NEW JERSEY RESOURCES CORP
Form 10-K
November 23, 2011

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

FORM 10 K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
Commission file number 1 8359
NEW JERSEY RESOURCES CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes: x No: o

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes: o No: x

The aggregate market value of the Registrant's Common Stock held by nonaffiliates was $1,753,066,818 based on the closing price of $42.95 per share on March 31, 2011, as reported on the New York Stock Exchange.

The number of shares outstanding of $2.50 par value Common Stock as of November 21, 2011 was 41,446.786.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareowners (Proxy Statement) to be held January 25, 2012, to be filed on or about December 16, 2011, 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.

New Jersey Resources Corporation

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report, including, without limitation, statements as to management expectations and beliefs presented in Item 1.-Business, under the captions “BUSINESS SEGMENTS -Natural Gas Distribution-General;-Seasonality of Gas Revenues;-Gas Supply;-Regulation and Rates;-Competition;” “-Energy Services;” "-Clean Energy Ventures;" “-Midstream Assets;” “-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, qualifications for federal investment tax credits (ITCs) and Solar Renewable Energy Certificates (SRECs), financial condition, results of operations, cash flows, capital requirements, market risk and other matters for fiscal 2012 and thereafter include many factors that are beyond the Company's ability to control or estimate precisely, such as estimates of future market conditions, the behavior of other market participants and changes in the debt and equity capital markets. The factors that could cause actual results to differ materially from NJR's expectations include, but are not limited to, those discussed in Item 1A. Risk Factors, as well as the following:

- weather and economic conditions;
- demographic changes in the New Jersey Natural Gas (NJNG) service territory and their effect on NJNG's customer growth;
- volatility of natural gas and other commodity prices and their impact on NJNG customer usage, NJNG's incentive programs, NJR Energy Services' (NJRES) operations and on the Company's risk management efforts;
- changes in rating agency requirements and/or credit ratings and their effect on availability and cost of capital to the Company;
- the impact of volatility in the credit markets;
- the ability to comply with debt covenants;
- the impact to the asset values and resulting higher costs and funding obligations of NJR's pension and postemployment benefit plans as a result of downturns in the financial markets, a lower discount rate, and impacts associated with the Patient Protection and Affordable Care Act;
- accounting effects and other risks associated with hedging activities and use of derivatives contracts;
- commercial and wholesale credit risks, including the availability of creditworthy customers and counterparties, liquidity in the wholesale energy trading market and the Company's ability to recover all of NJRES' funds in the MF Global liquidation proceedings;
- the ability to obtain governmental approvals and/or financing for the construction, development and operation of certain non-regulated energy investments;
- risks associated with the management of the Company's joint ventures and partnerships;
- risks associated with our investments in solar energy projects, including the availability of regulatory and tax incentives, logistical risks and potential delays related to construction, permitting, regulatory approvals and electric grid interconnection, the availability of viable projects and NJR's eligibility for ITCs, the future market for SRECs and operational risks related to projects in service;
- timing of qualifying for ITCs due to delays or failures to complete planned solar energy projects and the resulting effect on our effective tax rate and earnings;

- the level and rate at which NJNG's costs and expenses are incurred and the extent to which they are allowed to be recovered from customers through the regulatory process;
- access to adequate supplies of natural gas and dependence on third-party storage and transportation facilities for natural gas supply;
- operating risks incidental to handling, storing, transporting and providing customers with natural gas;
- risks related to our employee workforce, including a work stoppage;
- the regulatory and pricing policies of federal and state regulatory agencies;
- the costs of compliance with the proposed regulatory framework for over-the-counter derivatives;
- the costs of compliance with present and future environmental laws, including potential climate change-related legislation;
- risks related to changes in accounting standards;
- the disallowance of recovery of environmental-related expenditures and other regulatory changes;
- environmental-related and other litigation and other uncertainties; and
- the impact of natural disasters, terrorist activities, and other extreme events.

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

New Jersey Resources Corporation
Part I

ITEM 1.
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 and Mid-Continent regions to the Appalachian and Northeast regions, 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 495,000 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) maintains and transacts around a portfolio of physical assets consisting of natural gas storage and transportation contracts. NJRES also provides wholesale energy management services to other energy companies and natural gas producers. NJRES comprises the Company's Energy Services segment.

Effective October 1, 2010, NJR established Clean Energy Ventures as a new segment to report the results of operations and assets related to the Company's capital investments in renewable energy projects primarily consisting of residential and commercial rooftop and ground mount solar projects. NJR Clean Energy Ventures (NJRCEV) comprises the Clean Energy Ventures segment.

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

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

- 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 to approximately 138,200 customers, as well as solar installation projects.

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

- 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 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.

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ITEM 1. BUSINESS
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BUSINESS SEGMENTS

The Company operates within four reportable business segments: Natural Gas Distribution, Energy Services, Clean Energy Ventures and Midstream Assets.

The Natural Gas Distribution segment consists of regulated energy and off-system, capacity and storage management operations. The Energy Services segment consists of unregulated wholesale energy operations. The Clean Energy Ventures segment consists of capital investments in renewable energy projects. Lastly, the Midstream Asset segment consists of investments in the midstream natural gas market, such as natural gas transportation and storage facilities. Financial information related to these business segments for the years ended September 30, 2011, 2010 and 2009 are set forth in Note 14. Business Segment and Other Operations Data.

Natural Gas Distribution

General

NJNG provides natural gas service to approximately 495,000 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, Middlesex and Sussex 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 6,783 and 6,189 new customers and added natural gas heat and other services to another 641 and 667 existing customers in fiscal 2011 and 2010, respectively. NJNG's new customer annual growth rate of approximately 1.4 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 new annual utility gross margin, a non- Generally Accepted Accounting Principles (GAAP) financial measure, 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 oil, electricity and propane. The Company estimates that, during fiscal 2012, approximately 50 percent of NJNG's projected customer growth will consist of conversions.

The business is subject to various risks, such as those associated with adverse economic conditions, which can negatively impact customer growth, operating and financing costs, fluctuations in commodity prices, which can impact customer usage, customer conservation efforts, certain regulatory actions and environmental remediation. It is often difficult to predict the impact of trends associated with these risks. NJNG employs certain strategies to manage the challenges it faces, including pursuing customer conversions from other fuel sources and monitoring new construction markets through contact with developers, utilizing incentive programs through BPU-approved mechanisms to reduce gas costs, pursuing rate and other regulatory strategies designed to stabilize and decouple gross margin, and working actively with consultants and the New Jersey Department of Environmental Protection to manage expectations related to its obligations associated with its manufactured gas plant (MGP) sites.

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ITEM 1. BUSINESS
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Operating Revenues/Throughput

For the fiscal year ended September 30, 2011, operating revenues and throughput by customer class were as follows:

	Operating Revenues (Thousands)			Throughput (Bcf) [1]		
Residential	$579,038	59	%	42.3	24	%
Commercial and other	116,043	12		8.3	4	
Firm transportation	57,126	6		12.2	7	
Total residential and commercial	752,207	77	%	62.8	35	%
Interruptible	7,029	1		8.3	5	
Total system	759,236	78	%	71.1	40	%
Incentive programs	212,488	22		107.0	60	
Total	$971,724	100	%	178.1	100	%

(1) Billion cubic feet.

In fiscal 2011, 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 twenty-year average, calculated based upon three reference areas representative of NJNG's service territory.

The CIP, a mechanism authorized by the BPU, stabilizes fluctuations in NJNG's utility gross margin, as a result of variations in weather. In addition, the CIP decouples the link between utility gross margin and customer usage, allowing NJNG to promote energy conservation measures. Recovery of such utility gross margin is subject to additional conditions including an earnings test and an evaluation of Basic Gas Supply Service (BGSS)-related savings achieved. The CIP was initially authorized in October 2006 as a three-year pilot program, however, 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, in fiscal 2010 NJNG requested and received approval from the BPU to extend the CIP through September 30, 2013.

For additional information regarding the CIP, see Item 7. Management's Discussion and Analysis-Natural Gas Distribution Operations and Note 3. 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 (November through March) and short-term (seven months or less) contracts. In fiscal 2011, NJNG purchased gas from approximately one hundred suppliers under contracts ranging from one day to one year and purchased over 10 percent of its natural gas from two suppliers, Southwestern Energy Services Company and EQT Energy, LLC. NJNG believes the loss of any one or both 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 citygate stations located in Middlesex, Morris and Passaic counties in New Jersey.

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ITEM 1. BUSINESS
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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	2013
Texas Eastern Transmission, L.P.	300,948	Various dates between 2014 and 2023
Tennessee Gas Pipeline Co.	25,166	Various dates between 2013 and 2015
Transcontinental Gas Pipe Line Corp.	3,931	2014
Columbia Gulf Transmission Corp.	20,000	2024
Total	362,045	

The pipeline companies that provide firm contract transportation service for NJNG and supply the above pipelines are ANR Pipeline Company, Iroquois Gas Transmission L.P., Tennessee Gas Pipeline Company, 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
Total	102,941	

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

Company	Maximum daily deliverability (dths)	Expiration
ANR Pipeline Company	39,931	2013
Dominion Transmission Corporation	103,714	Various dates between 2014 and 2017
Steckman Ridge, L.P.	38,000	2020
Central New York Oil & Gas (Stagecoach)	25,337	2015
Total	206,982	

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

NJRES Citygate Supplies

NJNG has several citygate supply agreements with NJRES. NJNG can call upon a supply of up to 28,600 dths/day delivered to NJNG's Transco citygate and a supply of up to 20,000 dths/day delivered to NJNG's Texas Eastern citygate. NJNG and NJRES have an agreement where NJNG released its Stagecoach storage capacity of 1.6 million dths to NJRES for the period from January 1, 2010 to March 31, 2013. NJRES will manage the storage and provide delivery to NJNG at NJNG's request as needed. NJNG and NJRES also have an agreement where NJNG released 159,790 dths/day of its Texas Eastern Transmission capacity to NJRES for the period from November 1, 2010 to October 31, 2014. NJNG can call upon a supply of up to 159,790 dths/day delivered to NJNG's Texas Eastern citygate as needed. See Note 15. Related Party Transactions in the accompanying Consolidated Financial Statements for additional information regarding these transactions.

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ITEM 1. BUSINESS
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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/day, which represents approximately 20 percent of its estimated peak day sendout. See Item 2. Properties-NJNG for additional information regarding the LNG storage facilities.

Basic Gas Supply Service (BGSS)

Wholesale natural gas prices are, by their 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 BGSS clause. BGSS is a BPU-approved clause designed to allow for the recovery of natural gas commodity costs. The clause 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 is also 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.

NJNG is also permitted to refund or credit back a portion of the commodity costs to customers when the natural gas commodity costs decrease in comparison to amounts projected or to amounts previously collected from customers. During fiscal 2010, NJNG provided refunds and bill credits of approximately $110.4 million to NJNG's residential and small commercial customers due to a decline in the wholesale price of natural gas. Commodity prices have since stabilized, therefore, there were no refunds or rate adjustments during fiscal 2011.

