DM 11-119

South Jersey Energy

Where we put all of our energy®

May 26, 2011

RECEIVED
MAY 31 2011
NH PUBLIC UTILITIES COMMISSION

Ms. Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301

Re: DM 09-127, Renewal of South Jersey Energy Company's CEPS license

Dear Ms. Howland:

Please find attached a renewal application for South Jersey Energy Company dba Halifax American Energy Company's (SJE) Competitive Electric Power Supplier (CEPS) license, which expires on July 14, 2009.

Based on the rule PUC 2003.02(a), a renewal for a CEPS license is due 60 days before the expiration date. Due to an oversight, SJE inadvertently missed the 60 day requirement. SJE hereby requests a waiver of this rule, consistent with PUC 201.5.

A copy of the current Parental Guaranty, which expires on July 31, 2011, is attached. This Guaranty will be automatically renewed, and will be provided to you in July.

South Jersey Energy Company is currently a NEPOOL member and an ISO-NE Participant. South Jersey Energy is a wholesale purchaser of electricity in New England. A copy of its ERRATA notice from FERC is attached as proof of its current approval as a power marketer.

Also included is the renewal registration fee of $250.00, payable to the New Hampshire Public Utilities Commission.

Thank you for your attention to this matter.

Sincerely,

Stacey M. Barnes
Manager Business Expansion

1 South Jersey Plaza, Folsom, New Jersey 08037 • www.southjerseyenergy.com
Tel. 609-561-8385 • 1-800-756-3749 • 1-800-266-6020 • Fax 609-561-2372 • TDD ONLY 1-800-547-9085

2011/2012 Unit Specific Capacity Transaction Agreement

EXECUTION VERSION

This Agreement is entered into this 25 ~~th~~ day of May 2011, by and between AES Laurel Mountain Wind, LLC., ("AES" or "Buyer"), a Delaware corporation and South Jersey Energy Solutions ("SJE" or "Seller"), a New Jersey corporation.

This contract is for the transfer of unit specific bilateral capacity as per the unit specific bilateral transaction rules set forth in PJM's Reliability Pricing Model (RPM). As detailed below, up to 19.5 MW of Unforced Capacity (UCAP) in the MAAC Locational Deliverability area (or a subset of MAAC) will be transferred from SJE's portfolio to AES's (or its' agent's) portfolio. The actual transaction MW will be established by June 1, 2011.

1. SOUTH JERSEY ENERGY OBLIGATIONS

SJE will transfer the totalMW of Unforced Capacity (UCAP) from one or more units in its portfolio to the PJM account designated by AES, using a Unit Specific Bilateral Transaction for Excess ILR or Excess Commitment capacity, or similar transfer mechanism should the PJM RPM rules change during the effective period of the transaction. The transactions will be as follows:

- 19.5 MW, effective from June 1, 2011, through June 30, 2011.
- A minimum of 5 MW and a maximum of 12 MW, effective from July 1, 2011, through August 31, 2011. The specific amount of the transfer will be provided to SJES no later than June 24, 2011.

SJE is required to submit the first Unit Specific Bilateral Transaction, for 19.5 MW as defined above to PJM within 3 business days of the Excess ILR and / or Excess Commitment Credits being posted to SJES' account. SJE is required to submit the second Unit Specific Bilateral Transaction on or before June 28, 2011.

If SJES is not allocated at least 25MW total of Excess ILR and / or Excess Commitment Credits for the 2011/2012 period, SJE has the option to render this agreement null and void and SJES will owe nothing to Buyer, and Buyer shall not owe any payment to SJE.

2. AES LAUREL MOUNTAIN OBLIGATIONS

AES will provide SJE with the PJM Member account where its generation resides (currently the South Jersey Energy – AES account), so that this account can be used as the counterparty to the Unit Specific Bilateral Transaction.

AES will approve the Unit Specific Bilateral Transaction described above once it is submitted to PJM by SJES.

AES will pay SJES $5/MW-day of unforced capacity, in two payments:

- An initial payment of $5/MW-day * 19.5MW * 30 days = $2925. This payment shall be made within 3 business days of the first Unit Specific Bilateral Transaction being entered.
- A second payment of $5/MW-day * X MW * 62 days, where X is the number of MW (between 5 and 12), of the transfer. This payment will be provided to SJES within 3 business days of providing the volume of the transaction to SJE.

3. LIABILITY

In no event will either AES or SJE be liable for any consequential, incidental or indirect damages for any cause of action, whether in contract or tort or otherwise. Incidental, consequential or indirect damages include, but are not limited to, lost profits or revenues and loss of business opportunity, whether or not AES was aware or should have been aware of the possibility of such damages.

