NEW JERSEY RESOURCES CORP
Form 10-Q
February 06, 2009

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2008

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 (State or other jurisdiction of incorporation or organization)	22-2376465 (I.R.S. Employer Identification Number)
1415 Wyckoff Road, Wall, New Jersey 07719 (Address of principal executive offices)	732-938-1480 (Registrant’s telephone number, including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes: x No: o

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

Large accelerated filer: 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 number of shares outstanding of $2.50 par value Common Stock as of February 4, 2009 was 42,318,558.

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Part I

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Part I

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report, including, without limitation, statements as to management expectations and beliefs presented in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations," Part I, Item 3. "Quantitative and Qualitative Disclosures about Market Risk," Part II, Item I. "Legal Proceedings" and in the notes to the financial statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can also be identified by the use of forward-looking terminology such as "may," "intend," "expect," "believe" or "continue" or comparable terminology and made based upon management's 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;
- demographic changes in the New Jersey Natural Gas (NJNG) service territory;
- the rate of NJNG customer growth;
- volatility of natural gas commodity prices and its impact on customer usage, cash flow, 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 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 impact to the asset values and funding obligations of NJR's pension and postemployment benefit plans as a result of a continuing downturn in the financial markets;
- increases in borrowing costs associated with variable-rate debt;
- 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 impact of governmental regulation (including the regulation of rates);
- conversion activity and other marketing efforts;
- actual energy usage of NJNG's customers;

Ÿthe pace of deregulation of retail gas markets;
Ÿaccess to adequate supplies of natural gas;
Ÿthe regulatory and pricing policies of federal and state regulatory agencies;
Ÿthe ultimate outcome of pending regulatory proceedings, including the possible expiration of the Conservation Incentive Program (CIP);
Ÿchanges due to legislation at the federal and state level;
Ÿthe availability of an adequate number of appropriate counterparties in the wholesale energy trading market;
Ÿsufficient liquidity in the wholesale energy trading market and continued access to the capital markets;
Ÿthe disallowance of recovery of environmental-related expenditures and other regulatory changes;
Ÿenvironmental-related and other litigation and other uncertainties;
Ÿthe effects and impacts of inflation on NJR and its subsidiaries operations;
Ÿchange in accounting pronouncements issued by the appropriate standard setting bodies; and
Ÿterrorist attacks or threatened attacks on energy facilities or unrelated energy companies.

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

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ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Thousands, except per share data)	Three Months Ended December 31, 2008	2007
OPERATING REVENUES	$801,304	$811,138
OPERATING EXPENSES		
Gas purchases	698,145	684,694
Operation and maintenance	36,408	32,179
Regulatory rider expenses	13,561	12,165
Depreciation and amortization	7,361	9,403
Energy and other taxes	23,633	18,160
Total operating expenses	779,108	756,601
OPERATING INCOME	22,196	54,537
Other income	858	1,528
Interest expense, net	6,547	7,810
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	16,507	48,255
Income tax provision	5,245	18,494
Equity in earnings of affiliates, net of tax	514	424
NET INCOME	$11,776	$ 30,185
EARNINGS PER COMMON SHARE		
BASIC	$0.28	$0.72
DILUTED	$0.28	$0.72
DIVIDENDS PER COMMON SHARE	$0.31	$0.27
WEIGHTED AVERAGE SHARES OUTSTANDING		
BASIC	42,170	41,678
DILUTED	42,495	41,928

See Notes to Unaudited Condensed Consolidated Financial Statements

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ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Thousands)	Three Months Ended December 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 11,776	$ 30,185
Adjustments to reconcile net income to cash flows from operating activities:		
Unrealized loss on derivative instruments	7,086	3,080
Depreciation and amortization	7,581	9,478
Allowance for funds (equity) used during construction	—	(373)
Deferred income taxes	(4,794)	8,549
Manufactured gas plant remediation costs	(5,875)	(4,041)
Equity in earnings from investments, net of distributions	(514)	1,512
Cost of removal – asset retirement obligations	(19)	(177)
Contributions to employee benefit plans	(182)	(150)
Changes in:		
Components of working capital	(41,153)	(57,844)
Other noncurrent assets	(38,448)	2,423
Other noncurrent liabilities	27,582	833
Cash flows used in operating activities	(36,960)	(6,525)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(18,207)	(13,526)
Real estate properties and other	(145)	(168)
Cost of removal	(1,462)	(1,208)
Investments in equity investees and other	(21,000)	(2,998)
Withdrawal from restricted cash construction fund	4,200	—
Cash flows used in investing activities	(36,614)	(17,900)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	6,196	4,192
Tax benefit from stock options exercised	972	547
Proceeds from sale-leaseback transaction	6,268	7,485
Payments of long-term debt	(30,973)	(937)
Purchases of treasury stock	(1,126)	(10,071)
Payments of common stock dividends	(11,776)	(10,633)
Net proceeds from short-term debt	87,350	32,547
Cash flows from financing activities	56,911	23,130
Change in cash and temporary investments	(16,663)	(1,295)
Cash and temporary investments at beginning of period	42,626	5,140
Cash and temporary investments at end of period	$ 25,963	$ 3,845
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	$(96,726)	$(194,958)
Inventories	108,055	33,940