Concurrent with the annual BGSS filing, NJNG also files for an annual review of its CIP. The CIP was initially approved as a three-year program through September 2009. During fiscal 2010 the BPU approved an extension of the program through September 30, 2013. In June 2010, the BPU issued their final order approving NJNG's BGSS rate reduction of 17.2 percent for the average residential heating customer for fiscal 2010 and NJNG's recovery of $6.9 million of CIP rates representing amounts accrued and estimated through September 2009.

In June 2010, NJNG requested certain changes to its BGSS, including a 3.5 percent decrease for the average residential heating customer related to the BGSS rate effective September 16, 2010. This offset NJNG's request for an increase in the CIP recovery rate, effective October 1, 2010, allowing for a total annual recovery of $12.1 million representing CIP amounts accrued and estimated through September 30, 2010. The BPU approved this filing in April 2011.

In June 2011, NJNG proposed to reduce BGSS rates 9.1 percent for the average residential heating customer as a result of cost control and natural gas purchasing strategies, as well as lower natural gas prices. In addition, NJNG requested approval to modify its CIP recovery rates resulting in a decrease to the total annual recovery of $3 million. The proposed CIP rates result in a 0.8 percent decrease to residential heat customers and a minor increase to all other customers. In September 2011, the BPU approved the changes on a provisional basis, effective October 1, 2011.

These rate changes, as well as other regulatory actions, are discussed further in Note 3. Regulation in the accompanying Consolidated Financial Statements.

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.

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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 3. 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, 2011, NJNG had 31,830 residential and 8,693 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 NJRES has expertise and include states from the Gulf Coast and Mid-Continent regions to the Appalachian and Northeast regions, the West Coast and Canada.

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

- 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, electric generation facilities and natural gas producers;

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

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- 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 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 including any transportation and storage costs, 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 natural gas sale. NJRES, therefore, believes financial margin is more representative of its overall expected economic result.

NJRES focuses on creating value from natural gas assets, which are typically amassed through contractual rights to natural gas transportation and storage capacity. NJRES has developed a portfolio of natural gas storage and transportation capacity in the Gulf Coast, Mid-Continent, Appalachian and Northeast 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 may lock in these price differentials through the use of financial instruments. In addition, NJRES seeks to optimize these assets on a daily basis as market conditions change by evaluating all the natural gas supplies and transportation to which it has access. 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 and storage counterparties, where NJRES will park (store) natural gas to be redelivered to NJRES at a later date or borrow (receive a loan of natural gas) to be returned to the pipeline or storage field 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 to generate financial margin. In evaluating these transactions NJRES will compare the fixed fee it will pay to or receive from the counterparty, 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 contracts.

NJRES has built a portfolio of customers including local distribution companies, industrial companies, electric generators, retail aggregators, natural gas producers 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, segregation of duties, and formal contract and credit review approval processes. NJRES continuously monitors and seeks to reduce the risk associated with its credit exposures with its various counterparties. The Risk Management Committee (RMC) of NJR oversees compliance with these established guidelines.

Clean Energy Ventures

NJRCEV is an unregulated company that invests, owns and operates renewable energy projects located in the State of New Jersey.

During fiscal 2011, NJRCEV constructed and began operation of approximately 9.8 MW (megawatts) of residential and commercial rooftop and ground mount solar systems. These systems are registered with the BPU's Office of Clean Energy and are qualified to produce solar renewable energy certificates (SREC). An SREC represents the renewable attributes associated with one MWh (megawatt hour) of solar energy generated. NJRCEV sells the SRECs, at market-based rates, to electric Load Serving Entities (LSE) that are required to comply with minimum state renewable energy generation standards. Solar projects are also eligible for federal investment tax credits (ITC) in the year that they are placed into service.

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NJRCEV is subject to various risks including those associated with adverse federal and state legislation, construction delays that can impact the timing or eligibility of tax incentives, etc., technological changes, and the future market of SRECs. See Item 1A. Risk Factors for additional information regarding these risks.

Effective October 1, 2010, NJR established Clean Energy Ventures as a new reportable segment. During fiscal 2010, the results of operations, assets and other financial information for Clean Energy Ventures were reported as components of Retail and Other operations. As required, prior year information for both Clean Energy Ventures and Retail and Other operations has been restated throughout this report to be consistent with current year presentation.

Midstream Assets

Midstream Assets include investments in natural gas transportation and storage assets and is comprised of the following subsidiaries:

- NJREH invests in energy-related ventures through two subsidiaries, NJNR Pipeline, which consists 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 and;

- 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.

OTHER BUSINESS OPERATIONS

Retail and Other

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

- NJRHS, which provides HVAC service, sales and installation of appliances to approximately 138,200 customers , as well as installation of solar equipment;

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

As of September 30, 2011, CR&R's real estate portfolio consisted of 27 acres of undeveloped land in Monmouth County with a net book value of $5.4 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 $8.3 million;

- NJR Investment, a company that invests in 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 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 2011, 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 approximately $161.5 million to $278.5 million.

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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, NJNG accrues the best estimate in the range, or if no point within the range is more likely than the other, it is NJNG's policy to accrue the lower end of the range. As of September 30, 2011, NJNG has recorded an MGP remediation liability and a corresponding Regulatory asset of $182.9 million on the Consolidated Balance Sheets, which represents the best estimate; however, actual costs may differ from these estimates. NJNG will continue to seek recovery of these costs through its remediation rider.

EMPLOYEE RELATIONS

As of September 30, 2011, the Company and its subsidiaries employed 891 employees compared with 887 employees as of September 30, 2010. Of the total number of employees, NJNG had 402 and 406 and NJRHS had 98 and 96 union employees as of September 30, 2011 and 2010, 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 2012, 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 reports and any amendments to those reports 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.

In Part III of this Form 10-K, we incorporate certain information by reference from our Proxy Statement for our 2012 annual meeting of shareholders. We expect to file that Proxy Statement with the SEC on or about December 16, 2011, and we will make it available on our website as soon as reasonably possible. Please refer to the Proxy Statement when it is available.

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.

New Jersey Resources Corporation
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ITEM 1A. RISK FACTORS
(Continued)

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 markets 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, particularly with respect to our variable rate debt instruments

NJR and its subsidiaries' ability to secure short-term financing is subject to conditions in the credit markets. A prolonged constriction of credit availability could affect management's ability to execute NJR'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.

NJRES and NJNG 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.

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.

ITEM 1A. RISK FACTORS
(Continued)

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's or NJNG's financial condition.

NJRES' and NJRCEV's ability to conduct their businesses 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 and NJRCEV, 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. In addition, NJRCEV would be required to seek alternative financing for its projects. NJRCEV may be unable to obtain such financing or able to do so only on less favorable terms.

The cost of providing pension and postemployment health care benefits to eligible former employees is subject to changes in pension fund values, interest rates 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 eligible 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 rates and changing demographics, including longer life expectancy of beneficiaries, an expected increase in the number of eligible former employees over the next five years, impacts from healthcare legislation and increases in health care costs.

Any sustained declines in equity markets and/or 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. 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.

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 GAAP used in the United States of America 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.

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ITEM 1A. RISK FACTORS
(Continued)

A change in our effective tax rate as a result of a failure to qualify for ITCs or being delayed in qualifying for ITCs due to delays or failures to complete planned solar energy projects may have a material impact on our earnings.

GAAP requires NJR to apply an effective tax rate to interim periods that is consistent with our estimated annual effective tax rate. As a result, quarterly, NJR projects the annual effective tax rate and then adjusts the tax expense recorded in that quarter to reflect the projected annual effective tax rate. The amount of the quarterly adjustment is based on information and assumptions, which are subject to change and which may have a material impact on quarterly and annual net financial earnings. Factors we consider in estimating the probability of projects being completed during the fiscal year include, but are not limited to, board of directors approval, execution of various contracts, including power purchase agreements, construction logistics, permitting and interconnection completion. If NJR fails to qualify for ITCs or is delayed in qualifying for some ITCs during the fiscal year due to delays or failures to complete planned solar energy projects as scheduled, our quarterly and annual net income and net financial earnings may be materially impacted.

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, NJNG could suffer substantial losses. Moreover, as a result, NJNG has been, and likely will be, a defendant in legal proceedings and litigation arising in the ordinary course of business. Although NJNG maintains insurance coverage, insurance may not be sufficient to cover all material expenses related to these risks.

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 and regulators not allow the pass-through of funds to customers, it may result in a loss that could have a material impact on NJR's financial position, cash flows and statement of operations.

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 and foreign exchange contracts, to manage commodity, financial market and foreign currency 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.

ITEM 1A. RISK FACTORS
(Continued)

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 may cause 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 the Company's cash flows.

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 conversion of customers to natural gas from other fuel sources. Should there be an extended economic recession, 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. In addition, significant increases in the supply of natural gas in NJRES' market areas, for example that can occur as a result of increased production along the Marcellus Shale in the Appalachian basin, can reduce NJRES' ability to find opportunities going forward. Changes in pricing dynamics and supply could have an adverse impact on NJRES' optimization activities, 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.

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ITEM 1A. RISK FACTORS
(Continued)

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.

Our investments in solar energy projects are subject to substantial risks.

Commercial and residential solar energy projects, such as those in which we are investing, are relatively new and have been developed through advancement in technologies whose commercial application is limited, and which are unrelated to our core businesses. These projects are dependent upon currently existing favorable regulatory and tax incentives and there is uncertainty about the extent to which such incentives will be available in the future. The potential return on investment of these projects is based substantially on our eligibility for ITCs and the future market for SRECs that are traded in a competitive marketplace in the state of New Jersey. As a result, these solar projects face the risk that the currently favorable regulatory regimes and tax laws may expire or be adversely modified during the life of the projects. Furthermore, a sustained decrease in the value of SRECs would negatively impact the return on investment of these projects. Legislative changes or declines in the price of SRECs could also lead to an impairment of the assets.

In addition, because these projects depend on technology outside of our expertise, there are risks associated with our ability to develop and manage such projects profitably, including logistical risks and potential delays related to construction, permitting, regulatory approvals and electric grid interconnection, as well as the operational risk that the projects in service will not perform according to expectations due to equipment failure, suboptimal weather conditions or other factors beyond our control. All of the aforementioned risks could reduce the availability of viable solar energy projects for development. Furthermore, at the development or acquisition stage, because of the nascent nature of the solar energy industry and the limited experience with the relevant technology, our ability to predict actual performance results may be hindered and the projects may not perform as predicted.

We may be adversely impacted by natural disasters, pandemic illness, terrorist activities and other extreme events to which we may not be able to promptly respond.

Local or national natural disasters, pandemic illness, terrorist activities and other extreme events are a threat to our assets and operations. Companies in our industry and located in our service territory may face a heightened risk due to exposure to acts of terrorism that could target or impact our natural gas distribution, transmission and storage facilities and result in a disruption in our operations and ability to meet customer requirements. In addition, the threat of terrorist activities could lead to increased economic instability and volatility in the price of natural gas that could affect our operations. Natural disasters or actual or threatened terrorist activities may also disrupt capital markets and our ability to raise capital, or impact our suppliers or our customers directly. Local disaster or pandemic illness could result in part of our workforce being unable to operate or maintain our infrastructure or perform other tasks necessary to conduct our business. In addition, these risks could result in loss of human life, significant damage to property, environmental damage, impairment of our operations and substantial loss to us. Our regulators may not allow us to recover part or all of the increased cost related to the foregoing events from our customers, which would negatively affect our earnings.

