

NEW JERSEY RESOURCES CORP
Form 10-Q
May 03, 2013

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

FORM 10 Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission file number 1 8359

NEW JERSEY RESOURCES CORPORATION
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

22 2376465
(I.R.S. Employer
Identification Number)

1415 Wyckoff Road, Wall, New Jersey 07719
(Address of principal
executive offices)

732 938 1480
(Registrant's telephone number,
including area code)

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

Common Stock \$2.50 Par Value
(Title of each class)

New York Stock Exchange
(Name of each exchange on which registered)

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

Yes: No:

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

Yes: No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

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

Large accelerated filer: Accelerated filer:

Non-accelerated filer:
(Do not check if a smaller
reporting company)

Smaller reporting company:

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

Yes: No:

The number of shares outstanding of \$2.50 par value Common Stock as of April 30, 2013 was 41,776,523.

New Jersey Resources Corporation

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New Jersey Resources Corporation

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report, including, without limitation, statements as to management expectations and beliefs presented in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations," Part I, Item 3. "Quantitative and Qualitative Disclosures about Market Risk," Part II, Item I. "Legal Proceedings" and in the notes to the financial statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can also be identified by the use of forward-looking terminology such as "may," "intend," "expect," "believe," "will" or "continue" or comparable terminology and made based upon management's current expectations and beliefs as of this date concerning future developments and their potential effect upon New Jersey Resources Corporation (NJR or the Company). There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Company will be those anticipated by management.

The Company cautions readers that the assumptions that form the basis for forward-looking statements regarding customer growth, customer usage, qualifications for federal investment tax credits (ITCs) and solar renewable energy certificates (SRECs), financial condition, results of operations, cash flows, capital requirements, market risk and other matters for fiscal 2013 and thereafter include many factors that are beyond the Company's ability to control or estimate precisely, such as estimates of future market conditions, the behavior of other market participants and changes in the debt and equity capital markets. The factors that could cause actual results to differ materially from NJR's expectations include, but are not limited to, those discussed in Item 1A. Risk Factors of NJR's 2012 Annual Report on Form 10-K and Part II, Item 1A of this Form 10-Q, as well as the following:

- weather and economic conditions;
- demographic changes in the New Jersey Natural Gas (NJNG) service territory and their effect on NJNG's customer growth;
- volatility of natural gas and other commodity prices and their impact on NJNG customer usage, NJNG's BGSS 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 or 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;
- 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 renewable energy projects and our investment in an on-shore wind developer, 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 (including those related to restoration efforts resulting from Post Tropical Cyclone Sandy, commonly referred to as Superstorm Sandy) 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 possible expiration of the NJNG Conservation Incentive Program (CIP);
- 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 impact of a disallowance of recovery of environmental-related expenditures and other regulatory changes;
- environmental-related and other litigation and other uncertainties;
- risks related to cyber-attack or failure of information technology systems; and
- the impact of natural disasters, terrorist activities, and other extreme events on our operations and customers, including any impacts to utility gross margin and restoration costs resulting from Superstorm Sandy.

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

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL
STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Thousands, except per share data)	Three Months Ended		Six Months Ended	
	March 31, 2013	2012	March 31, 2013	2012
OPERATING REVENUES				
Utility	\$ 351,750	\$ 226,023	\$ 570,599	\$ 417,397
Nonutility	609,135	386,898	1,126,305	837,935
Total operating revenues	960,885	612,921	1,696,904	1,255,332
OPERATING EXPENSES				
Gas purchases:				
Utility	189,040	78,301	300,361	163,931
Nonutility	611,567	382,055	1,066,994	788,472
Operation and maintenance	43,067	39,185	83,137	78,130
Regulatory rider expenses	23,774	18,443	37,756	30,986
Depreciation and amortization	11,721	10,439	23,024	20,039
Energy and other taxes	24,747	16,809	41,472	30,867
Total operating expenses	903,916	545,232	1,552,744	1,112,425
OPERATING INCOME	56,969	67,689	144,160	142,907
Other income	2,781	349	3,046	876
Interest expense, net of capitalized interest	5,746	5,427	11,571	10,432
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	54,004	62,611	135,635	133,351
Income tax provision	12,065	11,094	36,045	27,131
Equity in earnings of affiliates	3,530	3,018	6,085	5,672
NET INCOME	\$ 45,469	\$ 54,535	\$ 105,675	\$ 111,892
EARNINGS PER COMMON SHARE				
BASIC	\$1.09	\$1.31	\$2.53	\$2.70
DILUTED	\$1.08	\$1.31	\$2.52	\$2.68
DIVIDENDS PER COMMON SHARE	\$0.40	\$0.38	\$0.80	\$0.76
WEIGHTED AVERAGE SHARES OUTSTANDING				
BASIC	41,789	41,509	41,742	41,472
DILUTED	41,972	41,711	41,925	41,673

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2013	2012	March 31, 2013	2012
Net income	\$ 45,469	\$ 54,535	\$ 105,675	\$ 111,892
Other comprehensive income, net of tax				
Unrealized gain (loss) on available for sale securities, net of tax of \$(447), \$575, \$(226) and \$(25), respectively ⁽¹⁾	\$ 647	\$ (833))\$ 327	\$ 36
Net unrealized (loss) on derivatives, net of tax of \$4, \$18, \$10 and \$41, respectively	(7) (30)(17) (70

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Adjustment to postemployment benefit obligation, net of tax of \$(202), \$(149), \$(405) and \$(299), respectively	296	219	709	438
Other comprehensive income (loss)	\$936	\$(644)	\$1,019	\$404
Comprehensive income	\$46,405	\$53,891	\$106,694	\$112,296

