NEW JERSEY RESOURCES CORP
Form 10-K
November 24, 2008

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, 2008
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission file number 1-8359

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

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

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

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

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 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 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," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer: x Accelerated filer: o Non-accelerated filer: o Smaller reporting company: o

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 $1,287,148,097 based on the closing price of $31.05 per share on March 31, 2008.

The number of shares outstanding of $2.50 par value Common Stock as of November 20, 2008 was 42,120,169.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareowners (Proxy Statement) to be held January 21, 2009, to be filed on or about December 12, 2008, are incorporated by reference into Part I and Part III of this report.

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

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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 Item 1.—Business, under the captions “Natural Gas Distribution—General;—Throughput;—Seasonal of Gas Revenues;—Gas Supply;—Regulation and Rates;—Competition”; “Energy Services”; “Retail and Other”; “Environ and Item 3.—“Legal Proceedings,” and in Part II including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7, and “Quantitative and Qualitative Disclosures About Market Risk” in Item 7A are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can also be identified by the use of forward-looking terminology such as “may,” “intend,” “expect,” “believe” or “continue” or comparable terminology and are made based upon management’s expectations and beliefs concerning future developments and their potential effect upon New Jersey Resources Corporation (NJR or the Company). There can be no assurance that future developments will be in accordance with management’s expectations or that the effect of future developments on the Company will be those anticipated by management.

The Company cautions readers that the assumptions that form the basis for forward-looking statements regarding customer growth, customer usage, financial condition, results of operations, cash flows, capital requirements, market risk and other matters for fiscal 2008 and thereafter include many factors that are beyond the Company’s ability to control or estimate precisely, such as estimates of future market conditions, the behavior of other market participants and changes in the debt and equity capital markets. The factors that could cause actual results to differ materially from NJR’s expectations include, but are not limited to, those discussed in Risk Factors in Item 1A, as well as the following:

- weather and economic conditions;
- demographic changes in the New Jersey Natural Gas (NJNG) service territory;
- the rate of NJNG customer growth;
- volatility of natural gas commodity prices and its impact on customer usage, NJR Energy Services’ (NJRES) operations and on the Company’s risk management efforts;
- changes in rating agency requirements and/or credit ratings and their effect on availability and cost of capital to the Company;
- continued volatility or seizure of the credit markets that would result in the decreased availability and access to credit at NJR to fund and support physical gas inventory purchases at NJRES, as well as negatively affect access to the commercial paper market and other short-term financing markets at NJNG to allow it to fund its commodity purchases and meet its short-term obligations as they come due;
- the impact to the asset values and funding obligations of NJR’s pension and postemployment benefit plans as a result of a continuing downturn in the financial markets;
- increases in borrowing costs associated with variable-rate debt;
- commercial and wholesale credit risks, including creditworthiness of customers and counterparties;
- the ability to obtain governmental approvals and/or financing for the construction, development and operation of certain non-regulated energy investments;
- risks associated with the management of the Company’s joint ventures and partnerships;
- the impact of governmental regulation (including the regulation of rates);
- fluctuations in energy-related commodity prices;
- conversion activity and other marketing efforts;
- actual energy usage of NJNG’s customers;
- the pace of deregulation of retail gas markets;
- access to adequate supplies of natural gas;
- the regulatory and pricing policies of federal and state regulatory agencies;
- the ultimate outcome of pending regulatory proceedings;

- changes due to legislation at the federal and state level;
- the availability of an adequate number of appropriate credit worthy counterparties in the wholesale energy trading market;
- sufficient liquidity in the wholesale energy trading market and continued access to the capital markets;
- the disallowance of recovery of environmental-related expenditures and other regulatory changes;
- environmental-related and other litigation and other uncertainties;
- the effects and impacts of inflation on NJR and its subsidiaries' operations;
- change in accounting pronouncements issued by the appropriate standard setting bodies; and
- terrorist attacks or threatened attacks on energy facilities or unrelated energy companies.

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

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New Jersey Resources Corporation
Part I

ITEM 1. BUSINESS

ORGANIZATIONAL STRUCTURE

New Jersey Resources Corporation (NJR or the Company) is a New Jersey corporation formed in 1981 pursuant to a corporate reorganization. The Company is an energy services holding company providing retail and wholesale energy services to customers in states from the Gulf Coast to the New England regions, including the Mid-Continent region, 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 484,000 residential and commercial customers in central and northern New Jersey and participates in the off-system sales and capacity release markets. NJNG is regulated by the New Jersey Board of Public Utilities (BPU) and comprises the Company's Natural Gas Distribution segment.