Underrecovered gas costs	25,017	(18,883)
Gas purchases payable	(43,369)	96,217
Prepaid and accrued taxes, net	43,830	31,043
Accounts payable and other	(6,541)	(1,017)
Restricted broker margin accounts	(51,882)	(881)
Customers’ credit balances and deposits	(24,957)	7,299
Other current assets	5,420	(10,604)
Total	$(41,153)	$ (57,844)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for		
Interest (net of amounts capitalized)	$4,185	$6,434
Income taxes	$1,427	$2,661

See Notes to Unaudited Condensed Consolidated Financial Statements

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ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

ASSETS

(Thousands)	December 31, 2008	September 30, 2008
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	$1,384,312	$1,366,237
Real estate properties and other, at cost	29,953	29,808
	1,414,265	1,396,045
Accumulated depreciation and amortization	(385,879)	(378,759)
Property, plant and equipment, net	1,028,386	1,017,286
CURRENT ASSETS		
Cash and temporary investments	25,963	42,626
Customer accounts receivable		
Billed	258,827	227,132
Unbilled revenues	75,008	9,417
Allowance for doubtful accounts	(5,140)	(4,580)
Regulatory assets	21,080	51,376
Gas in storage, at average cost	370,488	478,549
Materials and supplies, at average cost	5,116	5,110
Prepaid state taxes	9,641	37,271
Derivatives, at fair value	224,123	208,703
Broker margin account	74,884	41,277
Other	12,517	12,785
Total current assets	1,072,507	1,109,666
NONCURRENT ASSETS		
Investments in equity investees and other	139,970	115,981
Regulatory assets	407,014	340,670
Derivatives, at fair value	27,226	24,497
Restricted cash construction fund	—	4,200
Other	12,284	13,092
Total noncurrent assets	586,494	498,440
Total assets	$2,687,387	$2,625,392

See Notes to Unaudited Condensed Consolidated Financial Statements

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ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

CAPITALIZATION AND LIABILITIES

(Thousands)	December 31, 2008	September 30, 2008
CAPITALIZATION		
Common stock equity	$ 736,496	$ 726,958
Long-term debt	460,708	455,117
Total capitalization	1,197,204	1,182,075
CURRENT LIABILITIES		
Current maturities of long-term debt	30,844	60,119
Short-term debt	265,550	178,200
Gas purchases payable	272,147	315,516
Accounts payable and other	43,375	61,735
Dividends payable	13,099	11,776
Deferred and accrued taxes	27,491	24,720
New Jersey clean energy program	12,513	3,056
Derivatives, at fair value	204,174	146,320
Broker margin account	10,797	29,072
Customers’ credit balances and deposits	38,500	63,455
Total current liabilities	918,490	893,969
NONCURRENT LIABILITIES		
Deferred income taxes	232,038	239,703
Deferred investment tax credits	7,112	7,192
Deferred revenue	8,910	9,090
Derivatives, at fair value	20,315	25,016
Manufactured gas plant remediation	120,230	120,730
Postemployment employee benefit liability	53,846	52,272
Regulatory liabilities	61,820	63,419
New Jersey clean energy program	34,030	—
Asset retirement obligation	24,768	24,416
Other	8,624	7,510
Total noncurrent liabilities	571,693	549,348
Commitments and contingent liabilities (Note 13)		
Total capitalization and liabilities	$2,687,387	$2,625,392

See Notes to Unaudited Condensed Consolidated Financial Statements

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The accompanying unaudited condensed consolidated financial statements have been prepared by New Jersey Resources Corporation (NJR or the Company) in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The September 30, 2008 balance sheet data is derived from the audited financial statements of the Company. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in NJR's 2008 Annual Report on Form 10-K.

The unaudited condensed consolidated financial statements include the accounts of NJR and its subsidiaries, New Jersey Natural Gas Company (NJNG), NJR Energy Services Company (NJRES), NJR Retail Holdings Corporation (Retail Holdings), NJR Energy Investment Corporation (NJREI) and NJR Service Company (NJR Service). Intercompany transactions and accounts have been eliminated. NJREI's primary subsidiaries are NJR Energy Corporation (NJR Energy) and NJR Steckman Ridge Storage Company. NJR Energy invests primarily in energy-related ventures through its subsidiary, NJNR Pipeline Company (Pipeline), which holds the Company's 5.53 percent ownership interest in Iroquois Gas and Transmission System, L.P. (Iroquois). NJR Steckman Ridge Storage Company holds the Company's 50 percent combined interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a natural gas storage facility that was acquired and is being developed with a partner in western Pennsylvania. Retail Holdings' two principal subsidiaries are NJR Home Services Company (NJRHS) and Commercial Realty & Resources Corporation (CR&R).

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary for a fair presentation of the results of the interim periods presented. These adjustments are of a normal and recurring nature. Because of the seasonal nature of NJR's utility and wholesale energy services operations, in addition to other factors, the financial results for the interim periods presented are not indicative of the results that are to be expected for the fiscal year ended September 30, 2009.

Customer Accounts Receivable

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

(Thousands)	December 31, 2008		September 30, 2008	
NJNG	$ 62,824	24%	$ 21,398	9%
NJRES	188,135	73	198,902	88
NJRHS and other	7,868	3	6,832	3
Total	$258,827	100%	$227,132	100%

Accounts receivable related to estimated unbilled revenues and allowance for doubtful accounts are associated with NJNG only.