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

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS
(Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Thousands)	Six Months Ended March 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$105,675	\$111,892
Adjustments to reconcile net income to cash flows from operating activities:		
Unrealized loss (gain) on derivative instruments	20,466	(15,353)
Depreciation and amortization	23,024	20,039
Allowance for equity used during construction	(1,333)	(139)
Allowance for bad debt expense	1,341	1,586
Deferred income taxes	14,639	20,920
Manufactured gas plant remediation costs	(3,254)	(4,964)
Equity in earnings of affiliates, net of distributions received	1,835	3,852
Cost of removal - asset retirement obligations	(137)	(368)
Contributions to postemployment benefit plans	(23,102)	(22,982)
Changes in:		
Components of working capital	(44,510)	(31,567)
Other noncurrent assets	5,198	11,690
Other noncurrent liabilities	8,539	10,018
Cash flows from operating activities	108,381	104,624
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(51,376)	(42,380)
Solar equipment	(24,865)	(61,786)
Real estate properties and other	(298)	(459)
Cost of removal	(14,323)	(6,765)
Distribution from equity investees	648	—
Withdrawal from restricted cash construction fund	—	136
Cash flows (used in) investing activities	(90,214)	(111,254)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	6,922	7,164
Tax benefit from stock options exercised	79	222
Proceeds from sale-leaseback transaction	7,076	6,522
Payments of long-term debt	(3,833)	(3,371)
Purchases of treasury stock	(1,311)	(4,800)
Payments of common stock dividends	(33,913)	(30,695)
Net proceeds from short-term debt	8,300	31,950
Cash flows (used in) from financing activities	(16,680)	6,992
Change in cash and cash equivalents	1,487	362
Cash and cash equivalents at beginning of period	4,509	7,440
Cash and cash equivalents at end of period	\$5,996	\$7,802
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$(245,241)	\$19,773

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Inventories	92,822	118,920
Recovery of gas costs	(542)	(21,177)
Gas purchases payable	88,263	(80,941)
Prepaid and accrued taxes	46,900	47,025
Accounts payable and other	(5,070)	(4,573)
Restricted broker margin accounts	(10,196)	(14,249)
Customers' credit balances and deposits	(30,579)	(82,321)
Other current assets	19,133	(14,024)
Total	\$(44,510)	\$(31,567)

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

Cash paid for:

Interest (net of amounts capitalized)	\$10,207	\$8,324
Income taxes	\$4,111	\$814

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES

Accrued capital expenditures	\$(9,463)	\$5,041
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See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS
(Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

ASSETS

(Thousands)	March 31, 2013	September 30, 2012
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 1,615,598	\$ 1,591,532
Construction work in progress	127,372	102,420
Solar equipment, real estate properties and other, at cost	227,026	192,026
Construction work in progress	2,357	20,558
Total property, plant and equipment	1,972,353	1,906,536
Accumulated depreciation and amortization	(430,271)	(421,659)
Property, plant and equipment, net	1,542,082	1,484,877
CURRENT ASSETS		
Cash and cash equivalents	5,996	4,509
Customer accounts receivable		
Billed	361,924	170,543
Unbilled revenues	60,478	7,017
Allowance for doubtful accounts	(5,739)	(4,797)
Regulatory assets	25,978	32,734
Gas in storage, at average cost	167,663	265,193
Materials and supplies, at average cost	12,571	7,863
Prepaid and accrued taxes	1,033	32,029
Derivatives, at fair value	42,152	48,021
Restricted broker margin accounts	42,930	21,929
Deferred taxes	26,358	29,074
Other	21,217	33,229
Total current assets	762,561	647,344
NONCURRENT ASSETS		
Investments in equity investees	163,914	164,595
Regulatory assets	442,208	441,263
Derivatives, at fair value	781	2,328
Other	30,112	29,598
Total noncurrent assets	637,015	637,784
Total assets	\$ 2,941,658	\$ 2,770,005

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS
(Continued)

CAPITALIZATION AND LIABILITIES

(Thousands)	March 31, 2013	September 30, 2012
CAPITALIZATION		
Common stock equity	\$ 897,771	\$ 813,865
Long-term debt	527,688	525,169
Total capitalization	1,425,459	1,339,034
CURRENT LIABILITIES		
Current maturities of long-term debt	8,601	7,760
Short-term debt	288,100	279,800
Gas purchases payable	270,677	182,414
Accounts payable and other	52,872	66,765
Dividends payable	16,715	16,648
Deferred and accrued taxes	16,845	2,072
Regulatory liabilities	—	1,169
New Jersey clean energy program	7,464	5,619
Derivatives, at fair value	46,525	42,440
Restricted broker margin accounts	10,805	—
Customers' credit balances and deposits	17,873	48,452
Total current liabilities	736,477	653,139
NONCURRENT LIABILITIES		
Deferred income taxes	366,410	355,306
Deferred investment tax credits	5,744	5,905
Deferred revenue	5,124	5,502
Derivatives, at fair value	1,310	3,133
Manufactured gas plant remediation	182,000	182,000
Postemployment employee benefit liability	104,804	124,196
Regulatory liabilities	79,025	67,077
Asset retirement obligation	28,312	27,983
Other	6,993	6,730
Total noncurrent liabilities	779,722	777,832
Commitments and contingent liabilities (Note 11)		
Total capitalization and liabilities	\$ 2,941,658	\$ 2,770,005

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF THE BUSINESS

New Jersey Resources Corporation (NJR or the Company) provides regulated gas distribution services and certain non-regulated businesses primarily through the following subsidiaries:

New Jersey Natural Gas Company (NJNG) provides natural gas utility service to approximately 498,900 retail customers in central and northern New Jersey and is subject to rate regulation by the New Jersey Board of Public Utilities (BPU). NJNG comprises the Natural Gas Distribution segment;

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

NJR Energy Services Company (NJRES) comprises the Energy Services segment that maintains and transacts around a portfolio of natural gas storage and transportation positions and provides wholesale energy and energy management services;

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

NJR Retail Holdings Corporation (Retail Holdings) has two principal subsidiaries, NJR Home Services Company (NJRHS) and Commercial Realty & Resources Corporation (CR&R). Retail Holdings and NJR Energy Corporation (NJR Energy) are included in Retail and Other operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared by NJR in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) and Accounting Standards Codification (ASC) 270. The September 30, 2012, Balance Sheet data is derived from the audited financial statements of the Company. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and the notes thereto included in NJR's 2012 Annual Report on Form 10-K.