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

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

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

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

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

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

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

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

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

BUSINESS SEGMENTS

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

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

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ITEM 1. BUSINESS (Continued)

NATURAL GAS DISTRIBUTION

General

NJNG provides natural gas service to approximately 484,000 customers. Its service territory encompasses 1,436 square miles, covering 104 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 Morris and Middlesex counties. It is primarily suburban, with a wide range of cultural and recreational activities and highlighted by approximately 100 miles of New Jersey coastline. It is in close proximity to New York City, Philadelphia and the metropolitan areas of northern New Jersey and is accessible through a network of major roadways and mass transportation. NJNG added 7,175 and 8,421 new customers and added natural gas heat and other services to another 728 and 770 existing customers in fiscal 2008 and 2007, respectively. NJNG's current annual growth rate of approximately 1.5 percent is expected to continue with projected additions in the range of approximately 14,000 to 16,000 new customers over the next two years. This anticipated customer growth represents approximately $4.0 to $4.2 million in expected new annual utility gross margin as calculated under NJNG's Conservation Incentive Program (CIP) tariff.

In assessing the potential for future growth in its service area, NJNG uses information derived from county and municipal planning boards that describes housing developments in various stages of approval. Furthermore, builders in NJNG's service area are surveyed to determine their development plans for future time periods. NJNG has also periodically engaged outside consultants to assist in its customer growth projections. In addition to customer growth through new construction, NJNG's business strategy includes aggressively pursuing conversions from other fuels, such as electricity and oil. It is estimated that, during fiscal 2009, approximately 50 percent of NJNG's projected customer growth will consist of conversions. NJNG will also continue to pursue off-system sales and nonpeak sales as part of its overall growth strategy.

Throughput

For the fiscal year ended September 30, 2008, operating revenues and throughput by customer class were as follows:

	Operating Revenues (Thousands)		Throughput (Bcf)	
Residential	$594,147	55%	40.8	41%
Commercial and other	149,177	14	9.0	9
Firm transportation	28,634	3	8.9	9
Total residential and commercial	771,958	72	58.7	59
Interruptible	11,840	1	6.4	6
Total system	783,798	73	65.1	65
Incentive programs	295,026	27	34.5	35
Total	$1,078,824	100%	99.6	100%

In fiscal 2008, 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. The relative measurement of the impact of weather is in degree-days. Degree-day data is used to estimate amounts of energy required to maintain comfortable indoor temperature levels based on each day's average temperature. A degree-day is the measure of the variation in the weather based on the extent to which the average daily temperature falls below 65 degrees Fahrenheit. Each degree of temperature below 65 degrees Fahrenheit is counted as one heating degree-day. Normal heating degree-days are based on a 20-year average, calculated based upon three reference areas representative of NJNG's service territory.

ITEM 1. BUSINESS (Continued)

For reporting periods through September 30, 2006, the impact of weather on the level and timing of NJNG's revenues, gross margin and cash flows had been mitigated by a weather-normalization clause (WNC), which provided for a revenue adjustment if the weather varied by more than one-half of 1 percent from normal. However, the WNC did not capture declines in customer usage related to customer conservation measures.

Effective October 1, 2006, the New Jersey Board of Public Utilities (BPU) authorized a three-year CIP pilot program, which decoupled the link between customer usage and NJNG's utility gross margin, allowing NJNG to promote energy conservation measures. During the term of the pilot, the WNC was suspended and replaced with the CIP tracking mechanism, which addresses utility gross margin variations related to both weather and customer usage. Recovery of such utility gross margin is subject to additional conditions including an earnings test and an evaluation of Basic Gas Supply Service-related savings achieved. It is anticipated that NJNG will file a petition in the spring of 2009 to extend its CIP or implement a similar mechanism on a permanent basis, seeking to be effective October 1, 2009.

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

For additional information regarding the CIP and the Board Order, see Management's Discussion and Analysis—Natural Gas Distribution Operations and Note2. Regulation in the accompanying Consolidated Financial Statements.

Gas Supply

Firm Natural Gas Supplies

NJNG's gas supply portfolio consists of long-term (over seven months), winter-term (for the five winter months of November through March) and short-term contracts. In fiscal 2008, NJNG purchased gas from 90 suppliers under contracts ranging from one day to four years. In fiscal 2008, NJNG purchased approximately 12.9 percent of its natural gas from Southwestern Energy Services Company. No other supplier provided more than 10 percent of NJNG's natural gas supplies. NJNG believes the loss of any one or all of these suppliers would not have a material adverse impact on its results of operations, financial position or cash flows. NJNG believes that its supply strategy should adequately meet its expected firm load over the next several years.