Gas in Storage

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

	December 31, 2008		September 30, 2008	
($ in thousands)	Assets	Bcf	Assets	Bcf
NJNG	$163,808	19.4	$189,828	22.1
NJRES	206,680	30.6	288,721	27.6
Total	$370,488	50.0	$478,549	49.7

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New Accounting Standards

Recently Adopted

Effective October 1, 2008 NJR adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157) for its financial assets and liabilities, with the exception of its pension assets. NJR will apply the provisions of SFAS 157 to its pension assets and non-financial assets and liabilities that are not measured at least annually prospectively on October 1, 2009. SFAS 157 defines fair value as the amount that would be exchanged to sell an asset or transfer a liability in an orderly transaction between market participants, and establishes a fair value hierarchy of market and unobservable data that is used to develop pricing assumptions. The adoption of SFAS 157 did not have a material impact on NJR's financial position or results of operations. See Note 4, Fair Value Measurements, for more information on the adoption of SFAS 157, as well as the required disclosures.

On April 10, 2007, the FASB issued FASB Staff Position No. FIN 39-1 (FSP FIN 39-1), Amendment of FASB Interpretation No. 39. FSP FIN 39-1 provides additional guidance for parties that are subject to master netting arrangements. Specifically, for transactions that are executed with the same counterparty, it permits companies to offset the fair values of amounts recognized for derivatives as well as the related fair value amounts of cash collateral receivables or payables, when certain conditions apply. FSP FIN 39-1 became effective for fiscal years beginning after November 15, 2007. As NJR's policy has been to present its derivative positions and any receivables or payables with the same counterparty on a gross basis, FSP FIN 39-1 had no impact on its statement of financial position and results of operations.

Other Recently Issued Standards

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to elect to measure eligible items at fair value as an alternative to hedge accounting and to mitigate volatility in earnings. A company can elect either the fair value option according to a pre-existing policy, when the asset or liability is first recognized, or when it enters into an eligible firm commitment. Changes in the fair value of assets and liabilities, for which the Company chooses to apply the fair value option, are reported in earnings at each reporting date. SFAS 159 also provides guidance on disclosures that are intended to provide comparability to other companies' assets and liabilities that have different measurement attributes and to other companies with similar financial assets and liabilities. SFAS 159 became effective for NJR as of October 1, 2008; however, since the Company did not elect the fair value option for any items, the provisions of SFAS 159 do not impact our results of operations or financial condition.

On December 4, 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 is an amendment of Accounting Research Bulletin (ARB) No. 51 and was issued to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries. SFAS 160 clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and that a parent company must recognize a gain or loss in net income when a subsidiary is deconsolidated.

SFAS 160 is effective for fiscal years beginning after December 15, 2008, and early adoption is prohibited. The Company has concluded that this statement will have no impact on its statement of financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, (SFAS 161). SFAS 161 requires enhanced qualitative and quantitative disclosures on the objectives and accounting for derivatives and related hedging activities, as well as their impacts on the financial statements. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. NJR will adopt SFAS 161 during the second quarter of fiscal year 2009 and is evaluating the effect of adoption on its footnote disclosures.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. REGULATION

October Base Rate Order

As a result of increases in NJNG's operation, maintenance and capital costs, on November 20, 2007, NJNG petitioned the New Jersey Board of Public Utilities (BPU) to increase base rates for delivery service by approximately $58.4 million, which included a return on NJNG's equity component of 11.5 percent. This request was 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 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 Conservation Incentive Program (CIP) baseline usage rate, received an allowed return on equity component of 10.3 percent, reduced its depreciation expense component from 3.0 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.

Conservation Incentive Program (CIP)

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

In May 2008, NJNG filed its Petition for the Annual Review of its CIP Program for recoverable CIP amounts for fiscal 2008, requesting an additional $6.8 million and approval to modify its CIP recovery rates effective October 1, 2008. The additional amount brought the total recovery requested to $22.4 million. On October 3, 2008, the BPU approved the CIP petition on a provisional basis, effective the date of the Board Order. It is anticipated that NJNG will file a petition in the spring of 2009 to extend its CIP or implement a similar mechanism on a permanent basis, to be effective October 1, 2009.

In conjunction with the CIP, NJNG incurs costs related to its obligation to fund programs that promote customer conservation efforts during the three-year term of the CIP pilot program. As of December 31, 2008, NJNG had a remaining liability of $662,000 related to these programs.

Basic Gas Supply Service (BGSS)

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

In 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 percent due to an increase in the price of wholesale natural gas. Subsequent to the time of the filing, wholesale natural gas prices moderated, and on September 22, 2008, NJNG, the Staff of the BPU and the Department of the Public Advocate, Division of Rate Counsel (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, the BPU approved the BGSS increase on a provisional basis, effective the date of the Board Order.

On December 17, 2008, NJNG provided notice that it would implement a $30 million BGSS-related rate credit that will lower sales customers' bills in January and February 2009. This rate credit was due primarily to a decline in wholesale commodity costs subsequent to the October 2008 BGSS price change.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Incentive Programs

NJNG is eligible to receive financial incentives for reducing BGSS costs through a series of utility gross margin-sharing programs that include off-system sales, capacity release, storage incentive and financial risk management (FRM) programs. In October 2007, the BPU reduced the sharing percentage of the margin generated by the FRM program retained by NJNG from 20 percent to 15 percent effective November 1, 2007. In October 2008, the Board’s base rate order provided for the extension of the incentive programs through October 31, 2011, along with a moderate expansion of the storage incentive and FRM programs.

