

In June 2009, NJNG filed its annual BGSS and CIP filing proposing a decrease of 17.6 percent for the average residential heating customer of which 15.7 percent stems from the reduction in commodity costs based on the continuing decline in the wholesale natural gas market. The balance of the rate change is related to changes to the CIP rate and a minor reduction to the rate related to collecting the remaining balance under the WNC.

In September 2009, the BPU approved, on a provisional basis a decrease of approximately 19 percent to the average residential heating customer of which 17.2 percent stems from the reduction to the BGSS price and the balance of rate change is related to the CIP and WNC rates as discussed above.

These rate changes, as well as other regulatory actions, are discussed further in Note 2. Regulation in the accompanying Consolidated Financial Statements in Part II, Item 8.

ITEM 1. BUSINESS (Continued)

Future Natural Gas Supplies

NJNG expects to meet the natural gas requirements for existing and projected firm customers into the foreseeable future. If NJNG's long-term natural gas requirements change, NJNG would renegotiate and restructure its contract portfolio components to better match the changing needs of its customers.

Regulation and Rates

State

NJNG is subject to the jurisdiction of the BPU with respect to a wide range of matters such as rates, the issuance of securities, the adequacy of service, the manner of keeping its accounts and records, the sufficiency of natural gas supply, pipeline safety, compliance with affiliate standards and the sale or encumbrance of its properties.

See Note 2. Regulation in the accompanying Consolidated Financial Statements for additional information regarding NJNG's rate proceedings.

Federal

The Federal Energy Regulatory Commission (FERC) regulates rates charged by interstate pipeline companies for the transportation and storage of natural gas. This affects NJNG's agreements for the purchase of such services with several interstate pipeline companies. Any costs associated with these services are recoverable through the BGSS.

Competition

Although its franchises are nonexclusive, NJNG is not currently subject to competition from other natural gas distribution utilities with regard to the transportation of natural gas in its service territory. Due to significant distances between NJNG's current large industrial customers and the nearest interstate natural gas pipelines, as well as the availability of its transportation tariff, NJNG currently does not believe it has significant exposure to the risk that its distribution system will be bypassed. Competition does exist from suppliers of oil, coal, electricity and propane. At the present time, however, natural gas is used in favor of alternate fuels in over 95 percent of new construction due to its efficiency and reliability. Natural gas prices are a function of market supply and demand, although NJNG believes natural gas will remain competitive with alternate fuels, no assurance can be given in this regard.

The BPU, within the framework of the Electric Discount and Energy Competition Act (EDECA), fully opened NJNG's residential markets to competition, including third-party suppliers, and restructured rates to segregate its BGSS and delivery (i.e., transportation) prices. In the absence of any third-party supplier, BGSS must be provided by the state's natural gas utilities. On September 30, 2009, NJNG had 14,608 residential and 6,357 commercial and industrial customers utilizing the transportation service. Based on its current and projected level of transportation customers, NJNG expects to use its existing firm transportation and storage capacity to fully meet its firm sales contract obligations.

ENERGY SERVICES

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 our 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 market areas in which we have expertise and include states from the Gulf Coast and Mid-continent regions to the Appalachian and Northeast regions, the West Coast and Canada.

More specifically, NJRES activities consist of the following elements, 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 financial margin (as defined below);

- Providing natural gas portfolio management services to nonaffiliated utilities and electric generation facilities;

- Leveraging transactions for the delivery of natural gas to customers by aggregating the natural gas commodity costs and transportation costs in order to minimize the total cost required to provide and deliver natural gas to NJRES' customers by identifying the lowest cost alternative with the natural gas supply, transportation availability and markets to which NJRES is able to access through its business footprint and contractual asset portfolio; and

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ITEM 1. BUSINESS (Continued)

- Managing economic hedging programs that are designed to mitigate adverse market price fluctuations in natural gas transportation and storage commitments.

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

NJRES focuses on creating value from underutilized natural gas assets, which are typically amassed through contractual rights to natural gas transportation and storage capacity. NJRES has developed a portfolio of natural gas storage and transportation capacity in the Northeast, Gulf Coast, Mid-continent and Appalachian regions, the West Coast and Canada. These assets become more valuable when prices change between these areas and across time periods. On a forward basis, NJRES will 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, transportation and opportunities to which it has access. This enables NJRES to capture geographic pricing differences across these various regions as delivered natural gas prices change as a result of market conditions. NJRES focuses on earning a financial margin on a single original transaction and then utilizing that transaction, and the changes in prices across the regions or across time periods as the basis to further improve the initial result.

NJRES also participates in park-and-loan transactions with pipeline counterparties, where NJRES will park (store on the pipeline) natural gas to be redelivered to NJRES at a later date or borrow (receive a loan of natural gas from the pipeline) to be returned to the pipeline at a later date. In these cases, NJRES evaluates the economics of the transaction to determine if it can capture pricing differentials in the marketplace in order to be able to generate financial margin. In evaluating these transactions NJRES will compare the fixed fee it will pay to or receive from the pipeline, along with other costs such as time value of money, and the resulting spread it can generate when considering the market price at the beginning and end of the time period of the park or loan. When the transaction allows NJRES to generate a financial margin, NJRES will fix the financial margin by economically hedging the transaction with natural gas futures.

NJRES has built a portfolio of customers including local distribution companies, industrial companies, electric generators, retail aggregators and other wholesale marketing companies. Sales to these customers have allowed NJRES to leverage its transportation and storage capacity and manage sales to these customers in an aggregate fashion. This strategy allows NJRES to extract more value from its portfolio of natural gas storage and pipeline transportation capacity through the arbitrage of pricing differences as a result of locational differences or over different periods of time.

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.

In fiscal 2009, NJRES had one customer, who represented 14 percent of its total revenue. Management believes that the loss of this customer would not have a material effect on its financial position, results of operations or cash flows as an adequate number of alternative counterparties exist.

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ITEM 1. BUSINESS (Continued)

OTHER BUSINESS OPERATIONS

RETAIL AND OTHER

Retail and Other operations consist primarily of the following unregulated affiliates:

- Ÿ NJRHS, which provides service, sales and installation of appliances;

- Ÿ NJR Energy Holdings, a company that invests in energy-related ventures through its subsidiary, Pipeline, which consists primarily of its 5.53 percent equity investment in Iroquois, which is a 412-mile natural gas pipeline from the New York-Canadian border to Long Island, New York;

- Ÿ NJR Steckman Ridge Storage Company, which holds the Company's 50 percent equity investment in Steckman Ridge. Steckman Ridge is a partnership, jointly owned and controlled by subsidiaries of the Company and subsidiaries of Spectra Energy Corporation, that built, owns and operates a 17.7 Bcf natural gas storage facility in western Pennsylvania.

On June 5, 2008, the Federal Energy Regulatory Commission (FERC) issued Steckman Ridge a certificate of public convenience and necessity authorizing the ownership, construction and operation of its natural gas storage facility and associated facilities. On April 1, 2009, Steckman Ridge received authorization to place certain injection related facilities into commercial operation. Customers have begun to inject natural gas inventory in preparation for the initial withdrawal season. An additional drilling program will be reviewed in the third quarter of fiscal 2010. As of September 30, 2009, NJR has invested approximately $122.5 million in Steckman Ridge, excluding capitalized interest and other direct costs. Total project costs related to the development of the storage facility are currently estimated at approximately $265 million, of which NJR is obligated to fund 50 percent, or approximately $132.5 million. Steckman Ridge may seek non-recourse financing upon completion of the construction and development of its facilities, thereby potentially reducing the final expected recourse obligation of NJR. There can be no assurances that such non-recourse project financing will be secured or available for Steckman Ridge;

- Ÿ CR&R, which holds and develops commercial real estate.

As of September 30, 2009, CR&R's real estate portfolio consisted of 31 acres of undeveloped land in Monmouth County with a net book value of $6.5 million, 52 acres of undeveloped land in Atlantic County with a net book value of $2.1 million and a 56,400-square-foot office building on 5 acres of land in Monmouth County with a net book value of $8.9 million. The Atlantic County location has 11 acres under contract for sale and will be sold as undeveloped land, subject to all approvals being obtained. An additional 5 acres of undeveloped land in Monmouth County, with a net book value of $1.7 million, is also under contract for sale and such sale is estimated to close in fiscal 2010, subject to all approvals being obtained. The remaining 26 acres of undeveloped land in Monmouth County with a net book value of $4.8 million will be developed or sold based on market conditions. The specific time frame for development or sale is currently unknown;

- Ÿ NJR Investment, a company that makes and holds certain energy-related investments, primarily through equity instruments of public companies:

Ÿ NJR Energy, a company that invests in energy-related ventures; and

Ÿ NJR Service, which provides shared administrative and financial services to the Company and all its subsidiaries.

ENVIRONMENT

The Company and its subsidiaries are subject to legislation and regulation by federal, state and local authorities with respect to environmental matters. The Company believes that it is in compliance in all material respects with all applicable environmental laws and regulations.

NJNG is responsible for the environmental remediation of five manufactured gas plant (MGP) sites, which contain contaminated residues from former gas manufacturing operations that ceased at these sites by the mid-1950s and, in some cases, had been discontinued many years earlier. In September 2009, NJNG updated an environmental review of the MGP sites, including a review of potential liability related to the investigation and remedial action on these sites. Based on this review, NJNG estimated that the total future expenditures to remediate and monitor the five MGP sites for which it is responsible will range from $146.7 million to $244.3 million.

ITEM 1. BUSINESS (Continued)

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. Where available information is sufficient to estimate the amount of the liability, it is NJNG's policy to accrue the full amount of such estimate. Where the information is sufficient only to establish a range of possible liability, and no point within the range is more likely than the other, it is NJNG's policy to accrue the lower end of the range. As a result, NJNG has recorded an MGP remediation liability and a corresponding Regulatory asset of $146.7 million on the Consolidated Balance Sheet; however, actual costs may differ from these estimates. NJNG will continue to seek recovery of these costs through its remediation rider. See Item 3. Legal Proceedings and Note 13. Commitments and Contingent Liabilities in the accompanying Consolidated Financial Statements for information with respect to environmental matters and material expenditures for the remediation of the MGP sites.

CR&R is the owner of certain undeveloped land in Monmouth and Atlantic counties, New Jersey, with a net book value at September 30, 2009, of $8.6 million that is regulated by the provisions of the Freshwater Wetlands Protection Act (Wetlands Act), which restricts building in areas defined as "freshwater wetlands" and their transition areas. Based upon a third-party environmental engineer's delineation of the wetlands and transition areas in accordance with the provisions of the Wetlands Act, CR&R will file for a Letter of Interpretation from the New Jersey Department of Environmental Protection (NJDEP) as parcels of land are selected for development. If the NJDEP reduces the amount of developable yield from CR&R's current estimates, a write-down of the carrying value of the undeveloped land may be required.

Taking into consideration the environmental engineer's revised estimated developable yield for undeveloped acreage and recently negotiated sales, the Company does not believe that a write-down of the carrying value of the Monmouth and Atlantic counties land is necessary as of September 30, 2009.

Although the Company cannot estimate with certainty future costs of environmental compliance, which, among other factors, are subject to changes in technology and governmental regulations, the Company does not presently anticipate any additional significant future expenditure for compliance with existing environmental laws and regulations, other than for the remediation of the MGP sites discussed in Note 13. Commitments and Contingent Liabilities in the accompanying Consolidated Financial Statements, which would have a material effect upon the capital expenditures, results of operations or competitive position of the Company or its subsidiaries.

EMPLOYEE RELATIONS

As of September 30, 2009, the Company and its subsidiaries employed 900 employees compared with 854 employees as of September 30, 2008. Of the total number of employees, NJNG had 402 and 399 and NJRHS had 97 and 94 union employees as of September 30, 2009 and 2008, respectively. NJNG and NJRHS have collective bargaining agreements with local 1820 of the International Brotherhood of Electrical Workers (IBEW), AFL-CIO expiring in December 2011 and April 2010, respectively. The labor agreements cover wage increases and other benefits during the term of the agreements. The Company considers its relationship with employees, including those covered by collective bargaining agreements, to be good.

AVAILABLE INFORMATION AND CORPORATE GOVERNANCE DOCUMENTS

The following items are available free of charge on our website at http://njr360.client.shareholder.com/sec.cfm as soon as reasonably possible after filing or furnishing them with the Securities and Exchange Commission (SEC):

- Ÿ Annual reports on Form 10-K;
- Ÿ Quarterly reports on Form 10-Q; and
- Ÿ Current reports on Form 8-K.

In addition, on our website at http://njr360.client.shareholder.com/governance.cfm, the following documents are also available free of charge:

- Ÿ Corporate governance guidelines;
- Ÿ Principal Executive Officer and Senior Financial Officers Code of Ethics;
- Ÿ Wholesale Trading Code of Conduct;
- Ÿ NJR Code of Conduct; and
- Ÿ The charters of the following Board Committees: Audit, Leadership Development and Compensation and Nominating/Corporate Governance.

ITEM 1. BUSINESS (Continued)

A printed copy of each is available free of charge to any shareholder who requests it by contacting the Corporate Secretary at New Jersey Resources Corporation, 1415 Wyckoff Road, Wall, NJ 07719.

ITEM 1A. RISK FACTORS

When considering any investment in NJR's securities, investors should consider the following information, as well as the information contained under the caption "Forward Looking Statements," in analyzing the Company's present and future business performance. While this list is not exhaustive, NJR's management also places no priority or likelihood based on their descriptions or orders of presentation.

Financial Risks

Inability of NJR and/or NJNG to access the financial markets and conditions in the credit markets could affect management's ability to execute their respective business plans.

NJR relies on access to both short-term and long-term credit as significant sources of liquidity for capital requirements not satisfied by its cash flow from operations. Any deterioration in NJR's financial condition could hamper its ability to access the credit markets or otherwise obtain debt financing. Because certain state regulatory approvals may be necessary in order for NJNG to incur debt, NJNG may not be able to access credit markets on a timely basis.

External events could also increase the cost of borrowing or adversely affect the ability to access the financial markets. Such external events could include the following:

Ÿ economic weakness in the United States or in the regions where NJR operates;

Ÿ financial difficulties of unrelated energy companies;

Ÿ capital market conditions generally;

Ÿ market prices for natural gas;

Ÿ the overall health of the natural gas utility industry; and

Ÿ fluctuations in interest rates.

NJR and its subsidiaries' ability to secure short-term financing is subject to conditions in the credit markets. The volatility in the U.S. credit markets and stricter bank credit policies have contributed to a slowdown of lending by banks. A prolonged constriction of credit availability could affect management's ability to execute NJR's, NJRES' and NJNG's business plan. An inability to access capital may limit the ability to pursue improvements or acquisitions that NJR, or its subsidiaries, may otherwise rely on for both current operations and future growth.

Although NJRES and NJNG have strict credit risk management policies and procedures, they execute derivative transactions with financial institutions as a part of their economic hedging strategy and could incur losses associated with the inability of a financial counterparty to meet or perform under its obligations as a result of adverse conditions in the credit markets or their ability to access capital or post collateral.

NJR is a holding company and depends on its operating subsidiaries to meet its financial obligations.

NJR is a holding company with no significant assets other than possible cash investments and the stock of its operating subsidiaries. NJR relies exclusively on dividends from its subsidiaries, on intercompany loans from its non-regulated subsidiaries, and on the repayments of principal and interest from intercompany loans made to its subsidiaries for its cash flows. NJR's ability to pay dividends on its common stock and to pay principal and accrued interest on its outstanding debt depends on the payment of dividends to NJR by certain of its subsidiaries or the repayment of loans to NJR by its principal subsidiaries. The extent to which NJR's subsidiaries do not pay dividends or repay funds to NJR may adversely affect its ability to pay dividends to holders of its common stock and principal and interest to holders of its debt.

ITEM 1A. RISK FACTORS (Continued)

Credit rating downgrades could increase financing costs, limit access to the financial markets and negatively affect NJR and its subsidiaries.

