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3                                   **DIRECT TESTIMONY**  
4                                   **OF**  
5                                   **THOMAS S. KAVANAUGH**  
6                                   **CONTROLLER**  
7                                   **SOUTH JERSEY GAS COMPANY**  
8                                   **JANUARY 2010**

9  
10                                   **I. INTRODUCTION**

11                   My name is Thomas S. Kavanaugh. I am the Controller of South Jersey Gas  
12                   Company (South Jersey or the Company) and my business address is 1 South Jersey  
13                   Plaza, Folsom, New Jersey 08037.

14                   I am a licensed Certified Public Accountant (inactive status) in the state of  
15                   New Jersey and I graduated with Highest Honors from Rutgers University in 1988  
16                   with a Bachelor of Arts Degree and a major in Accounting. In 2001, I graduated with  
17                   Highest Honors from Rutgers University's graduate program obtaining a Masters in  
18                   Business Administration Degree with a concentration in Finance.

19                   From September 1988 to December 1990, I worked for the Big Four public  
20                   accounting firm of Deloitte & Touche, LLP. During that time I served as a staff  
21                   auditor for a diverse client base, including South Jersey and its parent company,  
22                   South Jersey Industries, Inc. In January 1991, I joined South Jersey as a staff  
23                   accountant in the General Accounting Department. I was promoted to Supervisor,  
24                   Financial Reporting in April 1991 and held that position until July 1994 when I was  
25                   named Manager, General Accounting. In this position my duties were expanded to  
26                   encompass all South Jersey's general accounting functions. I held that position until  
27                   July 1999 when I was promoted to the position of Director, General Accounting, at  
28                   which time I assumed responsibility for the corporate tax function of South Jersey. I

1 served as Director, General Accounting until I was elected to my current position of  
2 Controller of the Company in January 2002.

3 As Controller, I am the Chief Accounting Officer of the Company. The books  
4 of account are maintained in accordance with generally accepted accounting  
5 principles and in accordance with the applicable Uniform System of Accounts  
6 prescribed by the Board of Public Utilities (Board or BPU) of the State of New  
7 Jersey.

8 I have assisted in the preparation of the accounting testimony in two of South  
9 Jersey's previous base rate proceedings (1993 and 1996). Further, I directly prepared  
10 the accounting testimony in South Jersey's most recent base rate proceeding filed in  
11 2003.

12 I served as the chairman of the New Jersey Utilities Association's (NJUA or  
13 Association) Finance and Regulations Committee from 2005 through 2009, and as  
14 vice chairman of one of its' predecessor committees, the Accounting and Tax  
15 Committee from 2002 to 2004. The purpose of this NJUA committee is to provide  
16 policy advice to the Association on emerging issues and other developments  
17 involving: i) current and proposed accounting and tax regulations and requirements,  
18 ii) regulatory proposals and decisions of the BPU and the Office of Administrative  
19 Law, and iii) policies and best practices on corporate governance. I am also a  
20 member of the American Gas Association (AGA) and serve on its Accounting  
21 Principles Committee.

22 Stringent internal controls and procedures are in place to comply with the  
23 Sarbanes-Oxley Act of 2002. Such controls and procedures are used to assure that

1 the transactions, which are the basis for the entries in the books of account, are  
2 accurately reflected. The effectiveness of such controls are evaluated and certified  
3 annually. Further, the financial statements of the Company are audited annually by  
4 Deloitte& Touche, LLP, the Company's independent public accountants.

5 South Jersey also maintains an internal audit staff which regularly performs  
6 various audits on the Company's controls, practices and procedures. In addition, the  
7 Company is subject to audits by the BPU staff, as well as several State and Federal  
8 Agencies.

## 9 10 **II. PURPOSE OF TESTIMONY**

11 The purpose of my testimony is to provide an analysis of the historical  
12 balance sheets and income statements. I have also prepared pro forma adjustments to  
13 operating income for federal and state income taxes; deferred federal and state  
14 income tax adjustments to rate base; and incremental depreciation expense for post-  
15 test year construction.  
16

17 Supporting discussions as to ratemaking adjustments proposed elsewhere in  
18 the Company's testimony on the topic of deferred expenses related to long-term debt  
19 issues are also contained herein. On a related matter, my testimony also contains a  
20 request for deferred accounting treatment for the "unrealized" loss associated with  
21 two interest rate swaps currently being carried on the books of the Company.

22 Attached to this testimony are schedules, prepared either by me or under my  
23 direct supervision, which will be discussed in subsequent sections of my testimony.  
24

1 **III. BALANCE SHEET**

2  
3 Balance sheets are reflected in Schedule TSK-1, Schedule 1, and significant  
4 changes are explained as follows:

5  
6 **Utility Plant (Page 1 of 2, Line 2)**

7 Gas Plant in Service has increased from \$1.1 billion as of December 31, 2006  
8 to \$1.2 billion as of December 31, 2008. This increase of \$92.4 million, or 8.6%, is  
9 primarily due to increases from continuing property additions which are necessary to  
10 provide safe and reliable service to our customers.

11  
12 **Accumulated Depreciation (Page 1 of 2, Line 3)**

13 The increase in Accumulated Depreciation of \$37.7 million from December  
14 31, 2006 to December 31, 2008 is primarily due to the continuing depreciation of  
15 utility plant, net of retirements.

16  
17 **Available-For-Sale Securities (Page 1 of 2, Line 8)**

18 The decrease of \$1.5 million from December 31, 2006 to December 31, 2008  
19 is the result of investment losses in the Company's Rabbi Trust which was  
20 established as a funding vehicle for South Jersey's postretirement benefit plans other  
21 than pensions. This decrease was primarily due to the significant declines in the  
22 equity markets in 2008.

23

1 **Restricted Investments** (Page 1 of 2, Line 9)

2 In accordance with the terms of our tax-exempt first mortgage bonds issued in  
3 2006, unused proceeds are required to be escrowed pending approved construction  
4 expenditures. The decrease of \$8.5 million from December 31, 2006 to December 31,  
5 2008 is the result of draws from the escrow account to cover construction  
6 expenditures approved during 2007 and 2008.

7  
8 **Accounts Receivable – Related Parties** (Page 1 of 2, Line 16)

9 Accounts Receivable Related Parties decreased \$1.6 million from December  
10 31, 2007 to December 31, 2008 primarily because there were no Off System Sales  
11 made to an affiliate, South Jersey Resources Group (SJRG), in December of 2008.

12  
13 **Unbilled Revenue** (Page 1 of 2, Line 17)

14 Unbilled Revenues are primarily a function of the number of customers, the  
15 customers' average use per degree day, and the number of degree days during the  
16 unbilled period.

17 Unbilled Revenues increased \$7.1 million from December 31, 2006 to  
18 December 31, 2007 primarily due to temperatures that were 23% colder in the month  
19 of December 2007, as compared to December 2006, as well as 5,614 net customer  
20 additions. Partially offsetting these increases were BGSS rates that were 13% lower  
21 in December 2007 as compared to December 2006.

1 Unbilled Revenues increased \$6.6 million from December 31, 2007 to  
2 December 31, 2008 primarily due to BGSS rates that were 14.8% higher than those in  
3 2007, as well as 4,473 net customer additions.  
4

5 **Natural Gas in Storage** (Page 1 of 2, Line 19)

6 Natural Gas in Storage decreased \$24.6 million from December 31, 2006 to  
7 December 31, 2007 primarily due to colder weather at the end of 2007, which  
8 resulted in a significant increase in the demand for the Company's storage to serve its  
9 customers. At December 31, 2006, the company had 9.8 million dekatherms  
10 (MMdts) of natural gas at \$7.78 per dekatherm (dt). As of December 31, 2007, the  
11 company only had 6.9 MMdts of natural gas at an average cost of \$7.60 per dt.

12 Natural Gas in Storage increased \$8.8 million from December 31, 2007 to  
13 December 31, 2008 primarily due to higher gas prices. The average cost of natural  
14 gas in storage was \$10.45 per dt which was \$2.85 per dt higher than 2007. This  
15 increase was partially offset by 1.2 MMdts fewer volumes at the end of 2008  
16 resulting from the release of certain storage assets under the Company's Conservation  
17 Incentive Program (CIP).  
18

19 **Materials and Supplies** (Page 1 of 2, Line 20)

20 Materials and Supplies increased \$9.8 million from December 31, 2007 to  
21 December 31, 2008 primarily due to materials purchased and inventoried for a large  
22 pipeline improvement project that commenced in 2009.  
23

1        **Prepaid Taxes** (Page 1 of 2, Line 21)

2                Prepaid Taxes is comprised of three (3) taxes that are mandated to be prepaid  
3 during the course of each year – New Jersey Corporate Business Tax, New Jersey  
4 Sales and Use Tax, and the Transitional Energy Facilities Assessment. These  
5 amounts result in a significant cash requirement in terms of overpayments by South  
6 Jersey to the State each year for which the Company must wait until the subsequent  
7 year to receive a credit for such overpaid amounts. Since such payments are based  
8 on the “expected” results of the company, and actual results may inevitably vary, the  
9 prepaid position at the end of each year will fluctuate from year to year. In addition  
10 to the three mandated prepayments above, this line item includes amounts prepaid for  
11 Federal Income Taxes (FIT) at December 31<sup>st</sup> of each year. At December 31, 2006,  
12 the FIT prepaid balance was \$0.8 million compared with \$4.8 million at December  
13 31, 2007 and \$5.7 million at December 31, 2008.

14

15        **Derivatives – Energy Related Assets/Liabilities** (Page 1 of 2, Line 22; Page 2 of  
16 **2, Lines 21 & 40)**

17                Increases and decreases result from changes in the market value of derivative  
18 contracts used to hedge our natural gas purchases. It should be noted that these  
19 contracts are adjusted to fair value for balance sheet presentation only and have no  
20 impact on earnings, or our customers, until such contracts are settled through the  
21 Company’s BGSS.