The Unaudited Condensed Consolidated Financial Statements include the accounts of NJR and its subsidiaries. In the opinion of management, the accompanying Unaudited Condensed Consolidated Financial Statements reflect all adjustments necessary, for a fair presentation of the results of the interim periods presented. These adjustments are of a normal and recurring nature. Because of the seasonal nature of NJR's utility and wholesale energy services operations, in addition to other factors, the financial results for the interim periods presented are not indicative of the results that are to be expected for the fiscal year ended September 30, 2013.

Intercompany transactions and accounts have been eliminated.

Gas in Storage

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

(\$ in thousands)	March 31, 2013		September 30, 2012	
	Gas in Storage	Bcf	Gas in Storage	Bcf
NJNG	\$ 14,891	2.4	\$ 145,379	22.2
NJRES	152,772	43.8	119,814	45.5
Total	\$ 167,663	46.2	\$ 265,193	67.7

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Available for Sale Securities

Included in other noncurrent assets on the Unaudited Condensed Consolidated Balance Sheets are certain investments in equity securities of a publicly traded energy company that have a fair value of \$11.6 million and \$11 million as of March 31, 2013 and September 30, 2012, respectively. Total unrealized gains associated with these equity securities, which are included as a part of accumulated other comprehensive income, a component of common stock equity, were \$8.9 million (\$5.2 million, after tax) and \$8.3 million (\$4.9 million, after tax) as of March 31, 2013 and September 30, 2012, respectively.

Disposal of Equipment

In October 2012, certain of NJRCEV's solar assets sustained damage as a result of Post Tropical Cyclone Sandy, commonly referred to as Superstorm Sandy (Superstorm Sandy). To the extent that any of the assets were deemed irreparable, the Company disposed of the damaged equipment. As a result, the Company recognized a pre-tax loss of \$766,000, which is included in other income on the Unaudited Condensed Consolidated Statements of Operations as of March 31, 2013. During the second quarter of fiscal 2013, the Company received confirmation from its insurance carrier that its claim to recover the loss was approved and, therefore, recorded a gain in other income on the Unaudited Condensed Consolidated Statements of Operations in the amount of \$954,000, representing replacement value of the disposed assets.

Recent Updates to the Accounting Standards Codification (ASC)

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11, an amendment to ASC Topic 210, Balance Sheet, requiring additional disclosures about the nature of an entity's rights of setoff and related master netting arrangements associated with its financial and derivative instruments. The objective of the disclosures is to facilitate comparison between financial statements prepared on the basis of U.S. generally accepted accounting principles (U.S. GAAP) and those prepared on the basis of International Financial Reporting Standards (IFRS). The amended guidance will become effective for annual periods beginning on or after January 1, 2013, as well as interim periods within those annual periods, and will be applied retrospectively. The Company has determined that the new guidance will not impact its financial position, results of operations or cash flows upon adoption.

In February 2013, the FASB issued ASU No. 2013-02, an amendment to ASC Topic 220, Comprehensive Income, requiring information about amounts reclassified out of accumulated other comprehensive income as well as income statement line items that are affected by the reclassifications. The new guidance does not change existing requirements for reporting net income or other comprehensive income in the financial statements. ASU 2013-02 became effective for reporting periods beginning after December 15, 2012. There was no impact to the Company's financial position, results of operations or cash flows upon adoption.

NJR applied the provisions of the new guidance prospectively effective January 1, 2013, as follows:

Accumulated Other Comprehensive Income
(Thousands)

Unrealized gain on available for	Net unrealized gain on	Adjustment to postemployment	Total
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	sale securities	derivatives	benefit obligation	
Beginning balance as of January 1, 2013	\$4,601	\$41	\$(15,330)	\$(10,688)
Other comprehensive income, excluding reclassifications, net of tax of \$(447), \$(9), \$-, \$(456)	647	15	—	662
Amounts reclassified from accumulated other comprehensive income, net of tax of \$-, \$13, \$(203), — \$(190)		(22) ⁽¹⁾	296	⁽²⁾ 274
Net current-period other comprehensive income, net of tax of \$(447), \$4, \$(203), \$(646)	647	(7)	296	936
Ending balance as of March 31, 2013	\$5,248	\$34	\$(15,034)	\$(9,752)

(1) Reclassified to gas purchases in the Unaudited Consolidated Statements of Operations.

(2) Included in the computation of net periodic pension cost, a component of operations and maintenance expense in the Unaudited Consolidated Statements of Operations.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

3. REGULATION

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

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

(Thousands)	March 31, 2013	September 30, 2012
Regulatory assets-current		
Conservation Incentive Program	\$ 18,383	\$ 25,681
Underrecovered gas costs	7,595	7,053
Total current	\$ 25,978	\$ 32,734
Regulatory assets-noncurrent		
Environmental remediation costs		
Expended, net of recoveries	\$ 48,830	\$ 59,745
Liability for future expenditures	182,000	182,000
Deferred income taxes	11,405	11,405
Energy Efficiency Program	31,712	26,025
New Jersey Clean Energy Program (NJCEP)	7,464	5,619
Postemployment and other benefit costs	137,700	142,495
Deferred Superstorm Sandy costs	14,666	—
Other	8,431	13,974
Total noncurrent	\$ 442,208	\$ 441,263
Regulatory liability-current		
Derivatives, net	\$ —	\$ 1,169
Total current	\$ —	\$ 1,169
Regulatory liabilities-noncurrent		
Cost of removal obligation	\$ 64,346	\$ 65,994
Derivatives, net	13,189	1,000
Other	1,490	83
Total noncurrent	\$ 79,025	\$ 67,077

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

Recent regulatory filings and/or actions include the following:

-

In November 2012, the BPU approved the utilities' funding obligations for NJCEP for the period from January 1, 2013 to June 30, 2013. Those programs will now be on a July 1 through June 30 fiscal year basis. NJNG's share of the total funding requirement will be approximately \$9.8 million. Accordingly, NJNG recorded the obligation and a corresponding regulatory asset on the Unaudited Condensed Consolidated Balance Sheets.

On October 23, 2012, the BPU approved the Safety Acceleration and Facility Enhancement (SAFE) program, allowing a four-year incremental capital investment program of \$130 million, exclusive of allowance for funds used during construction (AFUDC) accruals. The approval includes an agreement that these infrastructure costs will be subject to review in NJNG's next base rate case to be filed no later than November 2015, the deferral of depreciation expense on SAFE investments and an overall rate of return on infrastructure investments of 6.9 percent. The deferred cost recovery will include accruals for both debt and equity components of AFUDC while construction is in progress. When construction is completed and plant is placed in service, NJNG will accrue an AFUDC rate at 6.9 percent per year until such time that NJNG receives approval for recovery of all costs through base rates.