The debt of NJNG is currently rated by the rating agencies Moody's Investor Services, Inc. and Standard & Poor's as investment grade. If such ratings are downgraded below investment grade, borrowing costs could increase, as will the costs of maintaining certain contractual relationships and obtaining future financing. Even if ratings are downgraded without falling below investment grade, NJR and NJNG can still face increased borrowing costs under their currently existing credit facilities. NJR and its subsidiaries' ability to borrow and costs of borrowing have a direct impact on its subsidiaries' ability to execute their operating strategies.

Additionally, lower credit ratings could adversely affect relationships with NJNG's state regulators, who may be unwilling to allow NJNG to pass along increased costs to its natural gas customers.

NJR is dependent on credit facilities and continued access to capital markets to execute its operating strategies, and failure by NJR and/or NJNG to comply with debt covenants may impact NJR's financial condition.

NJR and NJNG's long-term debt obligations contain financial covenants related to debt-to-capital ratios and an interest coverage ratio for NJNG. These debt obligations also contain provisions that put certain limitations on NJR's ability to finance future operations or capital needs or to expand or pursue certain business activities. For example, certain of these agreements contain provisions that, among other things, put limitations on our ability to make loans or investments, make material changes to the nature of our businesses, merge, consolidate or engage in asset sales, grant liens, or make negative pledges. Furthermore, the debt obligations contain covenants and other provisions requiring NJR or NJNG to make timely delivery of accurate financial statements prepared in accordance with GAAP. The failure to comply with any of these covenants could result in an event of default, which, if not cured or waived, could result in the acceleration of outstanding debt obligations and/or the inability to borrow under existing revolving credit facilities. NJNG has relied, and continues to rely, upon short-term bank borrowings or commercial paper supported by its revolving credit facility to finance the execution of a portion of its operating strategies. NJNG is dependent on these capital sources to purchase its natural gas supply and maintain its properties. The acceleration of outstanding debt obligations of NJR or NJNG and their inability to borrow under their existing revolving credit facilities would cause a material adverse change in NJR or NJNG's financial condition.

NJRES' ability to conduct its business is dependent upon the creditworthiness of NJR.

If NJR suffers a reduction in its credit and borrowing capacity or in its ability to issue parental guarantees, the business prospects of NJRES, which rely on the creditworthiness of NJR, would be adversely affected. NJRES would possibly be required to comply with various margin or other credit enhancement obligations under its trading and marketing contracts, and it may be unable to continue to trade or be able to do so only on less favorable terms with certain counterparties.

Continued failures in the market for auction-rate securities could have a negative impact on NJNG's financial condition.

NJNG is obligated with respect to a total of six series of auction rate bonds totaling approximately $97 million (collectively, auction-rate securities or “ARS”). All of the ARS are investment grade rated by Moody’s Investor Services and Standard & Poor’s. NJNG has been experiencing ARS failed auctions, which occur when there are not enough orders to purchase all of the securities being sold at the auction. The result of a failed auction, which does not signify a default by NJNG, is that the ARS continue to pay interest in accordance with their terms until there is a successful auction or until such time as other markets for these securities develop. However, upon an auction failure, the interest rates do not reset at a market rate established at an auction, but instead reset based upon a formula contained within the ARS, otherwise known as a “maximum auction rate,” which may be materially higher than the previous auction rate. The “maximum auction rate” for the ARS is the lesser of (i) 175 percent of one-month LIBOR or (ii) either 10 percent or 12 percent per annum, as applicable to such series of the ARS. Should future auctions fail and interest rates on the ARS continue to be established at the maximum auction rate, NJNG’s average cost of borrowing could rise above historic levels, which could materially and adversely affect both NJNG’s and NJR’s cash flows, results of operations and financial condition. Although NJR is reviewing alternative methods for refinancing the ARS at NJNG on a continuing basis, NJR cannot assure that alternative sources of financing can be implemented in a timely manner.

ITEM 1A. RISK FACTORS (Continued)

The cost of providing pension and postemployment health care benefits to eligible former employees is subject to changes in pension fund values and changing demographics and may have a material adverse effect on NJR's financial results.

NJR has two defined benefit pension plans and two postemployment health care plans (OPEB) for the benefit of substantially all full-time employees and qualified retirees. The cost of providing these benefits to eligible current and former employees is subject to changes in the market value of the pension and OPEB fund assets, changing discount notes and changing demographics, including longer life expectancy of beneficiaries, an expected increase in the number of eligible former employees over the next five years and increases in health care costs.

Any sustained declines in equity markets and reductions in bond yields may have a material adverse effect on the funded status of NJR's pension and OPEB plans. In these circumstances, NJR may be required to recognize increased pension and OPEB expenses and/or be required to make additional cash contributions into the plans.

The funded status of these plans, and the related cost reflected in NJR's financial statements, are affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Under the Pension Protection Act of 2006, continued losses of asset values may necessitate increased funding of the plans in the future to meet minimum federal government requirements. A continued downward pressure on the asset values of these plans may require NJR to fund obligations earlier than it had originally planned, which would have a negative impact on cash flows from operations, decrease NJR's borrowing capacity and increase its interest expense as a result of having to fund these obligations.

If we do not maintain an effective system of internal control we could have one or more material weaknesses in internal control over financial reporting, which may result in unreliable financial statements.

Section 404 of the Sarbanes-Oxley Act of 2002 requires NJR's management to make an assessment of the design and effectiveness of internal controls. It also requires NJR's independent registered public accounting firm to audit the design and effectiveness of these controls and to form an opinion on both management's assessment and the effectiveness of these controls. Management's ongoing assessment of these controls may identify areas of weakness in control design or effectiveness, which may lead to the conclusion that a material weakness in internal control exists. NJR's independent public registered accounting firm may also identify control deficiencies, which may lead to identification of a material weakness in internal control. While NJR's system of internal controls is reviewed periodically, there exist inherent limitations to control effectiveness. To the extent NJR identifies future weaknesses or deficiencies, NJR may not be able to produce reliable financial statements, which could result in a loss of investor confidence and a decline in its stock value. In addition, should NJR not be able to produce reliable financial statements, it could limit NJR's and NJNG's ability to access the capital markets.

Economic hedging activities of NJR designed to protect against commodity and financial market risks may cause fluctuations in reported financial results, and NJR's stock price could be adversely affected as a result.

Although NJR uses derivatives, including futures, forwards, options and swaps, to manage commodity and financial market risks, the timing of the recognition of gains or losses on these economic hedges in accordance with generally accepted accounting principles used in the United States of America (GAAP) does not always coincide with the gains or losses on the items being hedged. The difference in accounting can result in volatility in reported results, even though the expected profit margin is essentially unchanged from the dates the transactions were consummated.

Operational Risks

NJNG's operations are subject to certain operating risks incidental to handling, storing, transporting and providing customers with natural gas.

NJNG's operations are subject to all operating hazards and risks incidental to handling, storing, transporting and providing customers with natural gas. These risks include explosions, pollution, release of toxic substances, fires, storms and other adverse weather conditions and hazards, each of which could result in damage to or destruction of facilities or damage to persons and property. If any of these events were to occur, NJR could suffer substantial losses. Moreover, as a result, NJR has been, and likely will be, a defendant in legal proceedings and litigation arising in the ordinary course of business. Although NJR maintains insurance coverage, insurance may not be sufficient to cover all material expenses related to these risks.

ITEM 1A. RISK FACTORS (Continued)

Major changes in the supply and price of natural gas may affect financial results.

While NJNG expects to provide for the demand of its customers for the foreseeable future, factors impacting suppliers and other third parties, including increased competition, further deregulation, transportation costs, possible climate change legislation, transportation availability and drilling for new natural gas resources, may impact the supply and price of natural gas. NJNG actively hedges against the fluctuation in the price of natural gas by entering into forward and financial contracts with third parties. Should these third parties fail to perform, it may result in a loss that could have a material impact on the financial position, cash flows and statement of operations of NJR.

NJNG and NJRES rely on third parties to supply natural gas.

NJNG's ability to provide natural gas for its present and projected sales will depend upon its suppliers' ability to obtain and deliver additional supplies of natural gas, as well as NJNG's ability to acquire supplies directly from new sources. Factors beyond the control of NJNG, its suppliers and the independent suppliers who have obligations to provide natural gas to certain NJNG customers, may affect NJNG's ability to deliver such supplies. These factors include other parties' control over the drilling of new wells and the facilities to transport natural gas to NJNG's city gate stations, competition for the acquisition of natural gas, priority allocations, impact of severe weather disruptions to natural gas supplies, the regulatory and pricing policies of federal and state regulatory agencies, as well as the availability of Canadian reserves for export to the United States. Energy deregulation legislation may increase competition among natural gas utilities and impact the quantities of natural gas requirements needed for sales service.

NJRES also relies on a firm supply source to meet its energy management obligations for its customers. Should NJRES' suppliers fail to deliver supplies of natural gas, there could be a material impact on its cash flows and statement of operations.

The use of derivative contracts in the normal course of NJRES' business could result in financial losses that negatively impact results of operations.

NJRES uses derivatives, including futures, forwards, options and swaps, to manage commodity and financial market risks. NJRES could recognize financial losses on these contracts as a result of volatility in the market values of the underlying commodities or if a counterparty fails to perform under a contract. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these financial instruments can involve management's judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could adversely affect the value of the reported fair value of these contracts.

Adverse economic conditions including inflation, increased natural gas costs, foreclosures, and business failures could adversely impact NJNG's customer collections and increase its level of indebtedness.

Inflation has caused increases in certain operating and capital costs. NJR has a process in place to continually review the adequacy of NJNG's rates in relation to the increasing cost of providing service and the inherent regulatory lag in adjusting those rates. The ability to control expenses is an important factor that will influence future results.

Rapid increases in the price of purchased gas may cause NJNG to experience a significant increase in short-term debt because it must pay suppliers for gas when it is purchased, which can be significantly in advance of when these costs may be recovered through the collection of monthly customer bills for gas delivered. Increases in purchased gas costs also slow collection efforts as customers are more likely to delay the payment of their gas bills, leading to higher-than-normal accounts receivable. In addition, the extended recession in the U.S. has led to increasing unemployment, foreclosures in the housing markets, and the discontinuation of some commercial businesses that fall within NJNG's service territory. These situations can result in higher short-term debt levels and increased bad debt expense.

Changes in weather conditions may affect earnings and cash flows.

Weather conditions and other natural phenomena can have an adverse impact on earnings and cash flows. Severe weather conditions can impact suppliers and the pipelines that deliver gas to NJNG's distribution system. Extended mild weather, during either the winter period or summer period, can have a significant impact on demand for and the cost of natural gas. While NJR believes the CIP mitigates the impact of weather variations on its gross margin, severe weather conditions may still have an impact on the ability of suppliers and pipelines to deliver the natural gas to NJNG, which can negatively affect NJR's earnings. The CIP does not mitigate the impact of unusual weather conditions on its cash flows.

ITEM 1A. RISK FACTORS (Continued)

Termination of NJNG's CIP may lead to a decrease in earnings and cash flows.

Customer conservation efforts have been increasing and as a result NJNG has seen a decrease in volumes of natural gas delivered to its customers. NJNG's CIP has a usage component that is intended to mitigate the impact to earnings as a result of reductions in customer usage. NJNG has requested an extension of the CIP, but if it is not renewed or replaced with a similar mechanism to decouple the link between customer usage and NJNG's utility gross margin, NJNG's results from operations and cash flows, and NJR's results from operations and cash flows, could be adversely affected.

Changes in customer growth may affect earnings and cash flows.

NJNG's ability to increase its utility firm gross margin is dependent upon the new construction housing market, as well as the additional conversion of customers to natural gas from other fuel sources. Should there be continued weakness in the housing market or a slowdown in the conversion market, there could be an adverse impact on NJNG's utility firm gross margin, earnings and cash flows.

NJRES' earnings and cash flows are dependent upon an asset optimization strategy of its physical assets using financial transactions.

NJRES' earnings and cash flows are based, in part, on its ability to optimize its portfolio of contractual-based natural gas storage and pipeline assets. The optimization strategy involves utilizing its physical assets to take advantage of differences in natural gas prices between geographic locations and/or time periods. Any change among various pricing points could affect these differentials, which in turn could affect NJRES' earnings and cash flows. NJRES incurs fixed demand fees to acquire its contractual rights to storage and transportation assets. Should commodity prices at various locations or time periods change in such a way that NJRES is not able to recover these costs from its customers, the cash flows and earnings at NJRES, and ultimately NJR, could be adversely impacted.

NJRES is exposed to market risk and may incur losses in wholesale services.

The storage and transportation portfolios at NJRES consist of contracts to transport and store natural gas commodities. If the values of these contracts change in a direction or manner that NJRES does not anticipate, the value of NJRES' portfolio could be negatively impacted. In addition, upon expiration of these storage and transportation contracts, to the extent that they are renewed or replaced at less favorable terms, NJR's results of operations and cash flows could be negatively impacted.

NJNG and NJRES rely on storage and transportation assets that they do not own or control to deliver natural gas.

NJNG and NJRES depend on natural gas pipelines and other storage and transportation facilities owned and operated by third parties to deliver natural gas to wholesale markets and to provide retail energy services to customers. If transportation or storage is disrupted, including for reasons of force majeure, the ability of NJNG and NJRES to sell and deliver their products and services may be hindered. As a result, they may be responsible for damages incurred by their customers, such as the additional cost of acquiring alternative supply at then-current market rates.

Investing through partnerships or joint ventures decreases NJR's ability to manage risk.

NJR and its subsidiaries have utilized joint ventures for certain non-regulated energy investments, including Steckman Ridge and Iroquois, and although they currently have no specific plans to do so, NJR and its subsidiaries may acquire interests in other joint ventures in the future. In these joint ventures, NJR and its subsidiaries may not have the right or power to direct the management and policies of the joint ventures, and other participants may take action contrary to their instructions or requests and against their policies and objectives. In addition, the other participants may become bankrupt or have economic or other business interests or goals that are inconsistent with those of NJR and its subsidiaries. If a joint venture participant acts contrary to the interests of NJR or its subsidiaries, it could harm NJR's financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS (Continued)

Regulatory and Legal Risks

NJR is subject to governmental regulation. Compliance with current and future regulatory requirements and procurement of necessary approvals, permits and certificates may result in substantial costs to NJR.

NJR and its subsidiaries are subject to substantial regulation from federal, state and local regulatory authorities. They are required to comply with numerous laws and regulations and to obtain numerous authorizations, permits, approvals and certificates from governmental agencies. These agencies regulate various aspects of their business, including customer rates, services and natural gas pipeline operations.

The Federal Energy Regulatory Commission (FERC) has regulatory authority over some of NJR's operations, including sales of natural gas in the wholesale market and the purchase and sale of interstate pipeline and storage capacity. Any Congressional legislation or agency regulation that would alter these or other similar statutory and regulatory structures in a way to significantly raise costs that could not be recovered in rates from customers, that would reduce the availability of supply or capacity, or that would reduce NJR's competitiveness would negatively impact its earnings.

NJR and its subsidiaries cannot predict the impact of any future revisions or changes in interpretations of existing regulations or the adoption of new laws and regulations applicable to them. Changes in regulations or the imposition of additional regulations could influence their operating environment and may result in substantial costs to them.

Risks related to the regulation of NJNG could affect the rates it is able to charge, its costs and its profitability.

NJNG is subject to regulation by federal, state and local authorities. These authorities regulate many aspects of NJNG's distribution operations, including construction and maintenance of facilities, operations, safety, rates that NJNG can charge customers, rates of return, the authorized cost of capital, recovery of pipeline replacement and environmental remediation costs and relationships with its affiliates. NJNG's ability to obtain rate increases, including base rate increases, extend its incentive programs and maintain its currently authorized rates of return may be impacted by events, including regulatory or legislative actions. There can be no assurance that NJNG will be able to obtain rate increases, continue its incentive programs or continue the opportunity to earn its currently authorized rates of return.

Significant regulatory assets recorded by NJNG could be disallowed for recovery from customers in the future.