Firm Transportation and Storage Capacity

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

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

Pipeline	Maximum daily deliverability (dths)	Expiration
Texas Eastern Transmission, L.P.	470,738	Various dates between 2014 and 2023
Tennessee Gas Pipeline Co.	35,894	Various dates between 2011 and 2013
Transcontinental Gas Pipe Line Corp.	22,531	Various dates between 2009 and 2014
Columbia Gas Transmission Corp.	10,000	2009
	539,163	

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ITEM 1. BUSINESS (Continued)

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

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

Pipeline	Maximum daily deliverability (dths)	Expiration
Texas Eastern Transmission, L.P.	94,557	2014
Transcontinental Gas Pipe Line Corp.	8,384	2010
	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	39,811	2010
Dominion Transmission Corporation	103,714	Various dates between 2011 and 2012
Central NY Oil & Gas (Stagecoach)	47,065	2011
	190,590	

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

Peaking Supply

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

Basic Gas Supply Service

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

In March 2008, NJNG, the BPU Staff and the New Jersey Department of the Public Advocate, Division of Rate Counsel (Rate Counsel) entered into a stipulation to resolve certain matters related to NJNG's fiscal year 2007 BGSS filing. This stipulation was approved by the BPU on May 9, 2008, and resulted in NJNG recording a non-recurring settlement charge to its BGSS costs of $300,000.

ITEM 1. BUSINESS (Continued)

On May 30, 2008, NJNG filed for an increase to the periodic BGSS factor to be effective October 1, 2008 that would increase an average residential heating customer's bill by approximately 18.0 percent due to an increase in the price of wholesale natural gas. Subsequent to the filing, wholesale natural gas prices moderated and on September 22, 2008, NJNG, the Staff of the BPU, and Rate Counsel signed an agreement for an increase to the periodic BGSS factor that would increase an average residential heating customer's bill by approximately 8.9 percent. On October 3, 2008, the BPU approved the BGSS increase on a provisional basis, effective the date of the Board Order.

These rate changes, as well as other regulatory actions, are discussed further in Note 2. 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.

Regulation and Rates

State

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

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

Federal

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

Competition

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

The BPU, within the framework of the Electric Discount and Energy Competition Act (EDECA), approved a stipulation among various parties to fully open NJNG's residential markets to competition, restructure its rates to segregate its BGSS and delivery (i.e., transportation) prices and expand an incentive for residential and small commercial customers to switch to transportation service. In the absence of any third party supplier, BGSS must be provided by the state's natural gas utilities. On September 30, 2008, NJNG had 11,542 residential and 5,288 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.

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ITEM 1. BUSINESS (Continued)

ENERGY SERVICES

NJRES provides unregulated wholesale energy services, including base load natural gas, peaking and balancing services, utilizing physical assets it controls through natural gas pipeline transportation and storage contracts. They also provide asset management services to customers in states from the Gulf Coast and Mid-continent regions to the Appalachian and Northeast regions of the United States and Canada.

NJRES views "financial margin" as its key financial measurement metric. NJRES' financial margin, which is a non-GAAP financial measure, represents revenues earned from the sale of natural gas less costs of natural gas sold, transportation and storage. Financial margin 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. The changes in fair value of these derivative instruments represent unrealized gains and losses, and realized gains and losses associated with financial instruments economically hedging natural gas in storage and not yet sold.

NJRES incorporates the following elements to provide for growth, while focusing on maintaining a low-risk operating and counterparty credit profile:

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

Ÿ 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. This is accomplished by identifying the lowest cost alternative with the natural gas supply, transportation availability and markets which NJRES is able to access through its business footprint and contractual asset portfolio;

Ÿ 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; and

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

NJRES has built a portfolio of customers including local distribution companies, industrial companies, electric generators and retail aggregators. 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.

NJRES also focuses on creating value from underutilized natural gas assets, which are typically amassed through contractual rights to natural gas transportation and storage capacity. NJRES has developed a portfolio of natural gas storage and transportation capacity in the Northeast, Gulf Coast, Mid-continent and Appalachian regions of the United

States and eastern Canada. These assets become more valuable when prices change between these areas and across time periods. In order to find the most profitable alternative to serve its various commitments, NJRES seeks to optimize this process on a daily basis as market conditions change by evaluating all the natural gas supplies, transportation and storage opportunities to which it has access. This enables NJRES to capture geographic pricing differences across these various regions as delivered natural gas prices change as a result of market conditions. NJRES focuses on earning a financial margin on a single original transaction and then capitalizes on changes in prices across the regions or across time periods as the basis to further improve the initial result.

In a similar manner, NJRES participates in natural gas storage transactions where it seeks to identify pricing differences that occur over time, as prices for future delivery periods at many different delivery points are readily available. For example, NJRES generates financial margin by locking in the differential between purchasing natural gas at a low current or future price and, in a related transaction, selling that natural gas at a higher future price, all within the constraints of its credit and contracts policies. By using transportation and storage services, NJRES is able to generate financial margin through pricing differences that occur over the duration of time the assets are held.

ITEM 1. BUSINESS (Continued)

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.

