NEW JERSEY RESOURCES CORP

FORM 10-K
(Annual Report)

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Address	1415 WYCKOFF RD PO BOX 1468 WALL, NJ 07719
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Industry	Natural Gas Utilities
Sector	Utilities
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ 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

☐ 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: ☒ **No:** ☐

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: ☐ **No:** ☒

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

Yes: ☒ **No:** ☐

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

Yes: ☐ **No:** ☐

Indicate by check mark 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. ☒

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

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

Yes: ☐ **No:** ☒

The 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.

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;—Seasonality of Gas Revenues;—Gas Supply;—Regulation and Rates;—Competition"; "Energy Services"; "Retail and Other"; "Environment," 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.

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:

- 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.
- 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.
- 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.

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	

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

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.

ITEM 1. BUSINESS (Continued)

OTHER BUSINESS OPERATIONS

RETAIL AND OTHER

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

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

- 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;

- 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;

- 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;

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

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

- 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):

- Annual reports on Form 10-K;
- Quarterly reports on Form 10-Q; and
- 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:

- Corporate governance guidelines;
- Principal Executive Officer and Senior Financial Officers Code of Ethics;
- Wholesale Trading Code of Conduct;
- NJR Code of Conduct; and
- 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:

- economic weakness in the United States or in the regions where NJR operates;
- financial difficulties of unrelated energy companies;
- capital market conditions generally;
- market prices for natural gas;
- the overall health of the natural gas utility industry; and
- 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.

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	$ 6 50,648	$ 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

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
Commercial, Industrial and other	**4,777**	5,303	5,710	5,084	5,443
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.

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%

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:

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

- Working with the BPU and the Department of the Public Advocate, Division of Rate Counsel (Rate Counsel), on the implementation, 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;

- 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;

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

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.

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.

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

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

Actuarial Assumptions	Increase/ (Decrease)	Estimated Increase/ (Decrease) on PBO (Thousands)	Estimated 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

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

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:

- a 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;

- 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.

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

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;

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;

- 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

- 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.

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

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;

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

- an increase in total Utility gross margin of $3.1 million, as previously discussed;
- an increase in Depreciation expense of $2.1 million, as a result of greater utility plant being placed into service; partially offset by
- an increase in Operation and maintenance expenses of $1.0 million, as previously discussed; and
- 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.

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.

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:

- 31.5 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.

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.

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

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.

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:

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

Net income 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:

- 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;
- 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;
- 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:

- discretionary cash contributions of $27.7 million to NJR's postemployment benefit plans; and
- 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.

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:

- 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;

- 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;

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

- 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

- 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.

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:

(Thousands)	Balance September 30, 2008	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance September 30, 2009
NJNG	$ (49,610)	$ (69,710)	$ (111,247)	$ (8,073)
NJRES	89,571	99,866	161,511	27,926
NJR Energy	20,190	(20,986)	(4,151)	3,355
Total	$ 60,151	$ 9,170	$ 46,113	$ 23,208

There were no changes in methods of valuations during the year ended September 30, 2009.

The following is a summary of fair market value of financial derivatives related to natural gas purchases and sales at September 30, 2009, by method of valuation and by maturity for each fiscal year period:

(Thousands)	2010	2011	2012-2014	After 2014	Total Fair Value
Price based on NYMEX	$ 10,272	$ (2,755)	$ 68	—	$ 7,585
Price based on other external data	13,316	1,157	1,150	—	15,623
Total	$ 23,588	$ (1,598)	$ 1,218	—	$ 23,208

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

The following is a summary of financial derivatives by type as of September 30, 2009:

		Volume Bcf	Price per Mmbtu	Amounts included in Derivatives (Thousands)
NJNG	Futures	21.4	$4.61 - $9.19	$ (4,740)
	Swaps	(14.5)	$2.90 - $7.16	(5,860)
	Options	8.0	$4.50 - $9.50	2,527
NJRES	Futures	(19.8)	$2.47 - $10.35	11,492
	Swaps	(23.2)	$2.41 - $12.44	16,354
	Options	4.0	$1.75 - $4.25	80
NJR Energy	Swaps	2.6	$3.55 - $ 4.46	3,355
Total				$ 23,208

The following table reflects the changes in the fair market value of physical commodity contracts from September 30, 2008 to September 30, 2009:

(Thousands)	Balance September 30, 2008	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance September 30, 2009
NJRES - Prices based on other external data	$ 20,237	$ 8,160	$ 12,102	$ 16,295

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

The VaR at September 30, 2009, using the variance-covariance method with a 95 percent confidence level and a 1-day holding period, was $930,000. The VaR with a 99 percent confidence level and a 10-day holding period was $4.1 million. The calculated VaR represents an estimate of the potential change in the value of the net positions. These estimates may not be indicative of actual results because actual market fluctuations may differ from forecasted fluctuations.

Wholesale Credit Risk

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

The following is a summary of gross and net credit exposures, grouped by investment and noninvestment grade counterparties, as of September 30, 2009. Gross credit exposure is defined as the unrealized fair value of derivative and energy trading contracts plus any outstanding receivable for the value of natural gas delivered for which payment has not yet been received. Net credit exposure is defined as gross credit exposure reduced by collateral received from counterparties and/or payables, where netting agreements exist. The amounts presented below exclude accounts receivable for retail natural gas sales and services.

NJNG's counterparty credit exposure as of September 30, 2009, is as follows:

(Thousands)	Gross Credit Exposure	Net Credit Exposure
Investment grade	$ 19,543	$ 17,421
Noninvestment grade	373	—
Internally rated investment grade	64	62
Internally rated noninvestment grade	—	—
Total	$ 19,980	$ 17,483

All other counterparty credit exposure as of September 30, 2009, is as follows:

(Thousands)	Gross Credit Exposure	Net Credit Exposure
Investment grade	$ 75,791	$ 57,660
Noninvestment grade	8,833	3,733
Internally rated investment grade	13,717	6,146
Internally rated noninvestment grade	4,786	928
Total	$ 103,127	$ 68,467

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

Interest Rate Risk–Long-Term Debt

As of September 30, 2009, NJNG is obligated with respect to loan agreements securing six series of auction-rate bonds totaling approximately $97 million of variable-rate debt backed by securities issued by the Economic Development Authority (EDA). The EDA bonds are ARS and have an interest rate reset every 7 or 35 days, depending upon the applicable series, when an auction is held for the purposes of determining the interest rate pricing of the securities. The interest rate associated with the NJNG variable-rate debt is based on the rates the EDA receives from its ARS. As of September 30, 2009, all of the auctions surrounding the EDA ARS have failed, resulting in the securities bearing interest at their maximum rates, as defined in the ARS, as the lesser of (i) 175 percent of 30-day LIBOR or (ii) 10 to 12 percent per annum, as applicable to such series of ARS. While the failure of the ARS auctions has no default impact on NJNG's variable-rate debt, it does impact its borrowing costs of the variable-rate debt. As such, NJNG currently has a weighted average interest rate of 0.44 percent as of September 30, 2009. There can be no assurance that the EDA ARS will have enough market liquidity to avoid failed auctions in the future, which could potentially have an adverse impact on NJNG's borrowing costs if LIBOR rates increase. NJR is reviewing alternative methods for refinancing the ARS at NJNG on a continuing basis, however, it cannot assure that alternative sources of financing can be implemented in a timely manner.

At September 30, 2009, the Company (excluding NJNG) had no variable-rate long-term debt.

Effects of Inflation

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control over Financial Reporting

Management of New Jersey Resources Corporation (NJR or the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13A-15(f) and 15d-15(f) of the Securities and Exchange Act of 1934, as amended. The Company's internal control over financial reporting is a process designed to provide reasonable assurance to the Company's Management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- improvements in the design of internal control over financial reporting related to the accounting of commodity transacting, resulting in the implementation of new and expanded processes and controls; and

Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of September 30, 2009. In making this assessment, management used the criteria for effective internal control over financial reporting described in the "Internal Control-Integrated Framework" set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management concluded that, as of September 30, 2009, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the Unites States.

The conclusions of the Company's principal executive officer and principal financial officer is based on the recognition that there are inherent limitations in all systems of internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, errors or fraud. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued its report on the effectiveness of the Company's internal control over financial reporting as of September 30, 2009, which appears herein.

November 30, 2009

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
New Jersey Resources Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of New Jersey Resources Corporation and subsidiaries (the "Company") as of September 30, 2009 and 2008, and the related consolidated statements of income, common stock equity, comprehensive income, and cash flows for each of the three years in the period ended September 30, 2009. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 30, 2009, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 30, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Parsippany, New Jersey

November 30, 2009

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of New Jersey Resources Corporation

We have audited the internal control over financial reporting of New Jersey Resources Corporation and subsidiaries (the "Company") as of September 30, 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended September 30, 2009 of the Company and our report dated November 30, 2009 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP
Parsippany, New Jersey

November 30, 2009

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

CONSOLIDATED STATEMENTS OF INCOME

(Thousands)

Fiscal Years Ended September 30,	**2009**	2008	2007
OPERATING REVENUES	**$ 2,592,460**	$ 3,816,210	$ 3,021,765
OPERATING EXPENSES			
Gas purchases	**2,245,169**	3,330,756	2,625,560
Operation and maintenance	**149,151**	148,384	136,601
Regulatory rider expenses	**44,992**	39,666	37,605
Depreciation and amortization	**30,328**	38,464	36,235
Energy and other taxes	**74,750**	65,602	62,499
Total operating expenses	**2,544,390**	3,622,872	2,898,500
OPERATING INCOME	**48,070**	193,338	123,265
Other income	**4,409**	4,368	4,294
Interest expense, net of capitalized interest	**21,014**	25,811	27,613
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	**31,465**	171,895	99,946
Income tax provision	**8,488**	64,715	38,675
Equity in earnings of affiliates, net of tax	**4,265**	1,988	1,662
NET INCOME	**$ 27,242**	$ 109,168	$ 62,933
EARNINGS PER COMMON SHARE			
BASIC	**$ 0.65**	$ 2.61	$ 1.50
DILUTED	**$ 0.64**	$ 2.59	$ 1.49
DIVIDENDS PER COMMON SHARE	**$ 1.24**	$ 1.11	$ 1.01
WEIGHTED AVERAGE SHARES OUTSTANDING			
BASIC	**42,119**	41,878	41,855
DILUTED	**42,465**	42,176	42,113

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands)

Fiscal Years Ended September 30,	**2009**	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 27,242**	$ 109,168	$ 62,933
Adjustments to reconcile net income to cash flows from operating activities:			
Unrealized loss (gain) on derivative instruments	**64,465**	(12,929)	58,394
Depreciation and amortization	**31,142**	39,367	36,536
Impairment charge	**—**	—	4,000
Allowance for equity used during construction	**(568)**	—	—
Allowance for bad debt expense	**9,739**	4,530	3,348
Deferred income taxes	**(31,435)**	13,715	16,127
Manufactured gas plant remediation costs	**(12,867)**	(18,958)	(20,171)
Equity in earnings from investments, net of distributions	**2,924**	(52)	(556)
Cost of removal – asset retirement obligations	**(943)**	(969)	(880)
Contributions to postemployment benefit plans	**(27,676)**	(1,014)	(685)
Changes in:			
Components of working capital	**154,271**	(35,992)	(66,984)
Other noncurrent assets	**5,886**	(4,591)	23,707
Other noncurrent liabilities	**45,061**	40,093	6,637
Cash flows from operating activities	**267,241**	132,368	122,406
CASH FLOWS USED IN INVESTING ACTIVITIES			
Expenditures for			
Utility plant	**(75,107)**	(72,329)	(60,747)
Real estate properties and other	**(388)**	(1,117)	(2,777)
Cost of removal	**(6,139)**	(6,833)	(6,310)
Investments in equity investees	**(43,843)**	(23,662)	(54,978)
Release from restricted cash construction fund	**4,200**	—	4,300
Proceeds from asset sales and available for sale investments	**—**	—	1,792
Cash flows used in investing activities	**(121,277)**	(103,941)	(118,720)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock	**16,441**	16,028	18,515
Proceeds from long-term debt	**—**	125,000	49,850
Tax benefit from stock options exercised	**1,686**	630	1,761
Proceeds from sale-leaseback transaction	**6,268**	7,485	5,482
Payments of long-term debt	**(60,362)**	(5,565)	(4,031)
Purchases of treasury stock	**(30,670)**	(11,039)	(9,024)
Payments of common stock dividends	**(50,967)**	(45,201)	(41,869)
Net payments of short-term debt	**(34,800)**	(78,279)	(24,221)
Cash flows (used in) from financing activities	**(152,404)**	9,059	(3,537)
Change in cash and temporary investments	**(6,440)**	37,486	149
Cash and temporary investments at beginning of year	**42,626**	5,140	4,991
Cash and temporary investments at end of year	**$ 36,186**	$ 42,626	$ 5,140
CHANGES IN COMPONENTS OF WORKING CAPITAL			
Receivables	**$ 117,733**	$ (98,326)	$ 1,958
Inventories	**169,157**	(50,747)	54,301
Recovery of gas costs	**64,197**	(37,577)	7,873
Gas purchases payable	**(193,487)**	134,335	(96,618)
Prepaid and accrued taxes	**(8,047)**	767	(16,160)
Accounts payable and other	**(5,593)**	(1,117)	9,152
Restricted broker margin accounts	**(14,045)**	(15,003)	19,411
Customers' credit balances and deposits	**9,760**	36,195	(33,698)
Other current assets	**14,596**	(4,519)	(13,203)
Total	**$ 154,271**	$ (35,992)	$ (66,984)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION			
Cash paid for			
Interest (net of amounts capitalized)	**$ 18,866**	$ 25,877	$ 26,403

Income taxes	$	**34,298**	$	28,763	$	52,549

New Jersey Resources Corporation
Part II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

CONSOLIDATED BALANCE SHEETS

ASSETS

(Thousands) September 30,	**2009**	2008
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	**$ 1,438,945**	$ 1,366,237
Real estate properties and other, at cost	**30,195**	29,808
	1,469,140	1,396,045
Accumulated depreciation and amortization	**(404,701)**	(378,759)
Property, plant and equipment, net	**1,064,439**	1,017,286
CURRENT ASSETS		
Cash and temporary investments	**36,186**	42,626
Customer accounts receivable		
Billed	**101,945**	227,132
Unbilled revenues	**8,616**	9,417
Allowance for doubtful accounts	**(6,064)**	(4,580)
Regulatory assets	**5,878**	51,376
Gas in storage, at average cost	**297,464**	467,537
Materials and supplies, at average cost	**6,026**	5,110
Prepaid state taxes	**37,886**	37,271
Derivatives, at fair value	**131,070**	227,224
Restricted broker margin accounts	**26,250**	41,277
Deferred taxes	**20,801**	—
Other	**18,131**	15,181
Total current assets	**684,189**	1,119,571
NONCURRENT ASSETS		
Investments in equity investees	**160,508**	115,981
Regulatory assets	**391,025**	340,670
Derivatives, at fair value	**9,536**	24,497
Restricted cash construction fund	**—**	4,200
Other	**11,333**	13,092
Total noncurrent assets	**572,402**	498,440
Total assets	**$ 2,321,030**	$ 2,635,297

New Jersey Resources Corporation
Part II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

CAPITALIZATION AND LIABILITIES

(Thousands) September 30,	**2009**	2008
CAPITALIZATION		
Common stock equity	$ **689,726**	$ 728,068
Long-term debt	**455,492**	455,117
Total capitalization	**1,145,218**	1,183,185
CURRENT LIABILITIES		
Current maturities of long-term debt	**6,510**	60,119
Short-term debt	**143,400**	178,200
Gas purchases payable	**130,112**	323,600
Accounts payable and other	**44,448**	61,735
Dividends payable	**13,026**	11,776
Deferred and accrued taxes	**3,475**	24,720
Regulatory liabilities	**36,203**	—
New Jersey clean energy program	**10,920**	3,056
Derivatives, at fair value	**94,853**	146,320
Restricted broker margin accounts	—	29,072
Customers' credit balances and deposits	**73,218**	63,455
Total current liabilities	**556,165**	902,053
NONCURRENT LIABILITIES		
Deferred income taxes	**243,593**	240,414
Deferred investment tax credits	**6,870**	7,192
Deferred revenue	**8,203**	9,090
Derivatives, at fair value	**6,250**	25,016
Manufactured gas plant remediation	**146,700**	120,730
Postemployment employee benefit liability	**89,035**	52,272
Regulatory liabilities	**56,450**	63,419
New Jersey clean energy program	**28,449**	—
Asset retirement obligation	**25,097**	24,416
Other	**9,000**	7,510
Total noncurrent liabilities	**619,647**	550,059
Commitments and contingent liabilities (Note 13)		
Total capitalization and liabilities	**$ 2,321,030**	$ 2,635,297

New Jersey Resources Corporation
Part II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