NJNG records regulatory assets on its financial statements to reflect the ratemaking and regulatory decision-making authority of the BPU as allowed by current GAAP. The creation of a regulatory asset allows for the deferral of costs which, absent a mechanism to recover such costs from customers in rates approved by the BPU, would be charged to expense on its income statement. Primary regulatory assets that are subject to BPU approval include the recovery of BGSS and Universal Service Fund (USF) costs, remediation costs associated with its MGP sites, the CIP, WNC, the New Jersey Clean Energy program, economic stimulus plans and pension and other postemployment plans. If there were to be a change in regulatory position surrounding the collection of these deferred costs there could be a material impact on NJNG's financial position, operations and cash flows.

NJR’s charter and bylaws may delay or prevent a transaction that stockholders would view as favorable.

The certificate of incorporation and bylaws of NJR, as well as New Jersey law, contain provisions that could have the effect of delaying, deferring or preventing an unsolicited change in control of NJR, which may negatively affect the market price of the common stock or the ability of stockholders to participate in a transaction in which they might otherwise receive a premium for their shares over the then current market price. These provisions also may have the effect of preventing changes in management. In addition, the board of directors is authorized to issue preferred stock without stockholder approval on such terms as the board of directors may determine. The common stockholders will be subject to, and may be negatively affected by, the rights of any preferred stock that may be issued in the future. In addition, NJR is subject to the New Jersey Shareholders’ Protection Act, which could have the effect of delaying or preventing a change of control of NJR.

ITEM 1A. RISK FACTORS (Continued)

NJR and its subsidiaries may be unable to obtain governmental approvals, property rights and/or financing for the construction, development and operation of its non-regulated energy investments.

Construction, development and operation of energy investments, such as natural gas storage facilities and pipeline transportation systems, are subject to federal and state regulatory oversight and require certain property rights and approvals, including permits and licenses for such facilities and systems. NJR, its subsidiaries, or its joint venture partnerships may be unable to obtain, in a cost-efficient or timely manner, all such needed property rights, permits and licenses in order to successfully construct and develop its non-regulated energy facilities and systems. Successful financing of NJR's energy investments will require participation by willing financial institutions and lenders, as well as acquisition of capital at favorable interest rates. If NJR and its subsidiaries do not obtain the necessary regulatory approvals and financing, their equity investments could become impaired, and such impairment could have a materially adverse effect on NJR's financial condition, results of operations or cash flows.

NJR is involved in legal or administrative proceedings before various courts and governmental bodies that could adversely affect the company's results of operations, cash flows and financial condition.

NJR is involved in legal or administrative proceedings before various courts and governmental bodies with respect to general claims, rates, taxes, environmental issues, gas cost prudence reviews and other matters. Adverse decisions regarding these matters, to the extent they require NJR to make payments in excess of amounts provided for in its financial statements, could adversely affect NJR's results of operations, cash flows and financial condition.

Environmental Risks

NJR costs of compliance with present and future environmental laws are significant and could adversely affect its cash flows and profitability.

NJR's operations are subject to extensive federal, state and local environmental statutes, rules and regulations relating to air quality, water quality, waste management, natural resources and site remediation. Compliance with these laws and regulations may require NJR to expend significant financial resources to, among other things, conduct site remediation and perform environmental monitoring. If NJR fails to comply with applicable environmental laws and regulations, even if it is unable to do so due to factors beyond its control, it may be subject to civil liabilities or criminal penalties and may be required to incur significant expenditures to come into compliance. Additionally, any alleged violations of environmental laws and regulations may require NJR to expend significant resources in its defense against alleged violations.

Furthermore, the United States Congress has for some time been considering various forms of climate change legislation. There is a possibility that, when and if enacted, the final form of such legislation could impact NJR's costs and put upward pressure on wholesale natural gas prices. Higher cost levels could impact the competitive position of natural gas and negatively affect our growth opportunities, cash flows and earnings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

NJNG (All properties are located in New Jersey)

NJNG owns approximately 6,710 miles of distribution main, 6,660 miles of service main, 214 miles of transmission main and approximately 503,000 meters. Mains are primarily located under public roads. Where mains are located under private property, NJNG has obtained easements from the owners of record.

Additionally, NJNG owns and operates two LNG storage plants in Stafford Township, Ocean County, and Howell Township, Monmouth County. The two LNG plants have an aggregate estimated maximum capacity of approximately 170,000 dths per day. These facilities are used for peaking natural gas supply and emergencies.

ITEM 2. PROPERTIES (Continued)

NJNG owns four service centers located in Rockaway Township, Morris County; Atlantic Highlands and Wall Township, Monmouth County; and Lakewood, Ocean County. These service centers house storerooms, garages and gas distribution and administrative offices. NJNG leases its headquarters and customer service facilities in Wall Township, customer service offices in Asbury Park, Monmouth County, and a service center in Manahawkin, Ocean County. These customer service offices support customer contact, marketing, economic development and other functions.

Substantially all of NJNG's properties, not expressly excepted or duly released, are subject to the lien of an Indenture of Mortgage and Deed of Trust to BNY Midwest Trust Company, Chicago, Illinois, dated April 1, 1952, as amended by 32 supplemental indentures (Indenture), as security for NJNG's bonded debt, which totaled approximately $290 million at September 30, 2009. In addition, under the terms of the Indenture, NJNG could have issued up to approximately $448 million of additional first mortgage bonds as of September 30, 2009.

All Other Business Operations

At September 30, 2009, CR&R owned 83 acres of undeveloped land, of which 16 acres are under contract for sale, and a 56,400-square-foot office building on 5 acres.

A total of 52 acres of undeveloped land is located in Atlantic County with a net book value of $2.1 million, 11 acres at this location are under contract for sale and will be sold as undeveloped land, subject to all approvals being obtained. An additional 5 acres of undeveloped land under contract for sale is in Monmouth County, with a net book value of $1.7 million and such sale is estimated to close in fiscal 2010, subject to all approvals being obtained. The remaining 26 acres of undeveloped land in Monmouth County with a net book value of $4.8 million will be developed or sold based on market conditions. The specific time frame for development or sale is currently unknown.

As of September 30, 2009, NJRES currently leases office space in Wall Township, New Jersey and in Houston, Texas for its business activities

As of September 30, 2009, the Steckman Ridge partnership owns and/or leases mineral rights on approximately 8,300 acres of land in Bedford County, Pennsylvania, where it has developed a 17.7 billion cubic foot (Bcf) natural gas storage facility with up to 12 Bcf of working gas capacity for an estimated project cost of approximately $265 million. The Company is obligated to fund up to $132.5 million associated with the construction and development of Steckman Ridge. As of September 30, 2009, NJR has invested approximately $122.5 million. Equipment on the property includes a compressor station, gathering pipelines and pipeline interconnections. On April 1, 2009, Steckman Ridge received authorization to place certain injection related facilities into commercial operation. Customers have begun to inject natural gas inventory in preparation for the initial withdrawal season. An additional drilling program will be reviewed in the third quarter of fiscal 2010.

NJRHS leases service centers in Dover, Morris County, and Wall, Monmouth County, New Jersey.

Capital Expenditure Program

See Item 7. Management Discussion and Analysis–Cash Flows for a discussion of anticipated fiscal 2010 and 2011 capital expenditures as applicable to NJR's business segments and business operations.

ITEM 3. LEGAL PROCEEDINGS

Manufactured Gas Plant Remediation

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

NJNG may, subject to BPU approval, recover its remediation expenditures, including carrying costs, over rolling 7-year periods pursuant to a Remediation Adjustment (RA) approved by the BPU. In June 2009, the BPU approved $17.7 million in eligible costs to be recovered annually for MGP remediation expenditures incurred through June 30, 2007. As of September 30, 2009, $85.5 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in Regulatory assets on the Consolidated Balance Sheet.

ITEM 3. LEGAL PROCEEDINGS (Continued)

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

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

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

General

The Company is party to various other claims, legal actions and complaints arising in the ordinary course of business. In the Company's opinion, other than as disclosed in this Item 3, the ultimate disposition of these matters will not have a material adverse effect on its financial condition, results of operations or cash flows.

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

None

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

The Company's Executive Officers and their business experience, age, and office are set forth below.

Office	Name	Age	Officer Since
Chairman of the Board, President and Chief Executive Officer	Laurence M. Downes	52	1986
Executive Vice President and Chief Operating Officer, NJNG and Senior Vice President, Corporate Affairs and Marketing	Kathleen T. Ellis	56	2004
Executive Vice President and Chief Operating Officer, NJRES and Senior Vice President, Energy Services, NJNG	Joseph P. Shields	52	1996
Senior Vice President and Chief Financial Officer	Glenn C. Lockwood	48	1990
Senior Vice President and General Counsel	Mariellen Dugan	43	2005
Vice President, Corporate Services, NJR Service	Deborah G. Zilai	56	1996

Laurence M. Downes, Chairman of the Board, President and Chief Executive Officer

Mr. Downes has held the position of Chairman of the Board since September 1996. He has held the position of President and Chief Executive Officer since July 1995. From January 1990 to July 1995, he held the position of Senior Vice President and Chief Financial Officer.

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY (Continued)

Kathleen T. Ellis, Executive Vice President, Chief Operating Officer, NJNG and Senior Vice President, Corporate Affairs and Marketing

Ms. Ellis has held the position of Senior Vice President, Corporate Affairs since December 2004 and the position of Executive Vice President and Chief Operating Officer of NJNG since February 2008. She also held the position of Senior Vice President, Corporate Affairs and Marketing of NJNG from July 2007 to February 2008. From December 2002 to November 2004, she held the position of Director of Communications for the Governor of the State of New Jersey, and from August 1998 to December 2002, she held the position of Manager of Communications and Director, State Governmental Affairs for Public Service Electric and Gas Company (PSE&G), a combined gas and electric utility company based in Newark, NJ.

Joseph P. Shields, Executive Vice President and Chief Operating Officer, NJRES and Senior Vice President, Energy Services, NJNG

Mr. Shields joined NJNG in 1983 and has been Senior Vice President, Energy Services, NJNG since January 1996. He has been Executive Vice President and Chief Operating Officer of NJRES since February 2008 and held the position of Senior Vice President at NJRES from January 1996 to February 2008. As head of the energy services business unit, he is responsible for natural gas supply acquisitions, negotiating transportation agreements and monitoring natural gas control activities as well as regulated wholesale marketing activity for NJNG.

Glenn C. Lockwood, Senior Vice President and Chief Financial Officer

Mr. Lockwood has held the position of Chief Financial Officer since September 1995 and the added position of Senior Vice President since January 1996. From January 1994 to September 1995, he held the position of Vice President, Controller and Chief Accounting Officer. From January 1990 to January 1994, he held the position of Assistant Vice President, Controller and Chief Accounting Officer.

Mariellen Dugan, Senior Vice President and General Counsel

Ms. Dugan has held the position of Senior Vice President and General Counsel since February 2008. She previously held the position of Vice President and General Counsel from December 2005 to February 2008. Prior to joining NJR, from February 2004 to November 2005, she held the position of First Assistant Attorney General for the State of New Jersey, and from February 2003 to February 2004, she held the position of Chief of Staff, Executive Assistant Attorney General of the State of New Jersey. From July 1999 to January 2003, Ms. Dugan was Of Counsel to the law firm of Kevin H. Marino P.C. in Newark, NJ.

Deborah G. Zilai, Vice President, Corporate Services, NJR Service

Mrs. Zilai has held the position of Vice President, Corporate Services, NJR Service since June 2005. She joined New Jersey Resources in June 1996 after a twenty-year career at International Business Machines Corporation, where she held various management positions. Her current responsibilities include technology, human resources and supply chain management. From June 1996 to May 2005, she served as Vice President, Information Systems and Services.

New Jersey Resources Corporation
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ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NJR's Common Stock is traded on the New York Stock Exchange under the ticker symbol NJR. As of September 30, 2009, NJR had 42,261 holders of record of its common stock.

NJR's common stock high and low sales prices and dividends paid per share were as follows:

	2009		2008		Dividends Paid	
	High	Low	High	Low	2009	2008
Fiscal Quarter						
First	$40.22	$21.90	$34.71	$31.00	$0.28	$0.25
Second	$42.37	$29.95	$33.50	$29.22	$0.31	$0.27
Third	$37.57	$30.79	$34.63	$30.95	$0.31	$0.28
Fourth	$40.61	$35.64	$41.13	$31.68	$0.31	$0.28

The following table sets forth NJR's repurchase activity for the quarter ended September 30, 2009:

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
07/01/09 – 07/31/09	—	—	—	854,171
08/01/09 – 08/31/09	—	—	—	854,171
09/01/09 – 09/30/09	529,400	$ 36.30	529,400 *	324,771
Total	529,400	$ 36.30	529,400	324,771

*The stock repurchase plan, which was authorized by our Board of Directors, became effective in September 1996 and includes 6,750,000 shares of common stock for repurchase, of which, as of September 30, 2009, 324,771 shares remained for repurchase. The stock repurchase plan will expire when we have repurchased all shares authorized for repurchase there under, unless the repurchase plan is earlier terminated by action of our Board of Directors or further shares are authorized for repurchase.

Our Chairman and Chief Executive Officer certified to the New York Stock Exchange (NYSE) on February 12, 2009 that, as of that date, he was unaware of any violation by NJR of the NYSE's corporate governance listing standards.

New Jersey Resources Corporation
Part II

ITEM 6. SELECTED FINANCIAL DATA

CONSOLIDATED FINANCIAL STATISTICS

(Thousands, except per share data) Fiscal Years Ended September 30,	2009	2008	2007	2006	2005
SELECTED FINANCIAL DATA					
Operating Revenues	$2,592,460	$3,816,210	$3,021,765	$3,271,229	$3,184,582
Operating Expenses					
Gas purchases	2,245,169	3,330,756	2,625,560	2,639,489	2,914,387
Operation and maintenance	149,151	148,384	136,601	121,384	108,441
Regulatory rider expenses	44,992	39,666	37,605	28,587	31,594
Depreciation and amortization	30,328	38,464	36,235	34,753	33,675
Energy and other taxes	74,750	65,602	62,499	58,632	56,211
Total Operating Expenses	2,544,390	3,622,872	2,898,500	2,882,845	3,144,308
Operating Income	48,070	193,338	123,265	388,384	40,274
Other income	4,409	4,368	4,294	4,725	4,814
Interest expense, net of capitalized interest	21,014	25,811	27,613	25,669	20,474
Income before Income Taxes	31,465	171,895	99,946	367,440	24,614
Income tax provision	8,488	64,715	38,675	147,349	7,832
Equity in earnings, net of tax	4,265	1,988	1,662	1,817	1,753
Net Income	$27,242	$109,168	$62,933	$221,908	$18,535
Total Assets	$2,321,030	$2,635,297	$2,210,354	$2,398,928	$2,330,248
CAPITALIZATION					
Common stock equity	$689,726	$728,068	$650,648	$629,861	$438,052
Long-term debt	455,492	455,117	383,184	332,332	317,204
Total Capitalization	$1,145,218	$1,183,185	$1,033,832	$962,193	$755,256
COMMON STOCK DATA					
Earnings per share–Basic	$0.65	$2.61	$1.50	$5.31	$0.45
Earnings per share–Diluted	$0.64	$2.59	$1.49	$5.27	$0.44
Dividends declared per share	$1.24	$1.11	$1.01	$0.96	$0.91

New Jersey Resources Corporation

Part II

ITEM 6. SELECTED FINANCIAL DATA (Continued)

NJNG OPERATING STATISTICS

Fiscal Years Ended September 30,	2009	2008	2007	2006	2005
Operating Revenues ($ in thousands)					
Residential	$ 686,798	$ 594,147	$ 584,727	$ 598,274	$ 568,324
Commercial, Industrial and other	144,565	149,177	132,113	172,465	143,211
Firm transportation	40,356	28,634	36,794	28,656	29,566
Total residential and commercial	871,719	771,958	753,634	799,395	741,101
Interruptible	5,711	11,840	7,141	12,134	14,377
Total system	877,430	783,798	760,775	811,529	755,478
Incentive programs	204,571	295,026	244,813	327,245	382,802
Total Operating Revenues	$ 1,082,001	$ 1,078,824	$ 1,005,588	$ 1,138,774	$ 1,138,280
Throughput (Bcf)					
Residential	43.6	40.8	41.8	39.4	43.7
Commercial, Industrial and other	9.8	9.0	9.4	10.4	11.3
Firm transportation	9.4	8.9	8.6	7.4	7.6
Total residential and commercial	62.8	58.7	59.8	57.2	62.6
Interruptible	4.1	6.4	6.5	7.2	9.7
Total system	66.9	65.1	66.3	64.4	72.3
Incentive programs	66.1	34.5	36.5	38.4	52.4
Total Throughput	133.0	99.6	102.8	102.8	124.7
Customers at Year-End					
Residential	437,793	437,655	435,169	429,834	418,646
Commercial, Industrial and other	27,771	29,002	28,916	28,914	28,878
Firm transportation	20,965	16,830	14,104	12,874	15,246
Total residential and commercial	486,529	483,487	478,189	471,622	462,770
Interruptible	45	46	45	48	47
Incentive programs	36	27	26	35	39
Total Customers at Year-End	486,610	483,560	478,260	471,705	462,856
Interest Coverage Ratio (1)	8.19	6.08	6.03	7.63	6.38
Average Therm Use per Customer					
Residential	995	931	960	920	1,045
	4,777	5,303	5,710	5,084	5,443

Commercial, Industrial and other										
Degree Days	4,791		4,399		4,481		4,367		4,927	
Weather as a Percent of Normal (2)	101	%	91	%	94	%	90	%	102	%
Number of Employees	613		572		548		516		518	

(1) NJNG's Income from Operations divided by interest expense.