Societal Benefits Charge (SBC) and Weather Normalization Clause (WNC)

The SBC is comprised of three primary components: a Universal Service Fund rider (USF), a Manufactured Gas Plant (MGP) Remediation Adjustment (RA), and the New Jersey Clean Energy Program (NJCEP). In February 2008, NJNG filed an application regarding its SBC proposing no change to the rates previously approved in October 2007 (February 2008 SBC filing). On January 27, 2009, NJNG filed an application regarding its SBC to increase its RA factor and its NJCEP factor while maintaining its effective rate on USF (January 2009 SBC filing). The January 2009 SBC filing is subject to BPU staff and Rate Counsel review and must be approved by the BPU prior to implementing the new SBC rates.

USF

Through the USF, eligible customers receive a credit toward their utility bill. The credits applied to eligible customers are recovered through the USF rider in the SBC. NJNG recovers carrying costs on deferred USF balances.

In June 2008, the natural gas utilities in the State of New Jersey collectively filed with the BPU to increase the statewide USF recovery rate effective October 1, 2008. In the BPU’s October 21, 2008 Order, the USF increase was approved on a provisional basis, effective October 24, 2008 and it also approved interest on USF deferred balances at the Treasury Constant Maturity 2-year rate, plus 60 basis points, net of tax, with the rate changing on a monthly basis. NJNG believes the increase has a negligible impact on customers.

MGP

In October 2007, the BPU approved $14.7 million in eligible costs to be recovered annually for MGP remediation expenditures incurred through June 30, 2006. The February 2008 SBC filing included MGP remediation expenditures incurred through June 30, 2007, resulting in an expected annual recovery of $17.7 million. The January 2009 SBC filing included MGP remediation expenditures incurred through June 30, 2008 resulting in an expected annual recovery of $20.7 million.

New Jersey Clean Energy Program (NJCEP)

In October 2008, the BPU released a final Order, updating state utilities’ funding obligations for NJCEP for the period from January 1, 2009 to December 31, 2012. NJNG’s share of the total funding requirement of $1.2 billion is $50.8 million. Accordingly, as of December 31, 2008 NJNG recorded the obligation and a corresponding regulatory asset at a present value of $44.3 in the Unaudited Condensed Consolidated Balance Sheets. NJNG's annual obligation gradually increases from $10.3 million in fiscal 2009 to $15.9 million in fiscal 2012. As of December 31, 2008, NJNG also has a $2.2 million obligation remaining from the January 1, 2005 to December 31, 2008 period. The January 2009 SBC filing included an increase to the NJCEP factor. The proposed factor is expected to recover $12.9 million annually.

WNC

As of December 31, 2008, NJNG has a $629,000 unrecovered balance related to gross margin variations incurred during the fiscal 2006 winter period. On October 3, 2008, the BPU provisionally approved a decrease to NJNG's WNC rate, effective the date of the Board Order, to fully recover its remaining WNC balance.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Economic Stimulus

On January 20, 2009, NJNG filed two petitions with the BPU seeking approval to implement programs designed to both stimulate the state and local economy through infrastructure investments and encourage energy efficiency. If approved, the Accelerated Infrastructure Investment Program (AIP) will allow NJNG to accelerate $70.8 million of previously planned infrastructure projects, maintaining safe and reliable service to NJNG's customers while increasing workforce development. Proposed as a 2-year program, the AIP will be funded through an annual adjustment to customers' base rates. The second filing, for an Energy Efficiency (EE) Program and associated cost recovery mechanism, requests BPU approval to implement various programs to encourage energy efficiency for residential and commercial customers. NJNG proposed to recover the EE costs of approximately $22.9 million over a 4-year period through a clause mechanism similar to the SBC. Both programs include the recovery of NJNG's overall cost of capital.

Regulatory Assets & Liabilities

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

(Thousands)	December 31, 2008	September 30, 2008	Recovery Period
Regulatory assets–current			
Underrecovered gas costs	$ 2,977	$ 27,994	Less than one year (1)
WNC	629	919	Less than one year (2)
CIP	17,474	22,463	Less than one year (3)
Total current	$ 21,080	$ 51,376	
Regulatory assets–noncurrent			
Remediation costs (Notes 2 and 13)			
Expended, net of recoveries	$ 91,346	$ 92,164	(4)
Liability for future expenditures	120,230	120,730	(5)
CIP	1,275	2,397	(6)
Deferred income and other taxes	12,624	12,726	Various (7)
Derivatives (Note 3)	77,528	49,610	(8)
Postemployment benefit costs (Note 10)	52,472	52,519	(9)
SBC/Clean Energy	51,539	10,524	Various (10)
Total noncurrent	$407,014	$340,670	

(1) Recoverable, subject to BPU approval, through BGSS, without interest.
(2) Recoverable as a result of BPU approval in October 2008, without interest. This balance reflects the net results from winter period of fiscal 2006. No new WNC activity has been recorded since October 1, 2006 due to the existence of the CIP.
(3) Recoverable or refundable, subject to BPU annual approval, without interest. Balance includes approximately $6.6 million relating to the weather component of the calculation

and approximately $10.9 million relating to the customer usage component of the calculation. Recovery from customers is designed to be one year from date of rate approval by the BPU.

(4) Recoverable, subject to BPU approval, with interest over rolling 7-year periods.

(5) Estimated future expenditures. Recovery will be requested when actual expenditures are incurred (see Note 13. Commitments and Contingent Liabilities – Legal Proceedings).