CONSOLIDATED STATEMENTS OF CAPITALIZATION

(Thousands, except share amounts) September 30,			2009	2008
COMMON STOCK EQUITY				
Common stock, $2.50 par value; authorized 75,000,000 shares; outstanding 2009–43,762,475; 2008–43,439,329			**$ 109,386**	$ 108,599
Premium on common stock			**249,219**	237,001
Accumulated other comprehensive (loss), net of tax			**(10,052)**	(2,714)
Treasury stock at cost and other; shares 2009–2,176,724; 2008–1,381,735			**(84,598)**	(65,564)
Retained earnings			**425,771**	450,746
Total Common stock equity			**689,726**	728,068
LONG-TERM DEBT				
New Jersey Natural Gas				
First mortgage bonds:		Maturity date:		
6.27%	Series X	November 1, 2008	**—**	30,000
Variable	Series AA	August 1, 2030	**25,000**	25,000
Variable	Series BB	August 1, 2030	**16,000**	16,000
6.88%	Series CC	October 1, 2010	**20,000**	20,000
Variable	Series DD	September 1, 2027	**13,500**	13,500
Variable	Series EE	January 1, 2028	**9,545**	9,545
Variable	Series FF	January 1, 2028	**15,000**	15,000
Variable	Series GG	April 1, 2033	**18,000**	18,000
5%	Series HH	December 1, 2038	**12,000**	12,000
4.50%	Series II	August 1, 2023	**10,300**	10,300
4.60%	Series JJ	August 1, 2024	**10,500**	10,500
4.90%	Series KK	October 1, 2040	**15,000**	15,000
5.60%	Series LL	May 15, 2018	**125,000**	125,000
4.77% Unsecured senior notes		March 15, 2014	**60,000**	60,000
Capital lease obligation–Buildings		June 1, 2021	**25,620**	26,371
Capital lease obligation–Meters		Various dates	**35,546**	34,020
Capital lease obligation–Equipment		December 1, 2013	**991**	—
Less: Current maturities of long-term debt			**(6,510)**	(35,119)
Total New Jersey Natural Gas long-term debt			**405,492**	405,117
New Jersey Resources				
3.75% Unsecured senior notes		March 15, 2009	**—**	25,000
6.05% Unsecured senior notes		September 24, 2017	**50,000**	50,000
Less: Current maturities of long-term debt			**—**	(25,000)
Total New Jersey Resources long-term debt			**50,000**	50,000
Total Long-term debt			**455,492**	455,117
Total Capitalization			**$ 1,145,218**	$ 1,183,185

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

CONSOLIDATED STATEMENTS OF COMMON STOCK EQUITY

(Thousands)	Number of Shares	Common Stock	Premium on Common Stock	Accumulated Other Comprehensive (Loss) Income	Treasury Stock And Other	Retained Earnings	Total
Balance at September 30, 2006	41,438	$ 107,612	$ 218,300	$ 2,742	$ (65,039)	$ 366,247	$ 629,862
Net income						62,933	62,933
Other comprehensive income				491			491
Transition adjustment - postemployment benefit obligation, net of tax				(4,164)			(4,164)
Common stock issued under stock plans	684	611	6,510		11,408		18,529
Tax benefits from stock plans			1,761				1,761
Cash dividend declared						(42,446)	(42,446)
Treasury stock and other	(510)				(16,317)		(16,317)
Balance at September 30, 2007	41,612	108,223	226,571	(931)	(69,948)	386,734	650,649
Net income						109,168	109,168
Other comprehensive (loss)				(1,783)			(1,783)
Common stock issued under stock plans	555	376	9,800		6,212		16,388
Tax benefits from stock plans			630				630
Transition adjustment - uncertain tax positions						1,188	1,188
Cash dividend declared						(46,344)	(46,344)
Treasury stock and other	(109)				(1,828)		(1,828)
Balance at September 30, 2008	42,058	108,599	237,001	(2,714)	(65,564)	450,746	728,068
Net income						**27,242**	**27,242**
Other comprehensive (loss)				**(7,338)**			**(7,338)**
Common stock issued under stock plans	**636**	**787**	**10,532**		**9,096**		**20,415**
Tax benefits from stock plans			**1,686**				**1,686**
Cash dividend declared						**(52,217)**	**(52,217)**
Treasury stock and other	**(1,108)**				**(28,130)**		**(28,130)**
Balance at September 30, 2009	**41,586**	**$ 109,386**	**$ 249,219**	**$ (10,052)**	**$ (84,598)**	**$ 425,771**	**$ 689,726**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands) **Year ended September 30,**	**2009**	2008	2007

Net income	**$**	**27,242**	$	109,168	$	62,933
Unrealized gain on available for sale securities, net of tax of $37, $(82) and $(456), respectively [(1)]		**(52)**		118		634
Net unrealized (loss) on derivatives, net of tax of $74, $81 and $98, respectively		**(105)**		(122)		(143)
Adjustment to postemployment benefit obligation, net of tax of $4,856 and $1,213, respectively		**(7,181)**		(1,779)		—
Other comprehensive (loss) income		**(7,338)**		(1,783)		491
Comprehensive income	**$**	**19,904**	$	107,385	$	63,424

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business

New Jersey Resources Corporation (NJR or the Company) has two principal subsidiaries and operates two reportable business segments. New Jersey Natural Gas (NJNG), the Company's principal utility subsidiary, is a public utility that provides natural gas utility service to approximately 487,000 retail customers in central and northern New Jersey and comprises the Natural Gas Distribution segment. NJNG is subject to rate regulation by the New Jersey Board of Public Utilities (BPU).

NJR Energy Services (NJRES) is the Company's principal non-utility subsidiary that maintains and trades a portfolio of natural gas storage and transportation positions and provides wholesale energy and energy management services to customers from states in the Gulf Coast and Mid-Continent regions to the New England region, the West Coast and Canada. NJRES comprises the Energy Services segment.

Other subsidiaries of the Company, all of which comprise the Company's retail and other operations (Retail and Other), include NJR Energy Holdings, which 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, L.P. (Iroquois), a 412-mile interstate natural gas pipeline which connects from the northern New York border with Canada to Long Island, NY; NJR Storage Holdings, which holds the Company's 50 percent interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a natural gas storage facility that is being developed with a partner in western Pennsylvania; NJR Energy, which 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.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Other financial investments or contractual interests that lack the characteristics of a voting interest entity, which are commonly referred to as variable interest entities, are evaluated by NJR to determine if it can absorb a majority of expected losses or returns and, therefore, would be considered a controlling financial interest that would NJR would have to consolidate. Based on those evaluations, NJR has determined that it does not have any investments in variable interest entities as of September 30, 2009.

Regulatory Assets & Liabilities

Under cost-based regulation, regulated utility enterprises generally are permitted to recover their operating expenses and earn a reasonable return on their utility investment.

NJNG maintains its accounts in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts as prescribed by the BPU and in accordance with the *Regulated Operations* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As a result of the impact of the ratemaking process and regulatory actions of the BPU, NJNG is required to recognize the economic effects of rate regulation. Accordingly, NJNG capitalizes or defers certain costs that are expected to be recovered from its customers as regulatory assets and recognizes certain obligations representing probable future expenditures as regulatory liabilities in the Consolidated Balance Sheets. See Note 2. *Regulations,* for a more detailed description of NJNG's regulatory assets and liabilities.

Gas in Storage

Gas in storage is reflected at average cost in the Consolidated Balance Sheets, and represents natural gas and liquefied natural gas that will be utilized in the ordinary course of business.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

The following table summarizes Gas in storage by company as of September 30,

	2009		2008	
($ in thousands)	**Assets**	**Bcf**	Assets	Bcf
NJNG	**$ 175,201**	**21.9**	$ 189,828	22.1
NJRES	**122,263**	**36.3**	277,709	28.9
Total	**$ 297,464**	**58.2**	$ 467,537	51.0

Demand Fees

For the purpose of securing adequate storage and pipeline capacity, NJRES and NJNG enter into storage and pipeline capacity contracts, which require the payment of certain demand charges in order to maintain the ability to access such natural gas storage or pipeline capacity, during a fixed time period, which generally ranges from one to five years. Demand charges are based on established rates as regulated by 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. The following table summarizes the demand charges, which are expensed ratably over the term of the contract and, are included as a component of Gas purchases in the Consolidated Statements of Income:

(Millions)	**2009**	2008	2007
NJRES	**$ 114.2**	$ 115.9	$ 134.1
NJNG	**83.2**	73.9	73.9
Total	**$ 197.4**	$ 189.8	$ 208.0

NJNG recovers its costs associated with demand fees as part of its wholesale gas commodity component of its Basic Gas Supply Service (BGSS), a component of its tariff.

Derivative Instruments

NJR accounts for its financial instruments, such as futures, options and swaps, as well as its physical commodity contracts related to the purchase and sale of natural gas at NJRES, as derivatives, and, therefore, recognizes them at fair value in the Consolidated Balance Sheets. NJR's unregulated subsidiaries record changes in the fair value of its derivatives in Gas purchases or Operating revenues, as appropriate, on the Consolidated Statements of Income. The *Derivatives and Hedging* Topic of the ASC also provides for an exception ("normal scope exception") for qualifying physical commodity contracts that are intended for purchases and sales during the normal course of business and for which physical delivery is probable. NJR applies this exception to physical commodity contracts at NJNG and NJR Energy and, therefore, does not record changes in the fair value of these contracts until the contract settles and the underlying natural gas is delivered. NJNG's derivatives used to economically hedge its natural gas purchasing activities are recoverable through its BGSS, a component of its tariff. 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.

See *Note 3. Derivative Instruments* for additional details regarding natural gas trading and hedging activities.

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

Fair values of exchange-traded instruments, including futures, swaps and certain options, are based on actively quoted market prices. Fair values are subject to change in the near term and reflect management's best estimate based on various factors. In establishing the fair value of commodity contracts that do not have quoted prices, such as physical contracts, and over-the-counter options and swaps, and certain embedded derivatives, management uses available market data and pricing models to estimate fair values. Estimating fair values of instruments that do not have quoted market prices requires management's judgment in determining amounts which could reasonably be expected to be received from, or paid to, a third party in settlement of the instruments. These amounts could be materially different from amounts that might be realized in an actual sale transaction.

Revenues

Revenues from the sale of natural gas to customers of NJNG are recognized in the period that gas is delivered and consumed by customers, including an estimate for unbilled revenue.

Unbilled revenues are associated solely with NJNG. Natural gas sales to individual customers are based on their meter readings, which are performed on a systematic basis throughout the month. At the end of each month, the amount of natural gas delivered to each customer after the last meter reading is estimated, and NJNG recognizes unbilled revenues related to these amounts. The unbilled revenue estimates are based on monthly send-out amounts, estimated customer usage by customer type, weather effects, unaccounted-for gas and the most recent rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

Certain derivative instruments at NJRES and NJR Energy (encompassing financial futures, options or swaps) are designed to economically hedge the cash flows of a forecasted transaction. These derivative instruments and commodity contracts at NJRES are recorded at fair value on the Consolidated Balance Sheets, and any change in fair value is included as a component of Gas purchases or Operating revenues, as appropriate, on the Consolidated Statements of Income.

NJNG has elected and continues to elect the normal scope exception related to its off-system sales of natural gas and consequently recognizes the revenue at settlement of the contract for delivery of natural gas. Derivative instruments at NJNG are recorded at fair value on the Consolidated Balance Sheets with corresponding changes in fair value also being recorded on the Consolidated Balance Sheets as regulatory assets or liabilities.

Revenues from all other activities are recorded in the period during which products or services are delivered and accepted by customers, or over the related contractual term.

Gas Purchases

NJNG's tariff includes a component for BGSS, which is designed to allow NJNG to recover the commodity cost of natural gas through rates charged to its customers and is normally revised on an annual basis. As part of computing its BGSS rate, NJNG projects its cost of natural gas, net of supplier refunds, the impact of hedging activities and credits from nonfirm sales and transportation activities, and recovers or refunds the difference, if any, of such projected costs compared with those included in rates through levelized monthly charges to customers. Any underrecoveries or overrecoveries are deferred and, subject to BPU approval, reflected in the BGSS in subsequent years.

NJRES' gas purchases represent the total commodity contract cost, recognized upon completion of the transaction, as well as realized gains and losses of settled derivative instruments, both for physical purchase contracts and all financial contracts and unrealized gains and losses on the change in fair value of financial derivative instruments that have not yet settled.

Income Taxes

The Company computes income taxes using the liability method, whereby deferred income taxes are generally determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. See *Note 12. Income Taxes.*

In addition, NJR evaluates its tax positions to determine the appropriate accounting and recognition of future obligations associated with unrecognized tax benefits.

Investment tax credits have been deferred and are being amortized as a reduction to the tax provision over the average lives of the related properties.

Capitalized and Deferred Interest

The Company's capitalized interest totaled $3.2 million in fiscal 2009, $4.6 million in fiscal 2008 and $3.2 million in fiscal 2007 with average interest rates of 4.8 percent, 4.7 percent and 5.4 percent, respectively. Included in the Consolidated Balance Sheets are capitalized amounts associated with the debt and equity components of NJNG's Allowance for funds used during construction, (AFUDC), which are recorded in Utility plant, as well as capitalized interest recorded in Real estate properties and other and Investments in equity investees. Corresponding amounts recognized in Interest expense and Other income, as appropriate, in the Consolidated Statements of Income are as follows:

	September 30,		
($ in thousands)	**2009**	2008	2007
AFUDC – Utility plant	**$ 1,316**	$ 1,129	$ 1,259
Weighted average interest rates	**4.33%**	4.80%	5.36%
Capitalized interest – Real estate properties and other	**—**	$ 79	$ 263
Weighted average interest rates	**—**	3.70%	5.45
Capitalized interest – Investments in equity investees	**$ 1,909**	$ 3,355	$ 1,687
Weighted average interest rates	**5.27%**	5.70%	5.41

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

The AFUDC amounts shown in the table for fiscal years ended September 30, 2008 and 2007, include an interest cost component only. Effective October 3, 2008, NJNG settled its base rate case and the BPU issued its final Rate Order. As a result, certain changes in the design of NJNG's base rates included the ability for NJNG to recover an incremental cost of equity component in its AFUDC calculation during periods when its short-term debt balances are lower than its construction work in progress. The AFUDC noted above for fiscal 2009 includes these allowed amounts in accordance with the provisions of the Rate Order. Capitalized amounts associated with NJNG's equity component, of $568,000 are included in Other income in the Consolidated Statements of Income. See *Note 2. Regulation* .

NJR, through its subsidiary CR&R, capitalizes interest associated with the development and construction of its commercial buildings. Also included above is capitalized interest associated with NJR's Investment in equity investees, specifically the acquisition, development and construction of the Steckman Ridge natural gas storage facility, which became partially operational in fiscal 2009 and is expected to be fully operational in fiscal 2010 (see *Note 5. Investments in Equity Investees).*

Pursuant to a BPU order, NJNG is permitted to recover carrying costs on uncollected balances related to Societal Benefits Clause (SBC) program costs, which include NJCEP, RA and USF expenditures. See *Note 2. Regulation* . Accordingly, Other income included $2 million, $2.6 million and $3 million of deferred interest related to these SBC program costs in fiscal 2009, 2008 and 2007, respectively.

Sales Tax Accounting

Sales tax and Transitional Energy Facilities Assessment (TEFA) are collected from customers and presented in both operating revenues and operating expenses on the Consolidated Statements of Income as follows:

			September 30,			
(Millions)		**2009**		2008		2007
Sales Tax	**$**	**58.7**	$	51.0	$	48.7
TEFA		**8.9**		8.4		8.5
Total	**$**	**67.6**	$	59.4	$	57.2

Statements of Cash Flows

For purposes of reporting cash flows, all temporary investments with original maturities of three months or less are considered cash equivalents.

Utility Plant and Depreciation

Regulated property, plant and equipment are stated at original cost. Costs include direct labor, materials and third-party construction contractor costs, AFUDC and certain indirect costs related to equipment and employees engaged in construction. Upon retirement, the cost of depreciable regulated property, plus removal costs less salvage, is charged to accumulated depreciation with no gain or loss recorded.

Depreciation is computed on a straight-line basis for financial statement purposes, using rates based on the estimated average lives of the various classes of depreciable property. The composite rate of depreciation was 2.34 percent of average depreciable property in fiscal 2009, 3.04 percent in fiscal 2008 and 3.02 percent in fiscal 2007. Pursuant to the final rate order October 3, 2008, commencing in fiscal 2009, the BPU has lowered the depreciation expense to be charged in base rates to 2.34 percent for NJNG. *Note 2. Regulation –Base Rate Order*.

Property, plant and equipment was comprised of the following as of September 30, 2009 and 2008:

Property Classifications	**Estimated Useful Lives**		**2009**		2008
Distribution Facilities	38 to 74 years	**$**	**1,157,585**	$	1,099,896
Transmission Facilities	35 to 56 years		**181,908**		176,346
Storage Facilities	34 to 47 years		**40,969**		34,818
All other property	5 to 35 years		**88,678**		84,985
			1,469,140		1,396,045
Accumulated depreciation and amortization			**(404,701)**		(378,759)
Net Property, plant and equipment		**$**	**1,064,439**	$	1,017,286

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

Impairment of Long-Lived Assets

The Company reviews the carrying amount of an asset for possible impairment whenever events or changes in circumstances indicate that such amount may not be recoverable.

For the fiscal years ended September 30, 2009, 2008 and 2007, no other circumstances indicating impairment were identified.

Available for Sale Securities

Included in Investments in equity investees on the Consolidated Balance Sheets are certain investments in equity securities that have a fair value of $7.9 million and $8.0 million as of September 30, 2009 and 2008, respectively. Unrealized (losses) gains associated with these equity securities, which are included as a part of Accumulated other comprehensive income, a component of Common stock equity, were approximately $(89,000) ($(52,000), after tax) and $200,000 ($118,000, after tax) for the fiscal years ended September 30, 2009 and 2008, respectively.

Equity in Earnings

The Company accounts for its investments in Iroquois and Steckman Ridge using the equity method and records its share of earnings net of tax as Equity in earnings in the Consolidated Statements of Income. Iroquois is a limited partnership, which owns and operates a 412-mile interstate natural gas transmission pipeline providing service to local gas distribution companies, electric utilities and electric power generators, as well as marketers and other end-users, directly or indirectly, by connecting with pipelines and interconnects throughout the northeastern United States. 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. Steckman Ridge is 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. Taxes netted in Equity in earnings from Steckman Ridge were $1.1 million for fiscal 2009.

Common Stock Equity

NJR issued additional shares in March 2008, in the form of a 3 for 2 stock split. Share-related information has been adjusted on a retroactive basis throughout this report in periods prior to March 31, 2008. As well, Common stock and Premium on common stock amounts have been adjusted as of the earliest period presented in the Consolidated Statements of Capitalization and Consolidated Statements of Common Stock Equity.