We maintain emergency planning and training programs to remain ready to respond to events that could cause business interruption. However, a slow or inadequate response to events may have an adverse impact on operations and earnings. We may not be able to obtain sufficient insurance to cover all risks associated with local and national disasters, pandemic illness, terrorist activities and other events, which could increase the risk that an event could adversely affect our operations or financial results.

A work stoppage could adversely affect our natural gas distribution operations and results.

The majority of our natural gas distribution segment workforce is represented by the IBEW Local 1820 (Union) and is covered by a collective bargaining agreement that will expire in December 2011. Disputes with the Union over terms and conditions of the agreement could result in instability in our labor relationship and work stoppages that could impact the timely delivery of gas and other services from our utility, which could strain relationships with customers and state regulators and cause a loss of

ITEM 1A. RISK FACTORS
(Continued)

revenues that could adversely affect our results of operations. Our collective bargaining agreement may also increase the cost of employing our natural gas distribution segment workforce, affect our ability to continue offering market-based salaries and employee benefits, limit our flexibility in dealing with our workforce, and limit our ability to change work rules and practices and implement other efficiency-related improvements to successfully compete in today's challenging marketplace.

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 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. In addition, the Pipeline Transportation Safety Improvement Act has been passed by the United States Senate, and if enacted will increase federal regulatory oversight and could also increase administrative costs that may not be recovered in rates from customers, which could have an adverse impact on NJR's 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 applicable regulations. 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 in the period incurred. 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, certain deferred income tax 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.

Risks related to a new regulatory framework for over-the-counter derivatives may result in substantial costs to NJR and have an adverse impact on our businesses.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) requires the Commodity Futures Trading Commission (CFTC) to introduce a comprehensive new regulatory framework for over-the-counter derivatives. The Dodd-Frank Act requires that swap transactions designated by the CFTC for clearing must be cleared and traded through a derivatives clearing organization, unless otherwise exempt. Although the CFTC's proposed regulations and legislative history of the Dodd-Frank Act provide strong evidence that market participants, such as NJRES and NJNG, which utilize derivative financial instruments to hedge commercial risks, would be exempt from mandatory clearing, it is uncertain what the final implementing regulations to be issued by the CFTC with respect to swaps will provide. The effect of the Dodd-Frank Act's mandates with respect to derivatives on our business depends in large measure on pending CFTC rulemaking proceedings and, in particular, the final

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ITEM 1A. RISK FACTORS
(Continued)

definitions for the key terms “Swap Dealer” and “Major Swap Participant” and on the breadth of the “end-user exception” to mandatory clearing under the regulations. Entities defined as Swap Dealers and Major Swap Participants will be required to register with the CFTC and the SEC, adhere to specified capital requirements and face costly requirements for clearing and posting margin, as well as additional requirements for disclosure to counterparties, reporting, recordkeeping and business conduct. Even though NJRES and NJNG currently clear most transactions, such regulations could materially affect our ability to economically hedge our purchases and sales of natural gas by increasing the collateral costs associated with such activities. Even if our businesses are not defined as Swap Dealers or Major Swap Participants, our margin requirements could rise when transacting with Swap Dealers or Major Swap Participants as a consequence of the new collateral requirements required of such entities. If we fail to comply with the new regulations, we could be subject to fines, penalties or other enforcement action by the authorities that regulate our operations, or otherwise be subject to material costs and liabilities.

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 delay, defer or prevent 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 prevent 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 delay or prevent a change of control of NJR.

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, pipeline transportation systems and solar energy projects, 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.

Changes in accounting standards may adversely impact our financial condition and results of operations.

The SEC is currently considering whether publicly registered companies in the United States should be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) instead of the current GAAP in the United States. IFRS is a comprehensive set of accounting standards promulgated by the International Accounting Standards Board (IASB), which are currently in effect for most other countries in the world. If the SEC decides to adopt IFRS, we expect that U.S. companies would not be required to report under these new standards until 2015 or 2016 at the earliest. Unlike U.S. GAAP, IFRS does not currently provide an industry accounting standard for rate-regulated activities. As such, if IFRS were adopted in its current state, we may be precluded from applying certain regulatory accounting principles, including the recognition of certain regulatory assets and regulatory liabilities. The potential issues associated with rate-regulated accounting, along with other potential changes associated with the adoption of IFRS, may adversely impact our financial condition and results of operations, should adoption of IFRS be required. Also, the U.S. Financial Accounting Standards Board is considering various changes to U.S. GAAP, some of which may be significant, as part of a joint effort with the IASB to converge accounting standards over the next several years. If approved, adoption of these changes could adversely impact our financial condition and results of operations.

New Jersey Resources Corporation
Part I

ITEM 1A. RISK FACTORS
(Continued)

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 6,820 miles of distribution main, 6,740 miles of service main, 214 miles of transmission main and approximately 515,000 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.

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, 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 thirty-two supplemental indentures (Indenture), as security for NJNG's mortgage bonds, which totaled $269.8 million at September 30, 2011. In addition, under the terms of the Indenture, NJNG could have issued up to $530.4 million of additional first mortgage bonds as of September 30, 2011.

All Other Business Operations

As of September 30, 2011, CR&R's real estate portfolio consisted of 27 acres of undeveloped land in Monmouth County with a net book value of $5.4 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 $8.3 million. On August 22, 2011, NJR sold approximately 4.5 acres of CR&R's undeveloped land located in Monmouth County with a net book value of $1.6 million. The land was sold for $2.4 million with a pre-tax gain on the sale of $785,000.

ITEM 2. PROPERTIES
(Continued)

As of September 30, 2011, NJRES currently leases office space in Wall Township, New Jersey and in Houston, Texas for its business activities.

As of September 30, 2011, 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 Bcf natural gas storage facility with up to 12 Bcf of working gas capacity. The Company was obligated to fund up to $132.5 million associated with the construction and development of Steckman Ridge. As of September 30, 2011, NJR had cash investments of $126.8 million in Steckman Ridge, excluding capitalized interest and other direct costs of $7.7 million and received cash distributions of $18.9 million. Steckman Ridge is fully operational, however, should there be additional construction on the facility to improve performance, NJR would have an additional funding obligation of up to $5.7 million. Equipment on the property includes a compressor station, gathering pipelines and pipeline interconnections.

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

NJRCEV has various contracts, including lease agreements, that allow access rights for the installation and maintenance of solar equipment on commercial and residential rooftops.

Capital Expenditure Program

See Item 7. Management Discussion and Analysis-Cash Flows for a discussion of anticipated fiscal 2012 and 2013 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 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.

Subject to BPU approval, NJNG expects to recover its remediation expenditures, including carrying costs, over rolling seven-year periods pursuant to a Remediation Adjustment (RA) approved by the BPU. In April 2010, the BPU approved the recovery of the remediation expenditures incurred through September 30, 2008, increasing the expected annual recovery to approximately $20 million. As of September 30, 2011, $75.6 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in regulatory assets on the Consolidated Balance Sheets.

In September 2011, NJNG updated an environmental review of the MGP sites, including a review of potential liability for investigation and remedial action. NJNG estimated at the time of the review that total future expenditures to remediate and monitor the five MGP sites for which it is responsible, including potential liabilities for Natural Resource Damages that might be brought by the NJDEP for alleged injury to groundwater or other natural resources concerning these sites, will range from approximately $161.5 million to $278.5 million. NJNG's estimate 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 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, NJNG accrues the best estimate in the range, or if no point within the range is more likely than the other, it is NJNG's policy to accrue the lower end of the range. As of September 30, 2011, NJNG has recorded an MGP remediation liability and a corresponding regulatory asset of $182.9 million on the Consolidated Balance Sheets, representing the best estimate. The actual costs to be incurred by NJNG are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay and any insurance recoveries.

NJNG will continue to seek recovery of MGP-related costs through the RA. If any future regulatory position indicates that the recovery of such costs is not probable, the related 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.

New Jersey Resources Corporation
Part I

ITEM 3. LEGAL PROCEEDINGS
(Continued)

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 effect on its financial condition, results of operations or cash flows.

ITEM 4. (REMOVED AND RESERVED)

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	54	1986
Executive Vice President and Chief Operating Officer, NJNG and Senior Vice President, Corporate Affairs and Marketing	Kathleen T. Ellis	58	2004
Executive Vice President and Chief Financial Officer	Glenn C. Lockwood	50	1990
Senior Vice President and General Counsel	Mariellen Dugan	45	2005
Senior Vice President, NJRES	Stephen Westhoven	43	2004
President, NJRCEV and NJRHS	Stanley M. Kosierowski	59	2008
Vice President, Corporate Services, NJR Service	Deborah G. Zilai	58	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.

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, New Jersey.

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

Mr. Lockwood has held the position of Executive Vice President since January 2011. He has held the position of Chief Financial Officer since September 1995 and held the position of Senior Vice President from January 1996 to December 2010. 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, New Jersey.

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

Stephen Westhoven, Senior Vice President, NJRES

Mr. Westhoven has held the position of Senior Vice President, NJRES since May 2010. He joined NJNG in November 1990. Prior to his current position, he worked in the engineering and gas supply departments of NJNG, before becoming Director, and eventually serving as Vice President of Energy Trading at NJRES from January 2004 to May 2010.

Stanley M. Kosierowski, President, NJRCEV and NJRHS

Mr. Kosierowski has held the position of President, NJRCEV and NJRHS since May 2010. He joined NJRCEV in September 2008 as Vice President. He also held the position of Vice President, Strategy and Operations of NJR from July 2009 to May 2010. Prior to his joining NJRCEV, he held the position of Chief Operating Officer of the New Jersey Economic Development Authority, Trenton, NJ from January 2004 to September 2008 and had a 30-year career at PSE&G where his last position held was President of Energy Technologies until December 2003.

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 20-year career at International Business Machines Corporation, where she held various management positions. Her current responsibilities include technology, human resources and supply chain management. From June 1996 to May 2005, she served as Vice President, Information Systems and Services.

New Jersey Resources Corporation
Part II

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 (NYSE) under the ticker symbol NJR. As of September 30, 2011, NJR had 39,861 holders of record of its common stock.

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

	2011		2010		Dividends Paid	
	High	Low	High	Low	2011	2010
Fiscal Quarter						
First	$44.10	$38.94	$38.55	$34.49	$0.34	$0.31
Second	$44.09	$40.24	$38.17	$33.49	$0.36	$0.34
Third	$46.29	$41.22	$39.01	$34.07	$0.36	$0.34
Fourth	$47.45	$39.60	$39.68	$34.42	$0.36	$0.34

The following table sets forth NJR's repurchase activity for the quarter ended September 30, 2011:

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
07/01/11 - 07/31/11	31,000	$44.33	31,000	1,480,970
08/01/11 - 08/31/11	37,800	$42.24	37,800	1,443,170
09/01/11 - 09/30/11	—	$—	—	1,443,170
Total	68,800	$43.18	68,800	1,443,170

(1) The stock repurchase plan, which was authorized by our Board of Directors, became effective in September 1996 and includes 8,750,000 shares of common stock for repurchase, of which, as of September 30, 2011, 1,443,170 shares remained for repurchase. The stock repurchase plan will expire when we have repurchased all shares authorized for repurchase thereunder, unless the repurchase plan is earlier terminated by action of our Board of Directors or further shares are authorized for repurchase.