(6) Recoverable or refundable, subject to BPU annual approval, without interest. Balance includes approximately $523,000 relating to the weather component of the calculation and approximately $752,000 relating to the customer usage component of the calculation.

(7) Recoverable without interest, subject to BPU approval.

(8) Recoverable, subject to BPU approval, through BGSS, without interest.

(9) Recoverable or refundable, subject to BPU approval, without interest. Includes unrecognized service costs recorded in accordance with SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postemployment Plans that NJNG has determined are recoverable in rates charged to customers (see Note 10. Employee Benefit Plans).

(10) Recoverable with interest, subject to BPU approval.

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Thousands)	December 31, 2008	September 30, 2008
Regulatory liabilities–noncurrent		
Cost of removal obligation (1)	$61,820	$63,419
Total-noncurrent	$61,820	$63,419

(1) NJNG accrues and collects for cost of removal in rates. This liability represents collections in excess of actual expenditures. Approximately $21.3 million, including accretion of $370,000 for the three months ended December 31, 2008, of regulatory assets relating to asset retirement obligations have been netted against the cost of removal obligation as of December 31, 2008 (see Note 11. Asset Retirement Obligations).

3. DERIVATIVE INSTRUMENTS

The Company and its subsidiaries are subject to market risk due to fluctuations in the price of natural gas. To manage the risk of such fluctuations, the Company and its subsidiaries enter into financial futures and forward contracts, option agreements and swap agreements to economically hedge future purchases and sales of natural gas. Due to the nature of these arrangements, they qualify as derivatives in accordance with FAS 133.

Effective October 1, 2007, the Company changed the treatment of its physical commodity contracts at NJRES, such that the changes in fair value of new contracts are included in earnings, and are not accounted for using the “normal purchase normal sales” (normal) scope exception of SFAS 133. As well, effective October 1, 2008, due to changes in the Company’s ability to assert physical delivery, the Company is no longer treating physical commodity contracts executed prior to October 1, 2007 as normal. Therefore, all NJRES physical commodity contracts are accounted for at fair value in the Unaudited Condensed Consolidated Balance Sheets, with changes in fair value included as a component of gas purchases in the Unaudited Condensed Consolidated Statements of Income. All physical commodity contracts at NJNG and NJR Energy continue to be designated as normal and accounted for under accrual accounting.

All of the Company’s financial derivative instruments (financial futures, options or swaps), are accounted for in accordance with SFAS 133 and recorded at fair value in the Unaudited Condensed Consolidated Balance Sheets. Changes in fair value are recorded as a component of Gas purchases or Operating revenues, for NJRES and NJR Energy, respectively, in the Unaudited Condensed Consolidated Statements of Income as unrealized gains or losses. Changes in fair value of NJNG’s financial derivative instruments are recorded as a component of Regulatory assets or liabilities in the Unaudited Condensed Consolidated Balance Sheets, as these amounts will be recovered through future BGSS amounts as an increase or reduction to the cost of natural gas in NJNG’s tariff.

The Company enters into financial derivative instruments as an economic hedge of the purchase and sale of natural gas. These derivatives are marked at fair value and recognized in the Unaudited Condensed Consolidated Statements of Income as a component of Gas purchases, or Operating revenues, as appropriate, in the current period. However, the change in value of the actual physical natural gas purchase is recognized in income only when that natural gas has been sold, which is normally in a future period. Therefore, mismatches between the timing of recognizing gains or losses on the derivative instruments and the timing of the actual sale of the natural gas that is being economically hedged creates volatility in the results of NJR, although the Company's true economic results are unaffected.

Generally, exchange-traded futures contracts require a deposit of margin cash, the amount of which is subject to change based on market price movements and in accordance with exchange rules. The Company maintains broker margin accounts for NJNG and NJRES. The balances are as follows:

(Thousands)	December 31, 2008	September 30, 2008
NJNG broker margin deposit	$ 74,884	$ 41,277
NJRES broker margin (liability)	$(10,797)	$(29,072)

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS

As noted in Note 1, General, NJR adopted SFAS 157 and has applied the provisions to its financial assets and liabilities, which include financial derivatives, physical commodity contracts qualifying as derivatives, available for sale securities and other financial assets and liabilities. SFAS 157 defines and establishes a framework for measuring fair value. SFAS 157 requires that companies consider assumptions market participants would make when pricing assets and liabilities that are required to be recognized at fair value in accordance with previously issued accounting pronouncements.

SFAS 157 also requires additional disclosures that are intended to convey the reliability of price inputs used to determine fair value. To facilitate this, SFAS 157 established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the source of the data used to develop the price inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to inputs that are based on unobservable market data and include the following:

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

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

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

NJNG's, NJRES' and NJR Energy's financial derivatives portfolios can consist of futures, options and swaps. NJR primarily uses the market approach and its policy is to use actively quoted market prices when available. The principal market for its derivative transactions is the natural gas wholesale market, therefore, the primary source for its price inputs is the New York Mercantile (NYMEX) exchange. NJRES also uses Natural Gas Exchange (NGX) for Canadian delivery points and Platts and NYMEX ClearPort for certain over the counter physical forward commodity contracts. However, NJRES also engages in transactions which result in transporting natural gas to delivery points for which there is no actively quoted market price. In these cases, NJRES' policy is to use the best information available to determine fair value based on internal pricing models, which include estimates extrapolated from broker quotes or pricing services. As of December 31, 2008, less than 1 percent of total fair value of NJRES' derivative assets and liabilities was derived using such inputs.