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**Regulatory Assets** (Page 1 of 2, Line 28 and TSK-1, Sch. 5)

Regulatory Assets decreased \$8.3 million from December 31, 2006 to December 31, 2007. Environmental remediation costs expended increased \$8.2 million due to clean-up activities in 2007 and the projection of future expenses increased by \$6.0 million based on ongoing investigation and changing remediation work plans. Deferred Fuel Costs decreased \$19.7 million primarily due to changes in the market value of derivative contracts used to hedge our natural gas purchases. Deferred Pension and Other Postretirement Benefit Costs decreased \$6.7 million to reflect changes in the funded positions of these benefit plans caused by changes in actual plan experience, as well as assumptions of future experience. Receivables under the Company's TAC decreased due to cash recoveries from ratepayers in 2007. The CIP receivable increased due to additional deferrals resulting from temperatures that were 3.2% warmer than normal and the earnings impact of non-weather related declines in customer usage. These increases to the CIP receivable were partially offset by cash recoveries, which began in October 2007. Societal Benefit Costs Receivable decreased by \$4.0 million in 2007 as a result of increased recoveries under the USF, as sales increased due to colder weather than was experienced during 2006.

Regulatory Assets increased \$81.7 million from December 31, 2007 to December 31, 2008. Environmental remediation costs expended increased \$22.2 million due to clean-up activities in 2008, while the projection of future expenses decreased by only \$9.8 million due to revised estimates based on ongoing

1 investigation and changing remediation work plans. Deferred Fuel Costs increased  
2 \$18.4 million primarily due to changes in the market value of derivative contracts  
3 used to hedge our natural gas purchases. Deferred Pension and Other Postretirement  
4 Benefit Costs increased \$47.5 million to reflect changes in the funded positions of  
5 these benefit plans caused by changes in actual plan experience, as well as  
6 assumptions of future experience. The decrease in retirement plan assets resulting  
7 from the significant declines in the equity markets was partially offset by a  
8 contribution of \$4.8 million to our employee pension plan in 2008.

9 Receivables under the Company's TAC decreased to zero in 2008 due to cash  
10 recoveries from ratepayers and the replacement of this clause with the CIP in late  
11 2006. The CIP receivable increased due to additional deferrals resulting from  
12 temperatures that were 4.7% and 3.2% warmer than normal in 2008 and 2007,  
13 respectively, and the earnings impact of non-weather related declines in customer  
14 usage. These increases to the CIP receivable were partially offset by cash recoveries  
15 which began in October 2007. Societal Benefit Costs Receivable decreased by \$4.0  
16 million and \$1.2 million in 2007 and 2008, respectively, as a result of increased  
17 recoveries under the USF as sales increased due to colder weather than was  
18 experienced during 2006.

19 Other regulatory assets increased \$8.1 million in 2008 versus 2007 primarily  
20 due to changes in the market value of interest rate swaps used to limit our exposure to  
21 changes in interest rates on variable-rate long-term debt. The value of these swaps at  
22 December 31, 2008 was \$7.6 million (see further discussion under "Liabilities -  
23 Derivatives – Other").

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**Prepaid Pension** (Page 1 of 2, Line 30)

See discussion of Deferred Pension and Other Postretirement Benefit Costs above under Regulatory Assets.

**Retained Earnings** (Page 2 of 2, Line 7)

The increase in Retained Earnings from \$158.6 million at December 31, 2006 to \$202.1 million at December 31, 2008 represents the balance of the Company's earnings after dividends paid out during this two year period.

**Long-Term Debt** (Page 2 of 2, Line 11)

On April 20, 2006, SJG issued \$25.0 million of tax-exempt, auction-rate debt through the New Jersey Economic Development Authority (NJEDA) under its \$150.0 million MTN Program. Due to disruptions in the market for auction rate bonds, these bonds were repurchased by the Company in June 2008 and remarketed to the public in August 2008 as variable-rate demand bonds with liquidity support provided by a letter of credit from a commercial bank. Since the term of the letter of credit expires annually, with a right to renew for one-year periods, these bonds have been included in the current portion of long-term debt (Line 17) in accordance with Generally Accepted Accounting Principles (GAAP). Material terms of the original bonds, such as the 2036 maturity date, floating rate interest that resets weekly, and a first mortgage collateral position, remain unchanged.

1        **Notes Payable (Page 2 of 2, Line 16)**

2                The decrease in Notes Payable of \$25.2 million from December 31, 2006 to  
3        December 31, 2007 resulted from an increase in cash from operations primarily due  
4        to a \$24.6 million decrease in the year-end gas storage balance as discussed above.

5                The increase in Notes Payable of \$36.2 million from December 31, 2007 to  
6        December 31, 2008 resulted from a decrease in cash from operations primarily due to  
7        increases in gas storage balances and materials and supplies balances as noted above,  
8        as well as increased environmental remediation expenditures.

9

10        **Current Maturities of Long-Term Debt (Page 2 of 2, Line 17)**

11                See above discussion under Long-Term Debt.

12

13        **Accounts Payable - Commodity (Page 2 of 2, Line 18)**

14                The decrease of \$8.8 million from December 31, 2006 to December 31, 2007  
15        was due to changes in the level of purchases from South Jersey Resources Group,  
16        LLC (SJRG) which are included in Accounts Payable – Related Parties (line 20), and  
17        lower average unit prices in 2007. The lower prices were partially offset by increased  
18        volumes purchased in December 2007 resulting from colder temperatures as  
19        compared to December 2006.

20

21        **Accounts Payable - Other (Page 2 of 2, Line 19)**

22                Accounts Payable Other includes accrued liabilities to contractors for construction  
23        projects, accrued employee payroll, operating expenses payable, accrued liabilities for

1 billings services performed for gas marketers, and other miscellaneous accruals. The  
2 variances between year-end balances are due to normal timing differences resulting  
3 from the timing of incurring such liabilities and the cash settlement of such liabilities.  
4

5 **Accounts Payable – Related Parties** (Page 2 of 2, Line 20)

6 Accounts Payable Related Parties includes amounts due to SJRG for gas  
7 purchases (as noted above under “Accounts Payable-Commodity”); amounts due to  
8 South Jersey Energy Company (SJE) as a marketer; and amounts due to South Jersey  
9 Energy Service Plus, LLC (SJESP) for customer payments received through our  
10 billing services. In addition, amounts due to SJI Services, LLC (SJIS) for SJG’s  
11 portion of shared services such as information technology, human resources,  
12 government relations, corporate communications, materials purchasing, fleet  
13 management and insurance and amounts due to our parent, South Jersey Industries,  
14 Inc. (SJI) for general corporate services are also included in this category and can  
15 vary due to timing of payment for such services.

16 The increase of \$10.3 million in December 2007 as compared to December  
17 2006 was due to increased gas purchases from SJRG as noted above, as well as a  
18 delay in processing payments to related parties at year-end.

19 The decrease of \$5.7 million in December 2008 as compared to December  
20 2007 was due to more timely payments to affiliates, which still lag behind payments  
21 to other vendors in 2008, partially offset by increased gas purchases from SJRG.  
22

1        **Deferred Income Taxes – Net** (Page 2 of 2, Line 22 and Line 35)

2                These accounts reflect the net deferred Federal and State Income Tax  
3 liabilities created by temporary differences between the carrying amount of assets and  
4 liabilities for financial reporting purposes and the amounts used for the company’s  
5 federal and state tax returns in accordance with SFAS No. 109, “Accounting for  
6 Income Taxes”.

7                The significant increase in the current provision (line 22) is related to the  
8 Company’s CIP program. The tax on the revenue generated by the CIP in its first full  
9 year of operation was deferred and is payable in subsequent years as collected from  
10 customers.

11                The \$18.8 million increase in the non-current provision (line 35) from 2007 to  
12 2008 is primarily related to accelerated tax deductions permitted for “Bonus  
13 Depreciation”.

14

15        **Customer Deposits and Credit Balances** (Page 2 of 2, Line 23)

16                The fluctuations in this category are primarily related to customer credit  
17 balances resulting from the Company’s Equal Payment Plan (EPP) which are  
18 embedded in this line item. As a result of warmer weather during 2006, credit  
19 balances at December 31, 2006 were \$13.5 million as compared to \$7.9 million in  
20 2007 and \$4.0 million in 2008, which were both closer to normal in terms of weather  
21 during the fourth quarter. In addition, 2008 credit balances were impacted by higher  
22 BGSS gas costs rates, which further reduced the credit that would have otherwise  
23 been due to customers had gas costs not been so high.

1        **Environmental Remediation Costs (Page 2 of 2, Line 24 and Line 36)**

2                The Company records a liability for estimated future environmental  
3        remediation costs under the guidance of SFAS No. 5, “Accounting for  
4        Contingencies”. Such estimate is reviewed and revised annually based on ongoing  
5        investigation and changing remediation work plans. See previous discussion related  
6        to “Environmental Remediation Costs – Liability for Future Expenditures” under  
7        Regulatory Assets as shown above.

8                It should be noted that these estimates are recorded for balance sheet  
9        presentation in accordance with GAAP and have no impact on earnings, or our  
10       customers, until such costs are actually incurred.

11  
12        **Regulatory Liabilities (Page 2 of 2, Line 34)**

13                Excess Plant Removal Costs make up approximately \$49.0 million of this line  
14        item each year. This represents amounts accrued in excess of actual utility plant  
15        removal costs incurred to date, but it is anticipated that these costs will come to equal  
16        the accruals over the life of the utility plant.. In addition, the balance at December 31,  
17        2007 included over recoveries of \$2.8 million of NJCEP revenues received in excess  
18        of actual expenditures, and \$2.6 million of BGSS revenues received in excess of  
19        actual gas costs. At December 31, 2008, both of these regulatory clauses were under  
20        recovered and included in “Other Regulatory Assets” discussed above.