Accumulated Other Comprehensive Income

As of September 30, 2009 and 2008, Accumulated other comprehensive (loss) was comprised of the following balances, net of tax:

(Thousands)	**2009**	2008
Unrealized gain on available for sale securities	**$ 2,948**	$ 3,000
Net unrealized gain on derivatives	**124**	229
Postemployment benefit obligation adjustment	**(13,124)**	(5,943)
Total current	**$ (10,052)**	$ (2,714)

Customer Accounts Receivable

Customer accounts receivable include outstanding billings from the following subsidiaries as of September 30:

($ in thousands)	**2009**		2008	
Customer accounts receivable - Billed:				
NJNG	**$ 21,239**	**21%**	$ 21,398	9%
NJRES	**73,451**	**72**	198,902	88
Retail and Other	**7,255**	**7**	6,832	3
Total	**$ 101,945**	**100%**	$ 227,132	100%

Asset Retirement Obligations (ARO)

NJR recognizes a liability for its AROs based on the fair value of the liability when incurred, which is generally upon acquisition, construction, development and/or through the normal operation of the asset. Concurrently, NJR also capitalizes an asset retirement cost by increasing the carrying amount of the related asset by the same amount as the liability. In periods subsequent to the initial measurement, NJR is required to recognize changes in the liability resulting from the passage of time (accretion) or due to revisions to either timing or the amount of the originally estimated cash flows to settle the conditional asset retirement obligation.

Pension and Postemployment Plans

NJR has two noncontributory defined pension plans covering substantially all employees, including officers. Benefits are based on each employee's years of service and compensation. NJR's funding policy is to contribute annually to these plans at least the minimum amount required under the Employee Retirement Income Security Act (ERISA) of 1974, as amended, and not more than can be deducted for federal income tax purposes. Plan assets consist of equity securities, fixed-income securities and short-term investments. NJR contributed $25.6 million in aggregate to the plans in fiscal 2009. An additional contribution of $4.4 million was made on October 1, 2009. There were no contributions to the pension plans in fiscal 2008 and 2007.

NJR also provides two primarily noncontributory medical and life insurance plans for eligible retirees and dependents. Medical benefits, which make up the largest component of the plans, are based upon an age and years-of-service vesting schedule and other plan provisions. Funding of these benefits is made primarily into Voluntary Employee Beneficiary Association trust funds. NJR contributed $1.9 million, $1.0 million and $685,000 in aggregate to these plans in fiscal 2009, 2008 and 2007, respectively.

Foreign Currency Transactions

NJRES' market area includes Canadian delivery points and as a result it incurs certain natural gas commodity costs and demand fees that are denominated in Canadian dollars. Gains or losses that occur as a result of these foreign currency transactions are reported as a component of Gas purchases in the Consolidated Statements of Income and were not material during the fiscal years ended September 30, 2009, 2008 and 2007.

Accounting Standards

On July 1, 2009, the FASB ASC became effective as the single source of authoritative U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. The ASC restructured GAAP from a standards based model to a topical based model. All previously issued accounting and reporting standards, with limited exceptions, are superseded and now organized within approximately 90 accounting and reporting topics. Under the ASC, new standards will be issued in the form of Accounting Standards Updates (ASU).

ASC Topic 105, *Generally Accepted Accounting Principles*, clarifies that the GAAP hierarchy will include only two levels of GAAP: authoritative and nonauthoritative. The ASC became effective for financial statements issued for interim and annual periods after September 15, 2009. There was no impact to NJR's financial statements upon adoption, however, NJR has modified certain disclosures surrounding GAAP guidance throughout this report to reflect the appropriate references in accordance with the ASC.

Recently Issued Standards and Updates:

Topic 320, *Investments—Debt and Equity Securities:*

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2 *Recognition and Presentation of Other-Than-Temporary Impairments (ASC 320-10-65-1)* . The FSP improves presentation and disclosures in financial statements for other-than-temporary impairments of debt and equity securities and expands on the factors companies should consider when evaluating debt securities for other-than-temporary impairments. The change is effective for interim and annual reporting periods ending after June 15, 2009. There was no impact to NJR's statement of financial position or results of operations or cash flows as a result of NJR's adoption of the FSP.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

Topic 715, *Compensation—Retirement Benefits:*

On December 30, 2008, the FASB issued FSP 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets (ASC 715-20-65-2),* which requires additional disclosures surrounding postretirement benefit plan assets. Specifically, the objective is to provide users of financial statements information related to a company's plan assets, investment policies and strategies and significant concentrations of risk. In addition, certain disclosure provisions will be applied, including those related to inputs and valuation techniques that are used to measure plan assets and the effect of level three measurements on changes in plan assets. The revision is effective for fiscal years ending after December 15, 2009. As it is a disclosure only standard, it will have no impact on the Company's statement of financial position or results of operations or cash flows.

Topic 810, *Consolidation:*

On December 4, 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements . (ASC 810-10-65-1)* , 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. The revision 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. The revision 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 or results of operations or cash flows.

Topic 815*, Derivatives and Hedging:*

On April 10, 2007, the FASB issued FASB Staff Position (FSP) No. FIN 39-1 (FSP FIN 39-1), *Offsetting of Amounts Related to Certain Contracts — an interpretation of APB Opinion No. 10 and FASB Statement No. 105 (ASC 815-10-45),* providing 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. The standard 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, this revision had no impact on its statement of financial position or results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities (ASC 815-10-65-1)* , The revision 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. NJR adopted the standard effective January 1, 2009. As the provisions only require additional disclosures, there was no impact to NJR's statement of financial position or results of operations or cash flows upon adoption. See *Note 3. Derivative Instruments* for a description of NJR's derivative activities, including the additional disclosures required by ASC 815.

Topic 820, *Fair Value Measurements and Disclosures:*

Effective October 1, 2008 NJR adopted SFAS No. 157, *Fair Value Measurements (ASC 820)* for its financial assets and liabilities, with the exception of its pension assets. On October, 1, 2009, NJR will prospectively apply the provisions of ASC 820 to its non-financial assets and liabilities that are not measured at least annually. In addition, the provisions of ASC 820 will be applied to NJR's annual pension disclosures in accordance with ASC No. 715, *Compensation—Retirement Benefits* (formerly FSP 132(R)-1), beginning in fiscal 2010.

ASC 820 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 ASC 820 did not have a material impact on NJR's financial position or results of operations. See *Note 4. Fair Value* , for more information on the adoption of ASC 820, as well as the required disclosures.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (ASC 815-10-65-4)* . The revision provides additional guidance for estimating fair value in accordance with ASC 820 when the volume and level of activity for the asset or liability have significantly decreased. In addition, it includes guidance on identifying circumstances that indicate a transaction is not orderly. The standard became effective for interim and annual reporting periods ending after June 15, 2009. There was no impact to NJR's statement of financial position or results of operations or cash flows as a result of the adoption.

In August 2009, the FASB issued ASU 2009-05. The update provides additional guidance for measuring the fair value of liabilities and clarifies that the quoted price for the identical liability, when traded as an asset in an active market, is a Level 1 measurement, providing there are no adjustments to the quoted price. Alternatively, when no quoted price is available, the ASU affirms the use of other valuation techniques outlined in ASC 820. ASU 2009-05 is effective for the first interim or annual reporting period beginning after the ASU's issuance. NJR does not anticipate any impact to its statement of financial position or results of operations or cash flows upon adoption on October 1, 2009.

Topic 825, *Financial Instruments:*

On April 9, 2009, the FASB issued FSP No. FAS 107-1/APB 28-1, *Interim Disclosures about Fair Values of Financial Instruments* , which amends SFAS 107, *Disclosures about Fair Values of Financial Instruments (ASC 825-10-65-1)* , and requires that companies also disclose the fair value of financial instruments during interim reporting similar to those that are currently provided annually. NJR adopted the revision effective June 30, 2009. As it is a disclosure only standard, it had no impact on the Company's statement of financial position or results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (ASC 825), which 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 either elect 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 that the company chooses to apply the fair value option to, are reported in earnings at each reporting date. The standard 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. The standard became effective for NJR as of October 1, 2008; however, since the Company did not elect the fair value option for any items, there was no impact its statement of financial position or results of operations or cash flows.

Topic 855, *Subsequent Events:*

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events (ASC 855)* , which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, companies are required to disclose the date through which it has evaluated subsequent events. NJR adopted the provisions effective June 30, 2009. There was no impact to NJR's statement of financial position or results of operations or cash flows as a result of the adoption.

The following standard has not yet been incorporated in the ASC:

In June 2009, the FASB issued SFAS No. 167 (SFAS 167), Amendments to FASB Interpretation No. 46 (R) (FIN 46(R)), which will eliminate the quantitative assessments currently in practice under FIN 46 (R), and instead will require qualitative assessments to determine whether a company has a controlling financial interest in a variable interest entity (VIE) and, therefore, would be deemed the primary beneficiary, resulting in consolidation of the VIE's operating results. In addition, SFAS 167 requires ongoing reassessments, rather than limiting the reassessments to when certain triggering events occur, and additional disclosures that are intended to provide information on a company's involvement with VIE's. SFAS 167 is effective at the beginning of a company's annual reporting period that begins after November 15, 2009, including interim reporting periods within the first annual reporting period, and thereafter. The Company will adopt the provisions of the statement prospectively during its first quarter of fiscal 2011 and is evaluating the effect on its financial position and results of operations.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires NJR to make estimates that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingencies during the reporting period. On a monthly basis, NJR evaluates its estimates, including those related to the calculation of the fair value of derivative instruments, unbilled revenues, allowance for doubtful accounts, provisions for depreciation and amortization, regulatory assets and liabilities, income taxes, pensions and other postemployment benefits, contingencies related to environmental matters and litigation and asset retirement obligations, which are evaluated on an annual basis. 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

NJR has legal, regulatory and environmental proceedings during the normal course of business which can result in loss contingencies. When evaluating the potential for a loss, NJR will establish a reserve if a loss is probable and can be estimated, in which case it is NJR's policy to accrue the full amount of such estimate. Where the information is sufficient only to establish a range of probable liability, and no point within the range is more likely than any other, it is NJR's policy to accrue the lower end of the range.

In the normal course of business, estimated amounts are subsequently adjusted to actual results that may differ from estimates.

Subsequent Events

The Company evaluates subsequent events through the date it issues its financial statements. Accordingly, for the period ended September 30, 2009, events occurring between September 30, 2009 and November 30, 2009, the date the financial statements have been issued, have been reviewed to determine appropriate recognition and disclosures. See *Note 2. Regulation,* and *Note 10. Employee Benefit Plans* for subsequent events disclosures.

Immaterial Restatement of Prior Years Consolidated Financial Statements

NJRES enters into park and loan transactions whereby it borrows natural gas from a counterparty with an obligation to return the gas at a future date. In the fourth quarter of fiscal 2009, management discovered an error in the accounting for gas in storage, purchase obligations, embedded derivatives and gas demand fees associated with these transactions. NJR had been incorrectly pricing its inventory and had not been recognizing the fair value of the embedded derivative. Specifically, NJR had been using a forward price to value the inventory and gas purchases liability. Both the natural gas that was received and the "park and loan" liability should have been initially valued at the spot market price on the date NJRES received the gas. In addition, NJRES should have been accounting for the obligation to return the gas as an embedded derivative, which should have been fair valued ("marked to market") at each subsequent balance sheet reporting date until the gas was returned to the counterparty. As well, the initial spread between the spot price of the natural gas on the date of the transaction and the forward price, based on the date NJRES would return the borrowed gas inventory, should have been recognized into income on a ratable basis over the term of the park and loan agreement. In addition, demand fees related to these transactions were not , but should have been recognized ratably over the term of the contract.

The Company made a quantitative and qualitative assessment of the impact of the error to its consolidated financial statements and concluded that the resulting misstatements were not material to the fiscal years ended September 30, 2009, September 30, 2008 and September 30, 2007 or to the consolidated balance sheet as of September 30, 2008. However, because the error did have material effects on the interim quarterly periods within the fiscal years ended September 30, 2009 and 2008, the Company has amended each of its fiscal 2009 Interim Quarterly Reports on Form 10-Q to restate all of the interim period financial statements contained therein. Accordingly, in order to maintain consistency with the treatment afforded the interim periods, the Company has restated its prior annual consolidated financial statements contained herein. The following tables set forth the effects of the error on affected line items within the Company's prior years financial statements:

CONSOLIDATED STATEMENTS OF INCOME

	For the year ended September 30,					
	2008			2007		
(Thousands)	**As Previously Reported**	**Adjustment**	**As Restated**	**As Previously Reported**	**Adjustment**	**As Restated**
Gas purchases	$ 3,322,644	$ 8,112	$ 3,330,756	$ 2,621,575	$ 3,985	$ 2,625,560
Total operating expenses	$ 3,614,760	$ 8,112	$ 3,622,872	$ 2,894,515	$ 3,985	$ 2,898,500
Operating Income	$ 201,450	$ (8,112)	$ 193,338	$ 127,250	$ (3,985)	$ 123,265
Income before income taxes and equity in earnings of affiliates	$ 180,007	$ (8,112)	$ 171,895	$ 103,931	$ (3,985)	$ 99,946
Income tax provision	$ 68,085	$ (3,370)	$ 64,715	$ 40,312	$ (1,637)	$ 38,675
Net Income	$ 113,910	$ (4,742)	$ 109,168	$ 65,281	$ (2,348)	$ 62,933
Basic earnings per share	$ 2.72	$ (0.11)	$ 2.61	$ 1.56	$ (0.06)	$ 1.50
Diluted earnings per share	$ 2.70	$ (0.11)	$ 2.59	$ 1.55	$ (0.06)	$ 1.49

New Jersey Resources Corporation
Part II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended September 30,					
	2008			2007		
(Thousands)	**As Previously Reported**	**Adjustment**	**As Restated**	**As Previously Reported**	**Adjustment**	**As Restated**
Net Income	$ 113,910	$ (4,742)	$ 109,168	$ 65,281	$ (2,348)	$ 62,933
Unrealized loss (gain) on derivatives	$ 3,683	$ (16,612)	$ (12,929)	$ 22,910	$ 35,484	$ 58,394
Deferred income taxes	$ 17,085	$ (3,370)	$ 13,715	$ 17,762	$ (1,635)	$ 16,127
Components of working capital	$ (56,186)	$ 20,194	$ (35,992)	$ (32,135)	$ (34,849)	$ (66,984)
Inventories	$ (39,458)	$ (11,289)	$ (50,747)	$ 68,727	$ (14,426)	$ 54,301
Gas purchases payable	$ 97,180	$ 37,155	$ 134,335	$ (79,543)	$ (17,075)	$ (96,618)
Other current assets	$ (3,377)	$ (1,142)	$ (4,519)	$ (13,203)	—	$ (13,203)
Total working capital	$ (56,186)	$ 20,194	$ (35,992)	$ (32,135)	$ (34,849)	$ (66,984)

CONSOLIDATED BALANCE SHEETS

ASSETS

	For the year ended September 30,		
	2008		
(Thousands)	**As Previously Reported**	**Adjustment**	**As Restated**
Gas in storage, at average cost	$ 478,549	$ (11,012)	$ 467,537
Derivatives (current), at fair value	$ 208,703	$ 18,521	$ 227,224
Other (current)	$ 12,785	$ 2,396	$ 15,181
Total current assets	$ 1,109,666	$ 9,905	$ 1,119,571
Total assets	$ 2,625,392	$ 9,905	$ 2,635,297

CAPITALIZATION AND LIABILITIES

	For the year ended September 30,		
	2008		
(Thousands)	**As Previously Reported**	**Adjustment**	**As Restated**
Common stock equity	$ 726,958	$ 1,110	$ 728,068
Total capitalization	$ 1,182,075	$ 1,110	$ 1,183,185
Gas purchases payable	$ 315,516	$ 8,084	$ 323,600
Total current liabilities	$ 893,969	$ 8,084	$ 902,053
Deferred income taxes	$ 239,703	$ 711	$ 240,414
Total noncurrent liabilities	$ 549,348	$ 711	$ 550,059
Total capitalization and liabilities	$ 2,625,392	$ 9,905	$ 2,635,297

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

CONSOLIDATED STATEMENTS OF CAPITALIZATION

	For the year ended September 30, 2008		
(Thousands)	**As Previously Reported**	**Adjustment**	**As Restated**
Retained earnings	$ 449,636	$ 1,110	$ 450,746
Total Common stock equity	$ 726,958	$ 1,110	$ 728,068
Total Capitalization	$ 1,182,075	$ 1,110	$ 1,183,185

CONSOLIDATED STATEMENTS OF COMMON STOCK EQUITY

	Retained Earnings			Total		
(Thousands)	**As Previously Reported**	**Adjustment**	**As Restated**	**As Previously Reported**	**Adjustment**	**As Restated**
Balance at September 30, 2006	$ 358,047	$ 8,200	$ 366,247	$ 621,662	$ 8,200	$ 629,862
Net income	$ 65,281	$ (2,348)	$ 62,933	$ 65,281	$ (2,348)	$ 62,933
Balance at September 30, 2007	$ 380,882	$ 5,852	$ 386,734	$ 644,797	$ 5,852	$ 650,649
Net income	$ 113,910	$ (4,742)	$ 109,168	$ 113,910	$ (4,742)	$ 109,168
Balance at September 30, 2008	$ 449,636	$ 1,110	$ 450,746	$ 726,958	$ 1,110	$ 728,068

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended September 30,					
	2008			2007		
(Thousands)	**As Previously Reported**	**Adjustment**	**As Restated**	**As Previously Reported**	**Adjustment**	**As Restated**
Net Income	$ 113,910	$ (4,742)	$ 109,168	$ 65,281	$ (2,348)	$ 62,933
Comprehensive income	$ 113,906	$ (6,521)	$ 107,385	$ 65,772	$ (2,348)	$ 63,424

2. REGULATION

Energy Deregulation Legislation

The Electric Discount and Energy Competition Act (EDECA) is the legal framework for New Jersey's public utility and wholesale energy landscape. NJNG is required, pursuant to a written order by the BPU under EDECA, to have its residential markets open to competition from third-party natural gas suppliers. Customers can choose the supplier of their natural gas commodity in NJNG's service territory.