NJRES also participates in park-and-loan transactions with pipeline counterparties, where NJRES will borrow natural gas when there is an opportunity to capture arbitrage value. In these cases, NJRES evaluates the economics of the transaction to determine if it can capture pricing differentials in the marketplace in order to be able to generate financial margin. In evaluating these transactions NJRES will compare the fixed fee it will pay and the resulting spread it can generate when considering the amount it will receive to sell the borrowed gas to another counterparty in relation to the cost it will incur to purchase the natural gas at a later date to return to the pipeline. 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.

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

In fiscal 2008, NJRES had one customer, Hess Corporation, who represented more than 10 percent of its total revenue. Management believes that the loss of this customer would not have a material effect on its financial position, results of operations or cash flows as an adequate number of alternative counterparties exist.

OTHER BUSINESS OPERATIONS

RETAIL AND OTHER

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

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

Ÿ NJR Energy, an investor in energy-related ventures through its subsidiary, Pipeline, which consists primarily of its 5.53 percent equity investment in Iroquois, which is a 412-mile natural gas pipeline from the New York-Canadian border to Long Island, New York; NJR Investment, which makes certain energy-related equity investments;

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

On June 5, 2008, the Federal Energy Regulatory Commission (FERC) issued Steckman Ridge a certificate of public convenience and necessity authorizing the ownership, construction and operation of its natural gas storage facility and associated facilities. NJR anticipates that Steckman Ridge will be placed in service during the summer of 2009. As of September 30, 2008, NJR has invested $78.7 million in Steckman Ridge. This amount excludes capitalized interest and other direct costs. Total project costs related to the development of the storage facility are currently estimated at approximately $265 million, of which NJR is obligated to fund 50 percent, or approximately $132.5 million. NJR anticipates that Steckman Ridge will seek non-recourse financing upon completion of the construction and development of its facilities, thereby potentially reducing the final expected recourse obligation of NJR. There can be no assurances that such non-recourse project financing will be secured or available for Steckman Ridge.

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New Jersey Resources Corporation
Part I

ITEM 1. BUSINESS (Continued)

Ÿ CR&R, which holds and develops commercial real estate. In November 2006, CR&R sold approximately 15 acres of land for approximately $1.8 million, which resulted in a pre-tax gain on sale of $300,000. As the sale included a lease-back provision with NJRHS of certain portions of buildings to be constructed on the acreage, CR&R is recognizing the pre-tax gain over the 10-year term of the lease, which began in fiscal 2008.

As of September 30, 2008, CR&R's real estate portfolio consisted of 31 acres of undeveloped land in Monmouth County, 52 acres of undeveloped land in Atlantic County and a 56,400-square-foot office building on 5 acres of land in Monmouth County with a total net book value of $17.5 million.
The 52 acres of land in Atlantic County with a net book value of $2.1 million is under contract for sale and will be sold as undeveloped land after all approvals have been granted. Of the 31 acres of undeveloped land in Monmouth County, 5 acres with a net book value of $1.6 million are also under contract for sale and such sale is estimated to close by September 2009. The remaining 26 acres of undeveloped land in Monmouth County with a net book value of $4.5 million will be developed based on market conditions. The specific time frame for development is currently unknown; and

Ÿ NJR Service, which provides shared administrative 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 three manufactured gas plant (MGP) sites, which contain contaminated residues from former gas manufacturing operations that ceased at these sites by the mid-1950s and, in some cases, had been discontinued many years earlier. In September 2008, 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 three MGP sites for which it is responsible will range from $120.7 million to $177.2 million.

NJNG's estimate of these liabilities is based upon known facts, existing technology and enacted laws and regulations in place when the review was completed. Where available information is sufficient to estimate the amount of the liability, it is NJNG's policy to accrue the full amount of such estimate. Where the information is sufficient only to establish a range of possible liability, and no point within the range is more likely than the other, it is NJNG's policy to accrue the lower end of the range. As a result, NJNG has recorded an MGP remediation liability and a corresponding Regulatory asset of $120.7 million on the Consolidated Balance Sheet; however, actual costs may differ from these estimates. NJNG will continue to seek recovery of these costs through its remediation rider. See Item 3. Legal Proceedings and Note 12. Commitments and Contingent Liabilities in the accompanying Consolidated Financial Statements for information with respect to environmental matters and material expenditures for the remediation of the MGP sites.

CR&R is the owner of certain undeveloped land in Monmouth and Atlantic counties, New Jersey, with a net book value at September 30, 2008, of $8.2 million. These lands are regulated by the provisions of the Freshwater Wetlands Protection Act (Wetlands Act), which restricts building in areas defined as “freshwater wetlands” and their transition areas. Based upon a third-party environmental engineer’s delineation of the wetlands and transition areas in accordance with the provisions of the Wetlands Act, CR&R will file for a Letter of Interpretation from the New Jersey Department of Environmental Protection (NJDEP) as parcels of land are selected for development. If the NJDEP reduces the amount of developable yield from CR&R’s current estimates, a write-down of the carrying value of the undeveloped land may be required.