(2) Normal heating degree-days are based on a 20-year average, calculated based upon three reference areas representative of NJNG's service territory.

New Jersey Resources Corporation
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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking and Cautionary Statements

From time to time, we may make statements that may constitute "forward-looking statements" within the meaning of the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on the Company's then-current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those addressed in the forward-looking statements. Information concerning forward-looking statements is set forth on page 1 of this annual report and is incorporated herein, and the risk factors that may cause such differences are summarized in Item 1A beginning on page 10 and are incorporated herein.

Management's Overview

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

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

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

The retail and other business operations (Retail and Other) includes NJR Energy Holdings, an investor in energy-related ventures, most significantly through NJNR Pipeline, which holds the Company's 5.53 percent interest in Iroquois Gas and Transmission System, LP (Iroquois), a 412-mile natural gas pipeline from the New York-Canadian border to Long Island, New York, and NJR Steckman Ridge Storage Company, which has a 50 percent equity ownership interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a 17.7 billion cubic foot (Bcf) natural gas storage facility, with up to 12 Bcf of working capacity, which was jointly developed and constructed with a partner in western Pennsylvania; NJR Investment, which makes energy-related equity investments; NJR Energy Corporation (NJR Energy), a company that invests in energy-related ventures, NJR Clean Energy Ventures, a company that will invest in clean energy projects, NJR Home Services (NJRHS), which provides service, sales and installation of appliances; NJR Plumbing Services (NJRPS), which provides plumbing repair and installation services, Commercial Realty and Resources (CR&R), which holds and develops commercial real estate; and NJR Service Corporation (NJR Service), which provides support services to the various NJR businesses.

Assets by business segment and operations are as follows:

($ in thousands)	2009	2008

Assets				
Natural Gas Distribution	$1,797,165	77 %	$1,761,964	66 %
Energy Services	327,532	14	699,897	27
Retail and Other	223,020	10	231,551	9
Intercompany Assets (1)	(26,687)	(1)	(58,115)	(2)
Total	$2,321,030	100 %	$2,635,297	100 %

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

NJRES' assets decreased 53.2 percent from September 30, 2008 to September 30, 2009, due primarily to lower inventory values resulting from a decline in commodity prices.

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

($ in Thousands)	2009		2008		2007	
Net Income (Loss)						
Natural Gas Distribution	$65,403	240 %	$42,479	39 %	$44,480	71 %
Energy Services	(32,632)	(120)	67,166	61	18,950	30
Retail and Other	(5,529)	(20)	(477)	—	(497)	(1)
Total	$27,242	100 %	$109,168	100 %	$62,933	100 %

New Jersey Resources Corporation
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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Included in Net income are unrealized (losses) gains in the Energy Services segment of $(29.3) million, $10.8 million, and $(38) million, after taxes, for the fiscal years ended September 30, 2009, 2008 and 2007, respectively. Also included in Net income are realized (losses) gains of $(34.5) million, $9.3 million and $16.8 million, after taxes, for the fiscal years ended September 30, 2009, 2008 and 2007, respectively, which are related to financial derivative instruments that have settled and are designed to economically hedge natural gas that is still in inventory.

NJR Energy records unrealized losses and gains with respect to the change in fair value of the financial natural gas swaps that are used to economically hedge a long-term natural gas sale contact. Included in Net income in Retail and Other are unrealized (losses) of $(9.9) million, $(4.8) million and $(4.2) million, after taxes, for the fiscal years ended September 30, 2009, 2008 and 2007, respectively.

NJRES and NJR Energy account for their financial derivative instruments used to economically hedge the forecasted purchase, sale and transportation of natural gas at fair value. In addition, all physical commodity contracts at NJRES are accounted for at fair value. Prior to October 1, 2007, gains (losses) associated with physical commodity contracts at NJRES were not reflected in earnings until the individual contracts settled and the natural gas was delivered when certain delivery conditions were met. During fiscal 2007 and 2008, NJRES changed the accounting treatment for certain of its physical commodity contracts so that effective October 1, 2008, all NJRES' physical commodity contracts are accounted for at fair value with changes in the fair value of these contracts included in earnings as a component of Operating revenue and Gas purchases, as appropriate, in the Consolidated Statements of Income.

All physical commodity contracts at NJNG and NJR Energy continue to meet the delivery conditions and, therefore, are accounted for under accrual accounting. Accordingly, gains (losses) are recognized in earnings when the contract settles and the natural gas is delivered.

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

Natural Gas Distribution Segment

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

Ÿ

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

Ÿ Working with the BPU and the Department of the Public Advocate, Division of Rate Counsel (Rate Counsel), on the implementation, continuing review and proposed extension of the Conservation Incentive Program (CIP). The CIP allows NJNG to promote conservation programs to its customers while maintaining protection of its utility gross margin against potential losses associated with reduced customer usage. CIP usage differences are calculated annually and are recovered one year following the end of the CIP usage year;

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

Ÿ Opportunity to generate earnings from various BPU-authorized gross margin-sharing incentive programs; and

New Jersey Resources Corporation
Part II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

Based upon increases in NJNG's operation, maintenance and capital costs, NJNG petitioned the BPU, on November 20, 2007, to increase base rates for its natural gas delivery service. This base rate case filing was consistent with NJNG's objectives of providing safe and reliable service to its customers and earning a market-based return.

On October 3, 2008, the BPU unanimously approved and made effective the settlement of NJNG's base rate case. As a result, NJNG received a revenue increase in its base rates of $32.5 million, which is inclusive of an approximate $13 million impact of a change to the CIP baseline usage rate, received an allowed return on equity component of 10.3 percent, reduced its depreciation expense component from 3 percent to 2.34 percent and reduced its annual depreciation expense by $1.6 million as a result of the amortization of previously recovered asset retirement obligations.

The CIP allows NJNG to recover utility gross margin variations related to both weather and customer usage. Recovery of such margin variations is subject to additional conditions including an earnings test, which includes a return on equity component of 10.3 percent, and an evaluation of BGSS-related savings achieved. An annual review of the CIP must be filed in June of each year, coincident with NJNG's annual BGSS filing. In October 2007, the BPU provisionally approved NJNG's initial CIP recovery rates, which are designed to recover approximately $15.6 million of accrued margin and on August 1, 2008, the provisional rates were approved by the BPU on a permanent basis. In October 2008, the BPU provisionally approved recovery of an additional $6.8 million of accrued margin for the CIP, resulting in a total recovery of $22.4 million, which included amounts accrued and estimated through September 30, 2008. On June 10, 2009, these provisional rates were approved by the BPU on a permanent basis. In the period January 2009 through March 2009, NJNG provided approximately $45 million of rate credits to BGSS residential and small commercial customers. On June 1, 2009, NJNG filed its annual BGSS and CIP filing for recoverable CIP amounts for fiscal 2009, requesting approval to modify its CIP recovery rates effective October 1, 2009, resulting in total annual recovery of $6.9 million. The total recovery requested for fiscal 2009 includes amounts accrued and estimated through September 30, 2009. On September 16, 2009, the BPU provisionally approved the rates. As of September 30, 2009, NJNG has $5.8 million accrued to be recovered in Regulatory Assets in the Consolidated Balance Sheets related to CIP. On April 1, 2009, NJNG filed a letter with the BPU requesting a 1-year extension to its CIP through October 1, 2010. As a result of no action by the BPU as of October 1, 2009, the CIP will remain in effect for an additional year or until a final order is issued by the BPU. In October 2009, NJNG provided its BGSS residential and small commercial customers with refunds of approximately $37.4 million.

In conjunction with the CIP, NJNG is required to administer programs that promote customer conservation efforts. As of September 30, 2009 and September 30, 2008, the obligation to fund these conservation programs was reflected at its present value of $248,000 and $864,000, respectively in the Consolidated Balance Sheets.

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

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

On April 16, 2009, the BPU approved NJNG's Accelerated Infrastructure Program (AIP) permitting NJNG to commence construction on 14 infrastructure projects. NJNG will make a filing for the recovery of infrastructure program investment costs in June 2010 to be effective October 1, 2010. The filing will allow the recovery of costs of the AIP construction activities for the period ending August 31, 2010, including the recovery of NJNG's overall weighted cost of capital on these investments.

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

New Jersey Resources Corporation
Part II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

Energy Services Segment

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

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

- Identifying and benefiting from variations in pricing of natural gas transportation and storage assets due to location or timing differences of natural gas prices to generate gross margin;

- Providing natural gas portfolio management services to nonaffiliated utilities and electric generation facilities;

- Leveraging transactions for the delivery of natural gas to customers by aggregating the natural gas commodity costs and transportation costs in order to minimize the total cost required to provide and deliver natural gas to NJRES' customers by identifying the lowest cost alternative with the natural gas supply, transportation availability and markets to which NJRES is able to access through its business footprint and contractual asset portfolio; and

- Managing economic hedging programs that are designed to mitigate adverse market price fluctuations in natural gas transportation and storage commitments.

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

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

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

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

Retail and Other Operations

As part of the Retail and Other operations NJR's subsidiary, NJR Energy Holdings, holds investments in natural gas "mid-stream" assets, such as natural gas transportation and storage facilities. NJR believes that acquiring, owning and developing these mid-stream assets, which operate under a tariff structure that has either a regulated or market-based rate, can provide a growth opportunity for the Company. To that end, NJR has ownership interests in Iroquois, a natural gas pipeline operating with a regulated rate and Steckman Ridge, a storage facility that operates under market-based rates, and is actively pursuing other potential opportunities that meet its investment and development criteria. Other businesses included as part of Retail and Other include NJRHS, which provides service, sales and installation of appliances to approximately 150,000 customers and is focused on growing its installation business and expanding its service contract customer base, and CR&R, which seeks additional opportunities to enhance the value of its undeveloped land.

The financial results of Retail and Other consist primarily of the operating results of NJRHS and earnings attributable to the Company's equity investments in Iroquois and Steckman Ridge, as well as to investments made by NJR Energy, an investor in other energy-related ventures through its operating subsidiaries. Also included within Retail and Other operations are interest income and organizational expenses incurred at NJR.

On June 5, 2008, the Federal Energy Regulatory Commission (FERC) issued Steckman Ridge a certificate of public convenience and necessity authorizing the ownership, construction and operation of its natural gas storage facility and associated facilities. On April 1, 2009, Steckman Ridge received authorization to place certain injection related facilities into commercial operation. Customers have begun to inject natural gas inventory in preparation for the initial withdrawal season. An additional drilling program will be reviewed in the third quarter of fiscal 2010. As of September 30, 2009, NJR has invested approximately $122.5 million in Steckman Ridge, excluding capitalized interest and other direct costs. Total project costs related to the development of the storage facility are currently estimated at approximately $265 million, of which NJR is obligated to fund 50 percent or approximately $132.5 million. Steckman Ridge may seek non-recourse financing upon completion of the construction and development of its facilities, thereby potentially reducing the final expected recourse obligation of NJR. There can be no assurances that such non-recourse project financing will be secured or available for Steckman Ridge.

Critical Accounting Policies

The Company prepares its financial statements in accordance with GAAP. Application of these accounting principles requires the use of estimates and assumptions that affect the reported amounts of liabilities, revenues and expenses, and related disclosures of contingencies during the reporting period. The Company regularly evaluates its estimates, including those related to the calculation of the fair value of derivative instruments, unbilled revenues, provisions for depreciation and amortization, regulatory assets, income taxes, pension and postemployment benefits other than pensions and contingencies related to environmental matters and litigation. NJR bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. In the normal course of business, estimated amounts are subsequently adjusted to actual results that may differ from estimates.

Regulatory Accounting

NJNG maintains its accounts in accordance with the FERC Uniform System of Accounts as prescribed by the BPU. As a result of the ratemaking process, NJNG is required to apply the accounting principles in the Regulated Operations Topic 980 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), which differ in certain respects from those applied by unregulated businesses. Specifically, regulated operations record assets when it is probable that certain operating costs will be recoverable from customers in future periods and liabilities associated with probable future obligations to customers. Accordingly, NJNG recognizes the impact of regulatory decisions on its financial statements. NJNG's BGSS requires NJNG to project its natural gas costs and provides the ability, subject to BPU approval, to recover or refund the difference, if any, of such actual costs as compared with the projected costs included in prices through a BGSS charge to customers. Any underrecovery or overrecovery is recorded as a Regulatory asset or liability on the Consolidated Balance Sheets and reflected in the BGSS charge to customers in subsequent years. NJNG also enters into derivatives that are used to hedge natural gas purchases, and the offset to the resulting fair value of derivative assets or liabilities is recorded as a Regulatory asset or liability on the Consolidated Balance Sheets.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Derivative Instruments

NJR records its derivative instruments held as assets and liabilities at fair value in the Consolidated Balance Sheet in accordance with GAAP. In addition, changes in the fair value of NJRES' and NJR Energy's financial derivatives, as well as NJRES' contracts for the purchase and sales of natural gas are recognized in earnings, as they occur, as a component of Operating revenues or Gas purchases in the Consolidated Statements of Income. Gains (losses) associated with NJR Energy's physical commodity contracts are recorded in earnings as a component of Operating revenues when the underlying commodity is delivered.

NJNG's derivatives that are used to manage price risk of its natural gas purchasing activities are recoverable through its BGSS, subject to BPU approval. Accordingly, the offset to the change in fair value of these derivatives is recorded as a Regulatory asset or liability on the Consolidated Balance Sheets.

In providing its unregulated wholesale energy services, NJRES enters into physical contracts to buy and sell natural gas. GAAP permits companies to apply an exception for certain contracts intended for normal purchases and normal sales ("normal") for which physical delivery is probable. Prior to October 1, 2007, NJRES elected to use normal accounting treatment and, therefore, recognized the related liabilities incurred and assets acquired when title to the underlying natural gas commodity passed. However, during fiscal 2007 and 2008, NJRES elected to discontinue normal accounting treatment for certain of its physical forward contracts, so that as of October 1, 2008, all NJRES' physical commodity contracts are recorded at fair value with related changes in fair value included in current earnings.

The fair value of derivative instruments is determined by reference to quoted market prices of listed contracts, published quotations or quotations from independent parties. NJRES' portfolio is valued using the most current market information. However, if the price underlying a physical commodity transaction does not represent a visible and liquid market, NJRES utilizes non-binding broker quotations and/or other pricing services to derive an equivalent market price. As of September 30, 2009, fair values based on market prices that are not visible and liquid represent less than one percent of total fair value of its derivative assets and liabilities reported in the Consolidated Balance Sheets.