New Jersey Resources Corporation
Part II

ITEM 6. SELECTED FINANCIAL DATA

CONSOLIDATED FINANCIAL STATISTICS
(Thousands, except per share data)

Fiscal Years Ended September 30,	2011	2010	2009	2008	2007
SELECTED FINANCIAL DATA					
Operating revenues	$3,009,209	$2,639,304	$2,592,460	$3,816,210	$3,021,765
Operating expenses					
Gas purchases	2,550,571	2,167,558	2,245,169	3,330,756	2,625,560
Operation and maintenance	163,111	148,565	149,151	148,384	136,601
Regulatory rider expenses	51,246	45,966	44,992	39,666	37,605
Depreciation and amortization	34,370	32,267	30,328	38,464	36,235
Energy and other taxes	66,910	56,823	74,750	65,602	62,499
Total operating expenses	2,866,208	2,451,179	2,544,390	3,622,872	2,898,500
Operating income	143,001	188,125	48,070	193,338	123,265
Other income	3,747	5,258	4,409	4,368	4,294
Interest expense, net of capitalized interest	19,623	21,251	21,014	25,811	27,613
Income before income taxes	127,125	172,132	31,465	171,895	99,946
Income tax provision	37,665	64,692	11,376	66,034	39,778
Equity in earnings of affiliates	11,839	10,017	7,153	3,307	2,765
Net income	$101,299	$117,457	$27,242	$109,168	$62,933
Total assets	$2,649,444	$2,563,133	$2,321,030	$2,635,297	$2,210,354
CAPITALIZATION					
Common stock equity	$776,257	$725,483	$689,726	$728,068	$650,648
Long-term debt	426,797	428,925	455,492	455,117	383,184
Total capitalization	$1,203,054	$1,154,408	$1,145,218	$1,183,185	$1,033,832
COMMON STOCK DATA					
Earnings per share-Basic	$2.45	$2.84	$0.65	$2.61	$1.50
Earnings per share-Diluted	$2.44	$2.82	$0.64	$2.59	$1.49
Dividends declared per share	$1.44	$1.36	$1.24	$1.11	$1.01
NON-GAAP DATA					
Net income	$101,299	$117,457	$27,242	$109,168	$62,933
Add:					
Unrealized loss (gain) on derivative instruments and related transactions, net of taxes	23,320	(16,825)	39,254	(6,028)	42,209
Effects of economic hedging related to natural gas inventory, net of taxes	(18,086)	1,132	34,474	(9,325)	(16,788)
Net financial earnings [(1)]	$106,533	$101,764	$100,970	$93,815	$88,354
Net financial earnings per share-Basic	$2.58	$2.46	$2.40	$2.24	$2.11
Net financial earnings per share-Diluted	$2.56	$2.44	$2.38	$2.22	$2.10

(1) Net financial earnings (NFE) is a financial measure not calculated in accordance with generally accepted accounting principles (GAAP) of the United States. NFE eliminates the timing differences surrounding the recognition of certain gains or losses, to effectively match the earnings effects of economic hedges associated with

the physical sale or purchase of gas and, therefore, eliminates the impact of volatility to GAAP earnings associated with the related derivative instruments. For further discussion of this financial measure, see the Energy Services segment and Retail and Other Operations in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

New Jersey Resources Corporation
Part II

ITEM 6. SELECTED FINANCIAL DATA
(Continued)

NJNG OPERATING STATISTICS

Fiscal Years Ended September 30,	2011	2010	2009	2008	2007
Operating revenues ($ in thousands)					
Residential	$579,038	$471,056	$686,798	$594,147	$584,727
Commercial, industrial and other	116,043	112,582	144,565	149,177	132,113
Firm transportation	57,126	45,616	40,356	28,634	36,794
Total residential and commercial	752,207	629,254	871,719	771,958	753,634
Interruptible	7,029	8,454	5,711	11,840	7,141
Total system	759,236	637,708	877,430	783,798	760,775
Incentive programs	212,488	307,772	204,571	295,026	244,813
Total operating revenues	$971,724	$945,480	$1,082,001	$1,078,824	$1,005,588
Throughput (Bcf)					
Residential	42.3	40.3	43.6	40.8	41.8
Commercial, industrial and other	8.3	8.2	9.8	9.0	9.4
Firm transportation	12.2	10.1	9.4	8.9	8.6
Total residential and commercial	62.8	58.6	62.8	58.7	59.8
Interruptible	8.3	7.7	4.1	6.4	6.5
Total system	71.1	66.3	66.9	65.1	66.3
Incentive programs	107.0	83.9	66.1	34.5	36.5
Total throughput	178.1	150.2	133.0	99.6	102.8
Customers at year-end					
Residential	428,694	438,274	437,793	437,655	435,169
Commercial, industrial and other	25,666	26,312	27,771	29,002	28,916
Firm transportation	40,523	25,724	20,965	16,830	14,104
Total residential and commercial	494,883	490,310	486,529	483,487	478,189
Interruptible	41	43	45	46	45
Incentive programs	40	40	36	27	26
Total customers at year-end	494,964	490,393	486,610	483,560	478,260
Interest coverage ratio (1)	10.73	9.43	8.19	6.08	6.03
Average therm use per customer					
Residential	986	919	995	931	960
Commercial, industrial and other	4,350	4,986	4,777	5,303	5,710
Degree days	4,686	4,341	4,791	4,399	4,481
Weather as a percent of normal (2)	99 %	91 %	101 %	91 %	94 %
Number of employees	590	582	613	572	548

(1) NJNG's income from operations divided by interest expense.
(2) Normal heating degree-days are based on a twenty-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. A detailed discussion of risk and uncertainties that could cause actual results to differ materially from such forward-looking statements is included in Item 1A. Risk Factors beginning on page 10 and are incorporated herein. We undertake no obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

Management's Overview

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

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

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

NJR Clean Energy Ventures (NJRCEV) was formed for the purpose of investing in renewable energy projects. In fiscal 2010, NJR entered the solar energy markets and began planning for capital investments primarily consisting of residential and commercial rooftop and ground mount solar systems, during which time the results of operations, assets and other financial information were reported as components of Retail and Other operations. Effective October 1, 2010, NJR established Clean Energy Ventures as a new reportable segment. As a result, prior year information for both Clean Energy Ventures and Retail and Other operations has been restated throughout this report to be consistent with current year presentation.

The Midstream Asset segment includes NJR Energy Holdings Corporation (NJREH), which primarily invests in energy-related ventures through its subsidiaries, NJNR Pipeline Company (Pipeline), which holds the Company's 5.53 percent ownership interest in Iroquois Gas Transmission L.P. (Iroquois) and NJR Steckman Ridge Storage Company, which holds the Company's 50 percent combined interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a natural gas storage facility in Pennsylvania.

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

Assets by business segment and operations are as follows:

($ in thousands)	2011		2010	
Assets				
Natural Gas Distribution	$1,942,691	74 %	$1,904,545	75 %
Energy Services	400,882	15	432,380	17
Clean Energy Ventures	80,234	3	645	—
Midstream Assets	159,940	6	159,882	6
Retail and Other	87,066	3	85,219	3
Intercompany assets [1]	(21,369)	(1)	(19,538)	(1)
Total	$2,649,444	100 %	$2,563,133	100 %

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

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

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

($ in Thousands)	2011		2010		2009	
Net Income (Loss)						
Natural Gas Distribution	$71,322	70 %	$70,242	60 %	$65,403	240 %
Energy Services	13,479	13	42,711	36	(32,632)	(120)
Clean Energy Ventures	6,761	7	(593)	—	—	—
Midstream Assets	6,780	7	6,444	5	2,873	11
Retail and Other	3,087	3	(1,119)	(1)	(8,251)	(30)
Intercompany net income [1]	(130)	—	(228)	—	(151)	(1)
Total	$101,299	100 %	$117,457	100 %	$27,242	100 %

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

Included in net income are unrealized (losses) gains in the Energy Services segment of $(23.2) million, $19 million and $(29.3) million, after taxes, for the fiscal years ended September 30, 2011, 2010 and 2009, respectively and realized gains (losses) of $18.1 million, $(1.1) million and $(34.5) million, after taxes, for the fiscal years ended September 30, 2011, 2010 and 2009, respectively, which are related to financial derivative instruments that have settled and are designed to economically hedge natural gas still in inventory.

Net income for the fiscal years ended September 30, 2010 and 2009, includes unrealized (losses) of $(2) million and $(9.9) million, respectively, after taxes, related to a financial natural gas swap in the Retail and Other operations that was used to economically hedge a long-term gas sale contract and has since expired.

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

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

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

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

($ in Thousands)	2011		2010		2009	
Net Financial Earnings (Loss)						
Natural Gas Distribution	$71,322	67 %	$70,242	69 %	$65,403	65 %
Energy Services	18,583	18	24,814	25	31,179	31
Clean Energy Ventures	6,761	6	(593)	(1)	—	—
Midstream Assets	6,780	6	6,444	6	2,873	3
Retail and Other	3,087	3	857	1	1,666	1
Intercompany net financial earnings (loss) [1]	—	—	—	—	(151)	—
Total	$106,533	100 %	$101,764	100 %	$100,970	100 %

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

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

Natural Gas Distribution Segment

Our natural gas distribution segment has approximately 495,000 residential and commercial customers in its service territory. The business is subject to various risks, such as those associated with adverse economic conditions that can negatively impact customer growth, operating and financing costs, fluctuations in commodity prices, which can impact customer usage, customer conservation efforts, certain regulatory actions, and environmental remediation. It is often difficult to predict the impact of trends associated with these risks. NJNG employs certain strategies to manage the challenges it faces, including pursuing customer conversions from other fuel sources and monitoring new construction markets through contact with developers, utilizing incentive programs through BPU-approved mechanisms to reduce gas costs, pursuing rate and other regulatory strategies designed to stabilize and decouple margin, and working actively with consultants and the New Jersey Department of Environmental Protection (NJDEP) to manage expectations related to its obligations associated with NJNG's manufactured gas plant (MGP) sites.

NJNG's operations are managed with the goal of providing safe and reliable service, growing profitably and promoting clean energy programs 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 territory;

- Working with the BPU and the New Jersey Division of Rate Counsel (Rate Counsel), on the continuation 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, which is a non-GAAP financial measure, 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. Utility gross margin is defined as natural gas revenues less natural gas purchases, sales tax, a Transitional Energy Facilities Assessment (TEFA) and regulatory rider expenses. See the Results of Operations section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a further discussion of utility gross margin;

- Managing its new customer growth rate, which is expected to be approximately 1.4 percent annually over the next two years;

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

- Maintaining the integrity of its infrastructure, while working with the BPU to accelerate certain infrastructure projects in an effort to stimulate the local and state economies, while earning an immediate return on investment;

- Coordinating with the BPU on energy efficiency projects; and

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

Conservation Incentive Program

The CIP allows NJNG to recover utility gross margin variations related to both weather and customer usage subject to certain conditions. An annual review of the CIP must be filed in June, coincident with NJNG's annual BGSS filing. NJNG's filing in June 2010, included recovery of $12.1 million annually, an increase of $5.2 million, for accrued and estimated CIP amounts through September 30, 2010. This increase was approved by the BPU to be effective October 1, 2010. In June 2011, NJNG filed for a change in the CIP rates, effective October 1, 2011. The proposed CIP rates result in a 0.8 percent decrease to residential heat customers and a minor increase to all other customers. See Note 3. Regulation in the accompanying Consolidated Financial Statements and the Results of Operations section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for more information on the impact to utility gross margin.