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

When NJR determines fair values, we adjust measurements, as needed, for credit risk associated with counterparties, as well as our own credit risk. NJR determines these adjustments by using historical default probabilities that correspond to the applicable Standard and Poor’s issuer ratings, while also taking into consideration collateral and netting arrangements that serve to mitigate risk. As of December 31, 2008, NJR further adjusted certain fair values, based on the change in a market index that tracks the credit default swaps of investment grade companies, to factor in the current instability in the credit markets.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The adoption of SFAS 157 did not have a material impact to NJR's financial condition or results of operations. Assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 are summarized as follows:

(Thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
ASSETS:				
Physical forward commodity contracts	$ —	$ 20,678	$123	$ 20,801
Financial derivative contracts	148,973	81,575	—	230,548
Available for sale securities (1)	8,887	—	—	8,887
Other assets	1,690	—	—	1,690
Total assets at fair value	$159,550	$102,253	$123	$ 261,926
LIABILITIES:				
Physical forward commodity contracts	—	$ 19,946	$ —	$ 19,946
Financial derivative contracts	$ 166,068	38,475	—	204,543
Other liabilities	1,690	—	—	1,690
Total liabilities at fair value	$167,758	$ 58,421	$ —	$ 226,179

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

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
(Thousands)	Derivatives	Other	Total
Beginning balance – October 1, 2008	$5,342	$ —	$5,342
Total gains (losses) realized and unrealized	136	—	136
Purchases, sales, other settlements, net	(899)	—	(899)
Net transfers in and/or out of level 3	(4,448)	—	(4,448)
Ending balance - December 31, 2008	$ 131	$ —	$ 131

NJR will prospectively apply the provisions of SFAS 157 to its pension assets and non-financial assets and liabilities beginning on October 1, 2009.

5. INVESTMENTS IN EQUITY INVESTEES AND OTHER

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

(Thousands)	December 31, 2008	September 30, 2008
Steckman Ridge	$106,457	$ 84,285
Iroquois	24,497	23,604
Other	9,016	8,092
Total	$139,970	$115,981

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NJR's investment in Steckman Ridge increased $22.2 million during the three months ended December 31, 2008, including cash investments of $21 million and capitalized costs of $1.2 million.

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

Other investments represent investments in equity securities of publicly traded energy companies, all of which are immaterial on an individual basis, and are accounted for as available for sale securities, with any change in the value of such investments recorded as Accumulated other comprehensive income, a component of Common stock equity.

The following is summarized financial information for Iroquois:

	Three Months Ended December 31,	
(Millions)	2008	2007
Operating revenues	$41.8	$38.8
Operating income	$21.7	$19.3
Net income	$ 9.5	$ 7.6

(Millions)	December 31, 2008	September 30, 2008
Current assets	$ 52.6	$ 64.2
Noncurrent assets	$753.4	$729.2
Current liabilities	$ 49.8	$ 39.3
Noncurrent liabilities	$334.9	$348.9

6. EARNINGS PER SHARE

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

	Three Months Ended December 31,	
(Thousands, except per share amounts)	2008	2007
Net Income, as reported	$11,776	$30,185
Basic earnings per share		
Weighted average shares of common stock outstanding–basic	42,170	41,678
Basic earnings per common share	$0.28	$0.72
Diluted earnings per share		
Weighted average shares of common stock outstanding–basic	42,170	41,678
Incremental shares (1)	325	250
Weighted average shares of common stock outstanding–diluted	42,495	41,928
Diluted earnings per common share	$0.28	$0.72

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

7. DEBT

NJR

On December 13, 2007, NJR entered into a $325 million, five-year, revolving, unsecured credit facility. As of December 31, 2008, NJR had $62 million in borrowings outstanding under the facility.

As of December 31, 2008, NJR had one letter of credit outstanding for $675,000 on behalf of CR&R, which will expire on December 3, 2009. The letter of credit is in place to support development activities.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On February 15, 2008, NJR entered into an agreement for a stand-alone letter of credit that may be drawn upon through February 15, 2009 for up to $15 million. No amounts have been drawn under this letter of credit as of December 31, 2008.

NJNG

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

In October 2007, NJNG entered into an agreement for standby letters of credit that may be drawn upon through December 15, 2009 for up to $50 million. As of December 31, 2008, 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.

As of December 31, 2008, NJNG has a $250 million committed facility with several banks, with a 5-year term expiring in December 2009. This facility is used to support NJNG's commercial paper program.

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.

NJNG is obligated with respect to loan agreements securing six series of variable rate bonds totaling approximately $97.0 million of variable-rate debt backed by securities issued by the New Jersey Economic Development Authority (EDA). The EDA bonds are commonly referred to as auction rate securities (ARS) and have an interest rate reset every 7 or 35 days, depending upon the applicable series. On those dates, an auction is held for the purposes of determining the interest rate of the securities. The interest rate associated with the NJNG variable-rate debt is based on the rates on the EDA ARS. For the three months ended December 31, 2008, all of the auctions surrounding the EDA ARS have failed, resulting in those bonds bearing interest at their maximum rates, 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 December 31, 2008, the 30-day LIBOR rate was 0.44 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 0.8 percent as of December 31, 2008, compared with a weighted average 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 return interest rates below their maximum rate.