21

1        **Pension and Other Postretirement Benefits** (Page 2 of 2, Line 38)

2            See discussion of “Deferred Pension and Other Postretirement Benefit Costs”,  
3        above under Regulatory Assets. In addition, since the adoption of SFAS No. 158,  
4        “Employers’ Accounting for Defined Benefit Pension and Other Postretirement  
5        Plans”, in 2006, the Company’s balance sheet has experienced significant volatility.  
6        However, like Environmental Remediation Costs discussed previously, these changes  
7        in assets and liabilities are recorded for balance sheet presentation under GAAP and  
8        have no impact on earnings, or customers, until such costs are actually incurred and  
9        recognized through the income statement.

10

11        **Derivatives - Other** (Page 2 of 2, Line 41)

12            This balance represents the fair market value the Company would have to pay the  
13        counterparty to terminate these interest rate swaps at year-end. See discussion of  
14        “Other Regulatory Assets”, above under Regulatory Assets.

15

16        **Supporting Schedules**

17            Attached to this testimony are statements which provide more detailed support  
18        to the Utility Plant section of the Balance Sheet. They are Schedule TSK-1,  
19        Schedules 2, 3, and 4. Schedule 2 shows Utility Plant by functional group, that is:  
20        Intangible Plant, Production Plant, Storage Plant, Transmission Plant, Distribution  
21        Plant, General Plant, and Other Tangible Property, and a Gas Plant Acquisition  
22        Adjustment at December 31, 2006, 2007 and 2008. Schedule 3 reflects Utility Plant  
23        for the same periods by primary account within the functional groups. Schedule 4

1 details the Accumulated Provision for Depreciation and Amortization by functional  
2 category at December 31, 2006, 2007 and 2008. Also attached to this testimony are:  
3 a detailed schedule of Regulatory Assets, TSK-1, Schedule 5; a Statement of Retained  
4 Earnings as of the Balance Sheet dates presented above, Schedule TSK-3; and the  
5 Balance Sheet at the most recent date certified (September 30, 2009), Schedule TSK-  
6 4.

#### 8 **IV. INCOME STATEMENT**

9  
10 Income Statements are reflected in Schedule TSK-2, Schedule 1, and  
11 significant changes are as follows:

##### 12 **Operating Revenues (Line 1)**

13 Operating Revenues, as more fully detailed in Schedule TSK-2, Schedule 2,  
14 decreased by \$12.1 million from 2006 to 2007 primarily due to lower off-system sales  
15 (OSS) revenues pursuant to Section 284.402 of the Regulations of the Federal Energy  
16 Regulatory Commission. Despite comparable sales volume, Off-System sales  
17 revenue decreased \$16.6 million. Sales revenue during the early part of 2006 was  
18 atypically high as it reflected unusually high commodity prices, which were driven by  
19 hurricane related production disruptions in fall 2005. In addition, OSS recognized a  
20 \$4.4 million gain on a financial derivative position in 2006 which did not re-occur in  
21 2007 due to changing market conditions. It should be noted that this \$4.4 million  
22 gain only contributed \$0.4 million to SJG's bottom line after regulated sharing of  
23 85% with ratepayers through the Basic Gas Supply Service (BGSS) and taxes.

1           While SJG added 5,614 customers during the 12-month period ended  
2           December 31, 2007, which represents a 1.7% increase in total customers, and weather  
3           was 23.3% colder in 2007 than during 2006, firm sales revenue only experienced a  
4           modest increase of \$2.2 million as a result of a decrease in the BGSS gas cost  
5           recovery rate and customer migration from firm sales to firm transportation  
6           service. The BGSS rate in 2007 was 10.8% lower than the prior year rate. The rate in  
7           2006 was higher to address under recovery of gas costs stemming from substantial  
8           increases in wholesale gas prices across the country in 2005 resulting from Hurricane  
9           Katrina. In addition, the average number of transportation customers increased to  
10          25,309 in 2007 as compared to 16,392 in 2006. Transportation customers generate  
11          less revenue for the Company because they purchase the gas commodity from a third  
12          party marketer. However, as the Company does not profit from the sale of the  
13          commodity, neither BGSS rate changes nor customer migration between sales and  
14          transportation have an impact on Company profitability.

15          Revenues decreased \$62.5 million, or 9.9%, during 2008 compared with  
16          2007. Off-System sales revenue decreased \$41.2 million in relation to the decrease in  
17          sales volume noted below under “Throughput” as our portfolio of assets available for  
18          OSS has been reduced. Total firm revenues decreased during 2008 compared to 2007  
19          primarily due to warmer weather and lower residential revenues resulting from a  
20          lower Basic Gas Supply Service (BGSS) rate in effect during most of 2008. For  
21          nearly the entire year, the 2008 BGSS rate was 12.7% lower than the rate in effect  
22          during 2007. SJG reduced its BGSS rate in October 2007 primarily due to a  
23          combination of actual and forecasted decreases in wholesale gas costs. Finally, the

1 Company experienced lower sales to the region’s electric utility, as their demand to  
2 consume natural gas to generate electric during the summer months decreased  
3 substantially. Partially offsetting these decreases, SJG added 4,473 customers during  
4 the 12-month period ended December 31, 2008, which represents a 1.3% increase in  
5 total customers.

6 Details concerning SJG’s throughput can be found on TSK-2, Schedule 2,  
7 Lines 1 through 19, and provide additional information supporting changes in  
8 revenue. In 2007, total gas throughput increased 3.8% compared with 2006, to 141.6  
9 MMdts. While firm throughput accounted for the entire increase, the residential  
10 market reflected the greatest improvement by adding 3.6 MMdts over 2006 as a result  
11 of 23.3% colder weather and 5,050 additional residential customers in 2007. Total gas  
12 throughput increased 2.8 MMdts, or 1.9%, from 2007 to 2008. This increase is  
13 driven by greater capacity release activity during 2008. Firm throughput declined as  
14 a result of 1.6% warmer weather and customer conservation as use factors continue to  
15 drop over time. Off-System sales volume decreased substantially as SJG’s portfolio  
16 of assets available for such activities has been reduced under the Company’s  
17 Conservation Incentive Program (“CIP”).

18

19 **Gas Supplies Expense (Line 4 and detailed on TSK-2, Schedule 3)**

20 The decrease in Gas Supplies Expense from 2006 to 2008 is directly  
21 attributable to the factors detailed in the prior discussion on “Operating Revenues”.

22

23 **Operations Expenses (Line 5 and detailed on TSK-2, Schedule 3)**

1 An explanation of the major variances by type of expenditure is as follows:

- 2 • Distribution (Schedule 3, Line 12) can fluctuate year-to-year depending  
3 upon the level of system maintenance performed; the need for overtime,  
4 which can change dramatically based on the severity of weather during the  
5 period; and other labor-related issues, such as staffing and negotiated  
6 wage increases. While costs remained relatively flat from 2006 to 2007,  
7 they increased by approximately \$0.5 million, or 5.7%, from 2007 to  
8 2008. This increase was related to a 3.5% pay increase in 2008; an extra  
9 day in the year 2008 due to leap year; and an extra pay period in 2008  
10 posted to all cost centers based on the cutoff of the payroll calendar. This  
11 phenomenon occurs once every decade for Company's with bi-weekly  
12 payroll, and more frequently for those with weekly payroll.
- 13 • Customer Accounts (Schedule 3, Line 13) was \$2.1 million higher in 2007  
14 compared to 2006 primarily due to an increase of \$1.2 million in the  
15 provision for uncollectible accounts related to the higher receivable  
16 balances in 2007; a \$0.3 million increase for billing and collection costs  
17 including a federal postage rate increase; and higher employee  
18 compensation costs. Customer Accounts expenses decreased slightly in  
19 2008 due to lower uncollectible accounts, which were partially offset by  
20 higher billing and collection costs.
- 21 • CIP Programs (Schedule 3, Line 14) was higher in 2008 and 2007 because  
22 expenses did not begin to be incurred until the approval of the CIP in

1           October 2006; therefore, 2006 represented approximately one quarter of a  
2           typical year's expenditures.

- 3           • Clean Energy Program (Schedule 3, Line 15) represent costs related to the  
4           NJ Clean Energy Program (NJCEP) which are deferred and recovered  
5           through rates on an on-going basis. Operating expenses are offset by  
6           revenue recoveries on a dollar-for-dollar basis. Such recoveries fluctuate  
7           based on sales volumes and approved rate levels during each respective  
8           year. During 2007, expenditures experienced a temporary slowdown as  
9           the management of such programs was transitioning to State agencies.
- 10          • Administrative and General (Schedule 3, Line 17) increased \$1.4 million  
11          during 2007, as compared with 2006. Primary factors were increased  
12          corporate support, governance and compliance costs, primarily attributable  
13          to our parent, SJI, which increased \$1.1 million as a result of increased  
14          staffing in various departments including Legal, Financial Planning &  
15          Analysis and Internal Audit. There were also various studies and  
16          initiatives undertaken by the Company at the SJI corporate level which  
17          impacted the expenses of all SJI subsidiaries. SJG also incurred \$0.2  
18          million in employee severance costs in 2007 that were not incurred during  
19          2006.

20

1 **Maintenance Expense (Line 6 and detailed on TSK-2, Schedule 3)**

2 An explanation of the major variances by type of expenditure is as follows:

- 3 • Production (Schedule 3, Line 23) increased in 2007 and 2008 by \$0.5  
4 million and \$1.2 million, respectively, due to increases in the annual  
5 amortization of the Company's environmental remediation costs under the  
6 BPU-approved Remediation Adjustment Clause (RAC). RAC  
7 amortization expense is recovered from ratepayers; therefore, SJG  
8 experienced an offsetting increase in revenue in each respective year.
- 9 • Distribution (Schedule 3, Line 25) increased \$0.3 million in 2007  
10 compared to 2006 due to incremental maintenance requirements of our  
11 LNG and distribution plant, including BPU-mandated meter protection  
12 surveys to ensure public safety. The increase from 2007 to 2008 was the  
13 result of installing safety devices on certain residential meters aimed at  
14 preventing unauthorized usage and maintenance of Company equipment.