As of September 30, 2011, NJNG has $11.4 million in regulatory assets in the Consolidated Balance Sheets related to CIP accrued to be recovered in future periods from customers.

Customer growth

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

During fiscal 2011, NJNG added 6,783 new customers, or an increase of 1.4 percent, and converted 641 existing customers to natural gas heat and other services. This customer growth is expected to increase annual utility gross margin by approximately $3.5 million. NJNG currently expects to add, in total, approximately 12,000 to 14,000 new customers in fiscal 2012 and fiscal 2013. We believe that this growth rate would increase utility gross margin under NJNG's base rates by approximately $3.4 million annually, as calculated under NJNG's CIP tariff.

Commodity prices

Our natural gas distribution segment is affected by the price of natural gas, which can have a significant impact on our cash flows, short-term financing costs, gas costs recovered from customers, NJNG's ability to collect accounts receivable, which impacts our bad debt expense, and our ability to maintain a competitive advantage over other fuel sources. Natural gas commodity prices may experience high volatility as indicated by New York Mercantile Exchange (NYMEX) settlement prices, which ranged from $3.29 per MMBtu (Million Metric British thermal unit) to $4.38 per MMBtu and from $3.65 per MMBtu to $5.81 per MMBtu during the fiscal years ended September 30, 2011 and 2010, respectively. As of September 30, 2011, forward natural gas prices for the next twelve months on the NYMEX, which serve as a market indicator, averaged $4.11 per MMBtu, 0.2 percent higher than the average settlement price of $4.10 per MMBtu during fiscal 2011.

In order to provide price stability to its natural gas supply portfolio, NJNG employs a hedging strategy with the goal of having at least 75 percent of the Company's projected winter gas purchase volumes hedged by the beginning of the winter heating season and at least 25 percent of the gas purchase requirements hedged for the following April through March period. This is accomplished with financial derivatives, including those that are used in the incentive programs described below.

NJNG's cost of gas is passed through to our customers, without markup, by applying NJNG's authorized BGSS tariff rate to actual therms delivered. There is no utility gross margin associated with BGSS costs, therefore, changes in such costs do not impact NJNG's earnings. NJNG's cost of gas includes the purchased cost of the natural gas, fees paid to pipelines and storage facilities, adjustments as a result of incentive programs and hedging transactions. NJNG monitors its actual gas costs in comparison to its tariff rates to manage its cash flows associated with its allowed recovery of gas costs, which is facilitated through BPU-approved deferred accounting and the BGSS pricing mechanism. Accordingly, NJNG occasionally adjusts its periodic BGSS rates for its residential and small commercial customers to reflect changes in the cost of natural gas and can extend credits or refunds to its customers when the commodity cost is trending lower than the current BGSS rate. BGSS rates for its large commercial customers are changed monthly based on NYMEX prices.

During fiscal 2010, NJNG issued refunds and bill credits of $110.4 million to customers and implemented BGSS rate reductions as a result of the continuing decline in commodity prices. There were no refunds or rate adjustments during fiscal 2011 since commodity prices stabilized in comparison to NJNG's tariff rate. On November 17, 2011, NJNG notified the BPU that it will provide bill credits of approximately $71.2 million to NJNG's residential and small commercial customers as a result of the decline in the wholesale price of natural gas and a change in the methodology used to develop estimates of unaccounted-for gas.

NJNG also manages these prices from time to time with rate adjustments. The BPU approved a 3.5 percent BGSS price decrease for the average residential heat customer, effective September 16, 2010. In June 2011, NJNG filed for a 9.1 percent decrease for the average residential heat customer as a result of lower natural gas prices and natural gas purchasing strategies approved by the BPU, effective October 1, 2011. A more detailed discussion of the impacts of the price of natural gas to operating revenues, gas purchases and cash flows can be found in the Results of Operations and Cash Flow sections of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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Incentive programs

NJNG is eligible to receive financial incentives for reducing BGSS costs through a series of utility gross margin-sharing programs that include Off-System Sales, Capacity Release, Storage Incentive and Financial Risk Management (FRM) programs. Effective August 18, 2011, the BPU approved an extension of NJNG's BGSS incentive programs for four years through October 31, 2015, maintaining the existing margin-sharing percentages. This agreement also permits the Company to annually propose a process to evaluate and discuss alternative incentive programs, should performance of the existing incentives or market conditions warrant re-evaluation.

Utility gross margin from incentive programs was $9.3 million and $9.4 million during the fiscal years ended September 30, 2011 and 2010, respectively. A more detailed discussion of the impacts to margin can be found in the Results of Operations section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Environmental remediation

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 MGP remediation costs recovered through remediation adjustment (RA) 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 NJDEP and related litigation. NJNG reviews these costs annually, at the end of each fiscal year, and adjusts its liability and corresponding regulatory asset as necessary to reflect its expected obligation.

NJNG has recognized a regulatory asset and an obligation of $182.9 million as of September 30, 2011, a decrease of $18.7 million, or 9.3 percent, compared with the prior year. The decrease was due primarily to fiscal 2011 remediation expenditures along with the annual reassessment of the MGP remediation and related costs, which caused a decrease in three out of the five MGP sites.

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

Infrastructure projects

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

During fiscal 2009, NJNG implemented its Accelerated Infrastructure Program (AIP), commencing construction on fourteen infrastructure projects at a BPU-approved cost of $70.8 million (AIP I). AIP was initially approved by the BPU as a two-year program, to enhance the reliability of NJNG's gas distribution system and to support economic development and job growth in New Jersey. During fiscal 2011, the BPU approved an extension to NJNG's AIP, allowing for additional capital investments of $60.2 million (AIP II) to be made through October 31, 2012. NJNG defers the costs associated with the AIP projects, including NJNG's weighted cost of capital, and upon regulatory approval recovers these investments through its base rates.

In June 2010, NJNG filed for approval of its AIP expenditures for capital improvements during the period from August 2009 through August 31, 2010, which was approved by the BPU in September 2010, permitting an increase of $4.2 million in base rate revenue, including an overall weighted average cost of capital of 7.76 percent, effective October 1, 2010.

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

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In fiscal 2011, capital expenditures including cost of removal totaled $113.1 million, including $36.7 million related to the AIP I program and $7.3 million related to AIP II. NJNG has estimated capital expenditures for fiscal 2012 of $121.2 million and $70 million for fiscal 2013, of which $49.9 million and $3.1 million, respectively, are related to AIP II.

On June 16, 2011, NJNG submitted a filing with the BPU seeking authority to invest up to $15 million to build compressed natural gas vehicle refueling stations in Monmouth, Ocean and Morris counties. If approved, NJNG would begin construction of the stations and complete them by no later than December 31, 2012. NJNG would submit a cost recovery filing to the BPU in October 2012, requesting a base rate change to be effective in early 2013. Proceeds from the delivery of the associated natural gas, along with any available federal and state incentives, are proposed to be credited back to customers to help offset the cost of this investment.

Energy efficiency (EE)

NJNG commenced its EE Programs during fiscal 2009, allowing it to promote energy efficiency to its residential and commercial customers while stimulating state and local economies through the creation of jobs. The BPU initially approved program expenditures and recovery of approximately $21.1 million over a four year-period, to facilitate home energy audits and to provide financing alternatives including rebates and other incentives designed to encourage the installation of high efficiency heating and cooling equipment. In September 2010, NJNG received BPU approval for recovery of an additional $9.6 million in energy efficiency investments, effective January 1, 2011, to be recovered over a five to ten-year period, depending on the rebate or financing initiative. The approval allowed for an extension of certain existing initiatives, as well as new or expanded funding incentives for commercial customers. On June 1, 2011, NJNG filed its annual EE program filing with the BPU. On July 15, 2011, the annual filing was amended to request that the current rate remain the same. Also on July 15, 2011, NJNG filed a separate petition to extend its current EE programs through December 31, 2012. As of September 30, 2011, NJNG has spent a total of $26.1 million related to these initiatives.

See Note 3. Regulation in the accompanying Consolidated Financial Statements for a more detailed discussion on regulatory actions and recovery related to NJNG's EE programs.

Other

Due to the capital-intensive nature of NJNG's operations and the seasonal nature of its working capital requirements, significant changes in interest rates can also impact NJNG's results. A more detailed discussion can be found in the Liquidity and Capital Resources and Cash Flow sections of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Energy Services Segment

NJRES provides unregulated wholesale energy services and engages in the business of optimizing natural gas storage and transportation assets. The rights to these assets are contractually acquired in anticipation of delivering natural gas or performing asset management activities for customers or in conjunction with identifying arbitrage opportunities that exist in the marketplace. These arbitrage opportunities occur as a result of price differences between market locations and/or time horizons. These activities are conducted in the areas in which we have expertise and include states from the Gulf Coast and Mid-Continent regions to the Appalachian and Northeast regions, the West Coast and Canada. NJRES' optimization activities are impacted by changes in pricing between geographic locations and/or time periods. Margins are affected by volatility in natural gas markets and as a result NJRES' financial performance can significantly differ during periods of low or high volatility.

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

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

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

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- Leveraging transactions for the delivery of natural gas to customers by aggregating the natural gas commodity costs and transportation costs in order to minimize the total cost required to provide and deliver natural gas to NJRES' customers by identifying the lowest cost alternative with the natural gas supply, transportation availability and markets to which NJRES is able to access through its business footprint and contractual asset portfolio; and
- Managing economic hedging programs that are designed to mitigate adverse market price fluctuations in natural gas transportation and storage commitments.

NJRES focuses on creating value from natural gas assets, which are typically amassed through contractual rights to natural gas transportation and storage capacity. NJRES has developed a portfolio of natural gas storage and transportation capacity in states in the Northeast, Gulf Coast, Mid-Continent, Appalachian, and West Coast regions of the United States and Canada. These assets become more valuable when prices change between these areas and across time periods. On a forward basis, NJRES may lock in these price differentials through the use of financial instruments. In addition, NJRES seeks to optimize these assets on a daily basis as market conditions change by evaluating all the natural gas supplies and transportation to which it has access. When market conditions allow, NJRES is able to capture geographic pricing differences across these various regions as delivered natural gas prices change. NJRES focuses on earning a margin on a single original transaction and then utilizing that transaction, and the changes in prices across the regions or across time periods, as the basis to further improve the initial result. This strategy is in large part dependent on volatility in natural gas markets, and is more challenging to execute in a period of economic downturn and resulting lower industrial gas consumption.