Should there be a significant change in the underlying market prices or pricing assumptions, NJRES may experience a significant impact on its financial position, results of operations and cash flows. The valuation methods remained consistent for fiscal 2009, 2008 and 2007. NJR applies a discount to its derivative assets to factor in an adjustment associated with the credit risk of its counterparties. NJR determines this amount by using historical default probabilities corresponding to the appropriate Standard and Poor's issuer ratings. Since the majority of NJR's counterparties are investment grade rated, this resulted in an immaterial credit risk adjustment.

NJR has not designated any derivatives as fair value hedges as of September 30, 2009 and 2008.

Capitalized Financing Costs

NJNG capitalizes an allowance for funds used during construction (AFUDC) as a component of Utility plant in the Consolidated Balance Sheets. AFUDC is recorded as an increase to Interest income or a reduction to Interest expense as applicable in the Consolidated Statements of Income. Under regulatory rate practices and in accordance with

GAAP applicable to regulated operations, NJNG fully recovers AFUDC through base rates. As a result of the BPU's base rate order (Rate Order) issued in October 2008, NJNG implemented certain rate design changes, including a change to its AFUDC calculation. Effective October 3, 2008, NJNG is allowed to recover an incremental cost of equity component during periods when its short-term debt balances were lower than its construction work in progress balance. This results in a non-cash income statement recognition that is capitalized as a component of Utility plant. If any of these amounts are deemed to be unrecoverable, NJNG records a charge for the unrecovered portion in the Consolidated Statements of Income.

Environmental Costs

At the end of each fiscal year, NJNG updates the environmental review of its MGP sites, including a review of its potential liability for investigation and remedial action, based on assistance from an independent external consulting firm. From this review, NJNG estimates expenditures that will be necessary to remediate and monitor these MGP sites. NJNG's estimate of these liabilities is developed from then currently available facts, existing technology and presently enacted laws and regulations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Where it is probable that the cost will be incurred, but the information is sufficient to establish only a range of possible liability, and no point within the range is more likely than any other, it is NJNG's policy to accrue the lower end of the range. Since management believes that recovery of these expenditures, as well as related litigation costs, is possible through the regulatory process, it has recorded a regulatory asset corresponding to the related accrued liability. Accordingly, NJNG has recorded an MGP remediation liability and a corresponding Regulatory asset of $146.7 million on the Consolidated Balance Sheets.

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, as well as the potential impact of any litigation and any insurance recoveries. If there are changes in future regulatory positions that indicate the recovery of all or a portion of such regulatory asset is not probable, the related cost and carrying costs would be charged to income in the period of such determination. As of September 30, 2009 and 2008, $85.5 million and $92.2 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds received, are included in Regulatory assets on the Consolidated Balance Sheet, respectively.

If there are changes in the regulatory position surrounding these costs, or should actual expenditures vary significantly from estimates in that these costs are disallowed for recovery by the BPU, such costs would be charged to income in the period of such determination.

Postemployment Employee Benefits

NJR's costs of providing postemployment employee benefits are dependent upon numerous factors including actual plan experience and assumptions of future experience. Postemployment employee benefit costs, for example, are impacted by actual employee demographics including age, compensation levels and employment periods, the level of contributions made to the plans, changes in long-term interest rates and the return on plan assets. Changes made to the provisions of the plans may also impact current and future postemployment employee benefit costs. Postemployment employee benefit costs may also be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets, health care cost trends and discount rates used in determining the projected benefit obligations (PBO). In determining the PBO and cost amounts, assumptions can change from period to period and could result in material changes to net postemployment employee benefit periodic costs and the related liability recognized by NJR.

NJR's postemployment employee benefit plan assets consist primarily of U.S. equity securities, international equity securities and fixed-income investments, with a targeted allocation, effective October 1, 2009, of 39 percent, 20 percent and 41 percent, respectively. Fluctuations in actual market returns, as well as changes in interest rates, may result in increased or decreased postemployment employee benefit costs in future periods. Postemployment employee benefit expenses are included in Operations and maintenance expense on the Consolidated Statements of Income.

The following is a summary of a sensitivity analysis for each actuarial assumption:

Pension Plans

	Estimated	Estimated

Actuarial Assumptions	Increase/ (Decrease)	Increase/(Decrease) on PBO (Thousands)	Increase/(Decrease) to Expense (Thousands)
Discount rate	1.00 %	$ (16,660)	$ (982)
Discount rate	(1.00)%	$ 20,778	$ 1,238
Rate of return on plan assets	1.00 %	n/a	$ (976)
Rate of return on plan assets	(1.00)%	n/a	$ 976

Other Postemployment Benefits

Actuarial Assumptions	Increase/ (Decrease)	Estimated Increase/(Decrease) on PBO (Thousands)	Estimated Increase/(Decrease) to Expense (Thousands)
Discount rate	1.00 %	$ (11,077)	$ (774)
Discount rate	(1.00)%	$ 14,028	$ 932
Rate of return on plan assets	1.00 %	n/a	$ (222)
Rate of return on plan assets	(1.00)%	n/a	$ 222

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Actuarial Assumptions	Increase/ (Decrease)	Estimated Increase/(Decrease) on PBO (Thousands)	Estimated Increase/(Decrease) to Expense (Thousands)
Heath care cost trend rate	1.00 %	$ 13,181	$ 1,534
Health care cost trend rate	(1.00)%	$ (10,617)	$ (1,228)

Recently Issued Accounting Standards and Updates

Effective July 1, 2009, the FASB ASC became the single source of authoritative GAAP, restructuring previously issued standards into a topical based model. As of the effective date, new guidance will be issued in the form of Accounting Standards Updates (ASU's), which will replace accounting changes that were historically issued as FASB Standards. For a more detailed description of the ASC, recently issued accounting standards that have been reorganized within the ASC and ASU's issued since July 1, 2009, see Note 1. Summary of Significant Accounting Policies in the accompanying Consolidated Financial Statements.

Results of Operations

Consolidated

Net income decreased 75 percent to $27.2 million in fiscal 2009 from $109.2 million in fiscal 2008 and increased 73.5 percent in fiscal 2008 from $62.9 million in fiscal 2007. The fiscal 2009 results were $0.65 per basic share and and $0.64 per diluted share, compared with the fiscal 2008 results of $2.61 per basic share and $2.59 per diluted share and fiscal 2007 results of $1.50 per basic share and $1.49 per diluted share on a split adjusted basis. Changes in Net income were primarily driven by unrealized (losses) and gains of $(39.3) million, $6 million and $(42.2) million, after taxes, for the years ended September 30, 2009, 2008 and 2007, respectively, as well as certain realized (losses) and gains associated with natural gas in inventory of $(34.5) million, $9.3 million and $16.8 million, after taxes, for the years ended September 30, 2009, 2008 and 2007, respectively, which were primarily due to the change in the fair market value of financial derivative instruments as a result of market conditions.

The Company's Operating revenues and Gas purchases for the fiscal years ended September 30, are as follows:

($ in Thousands)	2009	2008	2007
Operating revenues	$2,592,460	$3,816,210	$3,021,765
Gas purchases	$2,245,169	$3,330,756	$2,625,560

Operating revenues decreased $1.2 billion and Gas purchases decreased $1.1 billion for fiscal, 2009 compared with fiscal 2008 due primarily to:

Ÿ decrease in Operating revenues of $1.2 billion and Gas purchases of $1 billion at NJRES and a decrease in Operating revenues of $8.8 million at Retail and Other all as a result of lower average prices on the NYMEX;

Ÿ An increase in Operating revenues of $3.2 million and a decrease in Gas purchases of $43.3 million at NJNG. The increase in Operating revenue was due primarily to an increase in base rates, while increased credits from incentive programs contributed to the decrease in Gas purchases.

Operating revenues increased $794.4 million during fiscal 2008, compared with fiscal 2007 due primarily to an increase in sales transaction volume and prices at NJRES. NJRES transaction volumes increased 12 percent and coupled with an average 21 percent increase in sales prices over the corresponding period resulted in an increase in revenues of approximately $720.1 million. Moderate increases in customer growth and greater off-system sales at NJNG, partially offset by reduced customer usage at NJNG also contributed to the increase in Operating revenues.

The factors that resulted in the increase in revenues described above similarly affected an increase of $705.2 million in Gas purchases for fiscal 2008, as compared with fiscal 2007. NJRES gas purchase transaction volumes increased 11 percent, and coupled with an average 20 percent increase in gas purchases prices over the corresponding period, resulted in an increase in gas purchases of approximately $639.3 million.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Natural Gas Distribution Operations

NJNG is a local natural gas distribution company that provides regulated retail energy services to approximately 487,000 residential and commercial customers in central and northern New Jersey and participates in the off-system sales and capacity release markets.

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

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

NJNG's financial results for the fiscal years ended September 30 are as follows:

(Thousands)	2009	2008	2007
Utility Gross Margin			
Operating revenues	$1,082,001	$1,078,824	$1,005,588
Less:			
Gas purchases	709,906	753,249	687,201
Energy and other taxes	66,768	58,539	56,475
Regulatory rider expense	44,992	39,666	37,605
Total Utility Gross Margin	$260,335	$227,370	$224,307
Operation and maintenance expense	106,814	98,035	97,006
Depreciation and amortization	29,417	37,723	35,648
Other taxes not reflected in utility gross margin	3,740	3,476	3,125
Operating income	$120,364	$88,136	$88,528
Other income	3,474	3,460	3,468
Interest expense, net of capitalized interest	18,706	21,277	21,182
Income tax provision	39,729	27,840	26,334
Net income	$65,403	$42,479	$44,480

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

	2009		2008		2007	
($ in thousands)	Margin	Bcf	Margin	Bcf	Margin	Bcf

Utility Gross Margin/Throughput						
Residential	$170,509	43.6	$154,307	40.8	$152,129	41.8
Commercial, Industrial and other	47,767	9.8	45,503	9.0	45,418	9.4
Firm Transportation	29,683	9.4	19,722	8.9	17,963	8.6
Total Firm Margin/Throughput	247,959	62.8	219,532	58.7	215,510	59.8
Incentive programs	12,057	66.1	7,656	34.5	8,125	36.5
Interruptible	319	4.1	482	6.4	672	6.5
BPU settlement	—	—	(300)	—	—	—
Total Utility Gross Margin/Throughput	$260,335	133.0	$227,370	99.6	$224,307	102.8

Utility Gross Margin

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

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

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

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

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

NJNG's Operating revenues increased by $3.2 million, or 0.3 percent, and Gas purchases decreased by $43.3 million, or 5.8 percent, for fiscal 2009, as compared with fiscal 2008 as a result of:

- An increase in Operating revenue related to firm sales in the amount of $79.9 million as a result of increases in BGSS, base rates, rates associated with riders and sales tax and TEFA as described below and an increase in Gas purchases in the amount of $39.2 million, as a result of the BGSS increases;

- An increase in Operating revenue and Gas purchases related to firm sales in the amount of $52.2 million and $34.2 million, respectively, due primarily to weather being 8.9 percent colder than the same period of the prior fiscal year, partially offset by a decrease in Operating revenue of $19.2 million, as a result of lower accruals relating to the CIP during fiscal 2009;

- A decrease in Operating revenue and Gas purchases related to off-system sales in the amount of $85.4 million and $86.6 million, respectively, as a result of a 47 percent lower average sales prices that decreased from $10.13/dth to $5.37/dth due to the change in the wholesale price of natural gas;

- A net decrease in Operating revenue and Gas purchases of $15 million related to fiscal 2009 temporary rate credits of approximately $45 million extended to customers, compared with a BGSS refund of $30 million given to customers during fiscal 2008. NJNG extends these credits and refunds to its customers to manage the recovery of its gas costs during periods when wholesale natural gas costs are declining in comparison with the established rate included in NJNG's BGSS tariff;

- A decrease of $6.5 million in Gas purchases related to increased amounts received through the storage incentive program due primarily to the timing of the incentive margins during the program's injection period as compared with the same period in the prior fiscal year;

- A decrease in Operating revenue and Gas purchases related to interruptible sales in the amount of $6.1 million and $5.4 million, respectively, due to a decrease in sales to electric co-generation customers; and

- A decrease of $1.7 million in Gas purchases related to increased amounts earned through the financial risk management (FRM) and capacity release incentive programs of $3.8 million in fiscal 2009 as compared with $2.1 million in fiscal 2008 due primarily to lower NYMEX market prices in comparison to published benchmark prices, resulting in additional opportunities to purchase call options that were below the established quarterly Financial Risk Management (FRM) benchmark pricing levels.

NJNG's Operating revenues increased by $73.2 million, or 7.3 percent, and Gas purchases increased by $66.0 million, or 9.6 percent, respectively, for fiscal 2008, as compared with fiscal 2007, primarily as a result of:

- An increase in Operating revenue and Gas purchases related to off-system sales in the amount of $49.2 million and $47.5 million, respectively, due primarily to the change in the wholesale price of natural gas. During fiscal 2008, NJNG sold 29.2 Bcf at an average price of $10.13 per Bcf compared with 32.0 Bcf at an average price of $7.54 per Bcf during fiscal 2007 in the off-system market;

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

- A reduction in BGSS customer refunds provided to residential and small commercial customers of $44.3 million for Operating revenue, inclusive of sales tax refunds of $2.9 million, resulting in a reduction of $41.4 million for Gas purchases. In fiscal 2008 BGSS customer refunds were $32.1 million, as compared with $76.4 million in fiscal 2007. These customer refunds were the result of anticipated reductions in cost to acquire wholesale natural gas, compared with the established rate included in NJNG’s BGSS tariff;

- An increase of $5.6 million in Operating revenue due to an increase of the amounts accrued through the CIP program as a result of lower customer usage and warmer weather, as described below;

- An increase in Operating revenue and Gas purchases related to interruptible sales in the amount of $4.7 million and $4.5 million, respectively, due to an increase in sales to electric co-generation customers;

- An increase in Operating revenue related to storage incentive revenue in the amount of $1.0 million, as a result of opportunities available in the wholesale energy market due to changing market conditions relative to established benchmarks;

- An increase in Operating revenue related to natural gas transport in the amount of $3.2 million due to an increase in sales as a result of an increase in customers using transportation only service;

- An increase in Gas purchases of $300,000 as a result of a non-recurring charge to the BGSS associated with a settlement agreement related to a BGSS filing for fiscal 2007 partially offset by;

- A decrease in Operating revenue and Gas purchases of $34.9 million and $30.2 million, respectively, as a result of a decrease in firm sales due to a decline in customer usage.

Sales tax and TEFA, which are presented as both components of Revenues and Operating Expenses in the Consolidated Statements of Income, totaled $66.8 million, $58.5 million and $56.5 million in fiscal years 2009, 2008 and 2007, respectively. For fiscal 2009, sales tax increased as a result of the increase of $120.1 million in Operating revenue from firm sales, as compared with fiscal 2008. This increase in fiscal 2008 as compared with fiscal 2007 is due primarily to an increase in Operating revenue of 7.3 percent.

Regulatory rider expenses are calculated on a per-therm basis. Regulatory rider expenses totaled $45 million, $39.7 million and $37.6 million in fiscal 2009, 2008, and 2007, respectively. The increase in regulatory rider expenses in fiscal 2009 is due primarily to an increase in the rider rate along with an increase in firm throughput of 4.1 Bcf compared with fiscal 2008. The increase in regulatory rider expenses in fiscal 2008 compared with fiscal 2007 was a result of an increase in the rider rate offset by a decrease in therms sold to customers as a result of reduced usage.

Utility gross margin is comprised of three major categories:

- Utility Firm Gross Margin, which is derived from residential and commercial customers who receive natural gas service from NJNG through either sales or transportation tariffs;

- Ÿ Incentive programs, where revenues or margins generated or savings achieved from BPU-approved off-system sales, capacity release, Financial Risk Management or storage incentive programs (defined in Incentive Programs, below) are shared between customers and NJNG; and

- Ÿ Utility gross margin from interruptible customers who have the ability to switch to alternative fuels.