As required by EDECA, NJNG has restructured its prices to segregate BGSS rates into two primary components, the commodity portion, which represents the wholesale cost of natural gas, including the cost for interstate pipeline capacity to bring the gas to NJNG's service territory, and the delivery portion, which represents the transportation of the commodity portion through NJNG's gas distribution system to the end-use customer. 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, regardless of whether it or a third-party supplier provides the wholesale natural gas commodity.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

Under EDECA, the BPU is required to audit the state's energy utilities every two years. The primary purpose of the audit is to ensure that utilities and their affiliates offering unregulated retail services do not have any unfair competitive advantage over nonaffiliated providers of similar retail services. A combined competitive services and management audit of NJNG commenced in November 2006, and a final report on findings and recommendations was approved by the BPU on January 28, 2009. The BPU's management audit order requires that the implementation of all recommendations be completed within two years of the date of the order.

Base Rate Order

As a result of increases in NJNG's operation, maintenance and capital costs, on November 20, 2007, NJNG petitioned the 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 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 was designed to decouple the link between customer usage and NJNG's utility gross margin to allow NJNG to encourage its customers to conserve energy. In addition to permitting NJNG to recover utility gross margin variations related to customer usage in comparison to established benchmarks, the CIP similarly serves as a tracking mechanism that allows NJNG to mitigate the impact of weather on its gross margin. As a result, the Weather Normalization Clause (WNC) that was previously in effect as a weather recovery mechanism has been suspended pending the continuation of the CIP. As of September 30, 2009, NJNG has a remaining WNC balance of approximately $78,000. In NJNG's 2010 Basic Gas Supply Service (BGSS)/CIP filing, NJNG included a request to reduce the WNC rate to facilitate recovery of the balance in fiscal 2010.

The CIP's initial term was October 1, 2006, through September 30, 2009. The BPU did not issue an order relative to the continuation of the CIP by October 1, 2009 and in accordance with the BPU order approving the CIP initially, the CIP will continue for up to one additional year or until the issuance of a BPU Order. 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 BGSS-related savings.

As of September 30, 2009, under the CIP, NJNG has $5.8 million accrued to recover from residential and small commercial customers, which includes $1.4 million related to the weather component of the CIP and $4.4 million related to the usage component of the CIP.

The following are NJNG's BPU filings and results related to CIP since the inception of the program:

- June 2007 – NJNG filed its CIP Petition for the Annual Review of its CIP Program for recoverable CIP amounts for fiscal 2007 and to establish its CIP recovery rates effective October 1, 2007.

- August 2007 – NJNG filed an amendment to its June 2007 CIP filing to update financial information to include actual data.

- October 2007 – the BPU provisionally approved the implementation of NJNG's initial CIP recovery rates, based upon program information NJNG included in an Amendment to its Petition for Annual Review, which was filed with the BPU in August 2007. The approved rates add 1.7 percent to the average residential heating customer's bill and were designed to recover approximately $15.6 million of previously accrued amounts.

- May 2008 – NJNG filed its CIP Petition for the Annual Review of its CIP Program for recoverable CIP amounts for fiscal 2008, requesting an additional $6.8 million, and to modify its CIP recovery rates effective October 1, 2008.

- August 1, 2008 – the BPU issued their final order in approving the CIP petition for fiscal 2007.

- October 3, 2008 – the BPU provisionally approved NJNG's CIP petition filed in May 2008 requesting an additional $6.8 million for amounts accrued and estimated through September 30, 2008, effective the date of the Board Order.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

- 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 a result of no action taken by the BPU as of September 30, 2009, the CIP will remain in effect for an additional year or until a final order is issued by the BPU.

- In June 2009, the BPU issued their final order approving NJNG's recovery of $6.8 million of CIP rates for fiscal 2008. In addition, NJNG filed its annual BGSS and CIP filing for recoverable CIP amounts for fiscal 2009, requesting approval to modify its CIP recovery rates effective October 1, 2009, resulting in total annual recovery requested for fiscal 2009 of $6.9 million, representing amounts accrued and estimated through September 30, 2009. The rate adjustment for fiscal 2009 was provisionally approved by the BPU in the amount of $6.9 million on September 16, 2009.

In conjunction with the CIP, NJNG incurs costs related to its obligation to fund programs that promote customer conservation efforts during the pilot program. As of September 30, 2009, NJNG had a remaining liability of $248,000 related to these programs.

BGSS

NJNG is allowed to recover the commodity cost of its gas purchased for sale to its customers through the BGSS rate component of its customers' bills. NJNG is required to make an annual filing by June 1 of each year for review of its BGSS rate with the BPU. At that time NJNG may also request a potential rate change to be effective at the beginning of the following fiscal year. NJNG is allowed to make two interim filings during the fiscal year period to subsequently increase residential and small commercial customer BGSS rates up to 5 percent on a self-implementing and provisional basis, after proper notice and BPU action on the June filing. Such increases, if any, are subject to subsequent BPU review and final approval.

The cost of the wholesale natural gas commodity passed through to customers can fluctuate significantly based on many factors associated with supply and demand in the marketplace. In addition to the annual and interim filings to adjust BGSS rates, NJNG is permitted to refund or credit back a portion of the commodity cost previously collected from customers when the natural gas commodity cost decreases in comparison to amounts projected or adjusted as a component of the BGSS rates. Before implementing a refund or credit, proper notification and supporting documentation is filed with the BPU. Refundable amounts may also be subject to interest.

The following are NJNG's BGSS filings during fiscal 2008 and 2009 related to its requested rate adjustments and refunds to its residential and small commercial customers:

- October 2007 – the BPU provisionally approved a decrease to NJNG's BGSS rate effective October 4, 2007, which resulted in a 3.6 percent decrease to the average residential heating customer bill which was subsequently approved on a final basis in August 2008.

- November 2007 – NJNG notified the BPU that it would provide refunds to customers and subsequently issued a credit totaling $32.0 million in December 2007 as a result of the decrease in the anticipated costs of wholesale natural gas prices.

- March 2008 – NJNG, the BPU staff and 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 on May 9, 2008, and resulted in NJNG recording a nonrecurring settlement charge to its BGSS costs of $300,000.

- 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 time of 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, the BPU approved the BGSS increase on a provisional basis, effective the date of the Board Order.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

- June 2009 – NJNG filed its annual BGSS and CIP filing (2010 BGSS/CIP filing) proposing a decrease of 17.6 percent for the average residential heating customer of which 15.7 percent is due to 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, as discussed above, and a minor reduction to the rate related to collecting the remaining balance under the Weather Normalization Clause. On September 16, 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 is due to the reduction to the BGSS price and the balance of rate change is related to the CIP and WNC rates as discussed above.

- Effective in the first billing period of October 2009, NJNG provided refunds of approximately $37.4 million to residential and small commercial customers due to the decline in the wholesale price of natural gas.

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 approved an extension of the utility gross margin-sharing programs mentioned above through October 31, 2008. Concurrently, 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. The July 30, 2008, agreement between NJNG and the Rate Counsel (Revenue Requirement stipulation) provides for the extension of the incentive programs through October 31, 2011, along with a moderate expansion of the storage incentive and FRM programs.

On October 3, 2008, the BPU approved the Revenue Requirement stipulation, which extends the incentive programs through October 31, 2011, and provides for an increase to the FRM program's annual cost limitation from $3.2 million to $6.4 million, an annual update to the FRM volume limitations and an increase to the annual Storage Incentive program volumes from 18 Bcf to 20 Bcf, effective the date of the Board Order.

Societal Benefits Clause (SBC)

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). The USF is a permanent statewide program that was approved by the BPU in March 2003 for all natural gas and electric utilities for the benefit of income-eligible customers; the RA is a rider approved by the BPU in June 1992 that provides for recovery of actual expenditures incurred to remediate former gas manufacturing facilities; and the NJCEP is a program approved by the BPU in March 2001 and is designed to promote energy efficiency and renewable energy. Recovery of SBC program costs is subject to BPU approval based on annual filings that include an updated report of expenditures incurred each year.

On January 27, 2009, NJNG filed an application (January 2009 SBC filing) regarding its SBC to increase its RA factor and its NJCEP factor while maintaining its effective rate on USF. This filing, if approved, will result in an overall increase of approximately 0.48 percent per month for an average residential bill. 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 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 deferred income taxes, with the rate changing on a monthly basis. NJNG believes the increase has a negligible impact on customers.

In June 2009, the natural gas utilities in the State of New Jersey collectively filed with the BPU to decrease the statewide USF recovery rate effective October 1, 2009. The USF, as filed, will decrease the average monthly bill of a residential heating customer by 0.6 percent. On October 7, 2009, the BPU approved the USF decrease, effective October 11, 2009.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

MGP

During fiscal 2007, NJNG signed a stipulation with the BPU and Rate Counsel, which resulted in the disallowance of certain costs that had previously been deferred as recoverable pursuant to a regulatory rider associated with the remediation of a former manufactured gas plant site. The pre-tax charge of $4 million is reflected as a component of Operations and maintenance expense in the Consolidated Statements of Income.

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 June 2009, the BPU approved the February 2008 SBC filing, which included recovery of MGP remediation expenditures incurred through June 30, 2007, resulting in an expected total annual recovery of $17.7 million. The January 2009 SBC filing included MGP remediation expenditures incurred through June 30, 2008, resulting in an expected total annual recovery of $20.7 million.

NJCEP

The BPU has established a statewide program to promote energy efficiency and renewable energy. All New Jersey utilities are required to share in the funding for the program, which is recoverable from customers through the SBC.

In October 2008, the BPU released a final Order, updating state utilities' funding obligations for the period from January 1, 2009, to December 31, 2012. NJNG's share of the total statewide funding requirement of $1.2 billion is $50.8 million, which is recoverable through the SBC. NJNG's annual funding amounts gradually increase from $10.3 million in fiscal 2009 to $15.9 million in fiscal 2012. Accordingly, NJNG recorded the initial obligation and a corresponding regulatory asset at a present value of $44.3 in the Consolidated Balance Sheets. As of September 30, 2009, NJNG had a $39.4 million obligation remaining.

The January 2009 SBC filing included an increase to the NJCEP factor. The proposed factor is expected to recover $12.9 million annually.

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. The Accelerated Infrastructure Program (AIP) was approved on April 16, 2009, and allows NJNG to expedite $70.8 million of 14 previously planned infrastructure projects, maintaining safe and reliable service to NJNG's customers while creating the opportunity for approximately 75 to 100 new jobs. Approved as a 2-year program, the AIP will be funded through an annual adjustment to customers' base rates with the first adjustment expected in October 2010. The second filing, for an Energy Efficiency (EE) Program and associated cost recovery mechanism, requested BPU approval to implement various programs to encourage energy efficiency for residential and commercial customers. NJNG proposed to recover the EE Program costs over a 4-year period through a clause mechanism similar to the SBC, for $21.1 million, if fully subscribed. A true-up to actual EE program investments and costs is to be filed with the BPU on an annual basis. The BPU approved the NJNG EE Program on July 17, 2009. Both the AIP and EE Programs include the recovery of NJNG's overall weighted average cost of capital on these investments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

Regulatory Assets & Liabilities

At September 30, 2009 and 2008, the Company had the following regulatory assets, all related to NJNG, on the Consolidated Balance Sheets:

(Thousands)	**2009**	2008	Recovery
Regulatory assets–current			
Underrecovered gas costs	**$ —**	$ 27,994	*(1)*
WNC	**78**	919	*(2)*
CIP	**5,800**	22,463	*(3)*
Total current	**$ 5,878**	$ 51,376	
Regulatory assets–noncurrent			
Remediation costs (Note 14)			
Expended, net of recoveries	**$ 85,461**	$ 92,164	*(4)*
Liability for future expenditures	**146,700**	120,730	*(5)*
CIP	**—**	2,397	*(3)*
Deferred income and other taxes	**11,560**	12,726	*(6)*
Derivatives (Note 3)	**8,073**	49,610	*(1)*
Energy Efficiency Program	**1,174**	—	*(7)*
New Jersey Clean Energy Program	**39,369**	3,056	*(7)*
Pipeline Integrity Management	**448**	—	*(8)*
Postemployment benefit costs (Note 10)	**94,305**	52,519	*(9)*
SBC	**3,935**	7,468	*(7)*
Total noncurrent	**$ 391,025**	$ 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 is being recorded since October 1, 2006 due to the existence of the CIP.
(3) Recoverable or refundable, subject to BPU annual approval, without interest.
(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 without interest, subject to BPU approval.
(7) Recoverable with interest, subject to BPU approval.
(8) Recoverable, subject to BPU review and approval in the next base rate case. NJNG is limited annually to recording a regulatory asset that does not exceed $700,000. In addition, to the extent that project costs are lower than the approved the PIM annual expense of $1.4 million, NJNG will record a regulatory liability that will be refundable as a credit to customer's gas costs when the net cumulative liability exceeds $1.0 million.
(9) Recoverable or refundable, subject to BPU approval, without interest. Includes unrecognized service costs recorded, that NJNG has determined are recoverable in rates charged to customers (see *Note 10. Employee Benefit Plans).*

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.

At September 30, 2009 and 2008, the Company had the following regulatory liabilities, all related to NJNG, on the Consolidated Balance Sheets:

(Thousands)	**2009**	2008
Regulatory liability–current		
Overrecovered gas costs *(1)*	**$ 36,203**	—
Total current	**$ 36,203**	—
Regulatory liabilities–noncurrent		
Cost of removal obligation *(2)*	**$ 56,450**	$ 63,419
Total-noncurrent	**$ 56,450**	$ 63,419

(1) Refundable, subject to BPU approval, through BGSS, with interest.
(2) NJNG accrues and collects for cost of removal in rates. This liability represents collections in excess of actual expenditures. Approximately $22.4 million, including accretion of $1.5 million for the fiscal year ended September 30, 2009, of regulatory assets relating to asset retirement obligations have been netted against the cost of removal obligation as of September 30, 2009 (see *Note 11. Asset Retirement Obligations).*

3. DERIVATIVE INSTRUMENTS

NJR accounts for its derivatives in accordance with the *Derivatives and Hedging* topic *(ASC 815)* of the ASC. In addition, as described in *Note 1, Summary of Significant Accounting Policies,* NJR adopted the recently issued provisions of ASC 815-10-50 (originally issued as SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities*), which require enhanced disclosures surrounding the use of and accounting for derivative instruments, as well as the impact to a company's financial statements. The additional quantitative and qualitative disclosures are included throughout this note.

The Company and its subsidiaries are subject to commodity price risk due to fluctuations in the market price of natural gas. To manage this risk, the Company and its subsidiaries enter into a variety of derivative instruments including, but not limited to, futures contracts, physical forward contracts, financial options, and swaps to economically hedge the commodity price risk associated with its existing and anticipated commitments to purchase and sell natural gas. These contracts, with a few exceptions as described below, are accounted for as derivatives. Accordingly, all of the financial and certain of the Company's physical derivative instruments are recorded at fair value in the Consolidated Balance Sheets. Since the Company chooses not to designate its derivatives as accounting hedges, changes in the fair value of the derivative instruments are concurrently recorded as a component of Gas purchases or Operating revenues, as appropriate for NJRES and NJR Energy, in the Consolidated Statements of Income as unrealized gains or losses. At settlement, realized gains and losses on derivative instruments are also recognized in these same line items. Physically settled sales are included in Operating revenues, and physically settled gas purchases and all net settled derivatives (including financial derivative instruments) are included in Gas purchases.

Changes in fair value of NJNG's derivative instruments, however, are recorded as a component of Regulatory assets or liabilities as per ASC 980 in the Consolidated Balance Sheets, as NJNG has received regulatory approval to recover these amounts through future BGSS rates as an increase or decrease to the cost of natural gas in NJNG's tariff. For a more detailed discussion of the Company's fair value measurement policies and level disclosures associated with NJR's derivative instruments, please see *Note 4. Fair Value.*

ASC 815 includes a "normal" election that can be applied to physical commodity contracts that otherwise meet the definition of a derivative when certain conditions are met, including the probability of physical delivery of the underlying commodity in the normal course of business. If elected, the scope exception allows companies to defer recognition of the related assets acquired and liabilities incurred until settlement of the contract and delivery of the natural gas. During fiscal 2007 and 2008, NJR employed normal accounting treatment for certain of its physical forward contracts at NJRES. Due to changes in the Company's ability to assert physical delivery, effective October 1, 2008, the Company chose to no longer apply normal treatment to physical commodity contracts. Therefore, as of October 1, 2008, all NJRES physical commodity contracts that meet the definition of a derivative are accounted for at fair value in the Consolidated Balance Sheets, with changes in fair value included in earnings as noted above.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

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

The following table reflects the fair value of NJR's derivative assets and liabilities recognized in the Consolidated Balance Sheets as of September 30, 2009:

		Fair Value	
(Thousands)	Balance Sheet Location	Asset Derivatives	Liability Derivatives
Derivatives not designated as hedging instruments under ASC 815:			
NJNG:			
Financial derivative commodity contracts	Derivatives - Current	$ 15,801	$ 24,274
	Derivatives - Noncurrent	1,077	677
NJRES:			
Physical forward commodity contracts	Derivatives - Current	22,674	10,044
	Derivatives - Noncurrent	3,878	214
Financial derivative commodity contracts	Derivatives - Current	89,140	60,054
	Derivatives - Noncurrent	4,157	5,316
NJR Energy:			
Financial derivative commodity contracts	Derivatives - Current	3,455	481
	Derivatives - Noncurrent	424	43
Total fair value of derivatives		**$ 140,606**	**$ 101,103**

* Table includes gross derivative values not adjusted for taxes.