Taking into consideration the environmental engineer’s revised estimated developable yield for undeveloped acreage, the Company does not believe that a write-down of the carrying value of the Monmouth and Atlantic counties land was necessary as of September 30, 2008.

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New Jersey Resources Corporation
Part I

ITEM 1. BUSINESS (Continued)

Although the Company cannot estimate with certainty future costs of environmental compliance, which, among other factors, are subject to changes in technology and governmental regulations, the Company does not presently anticipate any additional significant future expenditure for compliance with existing environmental laws and regulations, other than for the remediation of the MGP sites discussed in Note 12. Commitments and Contingent Liabilities in the accompanying Consolidated Financial Statements, which would have a material effect upon the capital expenditures, results of operations or competitive position of the Company or its subsidiaries.

EMPLOYEE RELATIONS

As of September 30, 2008, the Company and its subsidiaries employed 854 employees compared with 808 employees in fiscal year 2007. Of the total number of employees, NJNG and NJRHS had 399 and 388 and 94 and 90 union employees in 2008 and 2007, respectively. NJNG and NJHRS have collective bargaining agreements with local 1820 of the International Brotherhood of Electrical Workers (IBEW), AFL-CIO expiring in December 2011 and the April 2010 respectively. The labor agreements cover wage increases and other benefits during the term of the agreements. The Company considers its relationship with employees, including those covered by collective bargaining agreements, to be good.

AVAILABLE INFORMATION AND CORPORATE GOVERNANCE DOCUMENTS

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

- Annual reports on Form 10-K;
- Quarterly reports on Form 10-Q;
- Current reports on Form 8-K; and
- amendments to those reports

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

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

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.

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ITEM 1A. RISK FACTORS (Continued)

Financial Risks

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

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

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

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

Ÿ financial difficulties of unrelated energy companies;

Ÿ capital market conditions generally;

Ÿ market prices for natural gas;

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

Ÿ fluctuations in interest rates.

NJR and its subsidiaries' ability to secure short-term financing is subject to conditions in the credit markets. The recent collapse of the U.S. credit markets and the continuing flight of banks to preserve capital have led to a slowdown of lending between banks, which has trickled downstream to other businesses. A prolonged constriction of credit availability could affect management's ability to execute NJR's, NJRES' and NJNG's business plan. An inability to access capital may limitthe ability to pursue improvements or acquisitions that NJR, or its subsidiaries, may otherwise rely on for both current operations and future growth.

In addition, the credit market crisis has spread to global markets, which has led to higher London Interbank Offered Rate (LIBOR) rates, which may increase NJNG's borrowing costs under certain variable rate debt, which has interest rates determined according to a LIBOR-based formula.

The financial services industry has been most affected by the credit market crisis. That industry's exposure to sub-prime mortgages has resulted in the inability of some financial institutions to continue operations. Although NJRES and NJNG have strict credit risk management policies and procedures, they execute derivative transactions with financial institutions as a part of their economic hedging strategy and could incur losses associated with the inability of a financial counterparty to meet or perform under its obligations as a result of further tightening in the credit markets or their ability to access capital or post collateral.

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 of future financing. Even if ratings are downgraded without falling below investment grade, NJR and NJNG can still face increased borrowing costs under their credit facilities.

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.

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ITEM 1A. RISK FACTORS (Continued)

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

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

Debt covenants may impact NJR's financial condition if triggered

NJR and NJNG's long-term debt obligations contain financial covenants related to debt-to-capital ratios and interest coverage ratios. 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 or the inability to borrow under certain credit agreements. Any such acceleration would cause a material adverse change in NJR or NJNG's financial condition.

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

NJNG is obligated with respect to a total of six series of auction rate bonds totaling approximately $97 million (collectively, auction-rate securities or "ARS"). All of the ARS are investment grade rated by Moody's Investor Services and Standard & Poor's, respectively. NJNG has recently experienced several ARS failed auctions, which occur when there are not enough orders to purchase all the securities being sold at the auction. Prior to the collapse of the ARS market, Broker-dealers would bid for securities which helped prevent failed auctions. In 2008, bank liquidity tightened and banks withdrew from the auction process causing the market to fail. The result of a failed auction, which does not signify a default by NJNG, is that the ARS continue to pay interest in accordance with their terms until there is a successful auction or until such time as other markets for these securities develop. However, upon an auction failure, the interest rates do not reset at a market rate established at an auction, but instead reset based upon a formula contained within the ARS, otherwise known as a "maximum auction rate," which may be materially higher than the previous auction rate. The "maximum auction rate" for the ARS is the lesser of (i) 175 percent of one-month LIBOR or (ii) either 10 percent or 12 percent per annum, as applicable to such series of the ARS. Should future auctions fail and interest rates on the ARS continue to be established at the maximum auction rate, NJNG's average cost of borrowing could rise above historic levels, which could materially and adversely affect both NJNG's and NJR's cash flows, results of operations and financial condition. Although NJR is reviewing alternative methods for refinancing the ARS at NJNG on a continuing basis, NJR cannot assure that alternative sources of financing can be implemented in a timely manner.