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On November 19, 2012, NJNG filed a petition with the BPU requesting deferral accounting for uninsured incremental operating and maintenance costs associated with Superstorm Sandy. In addition, NJNG requested the review of and the appropriate recovery period for such deferred expenses be addressed in the Company's next base rate case. As of March 31, 2013, NJNG has recorded a regulatory asset in the amount of \$14.7 million related to these costs.

In addition, on March 20, 2013, the BPU issued an order establishing a generic proceeding to review the prudence of costs incurred by New Jersey utility companies in response to major storm events in 2011 and 2012. The BPU order requires NJNG to file a detailed report by July 1, 2013, including unreimbursed, uninsured incremental storm restoration costs.

On November 20, 2012, NJNG submitted a filing requesting a base rate increase of \$6.9 million for Accelerated Infrastructure Programs (AIP), related to the initial phase of AIP projects (AIP I) and the second phase of AIP projects (AIP II) infrastructure investments installed in NJNG's distribution and transmission systems through October 31, 2012. The existing weighted average cost of capital remained the same for both AIP I and AIP II investments.

On January 23, 2013, the BPU approved a stipulation to extend NJNG's current SAVEGREEN Project® (SAVEGREEN) through June 30, 2013. NJNG's July 9, 2012 petition, for an extension and expansion of the SAVEGREEN programs over a four-year period, remains open.

On March 1, 2013, NJNG and South Jersey Gas Company (SJG) filed a joint petition with the BPU requesting the continuation of the Conservation Incentive Program (CIP) with certain modifications.

On March 20, 2013, the BPU approved a February 2012 filing that requested approval of NJNG's manufactured gas plant (MGP) expenditures incurred through June 30, 2011, maintaining the existing overall social benefit clause (SBC) rate and recovery.

4. DERIVATIVE INSTRUMENTS

The Company is subject to commodity price risk due to fluctuations in the market price of natural gas. To manage this risk, the Company enters into a variety of derivative instruments including, but not limited to, futures contracts, physical forward contracts, financial options and swaps to economically hedge the commodity price risk associated with its existing and anticipated commitments to purchase and sell natural gas. In addition, the Company may utilize foreign currency derivatives as cash flow hedges of Canadian dollar denominated gas purchases. These contracts, with a few exceptions as described below, are accounted for as derivatives. Accordingly, all of the financial and certain of the Company's physical derivative instruments are recorded at fair value on the Unaudited Condensed Consolidated Balance Sheets. For a more detailed discussion of the Company's fair value measurement policies and level disclosures associated with the NJR's derivative instruments, see Note 5. Fair Value.

Since the Company chooses not to designate its financial commodity and physical forward commodity derivatives as accounting hedges, changes in the fair value of these derivative instruments are recorded as a component of gas purchases or operating revenues, as appropriate for NJRES, on the Unaudited Condensed Consolidated Statements of Operations as unrealized gains or (losses). For NJRES at settlement, realized gains and (losses) on all financial derivative instruments are recognized as a component of gas purchases and realized gains and (losses) on all physical derivatives follow the presentation of the related unrealized gains and (losses) as a component of either gas purchases

or operating revenues.

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

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

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

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

During fiscal 2012, NJRCEV began economically hedging certain of its expected production of solar renewable energy certificates (SRECs) through forward sale contracts. The Company intends to physically deliver the SRECs upon settlement and, therefore, applies NPNS accounting treatment to the contracts and recognizes related revenue upon transfer of the SRECs.

Fair Value of Derivatives

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

(Thousands)	Balance Sheet Location	Fair Value			
		March 31, 2013		September 30, 2012	
		Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Derivatives designated as hedging instruments:					
NJRES:					
Foreign currency contracts	Derivatives - current	\$57	\$26	\$116	\$97
	Derivatives - noncurrent	14	—	70	15
Fair value of derivatives designated as hedging instruments		\$71	\$26	\$186	\$112
Derivatives not designated as hedging instruments:					
NJNG:					
Financial derivative contracts	Derivatives - current	\$14,768	\$1,579	\$6,203	\$5,034
	Derivatives - noncurrent	—	—	1,000	—
NJRES:					
Physical forward commodity contracts	Derivatives - current	10,669	4,490	19,590	9,530
	Derivatives - noncurrent	61	232	658	216
Financial derivative contracts	Derivatives - current	16,658	40,430	22,112	27,779

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	Derivatives - noncurrent	706	1,078	600	2,902
Fair value of derivatives not designated as hedging instruments		\$42,862	\$47,809	\$50,163	\$45,461
Total fair value of derivatives		\$42,933	\$47,835	\$50,349	\$45,573

At March 31, 2013, the gross notional amount of the foreign currency transactions was approximately \$5.2 million, and ineffectiveness in the hedge relationship is immaterial to the financial results of NJR.

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

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

(Thousands)	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives			
		Three Months Ended March 31,		Six Months Ended March 31,	
		2013	2012	2013	2012
Derivatives not designated as hedging instruments:					
NJRES:					
Physical commodity contracts	Operating revenues	\$(2,224)	\$8,745	\$(7,859)	\$(3,163)
Physical commodity contracts	Gas purchases	2,762	116	2,556	4,391
Financial derivative contracts	Gas purchases	(30,669)	40,511	(1,467)	102,965
Total unrealized and realized (losses) gains		\$(30,131)	\$49,372	\$(6,770)	\$104,193

Not included in the previous table, are gains associated with NJNG's financial derivatives that totaled \$12.4 million and \$6.2 million for the three months ended and six months ended March 31, 2013, respectively, and (losses) that totaled \$(15.4) million and \$(35.3) million for the three months ended and six months ended March 31, 2012, respectively. These derivatives are part of NJNG's risk management activities that relate to its natural gas purchases and BGSS incentive programs. As these transactions are entered into pursuant to and recoverable through regulatory riders, any changes in the value of NJNG's financial derivatives are deferred in regulatory assets or liabilities and there is no impact to earnings.