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

Gains (losses) recognized at NJRES and NJR Energy as a component of Operating revenues and Gas purchases since NJR's implementation of provisions in ASC 815-10-50 effective January 1, 2009 are as follows:

(Thousands)	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
Derivatives not designated as hedging instruments under ASC 815:		Three Months Ended September 30, 2009	Nine Months Ended
NJRES:			
Physical commodity contracts	Operating revenues	$ (7,578)	$ 8,762
Physical commodity contracts	Gas purchases	22,518	20,907
Financial derivatives	Gas purchases	(385)	33,529
Subtotal NJRES		**14,555**	**63,198**
NJR Energy:			
Financial derivatives	Operating revenues	49	(9,899)
Total NJRES and NJR Energy unrealized and realized gains		**$ 14,604**	**$ 53,299**

Not included in the table above are gains (losses) associated with NJNG's financial derivatives, that totaled $2.4 million and $(32.8) million for the three and nine months ended September 30, 2009, respectively. These derivatives are part of its regulated risk management activities that serve to mitigate BGSS costs passed on to its customers. As these transactions are entered into pursuant to and recoverable through regulatory riders, any changes in the value of NJNG's financial derivatives are deferred in Regulatory Assets or Liabilities in accordance with ASC 980 and there is no impact to earnings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

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

		Volume (Bcf)
NJNG	Futures	21.4
	Swaps	(14.5)
	Options	8.0
NJRES	Futures	(19.8)
	Swaps	(23.2)
	Options	4.0
	Physical	58.6
NJR Energy	Swaps	2.6

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 as of September 30, by company are as follows:

(Thousands)	**2009**	2008
NJNG broker margin deposit	**$ 16,458**	$ 41,277
NJRES broker margin deposit (liability)	**$ 9,792**	$ (29,072)

Wholesale Credit Risk

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

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

The following is a summary of gross credit exposures grouped by investment and noninvestment grade counterparties, as of September 30, 2009. Internally-rated exposure applies to counterparties that are not rated by Standard & Poor's (S&P) or Moody's Investors Service, Inc. (Moody's). In these cases, the company's or guarantor's financial statements are reviewed, and similar methodologies and ratios used by S&P and/or Moody's are applied to arrive at a substitute rating. Gross credit exposure is defined as the unrealized fair value of physical and financial derivative commodity contracts plus any outstanding receivable for the value of natural gas delivered for which payment has not yet been received. The amounts presented below have not been reduced by any collateral received or netting and exclude accounts receivable for retail natural gas sales and services.

(Thousands)	**Gross Credit Exposure**
Investment grade	**$ 95,334**
Noninvestment grade	**9,206**
Internally rated investment grade	**13,781**
Internally rated noninvestment grade	**4,786**
Total	**$ 123,107**

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

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

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

4. FAIR VALUE

Fair Value of Assets and Liabilities

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

	September 30,	
(Thousands)	**2009**	2008
Carrying value	**$ 399,800**	$ 399,800
Fair market value	**$ 415,700**	$ 351,400

Adoption of ASC 820, Fair Value Measurements

As noted in *Note 1. Summary of Significant Accounting Policies,* NJR adopted ASC 820 effective October 1, 2008 and has applied the provisions to its financial assets and liabilities, as appropriate, which include financial derivatives and physical commodity contracts qualifying as derivatives, available for sale securities and other financial assets and liabilities. ASC 820 defines and establishes a framework for measuring fair value and 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.

ASC 820 prescribes disclosures that are intended to convey the reliability of price inputs used to determine fair value and 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 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

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

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

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

The adoption of ASC 820 did not have a material impact on NJR's financial condition or results of operations. Assets and liabilities measured at fair value on a recurring basis as of September 30, 2009, 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	$ —	$ 26,552	$ —	$ 26,552
Financial derivative contracts	81,215	32,839	—	114,054
Available for sale securities *(1)*	7,872	—	—	7,872
Other assets	1,467	—	—	1,467
Total assets at fair value	**$ 90,554**	**$ 59,391**	$ —	**$ 149,945**
Liabilities:				
Physical forward commodity contracts	$ —	$ 10,258	$ —	$ 10,258
Financial derivative contracts	68,443	22,402	—	90,845
Other liabilities	1,467	—	—	1,467
Total liabilities at fair value	**$ 69,910**	**$ 32,660**	**$ —**	**$ 102,570**

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

A reconciliation of the beginning and ending balances of NJRES' derivatives measured at fair value based on significant unobservable inputs as of September 30, 2009, is as follows:

(Thousands)	**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**
Beginning balance	$ 937
Total gains realized and unrealized	320
Purchases, sales, issuances and settlements, net	(774)
Net transfers in and/or out of level 3	(483)
Ending balance	$ —
Net unrealized gains included in net loss relating to derivatives still held at September 30, 2009	$ —

NJR will prospectively apply the measurement and disclosure provisions of ASC 820 to its non-financial assets and liabilities, which includes NJNG's asset retirement obligations, during the first quarter of fiscal 2010. Based on NJR's current valuation methodologies, it does not anticipate a material impact upon application of ASC 820 to the fair value measurement of NJNG's asset retirement obligations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

5. INVESTMENTS IN EQUITY INVESTEES

NJR's Investments in equity investees as of September 30, 2009 and 2008, respectively, include the following investments:

(Thousands)		**2009**		2008
Steckman Ridge	**$**	**131,555**	$	84,285
Iroquois		**21,081**		23,604
Other		**7,872**		8,092
Total	**$**	**160,508**	$	115,981

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

NJR's investment in Steckman Ridge increased $47.3 million in fiscal 2009, including cash investments of $42.7 million, equity in earnings of $2.3 million and capitalized costs and interest of $2.3 million. Steckman Ridge became commercially operational during the third quarter of fiscal 2009 with approximately two-thirds of eventual capacity available for customer injections.

Included in the investment in Steckman Ridge are loans including accrued interest from NJR in the amount of $74.6 million as of September 30, 2009. NJR, as part of its funding commitment, entered into a loan agreement with Steckman Ridge on October 15, 2007, whereby NJR is committed to fund up to a total $82.5 million in loans. The principal balance of the loans are due December 31, 2017 and can be prepaid at the option of Steckman Ridge. The principal amount of the loans accrue interest at a rate of LIBOR plus 0.95%, which resets quarterly.

The decrease in NJR's investment in Iroquois was due primarily to cash distributions received from the partnership of $7.2 million during fiscal 2009, offset by equity in earnings of $4.5 million.

Other consists of an investment in equity securities of a publicly traded energy company and is accounted for as available for sale securities, with any change in the value of such investment recorded in Accumulated other comprehensive income, a component of Common stock equity. Unrealized (losses) gains associated with these equity securities were approximately $(52,000), net of tax of $37,000, and $118,000, net of tax of $(82,000), for the years ended September 30, 2009 and 2008, respectively.

The following tables set forth the financial information for Iroquois for the fiscal years ended September 30:

(Millions)		**2009**		2008		2007
Operating revenues	**$**	**195.2**	$	165.9	$	160.4
Operating income	**$**	**111.7**	$	87.6	$	78.5
Net income	**$**	**49.8**	$	37.1	$	29.7

(Millions)		**2009**		2008
Current assets	**$**	**92.0**	$	64.2
Noncurrent assets	**$**	**769.3**	$	729.2
Current liabilities	**$**	**240.5**	$	39.3
Noncurrent liabilities	**$**	**264.6**	$	348.9

6. EARNINGS PER SHARE

The following table presents the calculation of the Company's basic and diluted earnings per share for the fiscal years ended September 30:

(Thousands, except per share amounts)		**2009**		2008		2007
Net Income, as reported	**$**	**27,242**	$	109,168	$	62,933
Basic earnings per share						
Weighted average shares of common stock outstanding–basic		**42,119**		41,878		41,855
Basic earnings per common share	**$**	**0.65**	$	2.61	$	1.50
Diluted earnings per share						
Weighted average shares of common stock outstanding–basic		**42,119**		41,878		41,855
Incremental shares *(1)*		**346**		298		258
Weighted average shares of common stock outstanding–diluted		**42,465**		42,176		42,113
Diluted earnings per common share *(2)*	**$**	**0.64**	$	2.59	$	1.49

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

(2) *There were no anti-dilutive shares excluded from the calculation of diluted earnings per share for fiscal 2009, fiscal 2008 and fiscal 2007.*

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

7. LONG-TERM DEBT, DIVIDENDS AND RETAINED EARNINGS RESTRICTIONS

Annual long-term debt, excluding capital leases and redemption requirements are as follows (in millions):

September 30,	Redemption
2010	—
2011	$ 20.0
2012	—
2013	—
2014	$ 60.0
Thereafter	$ 319.8

NJNG First Mortgage Bonds

NJNG's mortgage secures its First Mortgage Bonds and represents a lien on substantially all of its property, including natural gas supply contracts. Certain indentures supplemental to the mortgage include restrictions as to cash dividends and other distributions on NJNG's common stock that apply as long as certain series of First Mortgage Bonds are outstanding. Under the most restrictive provision, approximately $233 million of NJNG's retained earnings were available for such purposes at September 30, 2009.

NJNG enters into loan agreements with the New Jersey Economic Development Authority (the EDA) under which the EDA issues tax-exempt bonds, and the proceeds are loaned to NJNG to fund capital expenditures for certain portions of its natural gas service territory. To secure its loans from the EDA, NJNG issues First Mortgage Bonds to the EDA with interest rates and maturity dates identical to those of the EDA Bonds.

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 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 2009 and drew down the remaining $4.2 million in December 2008.

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 interest rate of the securities. The interest rate associated with the NJNG variable-rate debt is based on the rates on the 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, 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. As such, NJNG currently has a weighted average interest rate of 0.44 percent as of September 30, 2009, compared with a weighted average interest rate of 4.6 percent as of September 30, 2008. 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. 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.

NJNG Medium Term Notes

In May 2008, NJNG issued $125 million of 5.6 percent senior notes due May 15, 2018 (Notes) 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 fund capital expenditure requirements.

NJNG Sale-Leasebacks

NJNG's master lease agreement for its headquarters building has a 25.5-year term with two 5-year renewal options. The present value of the agreement's minimum lease payments is reflected as both a capital lease asset and a capital lease obligation, which are included in Utility plant and Long-term debt, respectively, on the Consolidated Balance Sheets. In accordance with its ratemaking treatment, NJNG records rent expense as if the lease was an operating lease.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

NJNG received $6.3 million, $7.5 million and $5.5 million for fiscal year 2009, 2008 and 2007, respectively, in connection with the sale-leaseback of a portion of its natural gas meters. This sale-leaseback program is expected to be continued on an annual basis.

Contractual commitments for lease payments, under both sale-leasebacks for the meters and the building, as of the fiscal year end are as follows (in millions):

Fiscal Year Ended September 30,	Lease Payments
2010	$ 9.9
2011	13.7
2012	7.8
2013	8.2
2014	7.2
Thereafter	36.6
Subtotal	83.4
Less: interest component	(21.2)
Total	$ 62.2

NJR Debt

NJR had no long-term variable-rate debt outstanding at September 30, 2009 and 2008.

In September 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.

8. SHORT-TERM DEBT AND CREDIT FACILITIES

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

	September 30,	
(Thousands)	**2009**	2008
NJR [(1)]		
Bank credit facilities [(1)]	**$ 325,000**	$ 325,000
Amount outstanding at end of period		
Notes payable to banks	**$ 143,400**	$ 32,700
Weighted average interest rate at end of period		
Notes payable to banks	**0.57%**	2.46%
NJNG		
Bank credit facilities [(1)]	**$ 250,000**	$ 250,000
Amount outstanding at end of period		
Commercial paper	**—**	$ 145,500
Weighted average interest rate at end of period		
Commercial paper	**—**	2.31%
NJRES		
Bank credit facilities [(2)]	**$ 30,000**	$ 30,000
Amount outstanding at end of period		
Notes payable to banks	**—**	—
Weighted average interest rate at end of period		
Notes payable to banks	**—**	—%

(1) *Company is subject to commitment fees on outstanding and unused amounts.*
(2) Facility expired in October 2009 and was not renewed.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

NJR

In December 2007, NJR refinanced its prior senior credit facility for 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 bank's discretion. Borrowings under the new facility are conditioned 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.

In February 2008, NJR entered into a new 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 September 30, 2009.

As of September 30, 2009, NJR had one letter of credit outstanding, totaling $12 million, on behalf of NJRES which is used for margin requirements for natural gas transactions and will expire on December 31, 2009.

NJR also has a $675,000 letter of credit outstanding on behalf of CR&R, which will expire on December 3, 2009. The letter of credit is in place to support development activities.

These letters of credit reduce the amount available under NJR's committed credit facility by the same amount. NJR does not anticipate that these letters of credit will be drawn upon by the counterparties, and they will be renewed as necessary.

NJNG

In October 2007, NJNG entered into a new agreement for standby letters of credit that may be drawn upon through December 15, 2009, for up to $50 million. No amounts have been drawn under these letters of credit as of September 30, 2009. These letters of credit do not reduce the amount available to be borrowed under NJNG's credit facility. NJNG does not anticipate that these letters of credit will be drawn upon by the counterparty, and the agreement will be renewed, as necessary, upon its expiration.

As of September 30, 2009, NJNG has a $250 million committed facility with several banks, with a 5-year term expiring in December 2009. Borrowings under this facility are conditioned upon compliance with a maximum leverage ratio of 0.65 to 1 and interest coverage ratio of 2.50 to 1.00 This facility is used to support NJNG's commercial paper program. NJNG had nothing outstanding under this facility as of September 30, 2009. NJNG currently plans to replace this facility with a new $200 million 3-year revolving unsecured committed credit facility.

On August 24, 2009, NJNG, filed a petition in Docket No. GF09080702 with the New Jersey Board of Public Utilities , 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.

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

NJRES

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

9. STOCK BASED COMPENSATION

In January 2007, the NJR 2007 Stock Award and Incentive Plan (2007 Plan) replaced the 2002 Employee and Outside Director Long-Term Incentive Plan (Long-Term Plan). Shares can be issued in the form of options, performance shares or restricted stock. As of September 30, 2009, 2,308,905 and 94,762 shares, remain available for future issuance to employees and directors, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

In fiscal 2009, included in Operation and maintenance expense is $3.1 million related to stock-based compensation compared with $3.2 million and $1.3 million in fiscal 2008 and 2007, respectively. As of September 30, 2009, there remains $1.4 million of deferred compensation related to unvested shares and options, which is expected to be recognized over the next 2 years.

The following table summarizes all stock-based compensation expense recognized during the following fiscal years:

(Thousands)	**2009**	2008	2007
Stock-based compensation expense:			
Stock options	**$ 148**	$ 294	$ 278
Performance shares	**475**	939	292
Restricted stock	**2,477**	1,989	747
Compensation expense included in Operation and Maintenance expense	**3,100**	3,222	1,317
Income tax benefit	**(1,274)**	(1,324)	(541)
Total, net of tax	**$ 1,826**	$ 1,898	$ 776

Stock Options

There were no stock options granted in fiscal 2009, 2008 and 2007.

The following table summarizes the stock option activity for the past three fiscal years:

	Shares	**Weighted Average Exercise Price**
Outstanding at September 30, 2006	1,005,234	$ 22.43
Granted	—	—
Exercised	(299,300)	$ 19.40
Forfeited	(5,625)	$ 19.01
Outstanding at September 30, 2007	700,309	$ 23.75
Granted	—	—
Exercised	(121,166)	$ 19.40
Forfeited	—	—
Outstanding at September 30, 2008	579,143	$ 24.66
Granted	**—**	**—**
Exercised	**(245,107)**	**$ 22.38**
Forfeited	**(575)**	**$ 18.11**
Outstanding at September 30, 2009	**333,461**	**$ 26.36**
Exercisable at September 30, 2009	**333,461**	**$ 26.36**
Exercisable at September 30, 2008	506,130	$ 23.93
Exercisable at September 30, 2007	551,284	$ 22.17

For the stock options listed above, there are no costs related to unvested options.

The following table summarizes stock options outstanding and exercisable as of September 30, 2009:

	Outstanding and Exercisable			
Exercise Price Range	**Number Of Stock Options**	**Weighted Average Remaining Contractual Term (in years)**	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value (in thousands)**
$15.18 – $18.22	41,140	0.8	$ 17.66	$ 767
$18.22 – $21.25	68,758	3.0	$ 20.70	1,073
$21.25 – $24.93	6,750	3.4	$ 22.54	93
$24.93 – $27.33	8,250	4.4	$ 25.54	89
$27.33 – $30.37	208,563	5.7	$ 30.09	1,297
Total	333,461	4.4	$ 26.36	$ 3,319

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

Performance Shares

The Company has issued performance shares, which are market conditions awards, to various officers. The following table summarizes the Performance Unit activity under the Employee and Outside Director Long-Term Incentive Compensation Plan for the past three fiscal years:

	Shares (1)	Weighted Average Grant Date Fair Value
Non-vested and outstanding at September 30, 2006	62,550	$ 30.05
Granted	—	—
Vested	(15,637)	$ 30.05
Cancelled/forfeited	(31,275)	$ 30.05
Non-vested and outstanding at September 30, 2007	15,638	$ 30.05
Granted	61,980	$ 31.84
Vested	(15,638)	$ 30.05
Cancelled/forfeited	—	—
Non-vested and outstanding at September 30, 2008	61,980	$ 31.84
Granted	—	—
Vested	—	—
Cancelled/forfeited	—	—
Non-vested and outstanding at September 30, 2009	**61,980**	**$ 31.84**

(1) The number of common shares issued related to performance shares may range from zero to 150 percent of the number of shares shown in the table above based on the Company's achievement of performance goals associated with NJR total shareowner return relative to a selected peer group of companies.

The Company measures compensation expense related to performance shares based on the fair value of these awards at their date of grant. Compensation expense for performance shares is recognized for awards that ultimately vest, and is not adjusted based on actual achievement of the performance goals. The Company estimated the fair value of the performance shares on the date of grant using a Lattice model.