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

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

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

Clean Energy Ventures Segment

NJRCEV actively pursues opportunities in the solar renewable energy markets and has entered into various agreements to install solar equipment involving both residential and commercial projects. Projects that are completed and placed in service qualify for a 30 percent federal investment tax credit (ITC) and once the projects commence operations, for each Megawatt hour (Mwh) of electricity produced, a Solar Renewable Energy Certificate (SREC) is created.

During fiscal 2011, capital expenditures related to the purchase and installation of the equipment associated with these contracts were $74.2 million, of which $44.9 million was associated with projects placed in service. NJRCEV currently estimates capital expenditures of approximately $88 million in fiscal 2012. These investments are subject to a variety of factors, including logistics associated with the start-up of commercial solar projects, such as timing of construction schedules, the permitting and regulatory process, and any delays related to electric grid interconnection, which may affect our ability to commence operations at these projects on a timely basis or, at all. Projects not placed in service prior to a period end, would result in a failure to qualify for ITCs and SRECs and could have a significant adverse impact on earnings. In addition, since the primary contributors toward the value of qualifying renewable energy projects are the ITC and SRECs, changes in the federal statutes related to the ITC or in the markets surrounding SRECs, which can be traded or sold to load serving entities that need to comply with state renewable energy standards, could also significantly affect earnings.

Midstream Assets Segment

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

As of September 30, 2011, NJR's investments in Steckman Ridge and Iroquois, including capitalized costs and equity in earnings, net of cash distributions received, were $135.1 million and $23.9 million, respectively. NJR could have an additional funding obligation of up to $5.7 million related to Steckman Ridge, should there be additional construction on the storage facility to improve performance.

Retail and Other Operations

The financial results of Retail and Other have consisted primarily of the operating results of NJRHS, CR&R, and NJR Energy. NJRHS provides service, sales and installation of appliances to approximately 138,200 customers and has been focused on growing its installation business and expanding its service contract customer base. CR&R seeks additional opportunities to enhance the value of its undeveloped land and building. NJR Energy invests in other energy-related ventures through its operating subsidiaries. Retail and Other operations also include organizational expenses incurred at NJR.

Critical Accounting Policies

We prepare our 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. We regularly evaluate our 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. We base our 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 Federal Energy Regulatory Commission (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 record 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 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.

Derivative Instruments

We record our derivative instruments held as assets and liabilities at fair value in the Consolidated Balance Sheets. In addition, since we choose not to designate our financial commodity derivatives as accounting hedges, 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 Operations. Changes in the fair value of foreign exchange contracts that NJRES utilizes as cash flow hedges are recorded to other comprehensive income, a component of stockholder's equity and reclassified to gas purchases in the Consolidated Statements of Operations when they settle.

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. If the price underlying a physical commodity transaction does not represent a visible and liquid market, NJRES may utilize pricing information provided by broker quotations and/or other services to determine an equivalent market price. As of September 30, 2011, fair values based on market prices that are not highly visible and liquid represent an immaterial amount of the 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 2011, 2010 and 2009. 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 rated investment grade, this resulted in an immaterial credit risk adjustment.

Gains and losses associated with derivatives utilized by NJNG to manage the price risk inherent in 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 either a regulatory asset or liability in the Consolidated Balance Sheets.

Accounting guidance permits companies to apply an exception for certain commodity contracts intended for normal purchases and normal sales ("normal") for which physical delivery is probable. NJR Energy had elected to designate its physical commodity contracts as normal and record the deliveries on an accrual basis. As a result, NJR Energy recognized the related liabilities incurred and assets acquired in the accounting period associated with the exchange of title to the underlying natural gas commodity. These financial derivatives expired during fiscal 2010.

We have not designated any derivatives as fair value hedges as of September 30, 2011 and 2010.

Income Taxes and Credits

We use the liability method to determine and record deferred tax assets, representing future tax benefits, and deferred tax liabilities, representing future taxes payable, resulting from the differences between the financial reporting amount and the corresponding tax basis of the assets and liabilities using the enacted rates expected to be in effect at the time the differences are settled. To the extent that it is more likely than not some or all of the deferred income tax assets won't be realized, an offsetting valuation allowance is recorded. As of September 30, 2011 and 2010, NJR had net deferred tax liabilities of $326.3 million and $304.1 million, respectively. We expect that all deferred tax assets will be realized, therefore, there is no valuation allowance recorded.

Accounting guidance also requires that we establish reserves for uncertain tax positions when it is more likely than not that the positions will not be sustained when challenged by taxing authorities. We have no reason to believe that we have any future obligations associated with unrecognized tax benefits, therefore, as of September 30, 2011, we have not recorded any liabilities related to uncertain tax positions.

To the extent that NJNG invests in property that qualifies for ITCs, the ITC is deferred and amortized to income over the life of the equipment in accordance with regulatory treatment. For our unregulated subsidiaries, we recognize ITCs as a reduction to income tax expense when the property is placed in service. Changes in the federal statutes related to the ITC could have a negative impact on earnings and cash flows.

Capitalized Financing Costs

NJNG capitalizes allowance for funds used during construction (AFUDC) as a component of utility plant in the Consolidated Balance Sheets including 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. AFUDC-equity is recorded as an increase to other income and AFUDC-debt is recorded as a reduction to interest expense in the Consolidated Statements of Operations. Under regulatory rate practices and in accordance with GAAP applicable to regulated operations, NJNG fully recovers AFUDC through base rates. If any of these amounts were deemed to be unrecoverable, NJNG would record a charge for the unrecoverable portion in the Consolidated Statements of Operations.

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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 necessary to remediate and monitor these MGP sites. As of September 30, 2011, NJNG estimated theses expenditures will range from approximately $161.5 million to $278.5 million. NJNG's estimate of these liabilities is developed from then currently available facts, existing technology and presently enacted laws and regulations.

In accordance with accounting standards for contingencies, NJNG's policy is to record a liability when it is probable that the cost will be incurred and the loss can be reasonably estimated. NJNG will determine a range of liabilities and will record the best estimated amount. If no point within the range is more likely than any other, NJNG will accrue the lower end of the range. Since we believe that recovery of these expenditures, as well as related litigation costs, is possible through the regulatory process, we have recorded a regulatory asset corresponding to the related accrued liability. Accordingly, NJNG has recorded an MGP remediation liability and a corresponding regulatory asset of $182.9 million on the Consolidated Balance Sheets, which is based on the best estimate.

The actual costs to be incurred by NJNG are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay, 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, 2011 and 2010, $75.6 million and $75.7 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds received, are included in regulatory assets on the Consolidated Balance Sheets, 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 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 or healthcare legislation 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 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 Operations.

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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 %	$(22,146)	$(2,079)
Discount rate	(1.00)%	$27,762	$2,478
Rate of return on plan assets	1.00 %	n/a	$(1,396)
Rate of return on plan assets	(1.00)%	n/a	$1,396

Other Postemployment Benefits

Actuarial Assumptions	Increase/ (Decrease)	Estimated Increase/(Decrease) on PBO (Thousands)	Estimated Increase/(Decrease) to Expense (Thousands)
Discount rate	1.00 %	$(14,466)	$(1,445)
Discount rate	(1.00)%	$18,426	$1,802
Rate of return on plan assets	1.00 %	n/a	$(289)
Rate of return on plan assets	(1.00)%	n/a	$291

Actuarial Assumptions	Increase/ (Decrease)	Estimated Increase/(Decrease) on PBO (Thousands)	Estimated Increase/(Decrease) to Expense (Thousands)
Health care cost trend rate	1.00 %	$17,193	$2,716
Health care cost trend rate	(1.00)%	$(13,792)	$(2,142)

Recently Issued Accounting Standards

Refer to Note 2. Summary of Significant Accounting Policies in the accompanying Consolidated Financial Statements for discussion of recently issued accounting standards.

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Results of Operations

Consolidated

Net income decreased 13.8 percent during fiscal 2011, to $101.3 million, compared with $117.5 million during fiscal 2010, which increased 331.2 percent compared with $27.2 million during fiscal 2009. Earnings for fiscal 2011, were $2.45 per basic share and $2.44 per diluted share, compared with $2.84 per basic share and $2.82 per diluted share in fiscal 2010 and fiscal 2009 results of $0.65 per basic share and $0.64 per diluted share. Changes in net income were partially driven by unrealized (losses) gains of $(23.3) million, $16.8 million and $(39.3) million, after taxes, for the fiscal years ended September 30, 2011, 2010 and 2009, respectively, as well as certain realized gains (losses) associated with natural gas in inventory of $18.1 million, $(1.1) million and $(34.5) million, after taxes, for the years ended September 30, 2011, 2010 and 2009, respectively, which were due primarily to the change in the fair market value of financial derivative instruments as a result of market conditions. These (losses) gains were partially offset by improved earnings at NJNG due primarily to customer growth, an increase in net income at Retail and Other due primarily to increased equipment installations and $12.8 million of ITCs associated with solar projects that were completed and placed into service during fiscal 2011.

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

($ in Thousands)	2011	2010	2009
Operating revenues [(1)]	$3,009,209	$2,639,304	$2,592,460
Gas purchases [(1)]	$2,550,571	$2,167,558	$2,245,169

(1) Amounts include intercompany eliminating entries in operating revenues of $55.6 million , $21.8 million and $2.3 million, and in gas purchases of $59 million, $25 million, and $2.4 million for the fiscal years ended September 30, 2011, 2010 and 2009, respectively.

Operating revenues and gas purchases increased $369.9 million and $383 million, respectively, during fiscal 2011, compared with the fiscal 2010, due primarily to:

- an increase in operating revenues of $367.3 million and gas purchases of $415 million at NJRES stemming from higher average sales and gas purchase volumes partially offset by lower average prices, which correlate to the lower price levels on the NYMEX that averaged $4.10 per MMBtu during fiscal 2011 compared with $4.49 per MMBtu during fiscal 2010. In addition, increases in both operating revenue and gas purchases include a combined unrealized and realized gain during fiscal 2011, compared with a combined unrealized and realized loss during fiscal 2010;

- an increase in operating revenues and gas purchases of $26.2 million and $2.1 million, respectively, at NJNG due primarily to bill credits and refunds during fiscal 2010, that did not recur during fiscal 2011, along with an increase in firm sales due to higher therm usage due primarily to colder weather during fiscal 2011, partially offset by a decrease in off-system sales; and

- an increase in operating revenues of $9.4 million at Retail and Other due primarily to increased installations and service contract revenue at NJRHS, in addition to unrealized (losses) associated with financial derivatives at NJR Energy during fiscal 2010 that did not recur in fiscal 2011.

Operating revenues increased $46.8 million and gas purchases decreased $77.6 million during fiscal 2010, compared with fiscal 2009 due primarily to:

- an increase in operating revenues of $186.3 million and gas purchases of $64.1 million at NJRES stemming from higher average sales and gas purchase volumes partially offset by lower average prices, which correlate to the lower price levels on the NYMEX that averaged $4.49 per MMBtu during fiscal 2010 compared with $4.68 per MMBtu during fiscal 2009. In addition, operating revenue increased due to higher unrealized gains in the value of derivatives.