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

(Thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Amount of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)		Amount of Gain or (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
	2013	2012	2013	2012	2013	2012
Derivatives in cash flow hedging relationships:						
Foreign currency contracts	\$24	\$(25)	\$(35)	\$(23)	\$—	\$—

(Thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) ⁽¹⁾		Amount of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)		Amount of Gain or (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2013	2012	2013	2012	2013	2012
Derivatives in cash flow hedging relationships:						
Foreign currency contracts	\$24	\$(25)	\$(35)	\$(23)	\$—	\$—

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	Six Months Ended March 31,		Six Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012	2013	2012
Derivatives in cash flow hedging relationships:						
Foreign currency contracts	\$(71)	\$(75)	\$44	\$(35)	\$—	\$—

(1) The settlement of foreign currency transactions over the next twelve months is expected to result in the reclassification of \$32,000 from OCI into earnings. The maximum tenor is April 2015.

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

		Volume (Bcf)	
		March 31, 2013	September 30, 2012
NJNG	Futures	20.0	16.1
	Swaps	(1) —	3.4
	Options	1.8	—
NJRES	Futures	1.5	(28.6)
	Swaps	(1) —	13.2
	Options	—	4.4
	Physical	61.8	(3.5)

(1) In October 2012, following the implementation of Dodd-Frank, ICE converted its cleared energy “swap” contracts to “futures” contracts and the NYMEX amended their product titles to remove the word “swap” from the titles of their “futures” and “option” contracts.

Broker Margin

Generally, exchange-traded futures contracts require posted collateral, referred to as margin, usually in the form of cash. The amount of margin required is comprised of a fixed initial amount based on the contract and a variable amount based on market price movements from the initial trade price. The Company maintains separate broker margin accounts for NJNG and NJRES. The balances by company, are as follows:

(Thousands)	Balance Sheet Location	March 31, 2013	September 30, 2012
NJNG	Broker margin - Current assets	\$—	\$1,713
NJNG	Broker margin - Current (liabilities)	\$(10,805)\$—
NJRES	Broker margin - Current assets	\$42,930	\$20,216

Wholesale Credit Risk

NJNG and NJRES are exposed to credit risk as a result of their wholesale marketing activities. As a result of the inherent volatility in the prices of natural gas commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If a counterparty failed to perform the obligations under its contract (e.g., failed to deliver or pay for natural gas), then the Company could sustain a loss.

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

whereby receivables and payables with the same counterparty are offset and the resulting net amount is paid to the party to which it is due.

The following is a summary of gross credit exposures grouped by investment and noninvestment grade counterparties, as of March 31, 2013. Internally-rated exposure applies to counterparties that are not rated by Standard & Poor's (S&P) or Moody's Investors Service, Inc. (Moody's). In these cases, the company's or guarantor's financial statements are reviewed, and similar methodologies and ratios used by S&P and/or Moody's are applied to arrive at a substitute rating. Gross credit exposure is defined as the unrealized fair value of physical and financial derivative commodity contracts plus any outstanding wholesale receivable for the value of natural gas delivered and/or financial derivative commodity contract that has settled for which payment has not yet been received.

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The amounts presented below have not been reduced by any collateral received or netting and exclude accounts receivable for NJNG retail natural gas sales and services.

(Thousands)	Gross Credit Exposure
Investment grade	\$ 215,949
Noninvestment grade	4,333
Internally rated investment grade	44,515
Internally rated noninvestment grade	9,238
Total	\$ 274,035

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

Collateral amounts associated with any of these conditions are determined based on a sliding scale and are contingent upon the degree to which the Company's credit rating and/or financial metrics deteriorate, and the extent to which liability amounts exceed applicable threshold limits. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on March 31, 2013 and September 30, 2012, was \$27,000 and \$1.6 million, respectively, for which the Company had not posted any collateral. If all the thresholds related to the credit-risk-related contingent features underlying these agreements had been invoked on March 31, 2013 and September 30, 2012, the Company would have been required to post an additional \$19,000 and \$1.2 million, respectively, to its counterparties. These amounts differ from the respective net derivative liabilities reflected on the Unaudited Condensed Consolidated Balance Sheets because the agreements also include clauses, commonly known as "Rights of Offset," that would permit the Company to offset its derivative assets against its derivative liabilities for determining additional collateral to be posted.

5. FAIR VALUE

Fair Value of Assets and Liabilities

The fair value of cash and temporary investments, commercial paper and borrowings under revolving credit facilities are estimated to equal their carrying amounts due to the short maturity of those instruments. The estimated fair value of long-term debt, including current maturities and excluding capital leases, is as follows:

(Thousands)	March 31, 2013	September 30, 2012
Carrying value	\$ 479,845	\$ 479,845
Fair market value	\$ 527,809	\$ 530,056

NJR utilizes a discounted cash flow method to determine the fair value of its debt. Inputs include observable municipal and corporate yields, as appropriate for the specific issue and for NJR's credit rating. As of March 31, 2013, NJR discloses its debt within Level 2 of the fair value hierarchy.

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Fair Value Hierarchy

NJR applies fair value measurement guidance to its financial assets and liabilities, as appropriate, which include financial derivatives and physical commodity contracts qualifying as derivatives, available for sale securities and other financial assets and liabilities. In addition, authoritative accounting literature prescribes the use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the source of the data used to develop the price inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to inputs that are based on unobservable market data and include the following:

Unadjusted quoted prices for identical assets or liabilities in active markets; NJR's Level 1 assets and liabilities include exchange traded futures and options contracts, listed equities, and money market funds. Exchange traded futures and options contracts include all energy contracts traded on the New York Mercantile Exchange (NYMEX)/Chicago Mercantile Exchange (CME) and the Intercontinental Exchange (ICE) that NJR refers internally to as basis swaps, fixed swaps, futures and options that are cleared through a Futures Commission Merchant (FCM).