In October 2005, NJNG entered into a loan agreement under which the EDA loaned NJNG the proceeds from $35.8 million of tax-exempt EDA Bonds. NJNG deposited $15.0 million of the proceeds into a construction fund to finance subsequent construction in the northern division of NJNG's territory. NJNG drew down $10.8 million from the construction fund prior to fiscal year 2008 and drew down the remaining $4.2 million during the first quarter of fiscal 2009.

Neither NJNG nor the results of its operations are obligated or pledged to support the NJR or NJRES credit facilities.

NJRES

As of December 31, 2008, NJRES had a 3-year, $30 million committed credit facility that expires in October 2009 with a multinational financial institution. There were no borrowings under this facility as of December 31, 2008.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated

There were no issuances or redemptions of long-term debt securities for NJR or NJRES during the three months ended December 31, 2008.

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

(Thousands)	December 31, 2008	September 30, 2008
NJR		
Long - term debt (1)	$ 75,000	$ 75,000
Bank credit facilities	$325,000	$325,000
Amount outstanding at end of period	$ 62,000	$ 32,700
Weighted average interest rate at end of period	0.78%	2.46%
NJNG		
Long - term debt (2)	$349,800	$379,800
Bank credit facilities	$250,000	$250,000
Amount outstanding at end of period	$203,550	$145,500
Weighted average interest rate at end of period	1.19%	2.31%
NJRES		
Bank credit facilities	$30,000	$30,000
Amount outstanding at end of period	—	—
Weighted average interest rate at end of period	—	—

(1) Amounts are comprised of $25.0 million issued in March 2004, maturing in March 2009, and $50.0 million issued in September 2007, maturing in September 2017.
(2) Long-term debt excludes lease obligations of $66.7 million and $60.4 million at December 31, 2008 and September 30, 2008, respectively.

8. CAPITALIZED FINANCING COSTS AND DEFERRED INTEREST

Allowance for Funds Used During Construction, (AFUDC) included in Utility plant, and capitalized interest included in Real estate properties and other and Investments in equity investees and other on the Unaudited Condensed Consolidated Balance Sheets, are as follows:

(Thousands)	Three Months Ended December 31, 2008	2007
AFUDC – Utility plant	$258	$535
	%	%
Weighted average rate	4.00	8.31
Capitalized interest – Real estate properties and other	$—	$36

Weighted average interest rates	—%	5.08%
Capitalized interest – Investments in equity investees and other	$843	$855
Weighted average interest rates	5.50%	5.98%

The AFUDC amounts shown in the table above for the three months ended December 31, 2007 include an equity component based on NJNG's prior return on equity rate of 11.5 percent. As a result of the BPU's Base Rate Order issued in October 2008, NJNG implemented certain rate design changes, including a change to its AFUDC calculation and a return on equity rate of 10.3 percent (see Note 2. Regulation). Effective October 3, 2008, NJNG is allowed to recover an incremental cost of equity component during periods when its short-term debt balances are lower than its construction work in progress. For the three months ended December 31, 2008, AFUDC only includes a debt component.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NJR, through its CR&R subsidiary, capitalizes interest associated with the development and construction of its commercial buildings. Interest is also capitalized associated with the acquisition, development and construction of a natural gas storage facility through NJR's equity investment in Steckman Ridge (see Note 5. Investments in Equity Investees and other).

Pursuant to a BPU order, NJNG is permitted to recover carrying costs on uncollected balances related to SBC program costs, which include NJCEP, RAC and USF expenditures. Accordingly, Other income included $563,000 and $738,000 of deferred interest related to these SBC program costs for period ended December 31, 2008 and 2007, respectively.

9. STOCK-BASED COMPENSATION

On November 11, 2008, the Company granted 106,730 restricted shares that vested immediately. On the same date the Company also granted 8,481 shares that vested immediately and were issued on November 17, 2008. As of December 31, 2008, 2,448,586 and 107,203 shares, respectively, remain available for future awards to employees and directors.

During the first three months of fiscal 2009, included in operation and maintenance expense is $711,000 related to stock-based compensation. As of December 31, 2008 there remains $1.9 million of deferred compensation related to unvested shares and options, which is expected to be recognized over the next 3 years.

10. EMPLOYEE BENEFIT PLANS

Pension and Other Postemployment Benefit Plans (OPEB)

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

	Pension Three Months Ended December 31,		OPEB Three Months Ended December 31,	
(Thousands)	2008	2007	2008	2007
Service cost	$ 678	$ 728	$ 584	$ 488
Interest cost	1,937	1,648	1,006	821
Expected return on plan assets	(2,188)	(2,183)	(647)	(583)
Recognized actuarial loss	139	275	319	262
Prior service cost amortization	14	14	20	20
Special termination benefit	—	—	89	89
Net periodic cost	$ 580	$ 482	$1,371	$1,097

For fiscal 2009, the Company has no minimum pension funding requirements, however, funding requirements are uncertain and can depend significantly on changes in actuarial assumptions, returns on plan assets and changes in demographic factors. It is anticipated that the annual funding level to the OPEB plans will range from $1.2 million to $1.4 million over the next five years. Additional contributions may be made based on market conditions and various assumptions.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. ASSET RETIREMENT OBLIGATIONS (ARO)

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

The following is an analysis of the change in the ARO liability for the period ended December 31, 2008:

(Thousands)	
Balance at October 1, 2008	$24,416
Accretion	371
Additions	—
Retirements	(19)
Balance at December 31, 2008	$24,768

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

12. INCOME TAXES

As of September 30, 2008 the Company had a FIN 48 (Reserve for Uncertain Tax Positions) balance of $6.5 million. During the first quarter of fiscal year 2009, the company settled a tax court case with the State of New Jersey, which resulted in a decrease to the reserve balance of $2.7 million.