Utility Firm Gross Margin

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

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

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

Total utility firm gross margin increased $28.4 million, or 12.9 percent, in fiscal 2009, as compared with fiscal 2008, due primarily to an increase in residential and commercial margin as a result of an increase in base rates effective October 3, 2008, partially offset by a decrease in the amounts accrued through the CIP program. Firm margin was also favorably impacted by the increase in residential and commercial firm and transport customers of approximately 3,000 over fiscal 2008.

Total utility firm gross margin increased $4.0 million, or 1.9 percent, in fiscal 2008. The changes in fiscal 2008 were due primarily to a $1.9 million increase in residential sales service due to an increase in customer growth of 0.6 percent and a $1.8 million increase in residential and commercial transport margin due to an increase in customer growth of 16.2 percent.

Utility firm gross margin from residential service sales increased to $170.5 million for fiscal 2009, as compared with $154.3 million for fiscal 2008. NJNG delivered 43.6 Bcf compared with 40.8 Bcf, to its firm residential customers, due primarily to weather being 8.9 percent colder. Utility firm gross margin from residential service sales increased $2.2 million for fiscal 2008, as compared with $152.1 million in fiscal 2007. NJNG delivered 41.8 Bcf in fiscal 2007, to its firm residential customers.

The weather for fiscal 2009, was 0.9 percent colder-than-normal, based on a 20-year average, which resulted in a negative adjustment of utility gross margin under the weather component of the CIP of $(177,000), compared with fiscal 2008, which was 8.7 percent warmer than normal and had an accrual of $9.1 million. The weather in fiscal 2007 was 5.6 percent warmer than normal, which resulted in an accrual of $8.2 million. Under the provisions of the CIP, accruals related to the weather portion are dependent on the occurrence of degree days and the magnitude of the variance in relation to a normal degree day.

Customer usage was lower than the established benchmark during fiscal 2009, which resulted in an accrual of utility gross margin under the CIP of $3.1 million, compared with $13 million for fiscal 2008. The change in the weather and non-weather components of the CIP include the effect of adjustments, normal degree days, consumption factors and benchmarks related to the baseline use per customer, which was amended with NJNG's new base rates approved by the BPU effective October 3, 2008. Customer usage was also lower than the established benchmark during fiscal 2007, which resulted in an accrual of $8.3 million.

NJNG added 5,841, 7,175 and 8,421 new customers and added natural gas heat and other services to another 709, 728 and 770 existing customers in fiscal 2009, 2008 and 2007, respectively. The decline in customer growth rate is driven by a slower new construction market.

In fiscal 2010 and 2011, NJNG currently expects to add, in total, approximately 12,000 to 14,000 new customers. In addition, NJNG expects to convert an additional 700 existing customers per year to natural gas heat and other services. Achieving these expectations would represent an estimated annual customer growth rate of approximately 1.2 percent and result in an estimated sales increase of approximately 0.85 Bcf, annually. The Company believes that this growth would increase utility gross margin under NJNG's CIP tariff, as provided by the Rate Order, by approximately $3.4 million annually.

These growth expectations are based upon management's review of local planning board data, recent market research performed by third parties, builder surveys and studies of population growth rates in NJNG's service territory. However, future sales will be affected by the weather, actual energy usage patterns of NJNG's customers, economic conditions in NJNG's service territory, conversion and conservation activity, the impact of changing from a regulated to a competitive environment, changes in state regulation and other marketing efforts, as has been the case in prior years.

The following table shows residential and commercial customers using transportation services as of the fiscal years ended September 30:

	2009	2008	2007
Residential transport	14,608	11,542	9,229
Commercial transport	6,357	5,288	4,875
Total transport	20,965	16,830	14,104

Utility firm gross margin from firm transportation service increased $10 million, or 50.5 percent in fiscal 2009. NJNG transported 9.4 Bcf for its firm customers in fiscal 2009, compared with 8.9 Bcf in fiscal 2008 due primarily to an increase in the number of residential and commercial transport customers. The increase in transportation customers was due primarily to an increase in marketing activity by third party natural gas providers in NJNG's distribution territory.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Utility firm gross margin from firm transportation service increased $1.8 million, or 9.8 percent in fiscal 2008. NJNG transported 8.9 Bcf for its firm customers in fiscal 2008, compared with 8.6 Bcf in fiscal 2007. The increase in utility firm gross margin in fiscal 2008 was due primarily to an increase in the number of residential and commercial customers switching from firm sales service to firm transportation services, combined with the impact of the CIP program.

Incentive Programs

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

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

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

On October 3, 2008, the BPU approved the Rate Order, which extends the incentive programs through October 31, 2011, and provides changes to certain volume and cost limitations surrounding these incentive programs. See Note 2. Regulation.

Gross margin under NJNG’s incentive programs increased $4.4 million in fiscal 2009 to $12.1 million and totaled 66.1 Bcf in fiscal 2009, compared with $7.7 million of utility gross margin and 34.5 Bcf in fiscal 2008. The increase in utility gross margin was due primarily to an increase of $1.2 million in off-systems sales, an increase of $1.5 million in capacity release and an increase of $ 1.5 million in storage incentives, as previously discussed.

Interruptible Revenues

As of September 30, 2009, NJNG serves 45 customers through interruptible sales as compared to 46 customers in fiscal 2008 and 45 customers in fiscal 2007. Interruptible customers are those customers whose service can be temporarily halted as they have the ability to utilize an alternate fuel source. Although therms transported and sold to interruptible customers represented 4.1 Bcf, or 3.1 percent of total throughput for fiscal 2009, 6.4 Bcf, or 6.4 percent of the total throughput during fiscal 2008 and 6.5 Bcf, or 6.3 percent of total throughput for fiscal 2007, they accounted for less than 1 percent of the total utility gross margin in each year as a result of the natural gas commodity costs being the largest component of the sales price.

Operation and Maintenance Expense

Operation and maintenance expense increased $8.8 million, or 9 percent, during fiscal 2009, as compared with fiscal 2008, due primarily to:

- Increased benefit costs of $3.1 million, primarily due to a $1.4 million credit in fiscal 2008, that did not recur in fiscal 2009, related to an adjustment to accrued medical premium expenses to reflect lower costs based on actual claims, coupled with higher medical claims in fiscal 2009 and increased Pension/OPEB costs;

- An increase in the bad debt expense of $2.5 million associated with higher operating revenues and additional write-offs as a result of the economic recession and the aging of receivables;

- Increased labor costs of $1.1 million due primarily to annual wage increases and an increase in the number of employees;

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

- an increase in computer software leasing and maintenance of $1.0 million;
- higher pipeline integrity management costs of $641,000 due to additional system assessments; and
- an increase of $515,000 in contractors expenses due to third party damage repair and increased maintenance.

Operation and maintenance expense increased $1.0 million, or 1.1 percent, in fiscal 2008 as compared with fiscal 2007 due primarily to:

- higher compensation costs of $5.9 million as a result of an increase in the number of employees and overtime labor as well as annual wage increases;
- an increase of $1.5 million due primarily to an increase in NJNG's shared services expenses, including labor costs and consulting fees related to various tax positions;
- an increase of $1.2 million due primarily to an increase in bad debt expense as a result of the broad impacts from the U.S. economy on customers in NJNG's service territory, based on a greater amount of outstanding receivables in excess of 150 days due; partially offset by
- $4.0 million in settlement charges associated with the Long Branch/Mass Tort litigation case in fiscal 2007 that did not recur in fiscal 2008;
- a $1.4 million credit as a result of adjusting accrued medical premium expenses to reflect lower costs based on actual claims paid, partially offset by increased claims; and
- lower pipeline integrity costs of $1.4 million.

Depreciation Expense

Depreciation expense decreased $8.3 million in fiscal 2009 compared to fiscal 2008 due to a rate reduction from 3 percent to 2.34 percent and amortization of previously recovered asset retirement obligations, both of which were part of the settlement of the base rate case. Depreciation expense in fiscal 2008 increased $2.1 million, as compared with fiscal 2007, as a result of greater utility plant being placed into service.

Operating Income

Operating income increased $32.2 million, or 36.6 percent, in fiscal 2009, as compared with fiscal 2008, due primarily to:

- an increase in total Utility gross margin of $33 million, as previously discussed;
- a decrease in depreciation expense of $8.3 million, as previously discussed; partially offset by

Ÿ an increase in Operations and maintenance expense in the amount of $8.8 million, as previously discussed; and.

Ÿ a decrease in interest income of $660,000, due primarily to a settlement of a counterparty receivable that included interest income on escrowed amounts in fiscal 2008.

Operating income remained relatively consistent at $88.1 million and $88.5 million, respectively, in fiscal 2008 as compared with fiscal 2007, due primarily to:

Ÿ an increase in total Utility gross margin of $3.1 million, as previously discussed;

Ÿ an increase in Depreciation expense of $2.1 million, as a result of greater utility plant being placed into service; partially offset by

Ÿ an increase in Operation and maintenance expenses of $1.0 million, as previously discussed; and

Ÿ Interest income remained relatively consistent.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Interest Expense

Interest expense decreased $2.6 million in fiscal 2009, compared with fiscal 2008, due primarily to:

- lower average interest rates and balances related to NJNG’s commercial paper program, as well as lower rates associated with its variable rate EDA bonds; partially offset by

- the issuance of long-term fixed rate debt of $125 million in May 2008, partially offset by the redemption of a $30 million bond on November 1, 2008.

Interest expense in fiscal 2008 remained consistent as compared with fiscal 2007. NJNG issued additional fixed-rate debt during fiscal 2008 and incurred higher rates on it variable-rate debt, however, the resulting increases in interest expense were offset by lower rates on NJNG’s commercial paper as well as lower BGSS interest due to a decrease in overrecovered gas costs.

Net Income

Net income increased $22.9 million, or 54 percent, to $65.4 million in fiscal 2009, as compared with fiscal 2008 due primarily to an increase in Operating income of approximately $32.2 million and lower Interest expense of $2.6 million, as discussed above, partially offset by higher income tax expense of $11.9 million, as a result of the higher pre-tax income.

Net income decreased $2.0 million, or 4.5 percent, in fiscal 2008, as compared with fiscal 2007 due primarily to lower Operating income as described above and an increase in income tax expense of approximately $1.5 million due to a one-time net after tax charge of $1.0 million related to a tax position associated with utility property.

Energy Services Operations

NJRES is a non-regulated natural gas marketer principally engaged in the optimization of natural gas storage and transportation assets ultimately resulting in physical delivery of natural gas to its customers, while managing its exposure to the price risk associated with its natural gas commodity supply through the use of financial derivative contracts. NJRES has physical storage and transportation capacity contracts with natural gas storage facilities and pipelines which allow it to take advantage of the continuous changes in supply and demand that it faces in the market areas in which it participates and also assist natural gas marketers, local distribution companies, industrial companies, electric generators and retail aggregators in managing their supply needs.

When NJRES enters into contracts for the future delivery and sales of physical natural gas, it simultaneously enters into financial derivative contracts at market prices to establish an initial financial margin for each of its forecasted physical commodity transactions. The financial derivative contracts also serve to protect the cash flows of the transaction from volatility in commodity prices as NJRES locks in pricing and can include futures, options, and swap contracts, which are all predominantly actively quoted on the NYMEX.

Through the use of its contracts for natural gas storage and pipeline capacity, NJRES is able to take advantage of pricing differences between geographic locations, commonly referred to as “locational spreads,” as well as over different time periods, for the delivery of natural gas to its customers, thereby improving the initially established financial margin result. NJRES utilizes financial futures, forwards and swap contracts to establish economic hedges that fix and protect the cash flows surrounding these transactions.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Accordingly, NJRES utilizes these contractual assets to optimize its opportunities to increase its financial margin by capitalizing on changes or events in the marketplace that impact natural gas demand levels. NJRES generates financial margin through three primary channels:

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

  * NJRES can purchase gas to inject into storage and concurrently lock in gross margin with a contract to sell the natural gas at a higher price at a future date; and

  * NJRES can purchase a future contract with an early delivery date at a lower price and simultaneously sell another future contract with a later delivery date having a higher price.

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

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

- Daily Sales Optimization (Cash): Consists of buying and selling flowing gas on a daily basis while optimizing existing transport positions during short-term market price movements to benefit from locational spreads:

  * Involves increasing the financial margin on established transportation hedges by capitalizing on price movements between specific locations.

Typically, periods of greater price volatility provide NJRES with additional opportunities to generate financial margin by optimizing its storage and transport capacity assets, and capturing their respective time or locational spreads. The combination of strategically positioned natural gas storage and transportation capacities provides NJRES with a significant amount of arbitrage opportunities that are typically more prevalent during periods of high price volatility.

Predominantly all of NJRES’ physical purchases and sales of natural gas result in the physical delivery of natural gas. Prior to fiscal 2009, NJRES applied normal accounting treatment as allowed by GAAP to certain of its physical commodity contracts, under which related liabilities incurred and assets acquired were recorded when title to the underlying commodity passed. As of October 1, 2008, NJRES has elected not to use normal accounting treatment. Therefore, all NJRES physical commodity contracts are recorded at fair value in the Consolidated Balance Sheets with any changes in fair value related to its forward physical sale and purchase contracts recognized as a component of Operating revenues and Gas purchases, respectively, in the Consolidated Statements of Income.

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

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

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

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

Operating Results

NJRES’ financial results for the fiscal years ended September 30 are summarized as follows:

(Thousands)	2009	2008	2007
Operating revenues	$1,498,742	$2,714,733	$1,994,682
Gas purchases (including demand charges)	1,537,634	2,577,667	1,938,359
Gross (loss) margin	(38,892)	137,066	56,323
Operation and maintenance expense	16,468	27,384	18,521
Depreciation and amortization	205	206	214
Other taxes	1,574	1,134	660
Operating (loss) income	(57,139)	108,342	36,928
Other income	570	204	555
Interest expense, net	322	2,574	4,222
Income tax (benefit) provision	(24,259)	38,806	14,311
Net (loss) income	$(32,632)	$67,166	$18,950

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

As of September 30, 2009, NJRES’ portfolio of financial derivative instruments was comprised of:

- 1.5 Bcf of net short futures contracts and fixed swap positions, with an average fixed price of $6.31 per dekatherm (dth);
- 11.5 Bcf of net short basis swap positions.

As of September 30, 2008, NJRES’ portfolio of financial derivative instruments was comprised of:

- 20.7 Bcf of net short futures contracts and fixed swap positions, with an average fixed price of $12.04 per dth;
- 46.4 Bcf of net short basis swap positions.

NJRES’ portfolio as of September 30, 2007, was comprised of:

- 28.4 Bcf of net short futures contracts and fixed swap positions, with an average fixed price of $10.79 per dth;
- 49.9 Bcf of net short basis swap positions.

Gross Margin

Gross margin for fiscal 2009, decreased by $176 million, compared with fiscal 2008, due primarily to higher realized losses associated with economic hedges of the purchase prices of our natural gas in inventory as well as increased unrealized losses during fiscal 2009. The combination of these changes in values generated a net unfavorable variance of $(136.5) million in overall values on its financial and physical commodity contracts compared with fiscal 2008.

NJRES' results during fiscal 2009, were impacted by the continuing decline in the price of natural gas resulting in realized (losses) related to gas in inventory of $(55.9) million compared to gains of $14.5 million during the prior year. The realized (losses) gains pertain to the settlement of certain purchased futures and fixed swap contracts, which economically hedge planned natural gas purchases. The losses incurred during fiscal 2009 resulted from a lower settlement price as compared to the original hedge price (or trade price) consistent with a general decline in the market price of natural gas. Conversely, fiscal 2008 was a period of rising commodity prices, therefore NJRES recorded realized gains as a result of settlement prices that were generally higher in comparison to initial trade prices.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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 to the realized amounts discussed above, NJRES had unrealized (losses) gains of $(47.6) million and $18.4 million during fiscal 2009 and fiscal 2008, respectively. The unrealized losses relate to certain derivative contracts that have not yet settled. These unrealized amounts represent the change in price of natural gas from the original hedge price as compared to the market price of natural gas at each reporting date. These unrealized amounts relate to physical and financial contracts that lock in a sale price on the physical gas that will be sold. When NJRES sells the purchased gas, the associated financial hedges will be settled and any previously recognized unrealized amounts related to these transactions will be realized.