15  
16 **Depreciation (Line 7)**

17 Depreciation expense increased from 2006 to 2008 due to the Company's  
18 ongoing construction program which generated an increase in depreciable property as  
19 reflected on TSK-1, Schedules 1 through 4.

20  
21 **Other Expenses (Line 17)**

22 Other expenses increased in 2008, compared with 2007, primarily as a result  
23 of an impairment loss of \$0.7 million recognized on our available-for-sale securities

1 due to significant declines in the equity markets in 2008. No impairment losses were  
2 recognized in 2007 or 2006. In addition, both 2007 and 2008 reflected increases over  
3 2006 as a result of a change in the accounting for the Company's 0% Natural Gas  
4 Heater Conversion Financing Program. Beginning in 2007, the Company began  
5 discounting the financing loans carried on its books and amortizing this discount  
6 through "Other Expense" in accordance with GAAP. This resulted in incremental  
7 expense each year as the number and total value of loans issued increased, as  
8 reflected on TSK-1, Schedule 1, page 1 of 1, line 31.

9  
10 **Interest Charges (Line 22)**

11 Interest charges decreased by \$1.3 million in 2007, compared with 2006, due  
12 primarily to lower average levels of short-term debt. Short-term debt levels declined  
13 primarily due to lower natural gas cost and inventory levels, which offset the impact  
14 of slightly higher average short-term interest rates in effect throughout the year.

15 Interest charges decreased by \$1.8 million in 2008, compared with 2007, due  
16 primarily to lower levels of short-term debt and lower average interest rates on short-  
17 term debt. These decreases were partially offset by higher interest rates incurred on  
18 auction-rate securities during the first half of 2008.

19  
20 **Supporting Schedules**

21 Attached to this testimony are statements which provide more detailed support  
22 to the Statements of Income. They are Schedule TSK-2, Schedules 2, 3, and 4.  
23 Schedule 2 provides additional details for the Utility Operating Revenues and

1 Throughput for the twelve months ended December 31, 2008, 2007 and 2006, and the  
2 number of Customers at each respective year end. Schedule 3 reflects the functional  
3 group detail for select major expense categories - Gas Supplies Expense, Operating  
4 Expenses and Maintenance Expenses for the twelve months ended December 31,  
5 2008, 2007 and 2006. Schedule 4 provides additional details for Taxes Other Than  
6 Income Taxes for the twelve months ended December 31, 2008, 2007 and 2006.

7  
8 **V. AMORTIZATION OF EXPENSES ASSOCIATED WITH**  
9 **LONG-TERM DEBT**

10  
11 I am sponsoring an adjustment for: 1) The amortization and recovery of  
12 deferred expenses related to an early retirement premium on South Jersey's 8.6%  
13 Unsecured Debenture Note, due 2010; and 2) The cost to settle two Forward Treasury  
14 Locks during 2005 in connection with the issuance of a 5.45% Series First Mortgage  
15 Bond, due 2035. Schedule TSK-6 contains the actual amounts deferred in connection  
16 with these financing events.

17  
18 **A. Early Retirement Premium:**

19 The 8.6% Unsecured Debenture Note, due 2010, was retired in February 2005  
20 at a premium of 2.46% of the outstanding balance of \$7,500,000 on that date. The  
21 Company determined that it could save interest costs by retiring this debt, and  
22 replacing it with lower cost long term debt than available in the financial markets.

1           The Company will amortize the premium, upon approval, over the life of the  
2 replacement long-term debt (6.213% First Mortgage Bond Series, due 2034) issued in  
3 August 2004. This debt was issued in anticipation of the retirement of the unsecured  
4 debenture immediately following the winter months requiring the greatest use of cash  
5 for commodity purchases. This action is in accordance with the Uniform System of  
6 Accounts, General Instruction No. 17, “Long-Term Debt: Premium, discount and  
7 expense, and gain on loss on reacquisition,” explicitly permits three options with  
8 regard to such expenses when a retirement is made “with refunding”, a term used to  
9 describe the replacement of one debt issue with another lower-cost issue. These  
10 options are as follows: (i) expense such costs immediately when the amounts are  
11 insignificant, (ii) amortize such costs over the remaining life of the original debt  
12 being retired, or (iii) amortize such costs over the life of the new debt issue. It was  
13 felt that the third option was the most logical, and that has been historically  
14 protective. It also has regulatory support.

15           Our proposed method does not result in an immediate and full hit to the  
16 income statements or in a short-term amortization. It is simply rolled in to the cost of  
17 the replacement long-term debt, and amortized over a long period. These are  
18 reflected in the “all-in” cost of debt retired.

19  
20           **B. Treasury Locks:**

21           The second issue pertains to the cost to settle two Forward Treasury Locks  
22 during 2005 in connection with the issuance of a 5.45% Series First Mortgage Bond,  
23 due 2035.

1           In November 2004, SJG saw a potential opportunity, based upon then current  
2 market conditions, to call an outstanding bond that had previously been issued under  
3 its Medium Term Note (MTN) program. The bond was eligible to be called on July  
4 15, 2004, without a premium. A call at that time was appropriate because of the  
5 difference between market rates for long-term bonds at that time, and the coupon on  
6 the bond called. The coupon on the existing bond was 7.9% and a replacement 30  
7 year bond could then be issued at a coupon in the low 6% range. Since such a  
8 reduction in the bond coupon was obviously beneficial to SJG and its customers, and  
9 since SJG would need to replace the called bond with new long term financing, it was  
10 determined that SJG would “lock in” a portion of the cost of a replacement bond to  
11 protect against the possibility that market interest rates would rise and reduce, or even  
12 eliminate, the benefits that could be obtained from calling the existing bond.  
13 Consequently, SJG purchased a product known as a “Treasury Lock” to protect  
14 against a potential increase in the yield on 30-year Treasury Bonds (the index upon  
15 which the coupon on the replacement debt would be based). A Treasury Lock works  
16 by having two parties agree to either make or receive a payment at a specific time in  
17 the future based upon the change in a particular Treasury rate between the time the  
18 agreement begins and that agreed upon specific time in the future. Hence, it is a  
19 hedge against interest rate fluctuations.

20           Simply stated, in the event that the Treasury rate moved higher, SJG would  
21 receive a payment from a counterparty that would offset the impact of higher interest  
22 rates incurred when the new bond was issued. Alternatively, SJG would make a  
23 payment to the counterparty in the event that interest rates declined over the same

1 period. In either event, the effect of the Treasury Lock is to reduce exposure to  
2 changes in market rates between the time the lock is initiated and when the lock  
3 terminates. In this particular case, SJG called the 7.9% MTN in July 2005, and  
4 replaced it with a 5.45% MTN in September 2005 that was issued under a newly  
5 established MTN program. To guard against the potential for Treasury rates to  
6 increase between the termination of the original Treasury Lock and the actual  
7 issuance date for the bonds used for the refinancing, SJG entered into a second Lock  
8 that terminated when the new bonds were ultimately issued in September 2005.

9 South Jersey is continuing to amortize the cost to settle the Treasury Locks  
10 over the life of the replacement debt issued in 2005 (5.45% Series, due 2035) at a rate  
11 of \$46,287 per year (\$1,388,600 / 30 years). Again, the Company it is not making a  
12 pro-forma adjustment to its income statement. Rather, the capital structure treatment  
13 of these costs is addressed in the testimony of Paul R. Moul. Included therein is an  
14 effective cost of the replacement debt issued in 2005, as shown on Schedule PRM-1,  
15 Schedule 6. The underlying reason is that this cost was necessary to lock in the new,  
16 lower cost debt issue as part of the Company's overall debt restructuring, and to limit  
17 the exposure of South Jersey and its customers to interest rate fluctuations.

18 As other adjustments are made to the capital structure during the test year, or  
19 as commitments are made for the post-test year period, I will supply detailed cost  
20 information related thereto. This will be supplied in updates to my schedules.

21

1 **VI. ADJUSTED TEST YEAR RATE BASE**  
2 **FEDERAL AND STATE INCOME TAXES**  
3

4 The calculation of deferred Federal and State Income Taxes used to reduce  
5 rate base reflects the normalization of timing differences between book and tax  
6 accounting for the repair allowance and for all property additions after January 1,  
7 1976, including property related rate base adjustments contained in Schedule TSK-8.

8 The deferred taxes are the accumulation of vintage years' net timing  
9 differences calculated at the statutory rates. Total Deferred Taxes included in rate  
10 base for the adjusted test year ended June 30, 2010 are \$(189,378,204). The  
11 derivation of this amount is shown in Schedules TSK-7A and TSK-7B which reflect  
12 deferred tax adjustments of \$(169,188,035) and \$(20,190,169) for deferred Federal  
13 and State taxes, respectively. The total from each of these schedules is then brought  
14 forward to Schedule SAP-2 of Mr. Pignatelli's testimony.

15  
16 **VII. DEPRECIATION ADJUSTMENTS**  
17

18 Schedule TSK-8 is the summary of pro forma adjustments to depreciation  
19 expense and accumulated depreciation. These adjustments are reflected on Mr.  
20 Pignatelli's Schedules SAP-2, the Statement of Rate Base, and SAP-3, the Adjusted  
21 Test Year Income Statement.

22 The first adjustment thereon is the annualization of depreciation expense at  
23 the Company's current composite rate of 2.24%, excluding the "fixed" annual

1 provision for negative salvage which does not change in relation to changes in  
2 depreciable plant. The resulting adjustment totaling \$980,777 (TSK-8, line 3) is  
3 based upon projected depreciable plant as of June 30, 2010, which is necessary to  
4 reflect the proper annual level of depreciation expense during the period in which the  
5 rates are to go into effect.

6 The second adjustment reflects additional annual depreciation expense  
7 associated with normal plant additions from July through December 2010. The post-  
8 test year additions of \$36,219,650 are brought forward from Mr. Fatzinger's Schedule  
9 RFF-2. The resulting increase in depreciation is \$811,320 (line 6), which is partially  
10 offset by retirements which reduce depreciation by \$64,029 (line 8).