Price data, which includes both commodity and basis price data other than Level 1 quotes, that is observed either directly or indirectly from publications or pricing services; NJR's Level 2 assets and liabilities include over-the-counter physical forward commodity contracts and swap contracts or derivatives that are initially valued using observable quotes and are subsequently adjusted to include time value, credit risk or estimated transport pricing components for which no basis price is available. Level 2 financial derivatives consist of transactions with non-FCM counterparties (basis swaps, fixed swaps and/or options). For some physical commodity contracts the Company utilizes transportation tariff rates that are publicly available and that it considers to be observable inputs that are equivalent to market data received from an independent source. There are no significant judgments or adjustments applied to the transportation tariff inputs and no market perspective is required. Even if the transportation tariff input was considered to be a "model", it would still be considered to be a Level 2 input as:

- 1) The data is widely accepted and public
- 2) The data is non-proprietary and sourced from an independent third party
- 3) The data is observable and published

These additional adjustments are generally not considered to be significant to the ultimate recognized values.

Inputs derived from a significant amount of unobservable market data; these include NJR's best estimate of fair value and are derived primarily through the use of internal valuation methodologies.

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Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

(Thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of March 31, 2013:				
Assets:				
Physical forward commodity contracts	\$—	\$ 10,730	\$—	\$ 10,730
Financial derivative contracts - natural gas	31,998	134	—	32,132
Financial derivative contracts - foreign exchange	—	71	—	71
Available for sale equity securities - energy industry ⁽¹⁾	11,563	—	—	11,563
Other ⁽²⁾	36	—	—	36
Total assets at fair value	\$43,597	\$ 10,935	\$—	\$ 54,532
Liabilities:				
Physical forward commodity contracts	\$—	\$ 4,722	\$—	\$ 4,722
Financial derivative contracts - natural gas	43,087	—	—	43,087
Financial derivative contracts - foreign exchange	—	26	—	26
Other	—	—	—	—
Total liabilities at fair value	\$43,087	\$ 4,748	\$—	\$ 47,835
As of September 30, 2012:				
Assets:				
Physical forward commodity contracts	\$—	\$ 20,248	\$—	\$ 20,248
Financial derivative contracts - natural gas	14,270	15,645	—	29,915
Financial derivative contracts - foreign exchange	—	186	—	186
Available for sale equity securities - energy industry ⁽¹⁾	11,009	—	—	11,009
Other ⁽²⁾	30	—	—	30
Total assets at fair value	\$25,309	\$ 36,079	\$—	\$ 61,388
Liabilities:				
Physical forward commodity contracts	\$—	\$ 9,746	\$—	\$ 9,746
Financial derivative contracts - natural gas	16,922	18,793	—	35,715
Financial derivative contracts - foreign exchange	—	112	—	112
Other	—	—	—	—
Total liabilities at fair value	\$ 16,922	\$ 28,651	\$—	\$ 45,573

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

(2)Includes various money market funds.

6. INVESTMENTS IN EQUITY INVESTEEES

Investment in equity investees includes NJR's equity method and cost method investments.

Equity Method Investments

(Thousands)	March 31, 2013	September 30, 2012
Steckman Ridge	\$ 132,210	\$ 132,931
Iroquois	22,904	22,864
Total	\$ 155,114	\$ 155,795

As of March 31, 2013, the investment in Steckman Ridge includes loans with a total outstanding principal balance of \$70.4 million. The loans accrue interest at a variable rate that resets quarterly and are due December 31, 2017.

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

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Cost Method Investments

During the fourth quarter of fiscal 2012, NJR invested \$8.8 million in OwnEnergy, a developer of on-shore wind projects. At that time, the investment represented a 19.9 percent equity interest. Under the terms of the investment agreements, other OwnEnergy investors had the opportunity to invest in the same round of equity financing that NJR participated in. As of March 31, 2013, NJR's ownership interest is 18.7 percent and is accounted for in accordance with the cost method of accounting.

7. EARNINGS PER SHARE

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

(Thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2013	2012	2013	2012
Net income, as reported	\$45,469	\$54,535	\$105,675	\$111,892
Basic earnings per share				
Weighted average shares of common stock outstanding-basic	41,789	41,509	41,742	41,472
Basic earnings per common share	\$1.09	\$1.31	\$2.53	\$2.70
Diluted earnings per share				
Weighted average shares of common stock outstanding-basic	41,789	41,509	41,742	41,472
Incremental shares ⁽¹⁾	183	202	183	201
Weighted average shares of common stock outstanding-diluted	41,972	41,711	41,925	41,673
Diluted earnings per common share ⁽²⁾	\$1.08	\$1.31	\$2.52	\$2.68

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

(2) There were no anti-dilutive shares excluded from the calculation of diluted earnings per share for the three and six months ended March 31, 2013 and 2012.

8. DEBT

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

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

(Thousands)	March 31, 2013	September 30, 2012	Maturity Dates
NJNG			
Bank credit facility dedicated to EDA Bonds ^{(1) (2)}	\$100,000	\$100,000	August 2015
Bank credit facilities ⁽¹⁾	\$250,000	\$200,000	August 2014
Amount outstanding at end of period	\$107,500	\$135,000	
Weighted average interest rate at end of period	0.17	% 0.18	%
Amount available at end of period	\$142,500	\$65,000	

NJR				
Debt shelf facilities ⁽³⁾ ⁽⁴⁾	\$ 175,000		\$ 175,000	Various
Amount outstanding at end of period	\$ 100,000		\$ 100,000	
Weighted average interest rate at end of period	2.74	%	2.74	%
Amount available at end of period	\$ 75,000		\$ 75,000	
Bank credit facilities ⁽¹⁾	\$ 325,000		\$ 325,000	August 2017
Amount outstanding at end of period	\$ 180,600		\$ 144,800	
Weighted average interest rate at end of period	1.15	%	1.16	%
Amount available at end of period ⁽⁵⁾	\$ 125,510		\$ 166,339	

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

(2) There were no borrowings outstanding as of March 31, 2013 and September 30, 2012, respectively.

(3) Uncommitted, long-term debt shelf facilities, which require no commitment fees on the unused amounts.

(4) NJR's ability to issue debt under the \$100 million and \$75 million debt shelf facilities expires May 2013 and June 2014, respectively.

(5) Letters of credit outstanding total \$18.9 million and \$13.9 million as of March 31, 2013 and September 30, 2012, respectively, which reduces amount available.