Also contributing to the lower margin that resulted from the higher net losses discussed above, was a decrease in storage spreads during fiscal 2009, as described further in the discussion of financial margin in the Non-GAAP measures section.

NJRES had a gross margin of $137.1 million and $56.3 million in fiscal 2008 and fiscal 2007, respectively. The increase in gross margin of approximately 143.4 percent is primarily due to larger gains on derivative contracts in fiscal 2008 as compared to fiscal 2007.

Since NJRES' portfolio of financial derivative instruments is comprised of net short positions, the overall higher average fixed prices resulted in unrealized and realized gains of $18.4 million and $14.5 million, respectively, for fiscal 2008, as compared with unrealized losses and realized gains of $(63.5) million and $28.6 million, respectively, in fiscal 2007. The realized gains noted above of $14.5 million in fiscal 2008 and $28.6 in fiscal 2007, resulted from the settlement of open derivative instruments that were economically hedging natural gas still in storage inventory and not yet sold.

NJRES' gross margin in fiscal 2008 benefitted from a 46 percent decline in average market prices during the fourth quarter. Average market prices related to the financial derivatives in NJRES' portfolio decreased from $14.64 per dth as of June 30, 2008 to $7.95 per dth as of September 30, 2008, resulting in unrealized and realized gains during the fourth quarter of $195.5 million and $2.3 million, respectively.

Non-GAAP measures

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

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

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

Net financial earnings is a measure of the earnings based on eliminating these timing differences, to effectively match the earnings effects of the economic hedges with the physical sale of gas. Consequently, to reconcile from GAAP to both financial margin and net financial earnings, current period unrealized gains and losses on the derivatives are excluded as a reconciling item. Additionally, the effects of economic hedging on the value of our natural gas in storage 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.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

The following table is a computation of financial margin of NJRES for the fiscal years ended September 30:

(Thousands)	2009	2008	2007
Operating revenues	$1,498,742	$2,714,733	$1,994,682
Gas purchases	1,537,634	2,577,667	1,938,359
Add:			
Unrealized loss (gain) on derivative instruments	47,631	(18,449)	63,474
Effects of economic hedging related to natural gas inventory and certain demand fees	55,940	(14,528)	(28,598)
Financial margin	$64,679	$104,089	$91,199

A reconciliation of Operating income, the closest GAAP financial measurement, to the financial margin of NJRES is as follows for the years ended September 30:

(Thousands)	2009	2008	2007
Operating (loss) income	$(57,139)	$108,342	$36,928
Add:			
Operation and maintenance expense	16,468	27,384	18,521
Depreciation and amortization	205	206	214
Other taxes	1,574	1,134	660
Subtotal – Gross margin	(38,892)	137,066	56,323
Add:			
Unrealized loss (gain) on derivative instruments	47,631	(18,449)	63,474
Effects of economic hedging related to natural gas inventory and certain demand fees	55,940	(14,528)	(28,598)
Financial margin	$64,679	$104,089	$91,199

A reconciliation of Net (loss) income to net financial earnings is as follows for the years ended September 30:

(Thousands)	2009	2008	2007
Net (loss) income	$(32,632)	$67,166	$18,950
Add:			
Unrealized loss (gain) on derivative instruments, net of taxes	29,337	(10,838)	37,986
Effects of economic hedging related to natural gas inventory and certain demand fees, net of taxes	34,474	(9,325)	(16,788)
Net financial earnings	$31,179	$47,003	$40,148

Financial margin in fiscal 2009 and fiscal 2008, was $64.7 million and $104.1 million, respectively. The decrease of $39.4 million is due to the expiration of a favorable physical transport capacity contract servicing the Northeast market region that was no longer available for asset optimization in fiscal 2009, along with the transportation portfolio experiencing lower hedged values coupled with higher capacity fees, and a decrease in financial margin from the storage portfolio. Financial margin from the storage portfolio decreased by $22.6 million, as compared with fiscal 2008, due primarily to lower average spreads on storage positions in fiscal 2009.

NJRES' financial margin in fiscal 2008 increased $12.9 million, compared with fiscal 2007, due primarily to the acquisition of additional transport contracts for the Northeast market region during the first quarter of fiscal 2008. The additional transport contracts enabled NJRES to transact greater volumes in the market region along with establishing more favorable locational spreads that contributed to higher margins. The average maximum daily quantity of firm transportation capacity (excluding asset management contracts) increased to 803,776 dth in fiscal 2008 from 766,403 dth in fiscal 2007.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The increase in financial margin during fiscal 2008 was also due to additional arbitrage opportunities for NJRES' daily sales optimization activities. The arbitrage opportunities were partly attributable to market price volatility that primarily benefited NJRES' Northeast market region during the fourth quarter of fiscal 2008. Locational price fluctuations may arise from numerous factors, including severe weather patterns such as those experienced during fiscal 2009 by hurricanes Ike and Gustav in the Gulf of Mexico. NJRES' overall sales volumes increased to 292.5 Bcf during fiscal 2008 from 260.1 Bcf during fiscal 2007.

Partially offsetting the increase in financial margin from the above described activities were lower average time spreads on storage positions, which decreased to $0.372 per dth in fiscal 2008 from $0.528 per dth in fiscal 2007. The decrease in average time spreads on storage positions is attributable primarily to pricing conditions that existed during the month of February 2007, primarily as a result of weather conditions, which enabled NJRES to transact a significant volume of withdrawals from existing storage positions that generated higher storage margins in the prior fiscal year. Fiscal 2008 did not experience a similar pricing event for time spreads.

Operation and Maintenance Expense (O&M)

Operation and maintenance expense decreased $10.9 million, or 39.9 percent, during fiscal 2009, as compared with fiscal 2008, due primarily to a $5.4 million decrease in incentive-based compensation expense and a $5.3 million decrease in charitable contributions.

Operation and maintenance expense increased by $8.9 million in fiscal 2008 due primarily to an increase of $4.8 million in charitable contributions, an aggregate increase of $4.1 million for corporate services, compensation costs (as a result of higher salary and incentive costs based on performance measures), greater support expenses and increased accounting fees. In March 2008, NJRES established a physical presence near the Gulf region by opening a satellite office in Houston, Texas, which also contributed to some of the increases in compensation and support costs.

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

Retail and Other Operations

The consolidated financial results of Retail and Other for the fiscal years ended September 30 are summarized as follows:

(Thousands)	2009	2008	2007
Operating revenues	$14,008	$22,850	$21,776
Operation and maintenance expense	$26,073	$23,162	$21,074
Equity in earnings, net of tax	$4,265	$1,988	$1,662
Net loss	$(5,529)	$(477)	$(497)

Operating revenue decreased $8.8 million, or 38.7 percent, in fiscal 2009, to $14 million as compared with $22.9 million in fiscal 2008, due primarily to greater unrealized losses at NJR Energy, which were the result of declining market prices within a portfolio of net long financial derivative positions along with a decrease in installation revenue at NJRHS.

Operating revenue in fiscal 2008, increased $1.1 million compared with fiscal 2007 due primarily to increased rental income of $1.0 million at CR&R as a result of an increase of office space leased in a building completed in May 2007, and $1.1 million at NJRHS due primarily to increased service contract revenue, partially offset by higher unrealized losses related to NJR Energy's financial derivative contracts. The portfolio of swap contracts is comprised primarily of long positions, which decrease in value during periods of declining market prices

Operation and maintenance expenses in fiscal 2009 increased $2.9 million, as compared with fiscal 2008, due primarily to higher labor costs and increased building and utilities expenses and higher health care costs at NJRHS. Operation and maintenance expense increased by $2.1 million in fiscal 2008 compared with fiscal 2007, due primarily to higher compensation costs resulting from annual wage increases and increased shared services expenses.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Taxes netted in Equity in earnings from Iroquois are $1.8 million, $1.3 million and $1.1 million and are included in the Consolidated Statements of Income for the fiscal years ended September 30, 2009, 2008 and 2007, respectively. Equity in earnings from Iroquois is driven by the underlying performance of natural gas transportation through its existing pipeline, which is based on FERC-regulated tariffs. Similarly, Equity in earnings from Steckman Ridge is driven by storage revenues based on FERC-regulated tariff. Taxes netted in Equity in earnings from Steckman Ridge were $1.1 million in fiscal 2009.

Net loss for fiscal 2009, increased $5.1 million, compared with fiscal 2008, due primarily to the decreased operating revenue at NJR Energy and NJRHS and the increased O&M expenses, partially offset by an increase in equity in earnings and lower income tax expense as a result of the lower Operating income.

Net loss in fiscal 2008 remained constant as compared with fiscal 2007. The increased operating revenue at NJRHS and CR&R, as previously discussed, and increased earnings from the investment in Iroquois were offset by the increased Operation and maintenance expenses and unrealized losses at NJR Energy.

NJR Energy has an economic hedge associated with a long-term fixed price contract to sell gas to a counterparty. Unrealized losses or gains at NJR Energy are the result of the change in value associated with financial derivative instruments (futures contracts) designed to economically hedge the long-term fixed-price contract.

The Income statement impact includes unrealized (losses) associated with these derivative instruments of $(16.8) million, $(8.2) million and $(7.2) for the fiscal years ended September 30, 2009, 2008 and 2007, respectively, which are recorded, pre-tax, as a component of Operating revenues.

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

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

(Thousands)	2009	2008	2007
Net loss	$(5,529)	$(477)	$(497)
Add:			
Unrealized loss on derivative instruments, net of taxes	9,917	4,810	4,223
Net financial earnings	$4,388	$4,333	$3,726

Net financial earnings remained relatively flat for fiscal 2009 compared with fiscal 2008. Equity in earnings, net of tax, increased $2.3 million due to improved earnings at Iroquois, partially offset by a increases in Operation and maintenance and Interest expense, as noted above.

Net financial earnings increased $607,000 in fiscal 2008 compared with fiscal 2007, due primarily to increases in Operating revenue, and equity in earnings, offset by an increase in O&M as previously discussed.

Liquidity and Capital Resources

NJR’s objective is to maintain a consolidated capital structure that reflects 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 at September 30 was as follows:

	2009		2008	
Common stock equity	53	%	51	%
Long-term debt	35		32	
Short-term debt	12		17	
Total	100	%	100	%

When netting NJR’s cash balance of $36.2 million and $42.6 million at September 30, 2009 and 2008, respectively, with short-term debt balances, the corresponding capital ratios of common stock equity, long-term debt and short term debt are 55 percent, 36 percent and 9 percent at September 30, 2009 and 53 percent, 33 percent and 14 percent at September 30, 2008.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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 that were granted 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. NJR issued approximately 549,000 shares related to the DRP and exercised options during fiscal 2009.

On January 23, 2008, NJR's Board of Directors approved a 3-for 2-stock split in the form of a dividend for the Company's common stock shareholders of record on February 8, 2008. The additional shares were issued on March 3, 2008, resulting in an increase in average shares outstanding from approximately 28 million to approximately 42 million.

The Company has a share repurchase program that provides for the repurchase of up to 6.8 million shares on a split-adjusted basis. As of September 30, 2009, the Company repurchased approximately 6.5 million of those shares and has the ability to repurchase approximately 325,000 additional shares under the approved program.

Debt

NJR and its unregulated subsidiaries 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.

As of September 30, 2009, NJR, NJRES and NJNG had committed credit facilities of $605 million with approximately $448.9 million available under these facilities (see Note 8. Short-term debt and credit facilities).

NJR believes that as of September 30, 2009, NJR and NJNG were, and currently are, in compliance with all financial covenants, which consists of a debt-to-capital ratio covenant and an additional interest coverage ratio covenant for NJNG.

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 and NJRES currently anticipate that its financing requirements in fiscal 2010 and 2011 will be met through the issuance of short-term and long-term debt and proceeds from the Company's DRP. The continued tightening of the U.S. credit markets and the continuing flight of banks to preserve capital have led to a slowdown of lending between banks, which has trickled downstream to businesses. A prolonged constriction of credit availability could possibly affect management's ability to borrow.

On August 24, 2009, NJNG, filed a petition in Docket No. GF09080702 with the BPU , pursuant to N.J.S.A. 48:3-7 and 48:3-9 and N.J.A.C. 14:1-5.9, requesting authorization over a three year period to issue debt, renew its expiring credit facility, enter into interest rate hedging transactions and increase the size of its meter leasing program should the necessity arise.

NJR

On September 24, 2007, NJR issued $50 million of Unsecured Senior Notes, which were used for financing its initial investment in Steckman Ridge and general corporate purposes, including refinancing short-term debt. These notes have a 10-year maturity and an interest rate of 6.05 percent.

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

On December 13, 2007, NJR refinanced its prior senior credit facility, which was scheduled to expire on December 16, 2007, into a new $325 million five-year revolving unsecured credit facility. The new credit facility permits the borrowing of revolving loans and swing loans, as well as the issuance of letters of credit. Swing loans are loans made available on a same-day basis for an aggregate principal amount of up to $50 million and repayable in full within a maximum of seven days of borrowing. It 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 new facility are conditional upon compliance with a maximum leverage ratio, as defined in the new credit facility, of not more than 0.65 to 1.00 at any time. NJR used the initial borrowings under the new credit facility to refinance its prior credit facility. In addition, certain of NJR’s non-regulated subsidiaries have guaranteed to the lenders all of NJR’s obligations under the new credit facility.

Depending on borrowing levels and credit ratings, NJR’s interest rate can either be, at its discretion, the LIBOR or the Federal Funds Open Rate plus an applicable spread and facility fee. As of September 30, 2009, NJR’s effective rate was 0.57 percent on outstanding borrowings of $143.4 million under this credit facility.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Financial covenants contained in NJR's credit facility include a maximum debt-to-total capitalization of 65 percent. At September 30, 2009, the debt-to-total capitalization was 46 percent after adjustments for the fair value of derivative assets and liabilities and standby letters of credit, as defined in NJR's credit facility.

NJR's short-term borrowings at September 30, 2009, increased to $143.4 million from $32.7 million at September 30, 2008 due primarily to NJR's increased investment in Steckman Ridge and additional share repurchases.

As of September 30, 2009, NJR had a $12 million letter of credit outstanding on behalf of NJRES, which will expire on December 31, 2009, which is used for margin requirements for natural gas transactions. NJR also has a $675,000 letter of credit outstanding on behalf of CR&R, which will expire on December 3, 2009 and is in place to support development activities. These letters of credit reduce the amount available under NJR's committed credit facility by the same amount. NJR does not anticipate that these letters of credit will be drawn upon by the counterparties, and they will be renewed as necessary.

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

NJNG

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

On November 1, 2008, upon maturity, NJNG redeemed in full its $30 million, 6.27 percent, Series X First Mortgage bonds.

In October 2007, NJNG entered into an agreement for standby letters of credit that may be drawn upon through December 15, 2009, for up to $50 million. As of September 30, 2009, no letters of credit have been issued under this agreement. These letters of credit would not reduce the amount available to be borrowed under NJNG's credit facility.

To support the issuance of commercial paper, NJNG has a $250 million committed credit facility with several banks, with a 5-year term expiring in December 2009. NJNG currently plans to renew or replace this facility prior to or upon its expiration. NJNG had no commercial paper outstanding as of September 30, 2009, compared with $145.5 million as of September 30, 2008. Borrowings under NJNG's credit facility are conditioned upon compliance with a maximum leverage ratio, as defined in the credit facility, of not more than 0.65 to 1.00 at any time and a minimum interest coverage ratio, as defined in the credit facility, of less than 2.50 to 1.00.

In May 2008, NJNG issued $125 million of 5.6 percent senior notes due May 15, 2018, in the private placement market pursuant to a note purchase agreement. The notes are secured until the release date (which is the date at which the security provided by the pledge under NJNG's mortgage indenture would no longer be available to holders of any outstanding series of NJNG's senior secured notes, and such indebtedness would become senior unsecured indebtedness) by an equal amount of NJNG first mortgage bonds (Series LL), and interest is payable on the Notes semi-annually. The proceeds from the notes were used to refinance short-term debt and to fund capital expenditure requirements.