- an increase in operating revenues of $16.6 million at Retail and Other due primarily to lower unrealized losses at NJR Energy, as a result of the settlement of certain natural gas swap contracts, which reduced NJR Energy's exposure to shifts in market pricing during fiscal 2010; partially offset by

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- a decrease in operating revenues of $136.5 million and gas purchases of $119.1 million at NJNG primarily as a result of additional bill credits and refunds during fiscal 2010 along with a decrease in firm sales due to reductions in the average periodic BGSS rate for residential and small commercial customers and weather being 9.4 percent warmer than in fiscal 2009, partially offset by an increase in off-system sales.

Natural Gas Distribution Segment

NJNG is a local natural gas distribution company that provides regulated retail energy services to approximately 495,000 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 retail energy markets, which are open to competition from other electric and natural gas suppliers. Currently, NJNG's residential and commercial markets are open to competition, and its rates are segregated between BGSS (natural gas commodity) and delivery (i.e., transportation) components. NJNG does not earn 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 and, therefore, is not negatively affected by customers who use its transportation service and purchase natural gas from another supplier. Under an existing order from the BPU, BGSS can be provided by suppliers other than the state's natural gas utilities, however, all customers who purchase natural gas from another supplier continue to use NJNG for transportation service.

Operating Results

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

(Thousands)	2011	2010	2009
Utility gross margin			
Operating revenues	$971,724	$945,480	$1,082,001
Less:			
Gas purchases	592,909	590,813	709,906
Energy and other taxes	58,520	48,958	66,768
Regulatory rider expense	51,246	46,076	44,992
Total utility gross margin	269,049	259,633	260,335
Operation and maintenance expense	108,800	103,226	106,814
Depreciation and amortization	33,140	31,464	29,417
Other taxes not reflected in utility gross margin	3,944	4,009	3,740
Operating income	123,165	120,934	120,364
Other income	3,354	4,343	3,474
Interest expense, net of capitalized interest	14,875	16,618	18,706

Income tax provision	40,322	38,417	39,729
Net income	$71,322	$70,242	$65,403

Utility Gross Margin

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

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

Natural gas costs are charged to operating expenses on the basis of therm sales at the prices in NJNG's BGSS tariff approved by the BPU. The BGSS tariff rate includes projected natural gas costs, which include fees paid to pipelines and storage facilities, and the impact of hedging activities and incentive programs. Any underrecoveries or overrecoveries from the projected amounts are deferred and reflected in the BGSS tariff rate in subsequent years.

TEFA, which is included in energy and other taxes in the Consolidated Statements of Operations, 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. TEFA has replaced the previously used utility gross receipts and franchise tax formula. TEFA will be phased out over a three-year period commencing January 1, 2012.

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

NJNG's operating revenues and gas purchases increased by $26.2 million, or 2.8 percent, and by $2.1 million, or 0.4 percent, respectively, during fiscal 2011, compared with fiscal 2010, as a result of:

- an increase in operating revenues and gas purchases in the amount of $110.4 million and $103.2 million, respectively, due to a combination of refunds and bill credits, inclusive of sales tax refunds of $7.2 million, during fiscal 2010, that did not recur during fiscal 2011;

- an increase in operating revenues and gas purchases related to firm sales in the amount of $26.4 million and $9.8 million, respectively, as a result of higher therm usage due primarily to weather being 7.9 percent colder than the prior year, partially offset by a decrease in operating revenue of $7.6 million, as a result of lower CIP accruals;

- an increase in operating revenue of $5 million due primarily to the increase in base rates related to AIP I and an increase of $3.5 million related primarily to an increase in rider rates; partially offset by

- a decrease of $95.1 million and $94.9 million, respectively in operating revenues and gas purchases related to off-system sales, due primarily to a reduction of 26 percent in volumes of natural gas sold as a result of an increase in the utilization of NJNG's transport capacity for capacity release volumes, coupled with a 0.5 percent decrease in price; and

- a decrease in operating revenues and gas purchases related to firm sales in the amount of $16.7 million and $15.6 million, respectively, as a result of a decrease in the average BGSS rate per therm.

NJNG's operating revenues and gas purchases decreased by $136.5 million, or 12.6 percent, and by $119.1 million, or 16.8 percent, respectively during fiscal 2010 compared with fiscal 2009 as a result of:

- a decrease in operating revenues and gas purchases related to firm sales in the amount of $131.1 million, inclusive of sales tax, and $122.9 million, respectively, as a result of a decrease of approximately 28 percent in the average BGSS rate per therm for residential and small commercial customers and 7.4 percent per therm for large commercial customers, offset by an increase in riders of 6.5 percent per therm;

- a decrease in operating revenues and gas purchases in the amount of $61.3 million and $57.3 million, respectively, due to a combination of refunds and bill credits in fiscal 2010 of $110.4 million, compared with bill credits in fiscal 2009 of $49.1 million, inclusive of sales tax refunds of $7.2 million and $3.2 million, respectively;

- a decrease in operating revenues and gas purchases related to firm sales in the amount of $64.8 million and $46 million, respectively, due to lower therm usage due primarily to customer conservation and weather being 9.4 percent warmer than the prior year, partially offset by an increase in operating revenue of $13 million, as a result of higher accruals relating to the CIP during fiscal 2010; partially offset by

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- an increase in operating revenues and gas purchases related to off-system sales in the amount of $103.2 million and $103.3 million, respectively, as a result of 55 percent higher volumes due primarily to greater opportunities in the wholesale energy market.

Sales tax and TEFA, which are presented as both components of operating revenues and operating expenses in the Consolidated Statements of Operations, totaled $58.5 million, $49 million and $66.8 million during the fiscal years ended September 30, 2011, 2010 and 2009, respectively. The fluctuation in sales tax correlates directly to the changes in operating revenue from firm sales. The increase during fiscal 2011 was due primarily to an increase of $138.5 million in operating revenue subject to sales tax, compared with fiscal 2010. Sales tax decreased in fiscal 2010 due primarily to a decrease of $271 million in operating revenue from firm sales, compared with fiscal 2009.

Regulatory rider expenses are calculated on a per-therm basis and totaled $51.2 million, $46.1 million and $45 million during the fiscal years ended September 30, 2011, 2010 and 2009, respectively. During fiscal 2011, the increase in expense, which is offset by a corresponding increase in operating revenue, is due primarily to a 7.1 percent increase in rates and a 3.9 percent increase in usage compared with fiscal 2010. The increase during fiscal 2010 is due primarily to an increase of 17.5 percent in the EE rider that went into effect August 2009, partially offset by a decrease of 11.5 percent in the Universal Service Fund (USF) rider that went into effect October 12, 2009.

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

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

- Incentive programs, where gross margins generated or savings achieved from BPU-approved off-system sales, capacity release, financial risk management or storage incentive programs (defined below in Incentive Programs) are shared between customers and NJNG; and

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

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

	2011		2010		2009	
($ in thousands)	Margin	Bcf	Margin	Bcf	Margin	Bcf
Utility gross margin/throughput						
Residential	$172,280	42.3	$170,556	40.3	$170,509	43.6
Commercial, industrial and other	45,319	8.3	45,041	8.2	47,767	9.8
Firm transportation	41,715	12.2	34,268	10.1	29,683	9.4
Total utility firm gross margin/throughput	259,314	62.8	249,865	58.6	247,959	62.8
Incentive programs	9,324	107.0	9,357	83.9	12,057	66.1
Interruptible	411	8.3	411	7.7	319	4.1
Total utility gross margin/throughput	$269,049	178.1	$259,633	150.2	$260,335	133.0

Utility Firm Gross Margin

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

Utility firm gross margin from residential service sales increased $1.7 million to $172.3 million, during fiscal 2011, due primarily to an increase in base rates related to the AIP I, partially offset by a decrease in residential customers that transferred into the transportation service. Utility firm gross margin from residential service sales remained flat during fiscal 2010, compared with fiscal 2009.

Utility firm gross margin from commercial and industrial service sales remained relatively flat during fiscal 2011, compared with fiscal 2010. Utility firm gross margin from commercial and industrial service sales decreased $2.7 million to $45 million during fiscal 2010, from $47.8 million during fiscal 2009, resulting from a reduction in volumes of natural gas delivered due primarily to a decrease of approximately 1,500 commercial customers. The majority of these customers transferred to the transportation class of customers.

Utility firm gross margin from transportation service increased $7.4 million to $41.7 million during fiscal 2011, from $34.3 million during fiscal 2010, and increased $4.6 million from $29.7 million during fiscal 2009. The improvement in margins during both periods was due primarily to an increase in customers largely as a result of customers that transferred from residential and commercial sales, as noted above, due to marketing activity by third party natural gas providers in NJNG's distribution territory. NJNG had 31,830, 17,932 and 14,608 residential customers and 8,693, 7,792 and 6,357 commercial customers using its transportation service at September 30, 2011, 2010 and 2009, respectively.

NJNG added 6,783, 6,189 and 5,841 new customers and converted 641, 667 and 709 existing customers to natural gas heat and other services during the fiscal years ended September 30, 2011, 2010 and 2009, respectively. The customer growth during fiscal 2011 represents an estimated annual increase of approximately 0.7 Bcf in sales to firm customers, assuming normal weather and usage, which would contribute approximately $3.5 million annually to utility gross margin.

As a result of NJNG's implementation of the CIP, utility gross margin is no longer linked to customer usage. The CIP eliminates the disincentive to promote conservation and energy efficiency and facilitates normalizing NJNG's utility gross margin recoveries for variances not only due to weather but also for 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.

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

(Thousands)	2011	2010	2009
Weather [1]	$ 571	$ 9,032	$ (177)
Usage	7,733	6,886	3,101
Total	$ 8,304	$ 15,918	$ 2,924

(1) Compared with the twenty-year average, weather was 0.7 percent and 8.6 percent warmer-than-normal during fiscal 2011 and 2010, respectively and 0.9 percent colder-than-normal during fiscal 2009.

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 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 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. Gains and losses are shared on an 80 percent and 20 percent basis between customers and NJNG, respectively.

In August 2011, the BPU approved the extension of NJNG's margin-sharing incentive programs for four years through October 31, 2015, under the same terms of its previous agreement with respect to margin-sharing percentages. This agreement also permits NJNG to annually propose a process to evaluate and discuss alternative incentive programs, should performance of the existing incentives or market conditions warrant re-evaluation.

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Utility gross margin generated by NJNG's incentive programs remained relatively flat during fiscal 2011, compared with fiscal 2010. FRM and capacity release increased, which was offset by a decrease in storage incentive program margins. In fiscal 2010, there was a decrease of $2.7 million from $12.1 million during fiscal 2009, due primarily to a decrease in the FRM program along with decreases related to the storage incentive program and capacity release resulting from a lack of market opportunities.

Interruptible Revenues

As of September 30, 2011, NJNG serves 41 customers through interruptible transportation and sales services compared with 43 customers in fiscal 2010 and 45 customers in fiscal 2009. Interruptible customers are those customers whose service can be temporarily halted as they have the ability to utilize an alternate fuel source. Interruptible revenues generally account for less than 1 percent of total utility gross margin.