There is $901,000 in costs related to unvested performance shares that are expected to be recognized over the next two years.

Restricted Stock

In fiscal 2009, the Company issued 46,500 shares of Restricted Stock, two-thirds of which vested on October 1, 2009, and one-third of which may vest on October 1, 2010, subsequent to meeting certain performance milestones. Also, in fiscal 2009, 1,500 shares were issued that vest equally on April 7, 2010 and April 7, 2011. In fiscal 2008, the Company issued 61,980 shares of Restricted Stock, which vest in equal annual installments over three years, subject to certain conditions. Also, in fiscal 2009 and 2008 the Company issued 115,211 and 35,385 shares of Restricted Stock, respectively, that vested immediately.

There is $475,000 in costs related to unvested restricted stock shares that are expected to be recognized over the next two years.

10. EMPLOYEE BENEFIT PLANS

Pension and Other Postemployment Benefit Plans (OPEB)

NJR has two trusteed, noncontributory defined benefit retirement plans covering regular represented and nonrepresented employees with more than one year of service. All represented employees of NJRHS hired on or after October 1, 2000, and all non-represented employees hired on or after October 1, 2009, are covered by an enhanced defined contribution plan instead of the defined benefit plan.

Defined benefit plan benefits are based on years of service and average compensation during the highest 60 consecutive months of employment.

The Company also maintains an unfunded nonqualified pension equalization plan (PEP) that was established to provide employees with the full level of benefits as stated in the qualified plan without reductions due to various limitations imposed by the provisions of federal income tax laws and regulations. There were no plan assets in the nonqualified plan due to the nature of the plan.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

The Company provides postemployment medical and life insurance benefits to employees who meet certain eligibility requirements.

NJR's funding policy for its pension plans is to contribute at least the minimum amount required by the Employment Retirement Income Security Act of 1974, as amended. In fiscal 2009 and 2008, the Company had no minimum funding requirements; however, NJR made discretionary contributions to the pension plans during fiscal 2009 totaling $25.6 million. An additional contribution of $4.4 million was made on October 1, 2009. The Company elected to make these discretionary tax-deductible contributions to improve the funded status of the pension plans. The Company does not expect to be required to make additional contributions to fund the pension plans over the next three fiscal years based on current actuarial assumptions; however, funding requirements are uncertain and can depend significantly on changes in actuarial assumptions, returns on plan assets and changes in the demographics of eligible employees and covered dependents. In addition, as in the past, the Company may elect to make contributions in excess of the minimum required amount to the plans.

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. This resulted in lower annual contributions over this period, including the amount contributed by the Company of approximately $1.9 million in fiscal 2009 and $1.0 million in fiscal 2008. The Company currently estimates contributions of between $5 million to $7 million annually over the next five years. Additional contributions may vary based on market conditions and various assumptions.

The accumulated benefit obligation (ABO) for the pension plans, including the Pension Equalization Plan, at September 30, 2009 and 2008, was $115.9 million and $89.9 million, respectively. As of September 30, 2009, the ABO exceeded the fair value of plan assets of $100.6 million, and the projected benefit obligation was $133.8 million.

The following summarizes the changes in the funded status of the plans and the related liabilities recognized in the Consolidated Balance Sheets:

	Pension (1)		**OPEB**	
(Thousands)	**2009**	2008	**2009**	2008
Change in Benefit Obligation				
Benefit obligation at beginning of year	**$ 102,383**	$ 107,875	**$ 53,452**	$ 53,031
Service cost	**2,712**	2,913	**1,728**	1,795
Interest cost	**7,748**	6,594	**4,057**	3,252
Plan participants' contributions	**48**	47	**4**	4
Actuarial gain (loss)	**26,070**	(10,134)	**21,107**	(2,548)
Benefits paid, net of retiree subsidies received	**(5,122)**	(4,912)	**(2,056)**	(2,082)
Benefit obligation at end of year	**$ 133,839**	$ 102,383	**$ 78,292**	$ 53,452
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 80,618**	$ 105,389	**$ 22,711**	$ 29,475
Actual return on plan assets	**(713)**	(20,122)	**(148)**	(5,613)
Employer contributions	**25,808**	215	**1,868**	1,014
Benefits paid, net of plan participants' contributions	**(5,074)**	(4,864)	**(2,237)**	(2,165)
Fair value of plan assets at end of year	**$ 100,639**	$ 80,618	**$ 22,194**	$ 22,711
Funded status	**$ (33,200)**	$ (21,765)	**$ (56,098)**	$ (30,741)
Amounts recognized on Consolidated Balance Sheets				
Postemployment employee benefit liability				
Current	**$ (145)**	$ (218)	**$ (118)**	$ (148)
Non-current	**(33,055)**	(21,547)	**(55,980)**	(30,593)
Total	**$ (33,200)**	$ (21,765)	**$ (56,098)**	$ (30,741)

(1) Includes NJR's Pension Equalization Plan.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

NJR recognizes a liability for its underfunded benefit plans as required by the *Compensation – Retirement Benefits* Topic of the ASC. NJR records the offset to Regulatory Assets for the portion of liability relating to its regulated utility and to Accumulated Other Comprehensive Income for the portion of the liability related to its non-regulated operations. The amounts recognized in Regulatory Assets and Accumulated Other Comprehensive Income as of September 30, 2008 and September 30, 2009 are as follows:

	Regulatory Assets		Accumulated Other Comprehensive Income	
	Pension Plan	OPEB	Pension Plan	OPEB
Balance at September 30, 2007	$ 17,351	$ 14,821	$ 1,667	$ 5,401
Amounts arising during the period:				
Net actuarial loss (gain)	14,487	6,608	4,232	(1,079)
Amounts amortized to net periodic costs:				
Net actuarial (loss)	(972)	(569)	(129)	(235)
Prior service cost	(39)	(69)	(17)	(9)
Net Transition Obligation	—	(286)	—	(71)
Balance at September 30, 2008	$ 30,827	$ 20,505	$ 5,753	$ 4,007
Amounts arising during the period:				
Net actuarial loss (gain)	**26,832**	**18,516**	**8,704**	**4,735**
Amounts amortized to net periodic costs:				
Net actuarial (loss)	**(480)**	**(883)**	**(74)**	**(184)**
Prior service cost	**(39)**	**(68)**	**(17)**	**(10)**
Net Transition Obligation	**—**	**(286)**	**—**	**(71)**
Balance at September 30, 2009	**$ 57,140**	**$ 37,784(1)**	**$ 14,366**	**$ 8,477**

(1) ***Balance represents amounts recognized in accordance with ASC 715 and excludes $1.2 million associated with a regulatory asset approved by the BPU.***

Amounts included in Regulatory Assets and Accumulated Other Comprehensive Income expected to be recognized as components of net periodic benefit cost in fiscal year 2010 are as follows:

	Regulatory Assets		Accumulated Other Comprehensive Income	
(Thousands)	Pension Plan	OPEB	Pension Plan	OPEB
Net actuarial gain (loss)	$ 2,190	$ 1,842	$ 532	$ 437
Prior service (cost) credit	39	69	16	7
Net Transition Obligation	—	286	—	70
Total	**$ 2,229**	**$ 2,197**	**$ 548**	**$ 514**

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			**OPEB**		
(Thousands)	**2009**	2008	2007	**2009**	2008	2007
Service cost	**$ 2,712**	$ 2,913	$ 2,932	**$ 1,728**	$ 1,795	$ 1,819
Interest cost	**7,748**	6,594	6,217	**4,057**	3,252	3,028
Expected return on plan assets	**(8,753)**	(8,731)	(8,208)	**(1,996)**	(2,465)	(2,161)
Recognized actuarial loss	**554**	1,101	1,596	**1,067**	804	1,063
Recognized net initial obligation	**—**	—	—	**357**	357	357
Prior service cost amortization	**56**	56	84	**78**	78	78
Net periodic cost	**$ 2,317**	$ 1,933	$ 2,621	**$ 5,291**	$ 3,821	$ 4,184

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

The weighted average assumptions used to determine benefit costs during the fiscal year and obligations as of September 30 are as follows:

	Pension			OPEB		
	2009	2008	2007	**2009**	2008	2007
Benefit costs:						
Discount rate	**7.75%**	6.25%	6.00%	**7.75%**	6.25%	6.00%
Expected asset return	**9.00%**	9.00%	9.00%	**9.00%**	8.50%	8.50%
Compensation increase	**3.75%**	3.75%	3.75%	**3.75%**	3.75%	3.75%
Obligations:						
Discount rate	**6.25%**	7.75%	6.25%	**6.25%**	7.75%	6.25%
Compensation increase	**3.75%**	3.75%	3.75%	**3.75%**	3.75%	3.75%

In selecting an assumed discount rate, NJR uses a modeling process that involves selecting a portfolio of high-quality corporate debt issuances (AA- or better) whose cash flows (via coupons or maturities) match the timing and amount of NJR's expected future benefit payments. NJR considers the results of this modeling process, as well as overall rates of return on high-quality corporate bonds and changes in such rates over time, in determination of its assumed discount rate.

Information relating to the assumed health care cost trend rate (HCCTR) used to determine expected OPEB benefits as of September 30, and the effect of a 1 percent change in the rate, are as follows:

($ in thousands)	**2009**	2008	2007
HCCTR	**8.0%**	9.0%	10.0%
Ultimate HCCTR	**5.0%**	5.0%	5.0%
Year ultimate HCCTR reached	**2018**	2013	2013
Effect of a 1 percentage point increase in the HCCTR on:			
Year-end benefit obligation	**$ 13,181**	$ 8,052	$ 8,493
Total service and interest cost	**$ 1,083**	$ 973	$ 959
Effect of a 1 percentage point decrease in the HCCTR on:			
Year-end benefit obligation	**$ (10,617)**	$ (6,571)	$ (6,850)
Total service and interest costs	**$ (859)**	$ (771)	$ (752)

NJR's investment objective is a long-term real rate of return on assets before permissible expenses that is approximately 6.0 percent greater than the assumed rate of inflation as measured by the Consumer price Index. The expected long-term rate of return is based on the asset categories in which the Company invests and the current expectations and historical performance for these categories.

The mix and targeted allocation of the pension and OPEB plans' assets are as follows:

Asset Allocation	**2010 Target Allocation**	**Assets at September 30, 2009**	**Assets at September 30,** 2008
U.S. equity securities	39%	**52%**	53%
International equity securities	20	**18**	15
Fixed income	41	**30**	32
Total	100%	**100%**	100%

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the following years:

(Thousands)	Pension	OPEB
2010	$ 5,470	$ 2,583
2011	$ 5,824	$ 2,739
2012	$ 6,123	$ 2,936
2013	$ 6,361	$ 3,136
2014	$ 6,691	$ 3,457
2015-2019	$ 40,155	$ 22,945

NJR's OPEB plans provide prescription drug benefits that are actuarially equivalent to those provided by Medicare Part D. Therefore, under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 NJR qualifies for federal subsidies.

The estimated subsidy payments are:

Fiscal Year	Estimated Subsidy Payment *(Thousands)*
2010	$ 159
2011	$ 180
2012	$ 203
2013	$ 223
2014	$ 238
2015-2019	$ 1,501

Defined Contribution Plan

The Company offers an Employees' Retirement Savings Plan (Savings Plan) to eligible employees. The Company matches 50 percent of participants' contributions up to 6 percent of base compensation.

For represented NJRHS employees and other employees who are not eligible for participation in the defined benefit plan and for non-represented employees hired on or after October 1, 2009, the Company contributes between 2 and 3 percent of base compensation, depending on years of service, into the Savings Plan on their behalf.

The amount expensed and contributed for the matching provision of the Savings Plan was $1.2 million in fiscal 2009, $1.3 million in fiscal 2008 and $1.2 million in fiscal 2007.

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 are required by New Jersey law when taking such gas distribution pipeline out of service.

The following is an analysis of the change in the ARO liability for the fiscal year ended September 30:

(Thousands)	**2009**	2008
Balance at October 1	**$ 24,416**	$ 23,895
Accretion	**1,493**	1,401
Additions	**131**	89
Retirements	**(943)**	(969)
Balance at September 30	**$ 25,097**	$ 24,416

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

Accretion for the next five years is estimated to be as follows:

(Thousands) Fiscal Year Ended September 30,		Estimated Accretion
2010	$	1,564
2011		1,646
2012		1,736
2013		1,830
2014		1,911
Total	$	8,687

12. INCOME TAXES

The Company's federal income tax returns through fiscal 2005 have either been reviewed by the Internal Revenue Service (IRS), or the related statute of limitations has expired and all matters have been settled.

A reconciliation of the United States federal statutory rate of 35 percent to the effective rate from operations for the fiscal years ended September 30, 2009, 2008 and 2007 is as follows:

(Thousands)		**2009**		2008		2007
Statutory income tax expense	**$**	**13,516**	$	61,322	$	35,948
Change resulting from						
State income taxes		**3,478**		8,970		6,867
Change in tax rate		**(715)**		(1,705)		(221)
Depreciation and cost of removal		**(2,191)**		(2,253)		(1,774)
Investment tax credits		**(322)**		(322)		(322)
Fin 48 (ASC 740) and other interest accrued/(released)		**(1,272)**		1,371		—
Other		**(1,118)**		(1,349)		(720)
Income tax provision (1)	**$**	**11,376**	$	66,034	$	39,778
Effective income tax rate		**29.5%**		37.7%		38.7%

(1) Income tax provision includes taxes associated with investments in Equity investees of $2.9 million, $1.3 million and $1.1 million for the years ended September 30, 2009, 2008 and 2007, respectively. These amounts are reported as part of Equity in earnings of Equity investees, net of tax, in the Consolidated Statements of Income.

The Income tax provision (benefit) from operations consists of the following:

(Thousands)		**2009**		2008		2007
Current						
Federal	**$**	**26,860**	$	28,534	$	36,846
State		**7,603**		4,750		12,282
Deferred						
Federal		**(17,713)**		27,133		(7,153)
State		**(5,052)**		5,939		(1,875)
Investment tax credits		**(322)**		(322)		(322)
Income tax provision	**$**	**11,376**	$	66,034	$	39,778

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

The temporary differences, which give rise to deferred tax assets and liabilities, consist of the following:

(Thousands)		2009		2008
Current				
(Over)Under Recovered Gas Costs	**$**	**(14,874)**	$	—
Pension Liability		**(7,179)**		(6,247)
Other		**(2,405)**		(2,814)
Total current deferred tax (assets)	**$**	**(24,458)**	$	(9,061)
(Over)Under Recovered Gas Costs	$	—	$	11,501
Pension Liability		**2,415**		9,606
Other		**1,242**		1,767
Total current deferred tax liabilities	**$**	**3,657**	$	22,874
Total net current deferred tax (assets) liabilities	**$**	**(20,801)**	$	13,813
Noncurrent				
Unamortized Investment Tax Credits	**$**	**(3,699)**	$	(3,873)
Deferred Service Contract Revenue		**(2,636)**		(2,528)
Deferred Gain		**(1,060)**		(1,615)
Total noncurrent deferred tax (assets)	**$**	**(7,395)**	$	(8,016)
Property - Related Items	**$**	**197,475**	$	141,255
Remediation Costs		**35,111**		35,323
Fair Value of Derivatives		**11,329**		58,821
Other		**7,073**		13,031
Total noncurrent deferred tax liabilities	**$**	**250,988**	$	248,430
Total net noncurrent deferred tax liabilities	**$**	**243,593**	$	240,414
Total net deferred tax liabilities	**$**	**222,792**	$	254,227

Effective October 1, 2007, NJR implemented certain provisions of the Income Taxes Topic 740 of the ASC related to uncertain tax positions. These provisions prescribe a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. NJR is required to recognize a liability as appropriate for a potential future obligation for certain tax positions that are deemed to be treated as an unrecognized tax benefit.

In October 2007, the total amount of liabilities initially recognized, upon implementation of these provisions, was $6.5 million, including $4.7 million of uncertain tax liabilities and $1.8 million of interest and penalties. During the first quarter of fiscal 2009, the Company settled a tax court case with the State of New Jersey, which resulted in a $2.7 million decrease to the reserve balance.

During the second quarter of fiscal 2009, the Company settled the September 30, 2005 Internal Revenue Service (IRS) tax audit. The settlement resulted in an additional reduction to the remaining balance of $3.8 million bringing it to its current balance of zero. The prior balance of $3.8 million related to one issue which has been settled and resulted in no changes to the Company's tax liability related to the issue.

Currently the Company has no reason to believe that there will be any new additions to the reserve related to uncertain tax positions.

As of September 30, 2008, the Company's gross unrecognized tax benefit was $4.7 million. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Millions)		
Balance at October 1, 2008	$	4.7
Additions based on tax positions related to the current year		—
Additions for tax positions of prior years		—
Reductions for tax positions of prior years		—
Settlements	$	(4.7)
Expiration of statute of limitations		—
Balance at September 30, 2009	$	—

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

The Company and one or more of its subsidiaries files or expects to file income and/or franchise tax returns in the United States Federal jurisdiction and in the states of New Jersey, New York, Connecticut, Texas and Louisiana. The Company neither files in, nor believes it has a filing requirement in, any foreign jurisdictions.

The Company is no longer subject to United States federal income tax examinations for years prior to fiscal 2006. The IRS commenced an examination of the Company's fiscal 2006 federal income tax return in the fourth quarter of fiscal 2008. The fiscal 2006 exam is expected to be completed by the end of fiscal 2010.

The Company is not currently under examination in any state; however, all periods subsequent to those ended September 30, 2003, are statutorily open to examination (in New York all periods subsequent to September 30, 2004, are statutorily open to examination). As previously disclosed, NJNG was party to a case pending before the Tax Court of New Jersey (the "Tax Court"). In that case, NJNG disputed the State of New Jersey's (the "State") application of its tax apportionment rules. On April 15, 2008 the Tax Court issued a decision in favor of the State. NJNG paid the resulting assessment of approximately $3 million (including interest and penalties) on October 15, 2008. The effect of the Tax Court's decision did not impact the Company's effective tax rate, as this amount had been fully reserved and was reflected as a component of current Deferred and accrued taxes in the Consolidated Balance Sheets as of September 30, 2008.