NJNG is obligated with respect to loan agreements securing six series of variable rate bonds totaling approximately $97 million of variable-rate debt backed by securities issued by the New Jersey Economic Development Authority (EDA). The EDA bonds are commonly referred to as auction-rate securities (ARS) and have an interest rate reset every 7 or 35 days, depending upon the applicable series, when an auction is held for the purposes of determining the securities. The interest rates associated with the NJNG's variable-rate debt are based on the rates of the related EDA ARS. As of September 30, 2009, all of the auctions surrounding the EDA ARS have failed, resulting in those bonds bearing interest at their maximum rates, as defined in the EDA ARS, as the lesser of (i) 175 percent of 30-day LIBOR or (ii) 10 to 12 percent per annum, as applicable to such series of ARS. As of September 30, 2009, the 30-day LIBOR rate was 0.25 percent. While the failure of the ARS auctions does not signify or constitute a default on NJNG, the EDA ARS does impact NJNG's borrowing costs of the variable-rate debt. As such, NJNG currently has a weighted average interest rate of 0.44 percent as of September 30, 2009, compared with a weighted average

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

interest rate of 4.6 percent as of September 30, 2008. There can be no assurance that the EDA ARS will have enough market liquidity to avoid failed auctions in the future, which could potentially have an adverse impact on NJNG's borrowing costs if LIBOR rates increase. NJR is reviewing alternative methods for refinancing the ARS at NJNG on a continuing basis, however, it cannot assure that alternative sources of financing can be implemented in a timely manner.

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

NJRES

NJRES had a 3-year, $30 million committed credit facility with a multinational financial institution that expired in October 2009. Borrowings under this facility were guaranteed by NJR. As of September 30, 2009, there were no borrowings under this facility. Upon expiration, the credit facility was not renewed.

Sale-Leaseback

NJNG received approximately $6.3 million, $7.5 million and $5.5 million in fiscal 2009, 2008 and 2007, respectively, related to the sale-leaseback of a portion of its gas meters. NJNG also plans to continue its meter sale-leaseback program at approximately $5 million annually.

Contractual Obligations

The following table is a summary of NJR, NJNG and NJRES contractual cash obligations and financial commitments and their applicable payment due dates as of September 30, 2009.

(Thousands)	Total	Up to 1 Year	2-3 Years	4-5 Years	After 5 Years
Long-term debt (1)	$ 561,262	$ 16,973	$ 51,195	$ 89,526	$ 403,568
Capital lease obligations (1)	83,448	9,943	21,499	15,379	36,627
Operating leases (1)	10,459	2,938	3,984	2,034	1,503
Short-term debt	143,400	143,400	—	—	—
New Jersey Clean Energy Program (1)	39,369	10,920	23,973	4,476	—
Construction obligations	3,789	3,789	—	—	—
Accelerated Infrastructure Program (AIP)	67,281	46,725	20,556	—	—
Remediation expenditures (2)	146,700	17,360	38,000	11,500	79,840
Natural gas supply purchase obligations–NJNG	55,883	54,239	1,644	—	—
Demand fee commitments - NJNG	717,524	106,854	191,789	161,335	257,546
Natural gas supply purchase obligations–NJRES	722,588	444,490	267,510	10,588	—

Demand fee commitments - NJRES		192,199		79,219		59,430		27,966	25,584
Total contractual cash obligations	$	2,743,902	$	936,850	$	679,580	$	322,804	$ 804,668

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

In fiscal 2009, the Company had no minimum pension funding requirements, however, funding requirements are uncertain and can depend significantly on changes in actuarial assumptions, returns on plan assets and changes in demographic factors. In fiscal 2009, NJR made discretionary contributions of $25.6 million to the Pension plans. These contributions brought the plan to the Transition Target Funding level under the Pension Protection Act. An additional contribution of $4.4 million was made on October 1, 2009. This amount is expected to cover the additional cost of benefits accruing during fiscal 2010. There are no Federal requirements to pre-fund OPEB benefits. However, the Company is required to fund certain amounts due to regulatory agreements with the BPU. In 2004, the Company elected to pre-fund most of the annual required contributions expected for the subsequent five fiscal years. The Company contributed approximately $1.9 million in fiscal 2009 to its OPEB plan and expects future funding to range from $5 million to $7 million annually over the next five years in accordance with BPU requirements. Actual contributions may be higher or lower based on market conditions and various assumptions.

As of September 30, 2009, there were NJR guarantees covering approximately $345 million of natural gas purchases and demand fee commitments of NJRES and NJNG included in natural gas supply purchase obligations above, not yet reflected in Accounts payable on the Consolidated Balance Sheet.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The Company is obligated to fund up to $132.5 million associated with the construction and development of Steckman Ridge. As of September 30, 2009, NJR has invested approximately $122.5 million in Steckman Ridge. Steckman Ridge may seek non-recourse project financing for a portion of the facility once construction activities are completed, therefore potentially reducing the aggregate recourse amount funded by NJR. There can be no assurances that Steckman Ridge will eventually secure such non-recourse project financing.

NJNG's total capital expenditures are estimated at $110.2 million and $86.5 million in fiscal 2010 and 2011, respectively, and consist primarily of its construction program to support customer growth, maintenance of its distribution system and replacement needed under pipeline safety regulations. Capital expenditures in fiscal 2010 and 2011 include an estimated $44.2 million and $20.6 million, respectively, related to AIP construction costs.

Off-Balance-Sheet Arrangements

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

Cash Flow

Operating Activities

As presented in the Consolidated Statements of Cash Flows, cash flow generated from operating activities totaled $267.2 million in fiscal 2009, compared with $132.4 million in fiscal 2008. NJR employs the indirect method when preparing its Consolidated Statement of Cash Flows. Net income is adjusted for any non-cash items, such as depreciation, accruals and certain amortization amounts that impact earnings during the period. In addition, operating cash flows are primarily affected by variations in working capital, which can be impacted by the following:

Ÿ seasonality of NJR's business;

Ÿ fluctuations in wholesale natural gas prices;

Ÿ timing of storage injections and withdrawals;

Ÿ management of the deferral and recovery of gas costs;

Ÿ changes in contractual assets utilized to optimize margins related to natural gas transactions; and

Ÿ timing of the collections of receivables and payments of current liabilities.

Net income decreased $81.9 million during fiscal 2009, due primarily to higher realized losses associated with natural gas in inventory at NJRES, as well as higher unrealized losses associated with decreases in the values of financial derivative instruments at NJRES and NJR Energy. In addition, changes in working capital that contributed to the increase in operating cash flows during fiscal 2009, as compared with fiscal 2008 are as follows:

Ÿ lower costs associated with natural gas inventory at NJRES due primarily to the decline in commodity prices in fiscal 2009 compared to rising prices during fiscal 2008. As a general indicator, NYMEX prices declined approximately 50 percent during fiscal 2009 compared with an increase of approximately 16 percent during fiscal 2008;

Ÿ a reduction in receivable balances at NJRES due primarily to a 63 percent decrease in average sales price in fiscal 2009 compared with an increase in receivable balances during fiscal 2008, which resulted from a 31 percent increase in volumes coupled with a 37 percent increase in average sales prices;

Ÿ an increase in NJNG’s gas costs recovered during fiscal 2009 as a result of gas costs falling below the commodity component of NJNG’s BGSS rate billed to its customers compared with fiscal 2008. The amount of gas costs overrecovered was moderated by a BGSS refund of $30 million issued to NJNG’s customers during fiscal 2008 and temporary rate credits of $45 million during fiscal 2009;

These increases in operating cash flows were offset by the following:

Ÿ discretionary cash contributions of $27.7 million to NJR’s postemployment benefit plans; and

Ÿ a decrease in NJRES payable balances primarily related to a 70 percent decrease in the cost of natural gas purchases, offset by a 25 percent increase in purchase volumes as compared with an increase in both cost and volumes, during fiscal 2008, as described below.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Cash flow generated from operating activities totaled $132.4 million in fiscal 2008, compared with $122.4 million in fiscal 2007. Higher net income contributed to the increase, primarily driven by higher net unrealized gains and realized gains associated with natural gas in inventory. The increase was offset by changes in the following components of working capital:

Ÿ At NJRES, an increase in natural gas inventory balances during fiscal 2008 to facilitate greater sales volumes, coupled with a 25 percent rise in the Company’s average cost of gas compared with fiscal 2007;

Ÿ An increase in sales volumes at NJRES of approximately 5.6 Bcf in fiscal 2008 compared with 2.9 Bcf in fiscal 2007 that resulted in an increase in receivable balances as of September 30, 2008, as compared with September 30, 2007. NJRES receivable balances, were impacted by a 37 percent increase in the average sales price for the month of September 2008 as compared with September 2007, as a result of the increase in the wholesale price of natural gas;

Ÿ An increase in NJNG broker margin balances which were impacted by adverse price movements on its natural gas futures contracts;

Ÿ A change in deferred gas costs of $37.6 million at NJNG as a result of wholesale natural gas prices that were higher during fiscal 2008 in comparison to the amounts billed to customers, which included a lower BGSS rate as a result of lower estimated natural gas costs that were factored into the BGSS rates during the year; partially offset by

Ÿ Operating cash flows generated by an increase in gas purchases payables balances at NJRES as a result of a 15 percent increase in purchase activity during the month of September 2008 to accommodate higher sales volumes, coupled with a 50 percent increase in the cost of those purchases, compared with purchases during the month of September 2007.

NJNG’s MGP expenditures are currently expected to total $17.4 million in fiscal 2010 (see Note 13. Commitments and Contingent Liabilities).

Investing Activities

Cash flow used in investing activities totaled $121.3 million in fiscal 2009, compared with $103.9 million in fiscal 2008. The increase in cash used was due primarily to an increased investment in Steckman Ridge and higher NJNG utility plant expenditures offset by the drawdown from the restricted cash construction fund.

Cash flows used in investing activities decreased $14.8 million in fiscal 2008, from $118.7 million in fiscal 2007. The decrease was due primarily to a reduction in the investments in Steckman Ridge offset by increases in utility plant expenditures.

The Company’s capital expenditures for fiscal 2007 through fiscal 2009 and projected capital requirements for fiscal years 2010 and 2011 are as follows:

(Thousands)	2011	2010	2009	2008	2007

Natural Gas Distribution	$86,547	$110,192	$82,757	$80,131	$67,937
Energy Services	200	200	—	86	—
Retail and Other	700	700	388	1,031	2,777
Total	$87,447	$111,092	$83,145	$81,248	$70,714

NJNG's capital expenditures result primarily from the need for services, mains and meters to support its continued customer growth, mandated pipeline safety rulemaking and general system improvements. NJNG's capital expenditures are expected to increase in fiscal 2010 and 2011 when compared with the capital spending in fiscal 2009, due primarily to accelerated spending related to the AIP projects, which are estimated at $44.2 million and $20.5 million, respectively.

Retail and Other capital expenditures each year have been made primarily in connection with investments made to preserve the value of real estate holdings. At September 30, 2009, CR&R owned 83 acres of undeveloped land and a 56,400-square-foot building on 5 acres of land. In fiscal 2009 and fiscal 2008, capital expenditures of $289,000 and $408,000, respectively, were primarily related to CR&R's construction of the 56,400-square-foot office building.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

On June 5, 2008, the Federal Energy Regulatory Commission (FERC) issued Steckman Ridge a certificate of public convenience and necessity authorizing the ownership, construction and operation of its natural gas storage facility and associated facilities. On April 1, 2009, Steckman Ridge received authorization to place certain injection related facilities into commercial operation. Customers have begun to inject natural gas inventory in preparation for the initial withdrawal season. An additional drilling program will be reviewed in the third quarter of fiscal 2010. As of September 30, 2009, NJR has invested $122.5 million in Steckman Ridge. This amount excludes capitalized interest and other direct costs. Total project costs related to the development of the storage facility are currently estimated at approximately $265 million, of which NJR is obligated to fund 50 percent or approximately $132.5 million. Steckman Ridge may seek non-recourse financing upon full completion of the construction and development of its facilities, thereby potentially reducing the final expected recourse obligation of NJR. There can be no assurances that such non-recourse project financing will be secured or available for Steckman Ridge.

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

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. As well, changes in financing cash flows have been impacted during the current and prior fiscal years by the growth and funding demands of NJRES' gas management and marketing functions.

Cash flow used in financing activities totaled $(152.4) million in fiscal 2009, compared with cash generated during fiscal 2008 of $9.1 million. During fiscal 2009, NJNG repaid its $30 million, 6.27 percent, Series X Mortgage bonds and NJR repaid its $25 million, 3.75 percent, unsecured senior notes. In addition, the Company reduced its short-term borrowings as a result of improved cash flows from operations.

Cash flow generated from financing activities totaled $9.1 million in fiscal 2008, compared with $(3.5) million used in fiscal 2007. The increase was due primarily to an increase in total borrowings, including a long-term fixed rate debt issuance of $125 million offset by payments of short-term debt of $78.3 million and an increase in common stock dividend payments and share repurchases.

NJNG provides funding for certain of its infrastructure projects through tax exempt, variable-rate debt, which has been issued to back six series of auction rate securities (ARS) through the Economic Development Authority of New Jersey (EDA), and are based on the borrowing costs of the ARS. During periods of reduced liquidity for ARS, NJNG's rate on its variable rate debt could default to a maximum rate of the lesser of (i) 175 percent of the 30-day LIBOR or (ii) 10 to 12 percent, as applicable to a particular series of ARS. Although its average weighted interest rate has decreased to a rate of 0.44 percent as of September 30, 2009, NJNG continues to review alternatives that would eliminate or mitigate the inherent interest rate risk associated with its variable rate debt.

NJNG received $6.3 million and $7.5 million in December 2008 and 2007, respectively, in connection with the sale-leaseback of its natural gas meters. This sale-leaseback program is expected to be continued on an annual basis.

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	Negative

On April 3, 2008, S&P adjusted NJNG's corporate credit rating from A+ to A. On April 30, 2009, S&P affirmed its ratings and changed its outlook from negative to stable.

On December 12, 2008, Moody's adjusted NJNG's credit ratings outlook from stable to negative.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

NJNG's S&P and Moody's ratings are investment-grade ratings. S&P and Moody's give NJNG's commercial paper the highest rating within the Commercial Paper investment-grade category. NJR is not a rated entity.

NJNG is not party to any lending agreements that would accelerate the maturity date of any obligation caused by a failure to maintain any specific credit rating. If such ratings are downgraded below investment grade, borrowing costs could increase, as will the costs of maintaining certain contractual relationships and for future financing. Even if ratings are downgraded without falling below investment grade, NJR and NJNG 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- and long-term credit ratings.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Risk Management

Commodity Market Risks

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

The regulated and unregulated natural gas businesses of the Company and its subsidiaries are subject to market risk due to fluctuations in the price of natural gas. To economically hedge against such fluctuations, the Company and its subsidiaries have entered into futures contracts, options agreements and swap agreements. To manage these derivative instruments, the Company has well-defined risk management policies and procedures that include daily monitoring of volumetric limits and monetary guidelines. The Company's natural gas businesses are conducted through three of its operating subsidiaries. First, NJNG is a regulated utility that uses futures, options and swaps to economically hedge against price fluctuations, and its recovery of natural gas costs is governed by the BPU. Second, NJRES uses futures, options, swaps and physical contracts to economically hedge purchases and sales of natural gas. Finally, NJR Energy has entered into two swap transactions related to an 18-year fixed-price contract, expiring in October 2010, to sell remaining volumes of approximately 2.6 Bcf of natural gas (Gas Sales Contract) to an energy marketing company.

The following table reflects the changes in the fair market value of financial derivatives from September 30, 2008, to September 30, 2009:

	Balance	Increase	Less	Balance

(Thousands)	September 30, 2008	(Decrease) in Fair Market Value	Amounts Settled	September 30, 2009
NJNG	$(49,610)	$ (69,710)	$(111,247)	$(8,073)
NJRES	89,571			