11 The third adjustment reflects the annual depreciation expense level associated  
12 with major construction projects totaling \$24,611,528 brought forward from Mr.  
13 Dippo's Schedule CFD-1. The resulting increase in depreciation expense for this  
14 adjustment is \$443,007 (line 10).

15 Also included in TSK-8 is the impact of the additional depreciation expense  
16 and post-test year retirements on the Company's provision for Accumulated  
17 Depreciation.

18  
19 **VIII. ADJUSTED TEST YEAR INCOME STATEMENT**

20 **FEDERAL AND STATE INCOME TAXES**

21

1 I am sponsoring the pro-forma adjustment for federal and state income taxes  
2 (“Income Taxes”) included in the test year income statement and the calculation of  
3 deferred federal and state income taxes included in rate base.

4 Schedule TSK-9 contains the calculation of the pro forma adjustment to  
5 income tax expense which is carried forward to Schedule SAP-3 of Mr. Pignatelli’s  
6 testimony. The calculation is based on the pre-tax income statement adjustments  
7 totaling \$29,798,509 (Schedule SAP-3) adjusted for the synchronization of interest  
8 expense. The resulting decrease to test year income tax expense is \$13,411,655.

9  
10 **IX. DEFERRED ACCOUNTING -**

11 **UNREALIZED LOSS ON INTEREST RATE SWAPS**

12  
13 I am also sponsoring testimony in support of formal Board approval for the  
14 deferred accounting treatment of “unrealized” losses on interest rate swaps currently  
15 being carried on the books of the Company as discussed in detail in the following  
16 paragraphs.

17 As a background, SJG has typically entered into long-term fixed rate debt to  
18 finance its capital needs. However, in October of 2005, the Company was made  
19 aware of a financing structure that had become very popular in the capital markets  
20 that combined long-term auction rate debt (subject to periodic auction) and financial  
21 derivatives called interest rate swaps (“swaps”) that produced effective fixed rates  
22 below the rates typically available on long-term fixed rate debt. In October 2005,  
23 South Jersey entered into two swap contracts that effectively fixed the interest rate at

1 3.43% for the 30 year life of \$25,000,000 of auction rate bonds, an extremely  
2 attractive long-term interest rate from a historical perspective. SJG entered into these  
3 swaps to fix the rate on our debt for the purpose of taking uncertainty out of our  
4 interest expense and the associated cash flows through their expiration on February 1,  
5 2036.

6 In the first quarter of 2008, the market for auction rate debt evaporated as  
7 serious questions were raised regarding the ability of bond insurers, who provided the  
8 credit support necessary for these bonds, to obtain AAA ratings in order to honor  
9 their obligations. Consequently, the auction interest rates nationwide rose  
10 substantially, and for some companies they were not even able to be auctioned. In  
11 August 2008, the Company converted its bonds to another form of floating rate debt  
12 that had many of the same characteristics of the Auction rate bonds (weekly reset of  
13 interest rates, same final maturity) but replaced the bond insurance of the Auction rate  
14 bonds with a bank letter of credit to provide investors assurance regarding the  
15 liquidity of their investment. The interest rate swap that reduced the Company's  
16 exposure to changes in market interest rates on the floating rate Auction bonds  
17 remains in place and works in a similar manner for the converted bonds. The swap  
18 creates two streams of payments: 1) the company pays an agreed upon fixed rate to  
19 the swap counterparty, and 2) the counterparty pays a floating rate based upon an  
20 agreed upon interest rate index to the Company. The concept behind the swap is that  
21 the floating rate payment received by the Company closely matches and, therefore,  
22 offsets the floating rate the company is paying on the related floating rate bonds. The  
23 net impact of these payment streams is that the outflow of cash payments from the

1 Company related to both the debt and the swaps is the “fixed” payment being made to  
2 the swap counterparty. Over the life of the swaps and the related bonds the effect on  
3 the income of the Company is designed to be similar to that of fixed-rate bonds.

4 With that background, the issue at hand is the accounting treatment of swaps  
5 on the books of the Company. At the end of each quarter, the Company is required to  
6 record the fair market value of the swap on its balance sheet as either an asset (if  
7 interest rates have risen), or as a liability (if interest rates have declined). When the  
8 swap was originally entered into, it was designated as a cash flow hedge under  
9 GAAP, which allowed the offsetting entry to be recorded in Accumulated Other  
10 Comprehensive Income on the Balance Sheet, net of taxes. However, with the  
11 collapse of the auction rate debt market in early 2008, this accounting treatment was  
12 no longer afforded to the Company and, in the absence of Deferred Accounting  
13 treatment, the offsetting entry would be required to pass through the Income  
14 Statement. However, SJG elected to record the offsetting entry as a Regulatory Asset  
15 to avoid the undesirable consequences that would have arisen from passing through  
16 the mark-to-market volatility to its earnings. To better illustrate this volatility, the  
17 charges to expense (credits to earning) during the last two years would have been as  
18 follows: First Quarter 2008 - \$1.0 million; Second Quarter 2008 -\$(0.9) million;  
19 Third Quarter 2008 - \$0.7 million; Forth Quarter 2008 - \$6.2 million; First Quarter  
20 2009 - \$(1.6) million; Second Quarter 2009 - \$(3.0) million; Third Quarter 2009 -  
21 \$0.7 million. As illustrated by the charges and credits above, particularly during the  
22 crisis in the capital markets in the latter part of 2008 and continuing into early 2009,  
23 the increased uncertainty surrounding utility earnings would have very likely shaken

1 the confidence of both rating agencies and bondholders. This lack of confidence  
2 would, in turn, raise the cost of capital available to the Company as additional  
3 financing is required over time.

4 The deferred accounting treatment of the impact of mark-to-market  
5 accounting requirements under GAAP is prudent and necessary in order avoid  
6 earnings volatility with long-term negative consequences to the ratepayers. It is  
7 important to note that the only way the loss on these swaps would be realized by the  
8 Company, and thereby impact ratepayers, is in the event that the swap was terminated  
9 prior to maturity, which the Company has no intention of doing.

10 For the reasons stated above, the Company believes that deferred accounting  
11 treatment should be approved to: 1) allow continued use by the company, 2) avoid an  
12 immediate write off in the current period, and 3) provide the required supporting  
13 documentation to our independent outside auditors. To meet the requirements under  
14 Financial Accounting Standards Board Statement No. 71, "Accounting for the Effects  
15 of Certain Types of Regulation," we are asking the BPU to formally approve deferred  
16 accounting treatment. Further, the Company will agree not to terminate the swaps at a  
17 loss for a period of 36 months subsequent to the settlement of this base rate case to  
18 permit time for interest rate markets to stabilize, with the expectation that both the  
19 volatility and fair market value of the swap will improve during this time period and  
20 provide further assurance that the ratepayers will not be unduly harmed by prevailing  
21 market conditions.

**X. CONCLUSION**

1  
2  
3  
4  
5  
6

The adjustments presented in this testimony should be adopted by the Board because they are prudent and reasonable. The test year information detailed herein is based upon three months' actual and nine months' estimated data. It is the Company's intention to update the test year information and adjustments thereto on a regular basis throughout this proceeding, ending with a 12 month actual test year.

**SOUTH JERSEY GAS COMPANY**  
**BALANCE SHEETS - ASSETS**  
**AT END OF PERIODS INDICATED**  
(In Thousands)

Line No.	Assets	December 31,		
		2008	2007	2006
1	<b>Property, Plant and Equipment:</b>			
2	Utility Plant, at original cost	\$ 1,172,014	\$ 1,123,992	\$ 1,079,614
3	Accumulated Depreciation	(295,432)	(276,301)	(257,781)
4				
5	Property, Plant and Equipment - Net	<u>876,582</u>	<u>847,691</u>	<u>821,833</u>
6				
7	<b>Investments:</b>			
8	Available-for-Sale Securities	4,841	6,714	6,342
9	Restricted Investments	132	2,239	8,586
10				
11	Total Investments	<u>4,973</u>	<u>8,953</u>	<u>14,928</u>
12				
13	<b>Current Assets:</b>			
14	Cash and Cash Equivalents	2,228	3,230	1,967
15	Accounts Receivable	47,787	48,984	47,928
16	Accounts Receivable - Related Parties	624	2,267	3,939
17	Unbilled Revenues	48,225	41,576	34,502
18	Provision for Uncollectibles	(3,628)	(3,265)	(2,741)
19	Natural Gas in Storage, average cost	65,252	56,404	81,039
20	Materials and Supplies, average cost	11,247	1,436	1,685
21	Prepaid Taxes	11,860	10,849	7,774
22	Derivatives - Energy Related Assets	380	2,236	1,692
23	Other Prepayments and Current Assets	2,416	2,278	2,264
24				
25	Total Current Assets	<u>186,391</u>	<u>165,995</u>	<u>180,049</u>
26				
27	<b>Regulatory and Other Noncurrent Assets:</b>			
28	Regulatory Assets	270,434	188,688	196,962
29	Unamortized Debt Issuance Costs	6,147	6,307	6,835
30	Prepaid Pension	-	1,472	-
31	Accounts Receivable - Merchandise	7,081	6,118	5,950
32	Derivatives - Energy Related Assets	15	93	19
33	Derivatives - Other	-	-	148
34	Other	2,392	1,845	1,352
35				
36	Total Regulatory and Other Noncurrent Assets	<u>286,069</u>	<u>204,523</u>	<u>211,266</u>
37				
38	Total Assets	<u>\$ 1,354,015</u>	<u>\$ 1,227,162</u>	<u>\$ 1,228,076</u>

**SOUTH JERSEY GAS COMPANY**  
**BALANCE SHEETS - LIABILITIES & CAPITALIZATION**  
**AT END OF PERIODS INDICATED**  
**(In Thousands)**