Current market returns have had a negative impact on the return on plan assets for NJR's pension and post-employment plans, which may require significant funding

As widely reported, financial markets in the United States, Europe and Asia have been experiencing extreme disruption in recent months. As a result of this disruption in the domestic and international equity and bond markets, each of NJR's pension and other post-employment plans had a decrease in asset values of approximately 19 percent during fiscal year 2008. This downward trend has continued during the first month of fiscal 2009. NJR is unable to predict the severity or the duration of the current disruptions in the financial markets and the adverse economic conditions in the United States, Europe and Asia. NJR currently does not have an obligation to fund these plans. Nevertheless, the funded status of these plans, and the related cost reflected in NJR's financial statements, are affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Under the Pension Protection Act of 2006, continued losses of asset values may necessitate increased funding of the plans in the future to meet minimum federal government requirements. The 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.

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ITEM 1A. RISK FACTORS (Continued)

An effective system of internal control is not maintained, leading to a material weakness in internal control over financial reporting, which may result in unreliable financial statements

Section 404 of the Sarbanes-Oxley Act of 2002 requires NJR's management to make an assessment of the design and effectiveness of internal controls. It also requires NJR's independent registered public accounting firm to audit the design and effectiveness of these controls and to form an opinion on both management's assessment and the effectiveness of these controls. Management's ongoing assessment of these controls may identify areas of weakness in control design or effectiveness, which may lead to the conclusion that a material weakness in internal control exists. NJR's independent public registered accounting firm may also identify control deficiencies which may lead to identification of a material weakness in internal control. As of September 30, 2008, management concluded that NJR had a material weakness in internal control over financial reporting and that, as a result, its internal control over financial reporting was not effective.

Because NJR concluded that its internal control over financial reporting is not effective and to the extent NJR identifies future weaknesses or deficiencies, NJR may not be able to produce reliable financial statements, which could result in a loss of investor confidence and a decline in its stock value. In addition, should NJR not be able to produce reliable financial statements, it could limit NJR's and NJNG's ability to access the capital markets.

As described in Item 9A of this report, NJR is committed to the remediation of the material weakness referred to above as well as the continued improvement of its overall system of internal control over financial reporting. Management is in the process of actively addressing and remediating this material weakness in internal control over financial reporting, but there can be no assurance that its corrections will be sufficient or fully effective, or that it will not discover additional material weaknesses in its internal controls and procedures in the future. While NJR's system of internal controls is reviewed periodically, there exist inherent limitations to control effectiveness.

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

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

Operational Risks

NJNG's operations are subject to certain operating risks

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

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, transportation availability and drilling for new natural gas resources, may impact the supply and price of natural gas. NJNG actively hedges against the fluctuation in the price of natural gas by entering into forward and financial contracts with third parties. Should these third parties fail to perform, it may result in a loss that could have a material impact on the financial position, cash flows and statement of operations of NJR.

ITEM 1A. RISK FACTORS (Continued)

NJNG and NJRES rely on third parties to supply natural gas

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

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

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

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

Inflation and increased natural gas costs could adversely impact NJNG's customer base and customer collections and increase its level of indebtedness

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

Rapid increases in the price of purchased gas may cause NJNG to experience a significant increase in short-term debt because it must pay suppliers for gas when it is purchased, which can be significantly in advance of when these costs may be recovered through the collection of monthly customer bills for gas delivered. Increases in purchased gas costs also slow collection efforts as customers are more likely to delay the payment of their gas bills, leading to higher-than-normal accounts receivable. This situation also results 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 will mitigate the impact of weather on its gross margin, unusual weather conditions may still have an impact on its earnings. The CIP will not mitigate the impact of unusual weather conditions on its cash flows.

ITEM 1A. RISK FACTORS (Continued)

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

Customer conservation efforts have been increasing and as a result NJNG has seen a decrease in volumes of natural gas delivered to its customers. NJNG’s CIP has a usage component that is intended to mitigate the impact to earnings as a result of reductions in customer usage. The CIP is expected to expire on October 1, 2009 and if it is not renewed or replaced with a similar mechanism to decouple the link between customer usage and NJNG’s utility gross margin, NJNG’s results from operations and cash flows, and NJR’s results from operations and cash flows, could be adversely affected.