13. COMMITMENTS AND CONTINGENT LIABILITIES

Cash Commitments

NJNG has entered into long-term contracts, expiring at various dates through 2024, for the supply, storage and delivery of natural gas. These contracts include current annual fixed charges of approximately $106.8 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 ranges 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.

Commitments as of September 30, 2009, for natural gas purchases and future demand fees for the next five fiscal year periods are as follows:

(Thousands)	2010	2011	2012	2013	2014	Thereafter
NJRES						
Natural gas purchases	$ 444,490	$ 140,949	$ 126,561	$ 10,588	$ —	$ —
Storage demand fees	41,292	18,862	11,841	7,018	2,835	1,576
Pipeline demand fees	37,926	18,777	9,949	10,477	7,636	24,010
Sub-total NJRES	$ 523,708	$ 178,588	$ 148,351	$ 28,083	$ 10,471	$ 25,586
NJNG						
Natural gas purchases	$ 54,239	$ 1,644	$ —	$ —	$ —	$ —
Storage demand fees	21,905	18,393	13,307	10,414	5,536	1,174
Pipeline demand fees	84,949	83,520	76,569	75,590	69,795	256,372
Sub-total NJNG	$ 161,093	$ 103,557	$ 89,876	$ 86,004	$ 75,331	$ 257,546
Total	$ 684,801	$ 282,145	$ 238,227	$ 114,087	$ 85,802	$ 283,132

NJNG's capital expenditures are estimated at $110.2 million in fiscal 2010, of which approximately $3.8 million has been committed, and $86.5 million for fiscal 2011, and consist primarily of its construction program to support customer growth, maintenance of its distribution system and replacement needed under pipeline safety regulations. Fiscal 2010 and 2011 include an estimated $44.2 million and $20.5 million, respectively, related to AIP construction costs.

The Company's future minimum lease payments under various operating leases are less than $2.9 million annually for the next five years and $1.5 million in the aggregate for all years thereafter.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

Guarantees

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 not yet reflected in accounts payable on the Consolidated Balance Sheet.

In fiscal 2009, the Company entered into agreements to lease vehicles over a five-year term, which qualify as operating leases. These agreements contain provisions that could require the Company to make additional cash payments at the end of the term for a portion of the residual value of the vehicles. As of September 30, 2009, the present value of the liability recognized on the Consolidated Balance Sheets is $335,000. In the event performance under the guarantee is required, the Company's maximum future payment would be $475,000.

Legal Proceedings

Manufactured Gas Plant Remediation

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

NJNG may, subject to BPU approval, recover its remediation expenditures, including carrying costs, over rolling 7-year periods pursuant to 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 September 30, 2008 resulting in an expected annual recovery of $20.7 million. 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.

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 above, the ultimate disposition of these matters will not have a material adverse effect on its financial condition, results of operations or cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

14. BUSINESS SEGMENT AND OTHER OPERATIONS DATA

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

Information related to the Company's various business segments and other operations, excluding capital expenditures at NJNG of $81.2 million and at retail and Other of $388,000 is detailed below.

(Thousands)

Fiscal Years Ended September 30,	**2009**	2008	2007
Operating Revenues			
Natural Gas Distribution	**$ 1,082,001**	$ 1,078,824	$ 1,005,588
Energy Services	**1,498,742**	2,714,733	1,994,682
Segment subtotal	**2,580,743**	3,793,557	3,000,270
Retail and Other	**14,008**	22,850	21,776
Intercompany revenues (1)	**(2,291)**	(197)	(281)
Total	**$ 2,592,460**	$ 3,816,210	$ 3,021,765
Depreciation and Amortization			
Natural Gas Distribution	**$ 29,417**	$ 37,723	$ 35,648
Energy Services	**205**	206	214
Segment subtotal	**29,622**	37,929	35,862
Retail and Other	**706**	535	373
Total	**$ 30,328**	$ 38,464	$ 36,235
Interest Income (2)			
Natural Gas Distribution	**$ 2,779**	$ 3,294	$ 3,232
Energy Services	**570**	311	724
Segment subtotal	**3,349**	3,605	3,956
Retail and Other	**567**	476	59
Intercompany interest income (1)	**(496)**	—	—
Total	**$ 3,420**	$ 4,081	$ 4,015
Interest Expense, net of capitalized interest			
Natural Gas Distribution	**$ 18,706**	$ 21,277	$ 21,182
Energy Services	**322**	2,574	4,222
Segment subtotal	**19,028**	23,851	25,404
Retail and Other	**2,482**	1,960	2,209
Intercompany interest expense (1)	**(496)**	—	—
Total	**$ 21,014**	$ 25,811	$ 27,613
Income Tax Provision (Benefit)			
Natural Gas Distribution	**$ 39,729**	$ 27,840	$ 26,334
Energy Services	**(24,259)**	38,806	14,311
Segment subtotal	**15,470**	66,646	40,645
Retail and Other	**(6,982)**	(1,931)	(1,970)
Total	**$ 8,488**	$ 64,715	$ 38,675
Net Financial Earnings			
Natural Gas Distribution	**$ 65,403**	$ 42,479	$ 44,480
Energy Services	**31,179**	47,003	40,148
Segment subtotal	**96,582**	89,482	84,628
Retail and Other	**4,388**	4,333	3,726
Total	**$ 100,970**	$ 93,815	$ 88,354

(1) Consists of transactions between subsidiaries that are eliminated and reclassified in consolidation
(2) Included in Other income in the Consolidated Statement of Income

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

The chief operating decision maker of the Company is the Chief Executive Officer (CEO). The CEO uses net financial earnings as a measure of profit or loss in measuring the results of the Company's segments and operations. A reconciliation of consolidated net financial earnings to consolidated net income is as follows:

	September 30,		
(Thousands)	**2009**	2008	2007
Consolidated Net Financial Earnings	**$ 100,970**	$ 93,815	$ 88,354
Less:			
Unrealized loss (gain) from derivative instruments, net of taxes	**39,254**	(6,028)	42,209
Effects of economic hedging related to natural gas inventory and certain demand fees, net of taxes	**34,474**	(9,325)	(16,788)
Consolidated Net Income	**$ 27,242**	$ 109,168	$ 62,933

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

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

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

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

(Thousands)	**2009**	2008
Assets at end of period:		
Natural Gas Distribution	**$ 1,797,165**	$ 1,761,964
Energy Services	**327,532**	699,897
Segment subtotal	**2,124,697**	2,461,861
Retail and Other	**223,020**	231,551
Intercompany Assets *(1)*	**(26,687)**	(58,115)
Total	**$ 2,321,030**	$ 2,635,297

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

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

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

15. RELATED PARTY TRANSACTIONS

During fiscal 2009, NJRES entered into park and loan agreements and firm storage contracts with Steckman Ridge, an affiliated regulated natural gas storage facility, for up to 2 Bcf of natural gas storage with various terms ranging from April 2009 to March 2010. NJRES will incur demand fees payable to Steckman Ridge aggregating approximately $5.5 million annually. As of September, 2009, NJRES' fees and related payable balances were immaterial.

16. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of financial data for each quarter of fiscal 2009 and 2008 follows. Due to the seasonal nature of the Company's businesses, quarterly amounts vary significantly during the fiscal year. In the opinion of management, the information furnished reflects all adjustments necessary for a fair presentation of the results of the interim periods.

(Thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009				
Operating revenues	**$ 801,304**	**$ 937,516**	**$ 441,052**	**$ 412,588**
Gross margin *(1)*	**$ 91,189**	**$ 95,390**	**$ 21,185**	**$ 13,492**
Operating income (loss)	**$ 49,251**	**$ 52,000**	**$ (23,770)**	**$ (29,411)**
Net income (loss)	**$ 28,272**	**$ 31,988**	**$ (14,155)**	**$ (18,863)**
Earnings (loss) per share				
Basic	**$ 0.67**	**$ 0.76**	**$ (0.34)**	**$ (0.45)**
Diluted	**$ 0.67**	**$ 0.75**	**$ (0.34)**	**$ (0.45)**
2008				
Operating revenues	$ 811,138	$ 1,177,545	$ 1,000,439	$ 827,088
Gross margin *(1)*	$ 87,519	$ 78,043	$ 7,340	$ 200,598
Operating income (loss)	$ 47,899	$ 35,508	$ (34,741)	$ 144,672
Net income (loss)	$ 26,274	$ 21,474	$ (24,929)	$ 86,348
Earnings (loss) per share				
Basic	$ 0.63	$ 0.51	$ (0.59)	$ 2.05
Diluted	$ 0.63	$ 0.51	$ (0.59)	$ 2.04

(1) Gross margin consists of operating revenue less cost of goods sold and othet direct expenses at NJR's unregulated subsidiaries and utility gross margin at NJNG, which includes natural gas revenues less natural gas purchases, sales tax, a Transitional Energy Facilities Assessment and regulatory rider expenses.

The sum of quarterly amounts may not equal the annual amounts due to rounding.

Immaterial Restatement to Prior Year Consolidated Financial Statements

In the fourth quarter of fiscal 2009, management discovered an error in the accounting for gas in storage, purchase obligations, embedded derivatives and gas demand fees associated with park and loan transactions at NJRES. NJR had been incorrectly pricing its inventory and had not been recognizing the fair value of the embedded derivative. Specifically, NJR had been using a forward price to value the inventory and gas purchases liability. Both the natural gas that was received and the "park and loan" liability should have been initially valued at the spot market price on the date NJRES received the gas. In addition, NJRES should have been accounting for the obligation to return the gas as an embedded derivative, which should have been fair valued ("marked to market") at each subsequent balance sheet reporting date until the gas was returned to the counterparty. As well, the initial spread between the spot price of the natural gas on the date of the transaction and the forward price, based on the date NJRES would return the borrowed gas inventory, should have been recognized into income on a ratable basis over the term of the park and loan agreement. In addition, demand fees related to these transactions were not but should have been recognized ratably over the term of the contract.

The Company made a quantitative and qualitative assessment of the impact of the error to its consolidated financial statements for the fiscal years ended September 30, 2009, September 30, 2008 and September 30, 2007 and for the consolidated balance sheets as of September 30, 2009 and September 30, 2008 and concluded that the resulting misstatements were not material. The cumulative error has been corrected in the fourth quarter of fiscal 2009. Accordingly, the quarterly amounts presented above for the fourth quarter of fiscal 2008 have been restated to include an increase in Gross margin and Operating income of $12.4 million, Net income of $7.6 million and a $0.19 and $0.18 increase in Basic and Diluted Earnings (loss) per share, respectively.

These errors have no impact on the economic value associated with the underlying forecasted transactions. There was no impact on reported cash flow from operations or liquidity.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) (the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that, as of end of the period covered by this report, the Company's disclosure controls and procedures are effective, to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with the Company's preparation of its consolidated financial statements for the fiscal year ended September 30, 2009, the Company reassessed its accounting for park and loan transactions executed through the Company's unregulated subsidiary. NJRES enters into park and loan transactions whereby it borrows natural gas from a counterparty with an obligation to return the gas at a future date. The Company had been incorrectly accounting for gas in storage, gas purchase obligations, embedded derivatives and demand fees associated with these park and loan transactions. Specifically, NJR has been using a forward price to value the inventory and gas purchases liability associated with "park and loan" transactions. Both the natural gas that was received and the "park and loan" liability should have been initially valued at the spot price on the date NJRES received the gas. In addition, NJRES should have been accounting for the obligation to return the gas as an embedded derivative, which should have been fair valued ("marked to market") at each subsequent balance sheet reporting date until the gas was returned to the counterparty. As well, the initial spread between the spot price of the borrowed gas liability on the date of the transaction and the forward price, based on the date NJRES would return the natural gas, should have been recognized into income on a ratable basis over the term of the park and loan agreement. In addition, demand fees related to these transactions were not but should have been recognized ratably over the term of the contract. Management, in consultation with the Audit Committee, had concluded that the errors associated with the accounting for park and loan transactions constituted a material weakness in the Company's internal controls over financial reporting for the applicable periods that have been restated, but do not constitute a material weakness for the fiscal year ended September 30, 2009, because management through its existing disclosure controls and procedures identified the errors and corrected such errors.

The Company continually reviews its disclosure controls and procedures and makes changes, as necessary, to ensure the quality of its financial reporting. The Company's management has discussed these issues with the Company's Audit Committee.

Management's Annual Report on Internal Control over Financial Reporting

The report of management required under this ITEM 9A is contained in ITEM 8 of this Form 10-K under the caption "Management's Report on Internal Control over Financial Reporting."

Attestation Report of Registered Public Accounting Firm

The attestation report required under this ITEM 9A is contained in ITEM 8 of this 10-K under the caption "Report of Independent Registered Public Accounting Firm."

ITEM 9A. CONTROLS AND PROCEDURES (Continued)

Changes in Internal Control over Financial Reporting

During fiscal 2009, the Company implemented a remediation plan to address material weaknesses associated with the fair value of certain physical natural gas transactions and accounting for park and loan transactions. The remediation plan included the hiring of additional staff with the appropriate accounting technical expertise as well as the implementation of additional control procedures and oversight on its derivative transactions, which are outlined below. Management believes these additional measures remediated the material weaknesses as of September 30, 2009. The Company implemented the following measures during fiscal 2009 that were designed to substantially reduce the risk of a similar material weakness occurring in the future:

- expanded training, education and accounting reviews for all relevant personnel involved in the accounting treatment and disclosures for the Company's commodity transacting;
- investment in additional resources with appropriate accounting technical expertise, including the hiring of a Controller- Wholesale and Midstream Operations;
- improvements in the design of internal control over financial reporting related to the accounting of commodity transacting, resulting in the implementation of new and expanded processes and controls; and
- increased level of review and discussion of significant accounting matters and supporting documentation with senior finance management.

These were the only changes in the Company's internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended September 30, 2009, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item, including information concerning the Board of Directors of the Company, the members of the Company's Audit Committee, the Company's Audit Committee Financial Expert, compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, and shareholder proposals, is incorporated by reference to the Company's Proxy Statement for the 2010 Annual Meeting of Shareholders, which will be filed with Securities and Exchange Commission (SEC) pursuant to Regulation 14A within 120 days after September 30, 2009. The information regarding executive officers is included in this report following Item 4, as Item 4A, under the caption "Executive Officers of the Company."

The Board of Directors has adopted the Principal Executive Officer and Senior Financial Officers Code of Ethics governing the chief executive officer and senior financial officers, in compliance with the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and SEC regulations and the Code of Conduct, a code for all directors, officers and employees as required by the New York Stock Exchange, or NYSE, rules (collectively, the Codes). Copies of both Codes are available free of charge on the Company's website at http://investor.njresources.com under the caption "Corporate Governance." A printed copy of each Code is available free of charge to any shareholder who requests it by contacting the Corporate Secretary at 1415 Wyckoff Road, Wall, New Jersey 07719. The Company will disclose any amendments to, or waivers from, a provision of the Codes that applies to the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions that relate to any element of the Codes as defined in Item 406 of Regulation S-K by posting such information on the Company's website.

Because the Company's common stock is listed on the NYSE, the chief executive officer is required to make, and he has made, an annual certification to the NYSE stating that he was not aware of any violation by the Company of the corporate governance listing standards of the NYSE. The chief executive officer made his annual certification to that effect to the NYSE as of February 12, 2009. In addition, the Company has filed, as exhibits to the Annual Report on Form 10-K, the certifications of the principal executive officer and principal financial officer required under Sections 906 and 302 of the Sarbanes-Oxley to be filed with the SEC regarding the quality of its public disclosure.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is incorporated by reference from the Registrant's Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this Item is incorporated by reference from the Registrant's Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this Item is incorporated by reference from the Registrant's Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item is incorporated by reference from the Registrant's Proxy Statement.

New Jersey Resources Corporation
Part IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements.

All Financial Statements of the Registrant are filed as part of this report and included in Item 8 of Part II of this Form 10-K.

(a) 2. Financial Statement Schedules–See *Index to Financial Statement Schedules* in Item 8.

(a) 3. Exhibits–See *Exhibit Index* on page 109.

INDEX TO FINANCIAL STATEMENT SCHEDULES

Schedules other than those listed above are omitted because they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto.