Operation and Maintenance Expense

Operation and maintenance expense increased $5.6 million, or 5.4 percent, during fiscal 2011, compared with fiscal 2010, due primarily to the following:

- an increase in fringe benefits of $2.5 million related to pension and health benefit costs due to the decline in the discount rate used to measure plan liabilities coupled with an increase in actual medical claims;
- an increase in bad debt expense of $1.7 million corresponding to higher customer receivable balances during fiscal 2011, in comparison to balances during the prior fiscal year, which were lower as a result of BGSS refund and bill credits issued to customers;
- an increase in compensation costs of $1.5 million due primarily to increased incentive accruals coupled with an increase in new hires;
- an increase in contractors expense of $1.1 million, due to increased weather-related expenditures;
- an increase in charitable contributions of $409,000 ; partially offset by
- a decrease of $1.7 million in engineering costs.

Operation and maintenance expense decreased $3.6 million, or 3.4 percent, during fiscal 2010, compared with fiscal 2009, due primarily to the following:

- a decrease in bad debt expense of $3.9 million due primarily to lower reserve requirements as a result of BGSS customer credits;
- a decrease of $2.5 million in engineering costs;
- a decrease in compensation costs of $1.3 million due primarily to lower incentive accruals;

- a decrease in consulting fees of $580,000 due primarily to higher consulting fees in fiscal 2009 associated with clean energy programs that did not recur in fiscal 2010; partially offset by

- an increase in fringe benefits of $4 million related to pension and health benefit costs due to the impact of a decline in the returns on plan assets and the decline in the discount rate used to measure plan liabilities coupled with an increase in actual medical claims; and

- an increase in charitable contributions of $725,000.

Depreciation Expense

Depreciation expense increased $1.7 million and $2 million, respectively in fiscal 2011and fiscal 2010, as a result of additional utility plant being placed into service.

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Operating Income

Operating income increased $2.2 million, or 1.8 percent, in fiscal 2011 , compared with fiscal 2010 due primarily to an increase in total utility gross margin of $9.4 million, partially offset by an increase in depreciation expense of $1.7 million and operation and maintenance expense of $5.6 million, as previously discussed.

Operating income decreased $570,000, 0.5 percent, in fiscal 2010, compared with fiscal 2009, due primarily to a decrease in total utility gross margin of $702,000 and an increase in depreciation expense of $2 million, partially offset by a decrease in operation and maintenance expense of $3.6 million, as previously discussed.

Interest Expense

Interest expense decreased $1.7 million during the fiscal 2011, compared with fiscal 2010, due primarily to the redemption of a $20 million, 6.88 percent Series CC First Mortgage bond in October 2010.

Interest expense decreased $2.1 million during fiscal 2010, compared with fiscal 2009, due primarily to a decrease of $1.3 million due to lower interest rates on variable rates on the New Jersey Economic Development Authority (EDA) bonds, the redemption of a $30 million, 6.27 percent bond in November 2008 and a decrease of $743,000 associated with short-term debt due primarily to lower average interest rates and balances related to NJNG's commercial paper program.

Net Income

Net income increased $1.1 million, or 1.5 percent, to $71.3 million in fiscal 2011 compared with fiscal 2010. The increase in operating income and decrease in interest expense, as discussed above, was partially offset by a decrease in other income as a result of lower interest rates and an increase in income tax expense of $1.9 million correlating to the higher operating income. In addition, fiscal 2010, income tax expense included a $509,000 non-recurring positive New Jersey tax rate adjustment.

Net income increased $4.8 million, or 7.4 percent, to $70.2 million in fiscal 2010, compared with fiscal 2009, due primarily to lower interest expense of $2.1 million, as discussed above, a decrease in income tax expense of $1.3 million resulting from a lower effective tax rate due primarily to a favorable state tax apportionment change, an increase in other income of $869,000 due primarily to AFUDC equity of $1.6 million as a result of lower short-term debt balances in relation to construction work in progress associated with the AIP Program, and an increase in operating income of $570,000, as discussed above.

Energy Services Segment

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

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

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

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

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

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

NJRES can "borrow" gas from a pipeline or storage operator and repay that gas at a later date, and earn a margin by selling the gas at a later date at a higher price and/or by receiving a fee.

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

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

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

Predominantly all of NJRES' physical purchases and sales of natural gas result in the physical delivery of natural gas. NJRES records its physical commodity contracts 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 Operations.

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 Operations, 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 Operations 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 Operations.

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

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

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Operating Results

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

(Thousands)	2011	2010	2009
Operating revenues	$2,052,303	$1,685,044	$1,498,742
Gas purchases (including demand charges)	2,016,704	1,601,701	1,537,634
Gross margin (loss)	35,599	83,343	(38,892)
Operation and maintenance expense	16,682	14,947	16,468
Depreciation and amortization	61	153	205
Other taxes	1,110	858	1,574
Operating income (loss)	17,746	67,385	(57,139)
Other income	9	15	570
Interest expense, net	995	1,439	322
Income tax provision (benefit)	3,281	23,250	(24,259)
Net income (loss)	$13,479	$42,711	$(32,632)

As of September 30, 2011, NJRES' portfolio of financial derivative instruments was comprised of:

- 28.3 Bcf of net short futures contracts and fixed swap positions, and;
- 27.4 Bcf of net short basis swap positions.

As of September 30, 2010, NJRES' portfolio of financial derivative instruments was comprised of:

- 31.4 Bcf of net short futures contracts and fixed swap positions, and;
- 11.1 Bcf of net long basis swap positions

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, and;
- 11.5 Bcf of net long basis swap positions.

Gross Margin

NJRES' gross margin is a non-GAAP financial measure defined as natural gas revenues less natural gas purchases (including demand charges), and may not be comparable to the definition of gross margin used by others in the natural gas distribution, energy marketing and other industries. Gross margin during fiscal 2011, was lower by approximately $47.7 million compared with fiscal 2010, due primarily to unrealized losses during fiscal 2011 compared with unrealized gains during fiscal 2010, partially offset by realized gains during fiscal 2011, compared with realized losses during fiscal 2010. Gross margin during fiscal 2010 was higher by approximately $122.2 million compared with fiscal 2009, due primarily to lower realized losses year-over-year coupled with unrealized gains during fiscal 2010 compared to unrealized losses during fiscal 2009.

NJRES had unrealized (losses) gains of $(36.7) million, $31.1 million and $(47.6) million during fiscal 2011, 2010 and 2009, respectively, relating to physical and financial contracts that have not yet settled. These unrealized amounts represent the change in price of natural gas from the original hedge price compared with the market price of natural gas at each reporting date. When transactions are settled any previously recognized unrealized amounts related to these transactions are realized.

NJRES also had realized gains (losses) of $28.6 million, $(3.5) million and $(55.9) million during fiscal 2011, 2010 and 2009, respectively, relating to the effects of economic hedging related to natural gas inventory. The realized gains (losses) pertain to the settlement of certain purchased futures and fixed swap contracts, which economically hedge planned natural gas purchases. The increase in gains incurred during fiscal 2011 and 2010, resulted from more favorable settlement prices compared with the respective prior year.

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

In addition, there was a decrease in realized margin associated with physical sale of natural gas during fiscal 2011 and 2010, as described further in the discussion of financial margin in the Non-GAAP measures section below.

Non-GAAP measures

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

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

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

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

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

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

(Thousands)	2011	2010	2009
Operating revenues	$ 2,052,303	$ 1,685,044	$ 1,498,742
Less: Gas purchases	2,016,704	1,601,701	1,537,634
Add:			

Unrealized loss (gain) on derivative instruments and related instruments	36,676	(31,113)	47,631
Effects of economic hedging related to natural gas inventory	(28,604)	3,469	55,940
Financial margin	$43,671	$55,699	$64,679

New Jersey Resources Corporation
Part II

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

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

(Thousands)	2011	2010	2009
Operating income (loss)	$17,746	$67,385	$(57,139)
Add:			
Operation and maintenance expense	16,682	14,947	16,468
Depreciation and amortization	61	153	205
Other taxes	1,110	858	1,574
Subtotal - Gross margin (loss)	35,599	83,343	(38,892)
Add:			
Unrealized loss (gain) on derivative instruments and related instruments	36,676	(31,113)	47,631
Effects of economic hedging related to natural gas inventory	(28,604)	3,469	55,940
Financial margin	$43,671	$55,699	$64,679

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

(Thousands)	2011	2010	2009
Net income (loss)	$13,479	$42,711	$(32,632)
Add:			
Unrealized loss (gain) on derivative instruments and related instrument, net of taxes	23,190	(19,029)	29,337
Effects of economic hedging related to natural gas inventory, net of taxes	(18,086)	1,132	34,474
Net financial earnings	$18,583	$24,814	$31,179

Financial margin decreased $12 million to $43.7 million during fiscal 2011, due primarily to a reduction in volatility in NJRES' market area. Exploration and production of shale gas in the Northeastern region continued to contribute to a compression in natural gas prices and a general decrease in opportunities to generate margin from the optimization of transportation and storage assets in NJRES' market area. The fundamental change in the supply of shale gas and related market volatility is expected to continue to challenge NJRES' financial margin. NJRES' net financial earnings contributed 18 percent of consolidated net financial earnings during fiscal 2011, compared with 25 percent during fiscal 2010.

Financial margin decreased $9 million to $55.7 million during fiscal 2010 from $64.7 million during fiscal 2009. NJRES' financial margin was adversely impacted by the decrease in volatility in natural gas prices in its core markets caused by the economic downturn, which led to a reduction in industrial consumption. In addition, there was an increase in the supply of natural gas resources in NJRES' market area as a result of the exploration and production of shale gas in the Northeastern region, which also contributed to a compression in price. As a result, NJRES' financial margin was impacted by a decrease in opportunities to optimize transportation assets because of the lack of volatility in the marketplace caused by a decrease in the demand for natural gas in fiscal 2010, compared with the prior year and a decrease in overall basis spreads, which lowered the overall value of the transportation portfolio.

Operation and Maintenance Expense

Operation and maintenance expense increased $1.7 million, or 11.6 percent, during fiscal 2011 compared with fiscal 2010, due primarily to an increase in charitable contributions and incentive compensation partially offset by a decrease in consulting and shared corporate services costs.

Operation and maintenance expense decreased $1.5 million, or 9.2 percent, during fiscal 2010 compared with fiscal 2009, due primarily to a decrease of $2.2 million in incentive compensation that correlates with lower net financial earnings and a decrease of $472,000 in outside legal fees, partially offset by an increase in consulting fees of $1.2 million.

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

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

Net Financial Earnings

Net financial earnings decreased $6.2 million during fiscal 2011, compared with fiscal 2010, due primarily to lower financial margin, which was impacted by a general reduction in volatility in NJRES' market area, as previously described, partially offset by an income tax benefit of $4.3 million related to a tax refund received from the State of New Jersey during the fourth quarter fiscal 2011. After fees and federal income taxes, the net impact of the tax refund was $2.4 million. See Note 12. Income Taxes in the accompanying Consolidated Financial Statements for a more detailed discussion of the refund.

Net financial earnings decreased $6.4 million during fiscal 2010, due primarily to a reduction of optimization opportunities as well as narrower price spreads as previously discussed, partially offset by lower operation and maintenance expense and lower income taxes that corresponded to the decrease in net financial earnings.

Clean Energy Ventures Segment

Operating Results

The financial results of NJRCEV for the fiscal years ended September 30, are summarized as follows:

(Thousands)	2011	2010	2009