Changes in customer growth may affect earnings and cash flows

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

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

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

Any sustained declines in equity markets and reductions in bond yields may have a material adverse effect on the value of NJR’s pension and OPEB funds. In these circumstances, NJR may be required to recognize an increased pension and OPEB expense or a charge to the statement of operations to the extent that the pension and OPEB fund values are less than the total anticipated liability under the plans.

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

NJRES’ earnings and cash flows are based, in part, on its ability to optimize its portfolio of contractual-based natural gas storage and pipeline assets. The optimization strategy involves utilizing its physical assets to take advantage of differences in natural gas prices between geographic locations and/or time periods. Any change among various pricing points could affect these differentials, which in turn could affect NJRES’ earnings and cash flows. NJRES incurs fixed demand fees to acquire its contractual rights to storage and transportation assets. Should commodity prices 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 commodity, storage and transportation portfolios at NJRES consist of contracts to buy and sell natural gas commodities, which are settled by physical delivery.

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. NJRES employs a value at risk (VaR) model over these portfolios. VaR is defined as the largest likely potential loss in portfolio value and is usually measured in terms of time to unwind or settle contractual positions. NJRES' portfolio of positions as of September 30, 2008, had a VaR of $0.7 million based on a 95 percent confidence interval and employing a 1-day holding period, and $3.3 million based on a 99 percent confidence interval and employing a 10-day holding period.

Certain of these storage and transportation contracts have expired during fiscal 2008, or will be expiring in 2009, and will be renewed or replaced. To the extent that these contracts are renewed or replaced at less favorable terms, the result is likely to be a diminution of earnings contributions from NJRES in fiscal years 2009 and 2010, relative to its contributions in fiscal 2008. These contract expirations could have a negative impact on NJR's results of operations and cash flows.

ITEM 1A. RISK FACTORS (Continued)

Accounting results may not be indicative of the risks NJRES is taking or the expected economic results due to uncontemplated changes in related natural gas financial and physical instruments

Although NJRES enters into various contracts to economically hedge the value of its energy assets and operations, there can be no assurance that the hedge is operating effectively as intended and will continue to do so. Any uncontemplated change in the underlying item being hedged to that of a different or unforecasted position could result in a substantial negative impact to NJRES' and NJR's financial condition, statement of operations or statement of cash flows.

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 is disrupted, or if storage capacity is inadequate, including for reasons of force majeure, the ability of NJNG and NJRES to sell and deliver their products and services may be hindered. As a result, they may be responsible for damages incurred by their customers, such as the additional cost of acquiring alternative supply at then-current market rates.

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

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

Regulatory and Legal Risks

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

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

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

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

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

ITEM 1A. RISK FACTORS (Continued)

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 recovery mechanism to charge its customers in rates approved by the BPU, NJNG would normally charge to expense on its income statement. Primary regulatory assets that are subject to BPU approval include the underrecovery of BGSS and Universal Service Fund (USF) costs, remediation costs associated with its MGP sites, the CIP, WNC, the New Jersey Clean Energy program and pension and other postemployment plans. If there were to be a change in regulatory position surrounding the collection of these deferred costs there could be a material impact on NJNG's financial position, operations and cash flows.

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

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

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

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

Environmental Risks

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

NJNG (All properties are located in New Jersey)

NJNG owns approximately 6,660 miles of distribution main, 6,600 miles of service main, 210 miles of transmission main and approximately 497,000 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 and gas distribution and administrative offices. NJNG leases its headquarters and customer service facilities in Wall Township, customer service offices in Asbury Park, Monmouth County, and a service center in Manahawkin, Ocean County. These customer service offices support customer contact, marketing, economic development and other functions.

Substantially all of NJNG's properties, not expressly excepted or duly released, are subject to the lien of an Indenture of Mortgage and Deed of Trust to BNY Midwest Trust Company, Chicago, Illinois, dated April 1, 1952, as amended by 32 supplemental indentures (Indenture), as security for NJNG's bonded debt, which totaled approximately $320 million at September 30, 2008. In addition, under the terms of the Indenture, NJNG could have issued up to approximately $409 million of additional first mortgage bonds as of September 30, 2008.

All Other Business Operations

At September 30, 2008, CR&R owned 83 acres of undeveloped land of which 57 acres are under contract for sale and a 56,400-square-foot office building on 5 acres.

There are 52 acres of land in Atlantic County with a net book value of $2.1 million that is under contract for sale and will be sold as undeveloped land after all approvals have been granted. The other 5 acres of undeveloped land under contract for sale is in Monmouth County, with a net book value of $1.6 million and such sale is estimated to close by September 2009. The remaining 26 acres of undeveloped land in Monmouth County with a net book value of $4.5 million will be developed based on market conditions. The specific time frame for development is currently unknown.