SCHEDULE I

NEW JERSEY RESOURCES CORPORATION (Parent Company)
CONDENSED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2009, 2008 and 2007

STATEMENTS OF INCOME

(Thousands)

Fiscal Years Ended September 30,	**2009**	2008	2007
Operating revenues	$ —	$ —	$ —
Operating expenses	**9,159**	8,667	9,068
Operating loss	**(9,159)**	(8,667)	(9,068)
Other income	**9,980**	10,023	10,589
Interest expense	**276**	1,348	1,802
Income (loss) before income taxes and equity in earnings of affiliates	**545**	8	(281)
Income tax provision (benefit)	**230**	(51)	(122)
Equity in earnings of subsidiaries, net of tax	**26,927**	109,109	63,092
Net income	**$ 27,242**	$ 109,168	$ 62,933

STATEMENTS OF CASH FLOWS

(Thousands)

Fiscal Years Ended September 30,	**2009**	2008	2007
Net cash provided by operating activities	**$ 52,971**	$ 59,144	$ 33,479
Cash flows (used in) provided by investing activities:			
Net repayments from associated companies	**$ (34,085)**	$ 9,584	$ 89,529
Investments in affiliates	**(46,184)**	(23,500)	(55,805)
Cash flows (used in) provided by investing activities	**$ (80,269)**	$ (13,916)	$ 33,724
Cash flows from financing activities:			
(Payments) proceeds from long-term debt	**$ (25,000)**	$ (493)	$ 50,000
Tax benefit from stock options exercised	**1,686**	630	1,761
Proceeds from common stock	**16,441**	16,028	18,515
Net borrowings from associated companies	**5,187**	2,472	2,941
Purchases of treasury stock	**(30,670)**	(11,039)	(9,024)
Payments of common stock dividends	**(50,967)**	(45,201)	(42,446)
Net proceeds (payments) of short-term debt	**110,700**	(7,550)	(88,950)
Cash flows from (used in) financing activities	**$ 27,377**	$ (45,153)	$ (67,203)
Change in cash and temporary investments	**$ 79**	$ 75	$ —
Cash and temporary investments, beginning of year	**75**	—	—
Cash and temporary investments, end of year	**$ 154**	$ 75	$ —

SCHEDULE I

NEW JERSEY RESOURCES CORPORATION (Parent Company)
CONDENSED FINANCIAL STATEMENTS (Continued)

BALANCE SHEETS

(Thousands)

September 30,		2009		2008
ASSETS				
Current assets	**$**	**18,130**	$	16,377
Investments		**710,102**		737,585
Intercompany receivable, net		**170,462**		106,587
Deferred charges and other assets		**2,456**		2,511
Total assets	**$**	**901,150**	$	863,060
CAPITALIZATION AND LIABILITIES				
Current liabilities (1)	**$**	**158,193**	$	81,039
Long-term debt		**50,000**		50,000
Deferred credits and other liabilities		**3,231**		3,954
Common stock equity		**689,726**		728,067
Total capitalization and liabilities	**$**	**901,150**	$	863,060

(1) Includes current portion of long-term debt.

NOTE TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Pursuant to rules and regulations of the Securities and Exchange Commission (SEC), the unconsolidated condensed financial statements of New Jersey Resources Corporation do not reflect all of the information and notes normally included with financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Therefore, these condensed financial statements should be read in conjunction with the consolidated financial statements and related notes included in this Form 10-K.

NJR has accounted for the earnings of its subsidiaries under the equity method in these unconsolidated condensed financial statements. Cash dividends paid to NJR from its subsidiaries were $51 million, $45.2 million and $41.9 million during fiscal 2009, 2008 and 2007 respectively.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED SEPTEMBER 30, 2009, 2008 and 2007

(Thousands)

CLASSIFICATION		BEGINNING BALANCE		ADDITIONS CHARGED TO EXPENSE		OTHER (1)		ENDING BALANCE
2009:								
Regulatory asset reserve	**$**	**102**	$	—	**$**	**180**	**$**	**282**
Allowance for Doubtful Accounts	**$**	**4,580**	**$**	**9,588**	**$**	**(8,104)**	**$**	**6,064**
2008:								
Regulatory asset reserve	$	2,703	$	529	$	(3,130)	$	102
Allowance for Doubtful Accounts	$	3,166	$	4,422	$	(3,008)	$	4,580
2007:								
Regulatory asset reserve	$	678	$	2,025	$	—	$	2,703
Allowance for Doubtful Accounts	$	2,679	$	3,174	$	(2,687)	$	3,166

(1) Uncollectible accounts written off, less recoveries and adjustments.

SIGNATURES

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

NEW JERSEY RESOURCES CORPORATION
(Registrant)

Date: November 30, 2009

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated:

November 30, 2009	/s/ Laurence M. Downes Laurence M. Downes Chairman, President and Chief Executive Officer Director	November 30, 2009	/s/ Alfred C. Koeppe Alfred C. Koeppe Director
November 30, 2009	/s/ Nina Aversano Nina Aversano Director	November 30, 2009	/s/ Glenn C. Lockwood Glenn C. Lockwood Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
November 30, 2009	/s/ Lawrence R. Codey Lawrence R. Codey Director	November 30, 2009	/s/ J. Terry Strange J. Terry Strange Director
November 30, 2009	/s/ Donald L. Correll Donald L. Correll Director	November 30, 2009	/s/ David A. Trice David A. Trice Director
November 30, 2009	/s/ Robert B. Evans Robert B. Evans Director	November 30, 2009	/s/ William H. Turner William H. Turner Director
November 30, 2009	/s/ M. William Howard, Jr. M. William Howard, Jr. Director	November 30, 2009	/s/ George R. Zoffinger George R. Zoffinger Director
November 30, 2009	/s/ Jane M. Kenny Jane M. Kenny Director		

New Jersey Resources Corporation

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3-1 to the Annual Report on Form 10-K for the year ended September 30, 1996, as filed on December 30, 1996 and Exhibit 3.1 to the Current Report on Form 8-K, as filed on March 6, 2008)
3.2	By-Laws of the Company, as amended on July 14, 2009 (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K, as filed on July 20, 2009)
4.1	Specimen Common Stock Certificates (incorporated by reference to Exhibit 4-1 to Registration Statement No. 033-21872)
4.2	Indenture of Mortgage and Deed of Trust between NJNG and Harris Trust and Savings Bank, as Trustee, dated April 1, 1952, as supplemented by twenty-one Supplemental Indentures (incorporated by reference to Exhibit 4(g) to Registration Statement No. 002-9569)
4.2(a)	Twenty-Fifth Supplemental Indenture, dated as of July 15, 1995 (incorporated by reference to Exhibit 4.2(Y) to the Annual Report on Form 10-K for the year ended September 30, 1995, as filed on December 29, 1995)
4.2(b)	Twenty-Sixth Supplemental Indenture, dated as of October 1, 1995 (incorporated by reference to Exhibit 4.2(X) to the Annual Report on Form 10-K for the year ended September 30, 1995, as filed on December 29, 1995)
4.2(c)	Twenty-Seventh Supplemental Indenture, dated as of September 1, 1997 (incorporated by reference to Exhibit 4.2(J) to the Annual Report on Form 10-K as filed on December 29, 1997)
4.2(d)	Twenty-Eighth Supplemental Indenture, dated as of January 1, 1998 (incorporated by reference to Exhibit 4.2(K) to the Annual Report on Form 10-K for the year ended September 30, 1998, as filed on December 24, 1998)
4.2(e)	Twenty-Ninth Supplemental Indenture, dated as of April 1, 1998 (incorporated by reference to Exhibit 4.2(L) to the Annual Report on Form 10-K for the year ended September 30, 1988, as filed on December 24, 1998)
4.2(f)	Thirtieth Supplemental Indenture, dated as of December 1, 2003 (incorporated by reference to Exhibit 4.2(J) to the Annual Report on Form 10-K for the year ended September 30, 2003, as filed on December 16, 2003)
4.2(g)	Thirty-First Supplemental Indenture, dated as of October 1, 2005 (incorporated by reference to Exhibit 4.2(I) to the Annual Report on Form 10-K for the year ended September 30, 2005, as filed on November 29, 2005)
4.2(h)	Thirty-Second Supplemental Indenture, dated as of May 1, 2008 (incorporated by reference to Exhibit 4.2(i) to the Current Report on Form 8-K, as filed on May 20, 2008)
4.3	$225,000,000 Revolving Credit Facility Credit Agreement (the “$225,000,000 Revolving Credit Facility”) by and among NJNG, PNC Bank, NA as Administrative Agent, the banks party thereto, JPMorgan Chase Bank, NA and Fleet National Bank, as Syndication Agents, Bank Of Tokyo-Mitsubishi Trust Company and Citicorp North America, Inc., As Documentation Agents and PNC Capital Markets, Inc., as Lead Arranger, dated as of December 16, 2004 (incorporated by reference to Exhibit 4-2 to the Quarterly Report on Form 10-Q as filed on February 7, 2005)
4.3(a)	First Amendment dated as of August 31, 2005 to the $225,000,000 Revolving Credit Facility, dated as of December 16, 2004 (incorporated by reference to Exhibit 4-3A to the Annual Report on Form 10-K for the year ended September 30, 2005, as filed on November 29, 2005)
4.3(b)	Second Amendment and Consent dated as of November 15, 2005 to the $225,000,000 Revolving Credit Facility, dated as of December 16, 2004 (incorporated by reference to Exhibit 4-3B to the Annual Report on Form 10-K for the year ended September 30, 2005, as filed on November 29, 2005)
4.4	$325,000,000 Revolving Credit Facility Credit Agreement (the “$325,000,000 Revolving Credit Facility”) by and among the Company, the guarantors thereto, PNC Bank, NA as Administrative Agent, the banks party thereto, JPMorgan Chase Bank, NA and l Bank of America, N.A., as Syndication Agents, Bank Of Nova Scotia and Citibank, N.A., as Documentation Agents and PNC Capital Markets LLC., as Lead Arranger, dated as of December 13, 2007 (incorporated by reference to Exhibit 4.9 to the Quarterly Report on Form 10-Q as filed on February 6, 2008)

Exhibit Number	Exhibit Description
4.6	$60,000,000 Note Purchase Agreement by and among NJNG and J.P. Morgan Securities Inc., as Placement Agent, dated March 15, 2004 (incorporated by reference to Exhibit 4-1 to the Quarterly Report on Form 10-Q as filed on May 10, 2004)
4.8	$50,000,000 Note Purchase Agreement dated as of September 24, 2007, by and among the Company, New York Life Insurance Company and New York Life Insurance and Annuity Company (incorporated by reference to Exhibit 4.8 to the Annual Report on Form 10-K as filed on December 10, 2007)
4.9	$125,000,000 Note Purchase Agreement dated as of May 15, 2008, by and among New Jersey Natural Gas Company and the Purchasers party thereto (incorporated by reference to Exhibit 4.9 to the Current Report on Form 8-K, as filed on May 20, 2008)
10.2**	Retirement Plan for Represented Employees, as amended on October 1, 1984 (incorporated by reference to Registration Statement No. 002-73181)
10.3**	Retirement Plan for Non-Represented Employees, as amended October 1, 1985 (incorporated by reference to Registration Statement No. 002-73181)
10.4**	Amended and Restated Supplemental Executive Retirement Plan Agreement between the Company and Laurence M. Downes dated December 31, 2008 (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
10.4(a)**	Schedule of Supplemental Executive Retirement Plan Agreements for named executive officers (incorporated by reference to Exhibit 10.4(a) to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
10.4(b)**	Form of Amendment of Supplemental Executive Retirement Plan Agreement between the Company and Named Executive Officer (for future use) (incorporated by reference to Exhibit 10.4(b) to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
10.5(b)	Service Agreement for Rate Schedule SS-1by and between NJNG and Texas Eastern Transmission Company, dated as of June 21, 1995 (incorporated by reference to Exhibit 10-5B to the Annual Report on Form 10-K for the year ended September 30, 1996, as filed on December 30, 1996)
10.6**	The Company's Officer Incentive Plan effective as of October 1, 1986 (incorporated by reference to Exhibit 10-6 to the Annual Report on Form 10-K for the year ended September 30, 1996, as filed on December 30, 1996)
10.7	Lease Agreement between NJNG, as Lessee and State Street Bank and Trust Company of Connecticut, National Association, as Lessor for NJNG's Headquarters Building dated December 21, 1995 (incorporated by reference to Exhibit 10-7 to the Annual Report on Form 10-K for the year ended September 30, 1996, as filed on December 30, 1996)
10.10**	The Company's Long-Term Incentive Compensation Plan, as amended, effective as of October 1, 1995 (incorporated by reference to Appendix A to the Proxy Statement for the 1996 Annual Meeting as filed on January 4, 1996)
10.12**	Employment Continuation Agreement between the Company and Laurence M. Downes dated December 31, 2008 (incorporated by reference to Exhibit 10.12 to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
10.12(a)**	Schedule of Employee Continuation Agreements (incorporated by reference to Exhibit 10.12(a) to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
10.16**	Summary of Company's Non-Employee Director Compensation (incorporated by reference to Exhibit 10.16 to the Current Report on Form 8-K as filed on November 13, 2008)
10.17**	The Company's 2007 Stock Award and Incentive Plan (as amended and restated January 1, 2009) (incorporated by reference to Exhibit 10.17 to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
10.18**	2007 Stock Award and Incentive Plan Form of Stock Option Agreement (incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)

Exhibit Number	Exhibit Description
10.19**	2007 Stock Award and Incentive Plan Form of Performance Units Agreement (incorporated by reference to Exhibit 10.19 to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
10.20**	2007 Stock Award and Incentive Plan Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.20 to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
10.21**	2007 Stock Award and Incentive Plan Form of Performance Share Agreement (incorporated by reference to Exhibit 10.21 to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
10.22**	2007 Stock Award and Incentive Plan Form of Performance-Based Restricted Stock Agreement (incorporated by reference to Exhibit 10.29 to the Current Report on Form 8-K, as filed on April 1, 2009)
10.23	Limited Liability Company Agreement of Steckman Ridge GP, LLC dated as of March 2, 2007 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q, as filed on May 3, 2007)
10.24	Limited Partnership Agreement of Steckman Ridge, LP dated as of March 2, 2007 (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q, as filed on May 3, 2007)
10.25**	2007 Stock Award and Incentive Plan Form of Deferred Stock Retention Award Agreement between NJRES and Joseph P. Shields dated as of December 31, 2008 (incorporated by reference to Exhibit 10.25 to the Current Report on Form 8-K as filed on January 7, 2009)
10.26**	2007 Stock Award and Incentive Plan Form of Deferred Stock Retention Award Agreement between NJNG and Kathleen T. Ellis dated as of December 31, 2008 (incorporated by reference to Exhibit 10.26 to the Current Report on Form 8-K as filed on January 7, 2009)
10.27**	New Jersey Resources Corporation Savings Equalization Plan (incorporated by reference to Exhibit 10.27 to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
10.28**	New Jersey Resources Corporation Pension Equalization Plan (incorporated by reference to Exhibit 10.28 to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
10.29**	New Jersey Resources Corporation Directors' Deferred Compensation Plan (incorporated by reference to Exhibit 10.25 to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
10.30**	New Jersey Resources Corporation Officers' Deferred Compensation Plan (incorporated by reference to Exhibit 10.26 to the Quarterly Report on Form 10-Q, as filed on February 6, 2009)
21.1 *	Subsidiaries of the Registrant
23.1 *	Consent of Independent Registered Public Accounting Firm
31.1 *	Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act
31.2 *	Certification of the Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act
32.1 *†	Certification of the Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act
32.2 *†	Certification of the Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act

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* Filed herewith
** Denotes compensatory plans or arrangements or management contracts

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

NEW JERSEY RESOURCES CORPORATION

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

SUBSIDIARY	STATE OF INCORPORATION
New Jersey Natural Gas Company	New Jersey
NJR Service Corporation	New Jersey
NJR Energy Services Company	New Jersey
NJR Energy Investments Corporation (f/k/a NJR Capital Services Corp.) Subsidiaries:	New Jersey
NJR Energy Corporation	New Jersey
NJR Energy Holdings Corporation Subsidiaries:	New Jersey
NJNR Pipeline Company	New Jersey
NJR Pipeline Company	New Jersey
NJR Storage Holdings Company Subsidiary:	Delaware
NJR Steckman Ridge Storage Company Subsidiaries:	Delaware
Steckman Ridge GP, LLC (Limited Liability Company)	Delaware
Steckman Ridge, LP (Limited Partnership)	Delaware
NJR Investment Company	New Jersey
NJR Clean Energy Ventures Corporation	New Jersey
NJR Retail Holdings Corporation Subsidiaries:	New Jersey
Commercial Realty & Resources Corp.	New Jersey
NJR Home Services Company	New Jersey
NJR Plumbing Services, Inc.	New Jersey

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 033-52409, 333-59013, 333-38808, 333-133453 and 333-140352 on Form S-8, Registration Statement No. 033-5711 on Form S-3, as amended, and Registration Statement No. 333-137320 on Form S-3D of our reports dated November 30, 2009, relating to the consolidated financial statements and financial statement schedules of New Jersey Resources Corporation and subsidiaries (“the Company”), and the effectiveness of the Company’s internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended September 30, 2009.

/s/ Deloitte & Touche, LLP
Parsippany, New Jersey

November 30, 2009

EXHIBIT 31.1

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Laurence M. Downes, certify that:

1) I have reviewed this Annual Report on Form 10-K of New Jersey Resources Corporation for the fiscal year ended September 30, 2009;

2) Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3) Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Annual Report;

4) The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:

   a.) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

   b.) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c.) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual Report based on such evaluation;

   d.) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to adversely affect, the Registrant’s internal control over financial reporting; and

5) The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

   a.) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b.) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 30, 2009

By: /s/ Laurence M. Downes
Laurence M. Downes
Chairman & Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Glenn C. Lockwood , certify that:

1) I have reviewed this Annual Report on Form 10-K of New Jersey Resources Corporation for the fiscal year ended September 30, 2009;

2) Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3) Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Annual Report;

4) The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:

   a.) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

   b.) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c.) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual Report based on such evaluation;

   d.) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to adversely affect, the Registrant's internal control over financial reporting; and

5) The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

   a.) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b.) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 30, 2009

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

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Laurence M. Downes hereby certifies as follows:

(a) I am the Chief Executive Officer of New Jersey Resources Corporation (the "Company");

(b) To the best of my knowledge, the Company's Annual Report on Form 10-K for the year ended September 30, 2009 (the "Report") fully complies with the requirements of Section 13(a) or section 15(d) of the Securities Exchange Act of 1934, as amended; and

(c) To the best of my knowledge, based upon a review of the Report, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

NEW JERSEY RESOURCES CORPORATION

Date: November 30, 2009

By: /s/ Laurence M. Downes
Laurence M. Downes
Chairman and Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Glenn C. Lockwood hereby certifies as follows:

(a) I am the Chief Financial Officer of New Jersey Resources Corporation (the "Company");

(b) To the best of my knowledge, the Company's Annual Report on Form 10-K for the year ended September 30, 2009 (the "Report") fully complies with the requirements of Section 13(a) or section 15(d) of the Securities Exchange Act of 1934, as amended; and

(c) To the best of my knowledge, based upon a review of the Report, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

NEW JERSEY RESOURCES CORPORATION

Date: November 30, 2009

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