Line No.		December 31,		
		2008	2007	2006
<b>Capitalization and Liabilities</b>				
1	<b>Common Equity:</b>			
2	Common Stock, Par Value \$2.50 per share:			
3	Authorized - 4,000,000 shares			
4	Outstanding - 2,339,139 shares	\$ 5,848	\$ 5,848	\$ 5,848
5	Other Paid-In Capital and Premium on Common Stock	200,663	200,317	200,317
6	Accumulated Other Comprehensive Loss	(6,875)	(5,356)	(4,429)
7	Retained Earnings	202,103	177,539	158,617
8				
9	Total Common Equity	401,739	378,348	360,353
10				
11	<b>Long-Term Debt</b>	269,873	294,873	294,893
12				
13	Total Capitalization	671,612	673,221	655,246
14				
15	<b>Current Liabilities:</b>			
16	Notes Payable	114,550	78,340	103,500
17	Current Maturities of Long-Term Debt	25,000	-	2,270
18	Accounts Payable - Commodity	36,587	34,870	43,687
19	Accounts Payable - Other	12,051	13,650	8,786
20	Accounts Payable - Related Parties	16,744	22,417	12,134
21	Derivatives - Energy Related Liabilities	26,698	4,360	18,006
22	Deferred Income Taxes - Net	12,475	11,582	4,049
23	Customer Deposits and Credit Balances	14,219	18,067	23,016
24	Environmental Remediation Costs	13,117	25,447	26,048
25	Taxes Accrued	2,291	2,937	1,961
26	Pension Benefits	991	765	776
27	Interest Accrued	6,244	6,245	6,112
28	Dividends Declared	-	-	-
29	Other Current Liabilities	6,449	5,777	4,904
30				
31	Total Current Liabilities	287,416	224,457	255,249
32				
33	<b>Regulatory and Other Noncurrent Liabilities:</b>			
34	Regulatory Liabilities	50,447	55,779	50,797
35	Deferred Income Taxes - Net	187,050	168,254	164,797
36	Environmental Remediation Costs	50,976	48,433	41,746
37	Asset Retirement Obligations	22,299	24,364	23,743
38	Pension and Other Postretirement Benefits	67,566	24,682	29,354
39	Investment Tax Credits	1,832	2,149	2,470
40	Derivatives - Energy Related Liabilities	2,667	61	374
41	Derivatives - Other	7,578	618	-
42	Other	4,572	5,144	4,300
43				
44	Total Deferred Credits and Other Noncurrent Liabilities	394,987	329,484	317,581
45				
46	Total Capitalization and Liabilities	\$ 1,354,015	\$ 1,227,162	\$ 1,228,076

SOUTH JERSEY GAS COMPANY  
UTILITY PLANT BY FUNCTIONAL CATEGORIES  
AT END OF PERIOD INDICATED (in Thousands)

Line No.		December 31,		
		2008	2007	2006
1	<u>Utility Plant by Functional Category:</u>			
2	Intangible	\$ 2,038	\$ 2,038	\$ 1,767
3	Production	302	302	302
4	Storage	11,537	11,576	11,570
5	Transmission	153,154	149,768	148,297
6	Distribution	956,806	914,766	874,054
7	General	42,938	37,374	35,707
8	Other	214	549	420
9	Gas Plant Acquisition Adjustment	1,626	1,626	1,626
10	Total	<u>\$ 1,168,615</u>	<u>\$ 1,117,999</u>	<u>\$ 1,073,743</u>
11	<u>Summary:</u>			
12	Utility Plant in Service	\$ 1,162,960	\$ 1,113,813	\$ 1,069,324
13	Construction Work in Progress:			
14	Internal Projects	3,832	1,968	2,244
15	Reimbursable Projects	197	592	549
16	Gas Plant Acquisition Adjustment	1,626	1,626	1,626
17	Total	<u>\$ 1,168,615</u>	<u>\$ 1,117,999</u>	<u>\$ 1,073,743</u>
18	<u>Adjustment to Reconcile to Audited Balances Sheets:</u>			
19	Recording of Asset Retirement Obligations *	<u>\$ 3,399</u>	<u>\$ 5,993</u>	<u>\$ 5,871</u>
20	Utility Plant per Audited Balance Sheets (TSK-1, Sch 1)	<u>\$ 1,172,014</u>	<u>\$ 1,123,992</u>	<u>\$ 1,079,614</u>

21 \* Recorded Post-Closing using a Top-Side Entry.

SOUTH JERSEY GAS COMPANY  
UTILITY PLANT BY PRIMARY ACCOUNT  
AT END OF PERIOD INDICATED (in Thousands)

Line No.	December 31,				
	2008	2007	2006		
1	<u>Intangible Plant:</u>				
2	301	Organization	\$ 138	\$ 138	\$ 138
3	302	Franchises and Consents	43	43	43
4	303	Miscellaneous Intangible Plant	1,857	1,857	1,586
5	Total		2,038	2,038	1,767
6	<u>Production Plant:</u>				
7	304	Land and Land Rights	24	24	24
8	305	Structures and Improvements	261	261	261
9	311	Liquefied Petroleum Gas Equipment	14	14	14
10	320.4	Other Production Equipment Miscellaneous	3	3	3
11	Total		302	302	302
12	<u>Storage Plant:</u>				
13	350	Land and Land Rights Underground	26	26	26
14	351	Structures and Improvements Underground	37	37	37
15	354	Compressor Station Equipment	370	363	363
16	355	Measuring and Regulating Equipment	86	86	86
17	357	Other Equipment Underground	817	817	817
18	360	Land and Land Rights Local	19	19	19
19	361	Structures and Improvements Local	431	432	432
20	362	Gas Holders	3,139	3,139	3,139
21	363	Other Equipment Local	6,612	6,657	6,651
22	Total		11,537	11,576	11,570
23	<u>Transmission Plant:</u>				
24	365	Land, Land Rights and Rights of Way	6,030	6,003	6,004
25	366	Structures and Improvements	2,073	1,973	1,867
26	367	Mains	121,459	118,624	117,998
27	368	Compressor Station Equipment	8	8	8
28	369	Measuring and Regulating Station Equipment	23,114	22,691	21,951
29	370	Communication Equipment	45	45	45
30	371	Other Equipment	424	424	424
31	Total		153,154	149,768	148,297

SOUTH JERSEY GAS COMPANY  
UTILITY PLANT BY PRIMARY ACCOUNT  
AT END OF PERIOD INDICATED (in Thousands)

Line No.	December 31,				
	2008	2007	2006		
1	<u>Distribution Plant:</u>				
2	374	Land and Land Rights	\$ 660	\$ 660	\$ 660
3	375	Structures and Improvements	9,422	9,022	8,525
4	376	Mains Distribution	460,511	439,518	420,041
5	377	Compressor Station Equipment	15	15	15
6	378	District Governors	4,783	4,783	4,782
7	379	Measuring and Regulating Station Equipment General	223	223	223
8	380	Services	404,812	388,603	372,478
9	381	Meters	33,881	31,643	30,017
10	382	Meter Installation	19,175	18,490	17,584
11	383	House Regulators	3,962	3,943	3,931
12	384	House Regulators Installations	12,707	11,812	10,702
13	385	Industrial Measuring and Regulating Station Equipment	6,499	5,898	4,940
14	387	Other Equipment Street Lighting	156	156	156
15		Total	956,806	914,766	874,054
16	<u>General Plant:</u>				
17	389	Land and Land Rights	\$ 116	\$ 116	\$ 116
18	390	Structures and Improvements	13,251	12,123	11,732
19	391	Office Furniture and Equipment	13,673	10,278	10,036
20	392	Transportation Equipment	7,678	7,146	6,624
21	393	Stores Equipment	106	106	108
22	394	Tools Shop and Garage Equipment	4,321	4,151	3,999
23	395	Laboratory Equipment	22	22	22
24	396	Power Operated Equipment	2,094	2,119	2,016
25	397	Communication Equipment	1,482	1,137	878
26	398	Miscellaneous Equipment	195	176	176
27		Total	42,938	37,374	35,707
28	<u>Other Tangible Property:</u>				
29	399	Unallocated Interest and General Construction Expense	214	549	420
30	<u>Other:</u>				
31	114	Gas Plant Acquisition Adjustment	1,626	1,626	1,626
32		Total Utility Plant	\$ 1,168,615	\$ 1,117,999	\$ 1,073,743

SOUTH JERSEY GAS COMPANY  
ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION  
BY FUNCTIONAL CATEGORY  
AT END OF PERIOD INDICATED (in Thousands)

Line No.		December 31,		
		2008	2007	2006
1	<u>Accumulated Provision for Depreciation:</u>			
2	Intangible Plant	\$ 4	\$ 4	\$ 4
3	Production Plant	(186)	(223)	(261)
4	Storage Plant	7,910	8,082	7,746
5	Transmission Plant	51,272	48,424	45,708
6	Distribution Plant	266,605	246,464	233,465
7	General Plant	15,368	18,866	16,264
8	Total	<u>\$ 340,973</u>	<u>\$ 321,617</u>	<u>\$ 302,925</u>
9	<u>Accumulated Provision for Amortization:</u>			
10	Transco Gate Station Contribution	<u>\$ 279</u>	<u>\$ 188</u>	<u>\$ 96</u>
11	<u>Adjustments to Reconcile to Audited Balances Sheets:</u>			
12	Reclassification of Excess Cost of Removal Recovery to			
13	a Regulatory Liability Account *	\$ (48,820)	\$ (48,705)	\$ (48,377)
14	Recording Depreciation on Asset Retirement Obligations *	3,000	3,201	3,137
15	Total	<u>\$ (45,821)</u>	<u>\$ (45,504)</u>	<u>\$ (45,240)</u>
16	Accumulated Depreciation per Audited Balance Sheets (TSK-1, Sch 1)	<u>\$ 295,432</u>	<u>\$ 276,301</u>	<u>\$ 257,781</u>
17	* Recorded Post-Closing using a Top-Side Entry.			