Over the next twelve months the company expects to finalize the September 30, 2005 Internal Revenue Service (IRS) tax audit, which is expected to result in an additional reduction to the remaining FIN 48 balance of $3.8 million. The $3.8 million relates to one issue which has been settled favorably and will result in no changes to the company's tax liability related to the issue. As such the FIN 48 reserve is expected to be released during fiscal 2009.

Currently the company has no reason to believe that there will be any new additions to the FIN 48 reserve.

13. COMMITMENTS AND CONTINGENT LIABILITIES

Cash Commitments

NJNG has entered into long-term contracts, expiring at various dates through 2023, for the supply, storage and delivery of natural gas. These contracts include current annual fixed charges of approximately $87.6 million at current contract rates and volumes, which are recoverable through the BGSS.

For the purpose of securing adequate storage and pipeline capacity, NJRES enters into storage and pipeline capacity contracts, which require the payment of certain demand charges by NJRES, in order to maintain the ability to access such natural gas storage or pipeline capacity, during a fixed time period, which generally range from one to five years. Demand charges are based on established rates as regulated by the Federal Energy Regulatory Commission (FERC).

These demand charges represent commitments to pay storage providers or pipeline companies for the right to store and transport natural gas utilizing their respective assets. As of December 31, 2008, NJRES had contractual obligations for current annual demand charges related to storage contracts and pipeline capacity contracts of $27.3 million and $52.2 million, respectively.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2008, there were NJR guarantees covering approximately $421 million of natural gas purchases and demand fee commitments of NJRES and NJNG not yet reflected in Accounts payable on the Unaudited Condensed Consolidated Balance Sheet. Commitments as of December 31, 2008 for natural gas purchases and future demand fees, for the next five fiscal year periods, are as follows:

(Thousands)	2009	2010	2011	2012	2013	Thereafter
NJRES						
Natural gas purchases	$600,177	$109,213	$ —	$ —	$ —	$ —
Storage demand fees	27,266	18,136	12,735	9,791	2,235	1,913
Pipeline demand fees	52,242	31,792	15,743	6,265	5,298	4,940
Sub-total NJRES	$679,685	$159,141	$ 28,478	$16,056	$ 7,533	$ 6,853
NJNG						
Natural gas purchases	$ 76,054	$ 16,123	$ —	$ —	$ —	$ —
Storage demand fees	21,873	18,996	10,842	7,392	7,042	2,347
Pipeline demand fees	65,725	78,253	76,948	71,597	71,483	297,474
Sub-total NJNG	$163,652	$113,372	$ 87,790	$78,989	$78,525	$299,821
Total	$843,337	$272,513	$116,268	$95,045	$86,058	$306,674

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

	Three Months Ended December 31,	
(Thousands)	2008	2007
NJRES	$28.5	$27.6
NJNG	20.5	18.7
Total	$49.0	$46.3

NJNG’s capital expenditures are estimated at $77.3 million for fiscal 2009, of which approximately $18.4 million has been committed, and consists primarily of its construction program to support customer growth, maintenance of its distribution system, replacement needed under pipeline safety regulations and an automated meter reading installation project.

The Company’s future minimum lease payments under various operating leases are less than $3.2 million annually for the next five years and $1.6 million in the aggregate for all years thereafter.

Legal Proceedings

Manufactured Gas Plant Remediation

NJNG is responsible for the remedial cleanup of three 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.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 October 2007, the BPU approved $14.7 million in eligible costs to be recovered annually for MGP remediation expenditures incurred through June 30, 2006. In February 2008, NJNG filed an application regarding its SBC which included MGP remediation expenditures incurred through June 30, 2007, resulting in an expected annual recovery of $17.7 million. On January 27, 2009, NJNG filed an application regarding its SBC including MGP remediation expenditures incurred through June 30, 2008 resulting in an expected annual recovery of $20.7 million. As of December 31, 2008, $91.3 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in Regulatory assets on the Unaudited Condensed Consolidated Balance Sheet.

In September 2008, 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 three MGP sites for which it is responsible will range from approximately $120.2 million to $177.2 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 $120.2 million on the Unaudited Condensed Consolidated Balance Sheet. The actual costs to be incurred by NJNG are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay and any insurance recoveries.

NJNG will continue to seek recovery of MGP-related costs through the RAC. 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 RAC 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 Part II Item 1 of this Form 10-Q, the ultimate disposition of these matters will not have a material adverse effect on its financial condition, results of operations or cash flows.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. BUSINESS SEGMENT AND OTHER OPERATIONS DATA

Information related to the Company's various business segments and other operations, excluding capital expenditures, which are presented in the Unaudited Condensed Consolidated Statements of Cash Flows, is detailed below.

The Natural Gas Distribution segment consists of regulated energy and off-system, capacity and storage management operations. The Energy Services segment consists of unregulated wholesale energy operations. The Retail and Other operations consist of appliance and installation services, commercial real estate development, investments and other corporate activities.

	Three Months Ended December 31,	
(Thousands)	2008	2007
Operating Revenues		
Natural Gas Distribution	$ 340,908	$ 284,360
Energy Services	463,094	520,211
Segment Subtotal	804,002	