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NJNG

NJNG received \$7.1 million and \$6.5 million in December 2012 and 2011, respectively, in connection with the sale-leaseback of its natural gas meters. NJNG records a capital lease obligation that is paid over the term of the lease and has the option to purchase the meters back at fair value upon expiration of the lease.

On October 4, 2012, the BPU approved a petition filed by NJNG requesting authorization over a three-year period to issue medium-term debt with a maturity of not more than 30 years, renew its revolving credit facility expiring August 2014, renew its credit facility supporting NJNG's obligations with respect to bonds issued by the New Jersey Economic Development Authority, enter into interest rate risk management transactions and increase the size of its meter leasing program on a permanent basis.

On November 30, 2012, NJNG utilized the accordion option available under its committed revolving syndicated credit facility to increase the amount of credit available from \$200 million to \$250 million.

On April 15, 2013, NJNG issued \$50 million of 3.15 percent senior secured notes due April 15, 2028 (Notes) in the private placement market pursuant to a note purchase agreement entered into on February 8, 2013. Interest is payable on the Notes semi-annually. The proceeds from the Notes were used to refinance short-term debt and will fund capital expenditure requirements.

9.EMPLOYEE BENEFIT PLANS

Pension and Other Postemployment Benefit Plans (OPEB)

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

	Pension				OPEB			
	Three Months Ended March 31, 2013	2012	Six Months Ended March 31, 2013	2012	Three Months Ended March 31, 2013	2012	Six Months Ended March 31, 2013	2012
(Thousands)								
Service cost	\$ 1,718	\$ 1,344	\$ 3,436	\$ 2,688	\$ 1,171	\$ 896	\$ 2,342	\$ 1,792
Interest cost	2,235	2,206	4,470	4,412	1,287	1,283	2,574	2,566
Expected return on plan assets	(3,706)	(3,171)	(7,412)	(6,342)	(913)	(686)	(1,826)	(1,372)
Recognized actuarial loss	1,911	1,254	3,822	2,508	964	724	1,928	1,448
Prior service cost amortization	27	11	54	22	7	6	14	12
Recognized net initial obligation	—	—	—	—	(89)	89	(178)	178
Net periodic benefit cost	\$ 2,185	\$ 1,644	\$ 4,370	\$ 3,288	\$ 2,427	\$ 2,312	\$ 4,854	\$ 4,624

The Company does not expect to be required to make additional contributions to fund the pension plans over the next three fiscal years based on current actuarial assumptions; however, funding requirements are uncertain and can depend significantly on changes in actuarial assumptions, returns on plan assets, interest rates and changes in the demographics of eligible employees and covered dependents. In addition, as in the past, the Company may elect to make contributions in excess of the minimum required amount to the plans. NJR made discretionary contributions of

\$20 million to the pension plans in both December 2012 and 2011.

10. INCOME TAXES

NJR evaluates its tax positions to determine the appropriate accounting and recognition of potential future obligations associated with unrecognized tax benefits. During the six months ended March 31, 2013 and 2012, based on its analysis, the Company determined that there was no need to recognize any liabilities associated with uncertain tax positions.

The effective tax rates for the six months ended March 31, 2013 and 2012, are 25.4 percent and 19.5 percent, respectively. The change in the rate is due primarily to the impact of federal investment tax credits (ITC), net of deferred taxes, of \$12.8 million and \$24.9 million, generated by solar investments placed into service in the six months ended March 31, 2013 and 2012, respectively, and forecasted to be completed before the end of the fiscal year.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
(Continued)

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

11. COMMITMENTS AND CONTINGENT LIABILITIES

Cash Commitments

NJNG has entered into long-term contracts, expiring at various dates through August 2030, for the supply, storage and delivery of natural gas. These contracts include current annual fixed charges of approximately \$96 million at current contract rates and volumes, which are recoverable through BGSS.

For the purpose of securing storage and pipeline capacity, NJRES enters into storage and pipeline capacity contracts, which require the payment of certain demand charges by NJRES to maintain the ability to access such natural gas storage or pipeline capacity, during a fixed time period, which generally ranges from one to five years. Demand charges are based on established rates as regulated by the FERC. These demand charges represent commitments to pay storage providers or pipeline companies for the right to store and transport natural gas utilizing their respective assets.

Commitments as of March 31, 2013, for natural gas purchases and future demand fees for the next five fiscal year periods are as follows:

(Thousands)	2013	2014	2015	2016	2017	Thereafter
NJRES:						
Natural gas purchases	\$ 431,244	\$ 99,374	\$ 31,484	\$ 16,420	\$ —	\$ —
Storage demand fees	16,655	23,326	12,016	7,114	5,035	7,318
Pipeline demand fees	29,824	25,644	10,426	8,801	7,452	9,371
Sub-total NJRES	\$ 477,723	\$ 148,344	\$ 53,926	\$ 32,335	\$ 12,487	\$ 16,689
NJNG:						
Natural gas purchases	\$ 72,604	\$ 110,195	\$ 109,158	\$ 9,041	\$ 113	\$ —
Storage demand fees	14,134	25,398	17,310	11,956	9,990	23,247
Pipeline demand fees	31,090	74,586	39,239	34,558	32,753	221,838
Sub-total NJNG	\$ 117,828	\$ 210,179	\$ 165,707	\$ 55,555	\$ 42,856	\$ 245,085
Total ⁽¹⁾	\$ 595,551	\$ 358,523	\$ 219,633	\$ 87,890	\$ 55,343	\$ 261,774

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

NJNG's capital expenditures are estimated at \$145.8 million and \$119.9 million in fiscal 2013 and 2014, respectively, including estimates of \$27.7 million and \$43.4 million, respectively, related to SAFE construction costs. Expenditures consist primarily of NJNG's construction program to support customer growth, maintenance of its distribution system, replacement needed under pipeline safety regulations and costs associated with the restoration of damages to NJNG's infrastructure as a result of Superstorm Sandy. Approximately \$64.9 million has been committed or spent on capital expenditures, including accruals, during the six months ended March 31, 2013. NJNG has committed or spent \$9 million related to the SAFE program, \$10.2 million related to AIP II program and \$24.1 million related to restoration from storm damages during the six months ended March 31, 2013.