**SOUTH JERSEY GAS COMPANY**  
**SCHEDULE OF REGULATORY ASSETS**  
**AT END OF PERIODS INDICATED**  
(In Thousands)

TSK - 1  
Schedule 5

Line No.	Regulatory Asset Description:	December 31,		
		2008	2007	2006
1	Environmental Remediation Costs:			
2	Expended - Net	\$ 48,143	\$ 25,960	\$ 17,743
3	Liability for Future Expenditures	64,093	73,880	67,905
4	Income Taxes - Flowthrough Depreciation	2,729	3,707	4,685
5	Deferred Asset Retirement Obligation Costs	21,901	21,572	21,009
6	Deferred Gas Costs - Net	18,406	-	19,698
7	Deferred Pension & Other Postretirement Benefit Costs	80,162	32,686	39,359
8	Temperature Adjustment Clause Receivable	-	6,516	8,996
9	Consevation Incentive Program Receivable	22,048	18,173	7,747
10	Societal Benefit Program Costs Receivable	1,753	2,952	6,912
11	Premium for Early Retirement of Debt	1,208	1,370	1,532
12	Other Regulatory Assets	9,991	1,872	1,376
13	<b>Total Regulatory Assets per Audited Balance Sheet</b>	<b><u>\$ 270,434</u></b>	<b><u>\$ 188,688</u></b>	<b><u>\$ 196,962</u></b>

**SOUTH JERSEY GAS COMPANY**  
**STATEMENTS OF INCOME**  
**FOR THE PERIODS INDICATED**  
**(In Thousands)**

<b>Line No.</b>		<b>Twelve Months Ended December 31,</b>		
		<b>2008</b>	<b>2007</b>	<b>2006</b>
1	<b>Operating Revenues</b>	\$ 568,046	\$ 630,547	\$ 642,671
2				
3	<b>Operating Expenses:</b>			
4	Gas Supplies Expense	383,403	453,034	472,286
5	Operations	55,783	51,504	49,991
6	Maintenance	7,899	6,345	5,538
7	Depreciation	25,589	24,614	23,508
8	Income Taxes	26,454	26,105	24,155
9	Energy and Other Taxes	10,627	10,829	10,139
10				
11	Total Operating Expenses	509,755	572,431	585,617
12				
13	<b>Operating Income</b>	58,291	58,116	57,054
14				
15	<b>Other Income and Expense:</b>			
16	Other Income	1,566	1,723	1,641
17	Other Expense	(1,435)	(490)	(161)
18	Income Taxes on Other Income	(54)	(547)	(656)
19				
20	Total Other Income	77	686	824
21				
22	<b>Interest Charges</b>	(18,937)	(20,777)	(22,099)
23				
24	<b>Net Income</b>	\$ 39,431	\$ 38,025	\$ 35,779

**SOUTH JERSEY GAS COMPANY**  
**UTILITY THROUGHPUT, OPERATING REVENUES & CUSTOMERS**  
**FOR THE PERIODS INDICATED**  
**(In thousands, except for customer data )**

Line No.		Twelve Months Ended		
		December 31,		
		2008	2007	2006
	<u>Utility Throughput -dth:</u>			
1	Firm Sales -			
2	Residential	21,530	22,523	19,830
3	Commercial	6,127	6,339	6,958
4	Industrial	188	193	296
5	Cogeneration and electric generation	561	1,335	1,103
6	Firm Transportation -			
7	Residential	1,988	1,870	956
8	Commercial	5,687	5,927	4,420
9	Industrial	12,661	12,107	11,970
10	Cogeneration and electric generation	2,536	3,088	2,625
11				
12	Total Firm Throughput	<u>51,278</u>	<u>53,382</u>	<u>48,158</u>
13				
14	Interruptible Sales	35	68	93
15	Interruptible Transportation	2,716	3,002	3,474
16	Off-System	9,632	17,686	18,221
17	Capacity Release	80,665	67,430	66,458
18				
19	Total Throughput	<u>144,326</u>	<u>141,568</u>	<u>136,404</u>
20				
21	<u>Utility Operating Revenues:</u>			
22	Firm Sales-			
23	Residential	\$320,401	\$342,809	\$334,201
24	Commercial	81,914	80,237	99,578
25	Industrial	5,434	8,381	6,590
26	Cogeneration and electric generation	7,940	11,722	10,746
27	Firm Transportation -			
28	Residential	10,408	8,982	4,768
29	Commercial	18,286	17,299	12,510
30	Industrial	12,504	12,229	11,351
31	Cogeneration and electric generation	1,682	1,847	1,552
32				
33	Total Firm Revenues	<u>458,569</u>	<u>483,506</u>	<u>481,296</u>
34				
35	Interruptible Sales	403	785	1,109
36	Interruptible Transportation	1,786	1,970	1,868
37	Off-System	90,430	131,586	147,180
38	Capacity Release	15,549	11,208	9,656
39	Other	1,309	1,492	1,562
40				
41	Total Utility Operating Revenues	<u>\$568,046</u>	<u>\$630,547</u>	<u>\$642,671</u>
42				
43	<u>Number of Customers at Year End:</u>			
44	Residential	317,026	312,969	307,919
45	Commercial	22,636	22,220	21,652
46	Industrial	474	474	478
47	Total Customers	<u>340,136</u>	<u>335,663</u>	<u>330,049</u>

**SOUTH JERSEY GAS COMPANY**  
**OPERATING EXPENSES**  
**FOR THE PERIODS INDICATED**  
(In Thousands)

TSK-2  
Schedule 3

Line No.		Twelve Months Ended		
		December 31,		
		<u>2008</u>	<u>2007</u>	<u>2006</u>
	<u>Gas Supplies Expense:</u>			
1	Natural Gas Transmission Purchases	\$378,597	\$441,715	\$463,845
2	Deferred Transmission Gas	(1,469)	5,206	4,664
3	Gas from Storage - LNG	6,473	6,332	4,009
4	Gas used for Utility Operation	(198)	(219)	(232)
5				
6	Total Gas Supplies Expense	<u>\$383,403</u>	<u>\$453,034</u>	<u>\$472,286</u>
7				
8				
9	<u>Operating Expenses:</u>			
10	Production	\$566	\$506	\$451
11	Transmission	1,490	1,322	1,243
12	Distribution	9,389	8,885	8,883
13	Customer Accounts	12,374	12,412	10,333
14	CIP Programs	394	368	97
15	Clean Energy Programs	7,741	4,458	6,862
16	Sales	1,116	998	944
17	Administrative and General	22,713	22,555	21,178
18				
19	Total Operating Expenses	<u>\$55,783</u>	<u>\$51,504</u>	<u>\$49,991</u>
20				
21				
22	<u>Maintenance Expenses:</u>			
23	Production	\$4,326	\$3,103	\$2,612
24	Transmission	845	850	795
25	Distribution	2,306	2,104	1,844
26	Administrative and General	422	288	287
27				
28	Total Maintenance Expenses	<u>\$7,899</u>	<u>\$6,345</u>	<u>\$5,538</u>

**SOUTH JERSEY GAS COMPANY**  
**TAXES OTHER THAN INCOME TAXES**  
**FOR THE PERIODS INDICATED**  
**(In Thousands)**

Line No.		Twelve Months Ended December 31,		
		2008	2007	2006
1	<u>Taxes Other Than Income Taxes:</u>			
2	Energy Related Taxes -			
3	Transitional Energy Facility Assessment	\$ 7,584	\$ 7,795	\$ 6,934
4	N.J. PUA & Ratepayer Advocate Assessment	1,072	1,055	956
5	Amortization of State Franchise Tax	-	14	169
6	Amortization of Gross Receipts Tax	-	23	271
7	Amortization of N.J. PUA Assessment Tax	-	-	4
8	Sub-Total	<u>8,656</u>	<u>8,887</u>	<u>8,334</u>
9	Other Miscellaneous Taxes -			
10	Real Estate Taxes	455	441	422
11	State Unemployment Insurance Tax	44	46	43
12	Federal Excise Tax	9	8	12
13	Federal Insurance Contribution Act Tax	1,128	1,152	1,153
14	Federal Unemployment Insurance Tax	12	12	13
15	State Sales and Use Tax	323	283	162
16	Sub-Total	<u>1,971</u>	<u>1,942</u>	<u>1,805</u>
17	Total	<u>\$ 10,627</u>	<u>\$ 10,829</u>	<u>\$ 10,139</u>

**SOUTH JERSEY GAS COMPANY**  
**STATEMENT OF RETAINED EARNINGS**  
**AT THE END OF PERIOD INDICATED**  
(In Thousands)

Line No.		Twelve Months Ended December 31,		
		2008	2007	2006
1	Balance - Beginning of Period	\$ 177,539	\$ 158,617	\$ 142,740
	Additions:			
2	Net Income	39,431	38,025	35,779
3	Additional Investment by Shareholder	-	-	-
4	Total Additions	<u>39,431</u>	<u>38,025</u>	<u>35,779</u>
	Deductions:			
5	Common Stock Dividends	14,867	18,732	19,902
6	Cumulative Effect - FIN 48 Adoption	-	371	-
7	Total Deductions	<u>14,867</u>	<u>19,103</u>	<u>19,902</u>
8	Balance - End of Period	<u>\$ 202,103</u>	<u>\$ 177,539</u>	<u>\$ 158,617</u>