As of September 30, 2008, NJRES currently leases office space in Wall Township, New Jersey and in Houston, Texas for its business activities

As of September 30, 2008, the Steckman Ridge partnership owns land and leases approximately 8,300 acres in Bedford County, Pennsylvania, where it is developing a 17.7 billion cubic foot (Bcf) natural gas storage facility with up to 12 Bcf of working gas capacity for an estimated project cost of approximately $265 million. NJR is responsible for 50 percent of the total cost. Some of the equipment to be installed on the property will include a compressor station, gathering pipelines and pipeline interconnections. Steckman Ridge is expected to be placed in service during the summer of 2009.

NJRHS leases service centers in Town of Dover, Morris County, and Farmingdale, Monmouth County, New Jersey.

Capital Expenditure Program

See Item 7. Management Discussion and Analysis–Cash Flows for a discussion of anticipated fiscal 2009 and 2010 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 three Manufactured Gas Plant (MGP) sites, dating back to gas operations in the late 1800s and early 1900s, which contain contaminated residues from former gas manufacturing operations. NJNG is currently involved in administrative proceedings with the New Jersey Department of Environmental Protection (NJDEP), as well as participating in various studies and investigations by outside consultants to determine the nature and extent of any such contaminated residues and to develop appropriate programs of remedial action, where warranted, under Administrative Consent Orders or Memoranda of Agreement with the NJDEP.

NJNG may, subject to BPU approval, recover its remediation expenditures, including carrying costs, over rolling 7-year periods pursuant to a remediation adjustment clause (RAC) approved by the BPU. In October 2007, the BPU approved $14.7 million in eligible costs to be recovered annually for MGP remediation expenditures incurred through June 30, 2006.

As of September 30, 2008, $92.2 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in Regulatory assets on the Consolidated Balance Sheet.

In September 2008, NJNG updated an environmental review of the MGP sites, including a review of potential liability for investigation and remedial action. NJNG estimated at the time of the review that total future expenditures to remediate and monitor the three MGP sites for which it is responsible will range from approximately $120.7 million to $177.2 million. NJNG's estimate of these liabilities is based upon known facts, existing technology and enacted laws and regulations in place when the review was completed. However, NJNG expects actual costs to differ from these estimates. Where it is probable that costs will be incurred, but the information is sufficient only to establish a range of possible liability, and no point within the range is more likely than any other, it is NJNG's policy to accrue the lower end of the range. Accordingly, NJNG has recorded an MGP remediation liability and a corresponding Regulatory asset of $120.7 million on the Consolidated Balance Sheet. The actual costs to be incurred by NJNG are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay and any insurance recoveries.

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

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

General

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

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

None

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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	51	1986
Executive Vice President and Chief Operating Officer, NJNG and Senior Vice President, Corporate Affairs and Marketing	Kathleen T. Ellis	55	2004
Executive Vice President and Chief Operating Officer, NJRES and Senior Vice President, Energy Services, NJNG	Joseph P. Shields	51	1996
Senior Vice President and Chief Financial Officer	Glenn C. Lockwood	47	1990
Senior Vice President and General Counsel	Mariellen Dugan	42	2005
Vice President, Corporate Services, NJR Service	Deborah G. Zilai	55	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, NJ.

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

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

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

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

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

Mariellen Dugan, Senior Vice President and General Counsel

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

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

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

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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 under the ticker symbol NJR. As of September 30, 2008, NJR had 39,611 holders of record of its common stock.

On January 23, 2008, NJR's Board of Directors approved a 3 for 2 stock split of the Company's common stock in the form of a dividend for the Company's common stock shareholders of record on February 8, 2008. The additional shares were issued on March 3, 2008, resulting in an increase in average shares outstanding from approximately 28 million to approximately 42 million. All share-related information for prior periods has been adjusted throughout this report on a retroactive basis to reflect the effects of the stock split.

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

	2008		2007		Dividends Paid	
	High	Low	High	Low	2008	2007
Fiscal Quarter						
First	$34.71	$31.00	$35.44	$32.31	$0.25	$0.24
Second	$33.50	$29.22	$34.07	$30.87	$0.27	$0.25
Third	$34.63	$30.95	$37.63	$33.20	$0.28	$0.25
Fourth	$41.13	$31.68	$35.13	$30.33	$0.28	$0.25

The following table sets forth NJR's repurchase activity for the quarter ended September 30, 2008:

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
07/01/08 – 07/31/08	—	—	—	1,409,171
08/01/08 – 08/31/08	—	—	—	1,409,171
09/01/08 – 09/30/08	—	—	—	1,409,171
Total	—	—	—	1,409,171

The Chief Executive Officer's annual certification regarding the Company's compliance with the NYSE's corporate governance listing standards was submitted to the NYSE in fiscal 2008.