As of March 31, 2013, total capital expenditures associated with the restoration of the portions of distribution main affected by Superstorm Sandy are estimated to be between \$30 million to \$40 million. NJNG expects to spend between \$26 million to \$30 million during fiscal 2013, with the remainder being spent over the following three fiscal years.

NJRCEV's expenditures include discretionary spending on capital projects that support NJR's goal to promote clean energy. Accordingly, NJRCEV enters into agreements to install solar equipment involving both residential and commercial projects. Total solar-related capital expenditures during the six months ended March 31, 2013, were \$24.9 million. The Company currently estimates solar-related capital expenditures between \$60 million and \$90 million during fiscal 2013, of which \$48.9 million has been committed or spent. Solar-related capital expenditures in fiscal 2014 are estimated to be between \$70 million and \$90 million.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

These investments are subject to a variety of factors, such as the identification of appropriate projects, the timing of construction schedules, the permitting and regulatory process and delays related to electric grid interconnection, which may affect our ability to commence operations at these projects on a timely basis, if at all, ability to access capital or allocation of capital to other investments or business opportunities.

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 that contain contaminated residues from former gas manufacturing operations. NJNG is currently involved in administrative proceedings with the New Jersey Department of Environmental Protection (NJDEP), as well as participating in various studies and investigations by outside consultants to determine the nature and extent of any such contaminated residues and to develop appropriate programs of remedial action, where warranted, under Administrative Consent Orders or Memoranda of Agreement with the NJDEP.

NJNG may, subject to BPU approval, recover its remediation expenditures, including carrying costs, over rolling seven-year periods pursuant to a Remediation Adjustment (RA). On March 20, 2013, the BPU approved the recovery of the remediation expenditures incurred through June 30, 2011, which maintained the expected annual recovery at approximately \$20 million. As of March 31, 2013, \$48.8 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in regulatory assets on the Unaudited Condensed Consolidated Balance Sheets.

In September 2012, 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 \$159.6 million to \$266.4 million. NJNG's estimate of these liabilities is based upon known facts, existing technology and enacted laws and regulations in place when the review was completed. However, NJNG expects actual costs to differ from these estimates. Where it is probable that costs will be incurred, and the information is sufficient to establish a range of possible liability, NJNG accrues the best estimated amount in the range. Accordingly, NJNG has recorded an MGP remediation liability and a corresponding regulatory asset of \$182 million on the Unaudited Condensed Consolidated Balance Sheets, based on the best estimate. The actual costs to be incurred by NJNG are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay and any insurance recoveries.

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

General

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

12. BUSINESS SEGMENT AND OTHER OPERATIONS DATA

NJR organizes its businesses based on its products and services as well as regulatory environment. As a result, the Company manages the businesses through the following reportable segments and other operations: the Natural Gas Distribution segment consists of regulated energy and off-system, capacity and storage management operations; the Energy Services segment consists of unregulated wholesale energy operations; the Clean Energy Ventures segment consist of capital investments in renewable energy projects; the Energy Holdings segment consists of NJR's investments in natural gas transportation and storage facilities; the Retail and Other operations consist of heating, cooling and water appliance installation and services, commercial real estate development, other investments and general corporate activities.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Information related to the Company's various business segments and other operations is detailed below:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2013	2012	March 31, 2013	2012
Operating revenues				
Natural Gas Distribution				
External customers	\$ 351,750	\$ 226,023	\$ 570,599	\$ 417,397
Clean Energy Ventures				
External customers	1,440	527	4,619	907
Energy Services				
External customers	599,362	378,356	1,102,997	820,162
Intercompany	4,444	2,654	4,551	2,848
Segment subtotal	956,996	607,560	1,682,766	1,241,314
Retail and Other				
External customers	8,334	8,014	18,689	16,866
Intercompany	186	263	449	442
Eliminations	(4,631)	(2,916)	(5,000)	(3,290)
Total	\$ 960,885	\$ 612,921	\$ 1,696,904	\$ 1,255,332
Depreciation and amortization				
Natural Gas Distribution	\$ 9,399	\$ 8,749	\$ 18,676	\$ 17,381
Clean Energy Ventures	2,104	1,511	3,935	2,321
Energy Services	11	16	22	32
Energy Holdings	1	2	3	3
Segment subtotal	11,515	10,278	22,636	19,737
Retail and Other	199	161	390	302
Eliminations	7	—	(2)	—
Total	\$ 11,721	\$ 10,439	\$ 23,024	\$ 20,039
Interest income ⁽¹⁾				
Natural Gas Distribution	\$ 146	\$ 214	\$ 313	\$ 460
Energy Services	—	(5)	—	26
Energy Holdings	263	285	534	533
Segment subtotal	409	494	847	1,019
Retail and Other	1	1	2	1
Eliminations	(218)	(268)	(450)	(503)
Total	\$ 192	\$ 227	\$ 399	\$ 517

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2013	2012	March 31, 2013	2012
Interest expense, net of capitalized interest				
Natural Gas Distribution	\$3,549	\$3,713	\$7,133	\$7,450
Clean Energy Ventures	822	198	1,605	340
Energy Services	640	245	1,208	515
Energy Holdings	476	683	1,067	1,397
Segment subtotal	5,487	4,839	11,013	9,702
Retail and Other	259	588	558	730
Total	\$5,746	\$5,427	\$11,571	\$10,432
Income tax provision (benefit)				
Natural Gas Distribution	\$22,794	\$27,016	\$37,301	\$42,612
Clean Energy Ventures	(6,457)	(14,826)	(14,226)	(26,997)
Energy Services	(5,203)	(2,105)	10,961	9,403
Energy Holdings	1,619	1,393	2,862	2,624
Segment subtotal	12,753	11,478	36,898	27,642
Retail and Other	(906)	(312)	(1,029)	(371)
Eliminations	218	(72)	176	(140)
Total	\$12,065	\$11,094	\$36,045	\$27,131
Equity in earnings of affiliates				
Energy Holdings	\$4,469	\$3,967	\$7,960	\$7,582
Eliminations	(939)	(949)	(1,875)	(1,910)
Total	\$3,530	\$3,018	\$6,085	\$5,672
Net financial earnings (loss)				
Natural Gas Distribution				