**SOUTH JERSEY GAS COMPANY**  
**BALANCE SHEET - ASSETS**  
**AT MOST RECENT PERIOD CERTIFIED**  
(In Thousands)

TSK-4  
Page 1 of 2

<b>Line No.</b>	<b>Assets</b>	<b>September 30, 2009</b>
1	<b>Property, Plant and Equipment:</b>	
2	Utility Plant, at original cost	\$ 1,224,350
3	Accumulated Depreciation	<u>(309,473)</u>
4		
5	Property, Plant and Equipment - Net	<u>914,877</u>
6		
7	<b>Investments:</b>	
8	Available-for-Sale Securities	5,695
9	Restricted Investments	<u>132</u>
10		
11	Total Investments	<u>5,827</u>
12		
13	<b>Current Assets:</b>	
14	Cash and Cash Equivalents	604
15	Accounts Receivable	51,005
16	Accounts Receivable - Related Parties	1,019
17	Unbilled Revenues	9,466
18	Provision for Uncollectibles	(4,535)
19	Natural Gas in Storage, average cost	34,615
20	Materials and Supplies, average cost	12,255
21	Prepaid Taxes	17,722
22	Derivatives - Energy Related Assets	2,241
23	Other Prepayments and Current Assets	<u>2,623</u>
24		
25	Total Current Assets	<u>127,015</u>
26		
27	<b>Regulatory and Other Noncurrent Assets:</b>	
28	Regulatory Assets	246,791
29	Unamortized Debt Issuance Costs	5,870
30	Prepaid Pension	-
31	Accounts Receivable - Merchandise	7,183
32	Derivatives - Energy Related Assets	979
33	Other	<u>2,527</u>
34		
35	Total Regulatory and Other Noncurrent Assets	<u>263,350</u>
36		
37	Total Assets	<u><u>\$ 1,311,069</u></u>

**SOUTH JERSEY GAS COMPANY**  
**BALANCE SHEET - ASSETS**  
**AT MOST RECENT PERIOD CERTIFIED**  
(In Thousands)

TSK-4  
Page 2 of 2

Line No.	<u>Capitalization and Liabilities</u>	<u>September 30, 2009</u>
1	<b>Common Equity:</b>	
2	Common Stock, Par Value \$2.50 per share:	
3	Authorized - 4,000,000 shares	
4	Outstanding - 2,339,139 shares	\$ 5,848
5	Other Paid-In Capital and Premium on Common Stock	200,663
6	Accumulated Other Comprehensive Loss	(6,414)
7	Retained Earnings	<u>220,527</u>
8		
9	Total Common Equity	<u>420,624</u>
10		
11	<b>Long-Term Debt</b>	<u>269,856</u>
12		
13	Total Capitalization	<u>690,480</u>
14		
15	<b>Current Liabilities:</b>	
16	Notes Payable	86,500
17	Current Portion of Long-Term Debt	25,000
18	Accounts Payable - Commodity	7,449
19	Accounts Payable - Other	12,952
20	Accounts Payable - Related Parties	10,804
21	Derivatives - Energy Related Liabilities	14,309
22	Deferred Income Taxes - Net	10,167
23	Customer Deposits and Credit Balances	19,572
24	Environmental Remediation Costs	16,713
25	Taxes Accrued	3,746
26	Pension Benefits	991
27	Interest Accrued	4,582
28	Dividends Declared	2,501
29	Other Current Liabilities	<u>4,528</u>
30		
31	Total Current Liabilities	<u>219,814</u>
32		
33	<b>Regulatory and Other Noncurrent Liabilities:</b>	
34	Regulatory Liabilities	50,950
35	Deferred Income Taxes - Net	202,268
36	Environmental Remediation Costs	48,966
37	Asset Retirement Obligations	22,782
38	Pension and Other Postretirement Benefits	64,766
39	Investment Tax Credits	1,596
40	Derivatives - Energy Related Liabilities	1,213
41	Derivatives - Other	3,682
42	Other	<u>4,552</u>
43		
44	Total Deferred Credits and Other Noncurrent Liabilities	<u>400,775</u>
45		
46	Commitments and Contingencies	
47		
48	Total Capitalization and Liabilities	<u>\$ 1,311,069</u>

**SOUTH JERSEY GAS COMPANY  
PAYMENTS AND ACCRUALS TO AFFILIATED COMPANIES  
FOR THE PERIODS INDICATED**

TSK - 5

<u>Line No.</u>		<b>Twelve Months Ended December 31,</b>		
		<b>2008</b>	<b>2007</b>	<b>2006</b>
1	MILLENNIUM ACCOUNT SERVICES, LLC (meter reading services)	\$ 2,853,517	\$ 2,954,674	\$ 2,780,376
2	SOUTH JERSEY INDUSTRIES, INC. (corporate support) (a)	51,089,214	51,064,160	47,260,365
3	SOUTH JERSEY ENERGY SERVICE PLUS (heater conversion installations)	242,380	248,035	141,658
4	SOUTH JERSEY ENERGY SERVICE PLUS (billing services remittances)	13,947,550	13,286,202	11,923,918
5	SOUTH JERSEY ENERGY COMPANY (billing services remittances)	108,656,434	113,705,439	113,580,861
6	SJI SERVICES, LLC (administrative and professional support)	4,562,883	4,130,522	4,194,625
7	SOUTH JERSEY ENERGY SOLUTIONS, LLC (accounting support)	0	6,268	3,082
8	SOUTH JERSEY RESOURCES GROUP, LLC (commodity purchases)	37,005,852	52,662,556	57,325,860
9	<b>(a) SOUTH JERSEY INDUSTRIES, INC. includes the following major pass-through items:</b>			
10	COMMON DIVIDENDS	14,867,568	18,731,825	20,551,675
11	FEDERAL INCOME TAXES	5,220,105	16,273,184	13,405,908
12	401K PLAN CONTRIBUTIONS	3,313,813	3,164,697	3,133,442
13	PENSION PLAN CONTRIBUTIONS	4,795,756	0	0

SOUTH JERSEY GAS COMPANY  
DEFERRED EXPENSES  
ASSOCIATED WITH LONG TERM DEBT

Line  
No.

1	Retirement Premium on 8.6% Unsecured Debenture Notes, due 2010		\$	184,500
2	Cost to Settle Forward Treasury Lock on 5.45% Series due 2035	\$	1,388,600	
3	Less: Amortization of Treasury Lock as of June 30, 2010		(223,717)	
4				<u>1,164,883</u>
5	Total		\$	<u>1,349,383</u>

**SOUTH JERSEY GAS COMPANY  
CALCULATION OF ADJUSTED TEST YEAR  
DEFERRED FEDERAL INCOME TAX INCLUDED IN RATE BASE**

<u>Line No.</u>		<u>DFIT IN RATE BASE</u>
1	Projected Rate Base Balance 6/30/10	(168,957,224)
2	Annualized Book Depreciation*	980,777
3	Normalization on Additions 7/10-12/10:	
4	Book Depreciation*	1,190,299
5	Tax Depreciation-Federal @ 5%**	<u>(2,898,637)</u>
6	Federal Tax Depreciation Over Book	<u>(1,708,338)</u>
7	Added Tax Depreciation	(727,561)
9	Deferred FIT (@ effective FIT rate of 31.724%)	<u>(230,811)</u>
10	Adjusted Rate Balance @ 6/30/10	<u>(169,188,035)</u>

\* Sourced from TSK-8 Depreciation of Utility Plant in Service

\*\* First Year MACRS tax depreciation rate - 15 year life using half year convention

**SOUTH JERSEY GAS COMPANY  
CALCULATION OF ADJUSTED TEST YEAR  
DEFERRED NJ CORPORATE BUSINESS TAX INCLUDED IN RATE BASE**

<u>Line No.</u>		<u>DCBT IN RATE BASE</u>
1	Projected Rate Base Balance 6/30/10	(20,122,069)
2	Annualized Book Depreciation*	980,777
3	Normalization on Additions 7/09-12/09:	
4	Book Depreciation*	1,190,299
5	Tax Depreciation-State @ 5%**	<u>(2,898,637)</u>
6	State Tax Depreciation Over Book	<u>(1,708,338)</u>
7	Added Tax Depreciation	(727,561)
8	Deferred NJ CBT @ 9.36%	<u>(68,100)</u>
9	Adjusted Rate Balance @ 6/30/10	<u>(20,190,169)</u>

\* Sourced from TSK-8 Depreciation of Utility Plant in Service

\*\* First Year MACRS tax depreciation rate - 15 year life using half year convention

SOUTH JERSEY GAS COMPANY  
PRO FORMA ADJUSTMENTS TO JUNE 30, 2010 OPERATING INCOME AND RATE BASE  
DEPRECIATION EXPENSE AND ACCUMULATED DEPRECIATION

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Line No.		Utility Plant in Service	Depreciation Expense
1	<b><u>Depreciation Expense</u></b>		
2			
3	Adjustment due to Annualization of Depreciable Plant Additions		\$ 980,777
4			
6	Adjustment due to Post-Test Year Additions (RFF-2)	\$ 36,219,650	\$ 811,320
7			
8	Retirements After June 30, 2010	\$ (2,858,438)	\$ (64,029)
9			
10	Adjustment due to Major Construction Projects (CFD-1)	24,611,528	\$ 443,007
11			
12			
13	Total Pro Forma Adjustment to Depreciation Expense	\$ 57,972,740	\$ 2,171,076
14			
15	<b><u>Accumulated Depreciation:</u></b>		
16			
17	Pro Forma Depreciation Expense		\$ 2,171,076
18			
19	Less: Retirements Beyond June 30, 2010		(2,858,438)
20			
21	Total Pro Forma Adjustment to Accumulated Depreciation		\$ (687,362)

SOUTH JERSEY GAS COMPANY  
PRO FORMA ADJUSTMENT TO JUNE 30, 2010 OPERATING INCOME  
INCOME TAXES

Line No.

1	Pre-Tax Adjustments (SAP-3)		\$	29,798,509
2				
3	Interest Synchronization:			
4				
5	Rate Base (SAP-2)	\$ 857,855,822		
6				
7	Total Weighted Cost of Long Term Debt (PRM-1 PG 1)	<u>2.67%</u>		
8				
9	Annualized Interest Expense	\$ 22,945,463		
10				
11	Less: Test Year Interest Expense	<u>\$ (20,099,500)</u>		
12				
13	Net Interest Expense		\$	2,845,963
14				
15				
16	Total Pre-Tax Adjustments		\$	32,644,472
17				
18	Income Tax Rate			<u>41.08%</u>
19				
20	Decrease to test year income taxes		\$	<u><u>13,411,655</u></u>