4. GOVERNING LAW

This Agreement shall be construed and interpreted according to, and the rights of the parties shall be governed by, the laws of the State of New Jersey, without regard to any conflicts of laws provisions thereto.

5. ENTIRE AGREEMENT

This Agreement constitutes the complete and final expression of the agreement of the parties and is intended as a complete and exclusive statement of the terms of their agreements and supersedes all prior and contemporaneous offers, promises, representations, negotiations, discussions, communications, and agreements which may have been made in connection with the subject matter hereof.

6. NOTICES

Communication will be to the following addresses:

To Buyer:
AES Laurel Mountain Wind, LLC
57 Turbine View Road
Belin gton, WV 26250

To Seller:
So uth Jersey Energy
One North White Horse Pike
PO Box 152
Hammonton, NJ 08037

7. SIGNATURE CLAUSE

The signatories hereto represent that they are authorized to enter into this Agreement on behalf of the party for whom they sign.

South Jersey Energy

By: ____________________________

AES Laurel Mountain Wind

By: [signature]
Steven W. Abe
Team Ledder, AES LM, LLC

Puc 2006.01 Form for Initial and Renewal Registration of Competitive Electric Power Suppliers.
(a) The registration application required by Puc 2003.01(a) and Puc 2003.02(b) shall include the following:

(1) The legal name of the applicant as well as any trade name(s) under which it intends to operate in this state, and, if available, its website address;

South Jersey Energy Company
South Jersey Energy Company dba Halifax American Energy Company

(2) The applicant's business address, telephone number, e-mail address, and website address, as applicable;

South Jersey Energy Company
One North White Horse Pike
Hammonton, NJ 08037
(609) 568-9028
sbarnes@sjindustries.com

(3) The applicant's place of incorporation, if anything other than an individual;

New Jersey

(4) The name(s), title(s), business address(es), telephone number(s), and e-mail address(es) of the applicant if an individual, or of the applicant's principal(s) if the applicant is anything other than an individual;

The applicant, South Jersey Energy Company, is a wholly owned subsidiary of South Jersey Industries (SJI). SJI stock is traded on the New York Stock Exchange under the symbol SJI. As of December 31, 2009, the latest available date, our records indicate that there were 7,324 shareholders of record.

Officers of South Jersey Energy Company are the following;

Michael J. Renna – President
David Robbins, Jr. – Treasurer & Secretary
William R. Deter – Vice President
Joseph M. Scheufele – Vice President

The address, phone numbers, and fax numbers for ALL officers is the following;

South Jersey Energy Company
South Jersey Industries
1 South Jersey Plaza
Folsom, NJ 08037
Telephone: 609-561-9000
Fax Number: 609-704-3017

(5) The following regarding any affiliate and/or subsidiary of the applicant that is conducting business in New Hampshire:

a. The name, business address and telephone number of the entity;

South Jersey Energy Company and the Halifax American Energy Company have partnered since 2007 to offer retail electric supply in the state of New Hampshire, and throughout New England. Under this arrangement Halifax American Energy Company acts as the exclusive marketing agent for the South Jersey Energy Company, such that Halifax American Energy Company only transacts business on behalf of the partnership. Halifax American Energy Company works with no other suppliers other than South Jersey Energy Company, and South Jersey authorizes no other company in New Hampshire to transact retail electric supply business under the supply license.

b. A description of the business purpose of the entity; and

c. A description of any agreements with any affiliated New Hampshire utility;

(6) The telephone number of the applicant's customer service department or the name, title, telephone number and e-mail address of the customer service contact person of the applicant, including toll free telephone numbers if available;

Howard Plante, Marketing Manager
Phone: 1-603-625-2244
877-292-4232

(7) The name, title, business address, telephone number, and e-mail address of the individual responsible for responding to commission inquiries;

Stacey Barnes, Manager Business Expansion
South Jersey Energy Company
One North White Horse Pike
Hammonton, NJ 08037
(609) 568-9028 ext 6964

(8) The name, title, business address, telephone number and e-mail address of the individual who is the applicant's registered agent in New Hampshire for service of process;

Lawyers Incorporating Service
14 Centre Street
Concord, NH 03301
Phone: 800-927-9800

(9) A copy of the applicant's authorization to do business in New Hampshire from the New Hampshire secretary of state, if anything other than an individual;

Authorization Attached

(10) A listing of the utility franchise areas in which the applicant intends to operate. To the extent an applicant does not intend to provide service in the entire franchise area of a utility, this list shall delineate the cities and towns where the applicant intends to provide service;

South Jersey Energy Company dba Halifax American Energy Company currently sells and will continue to sell electric at retail in the following service territories: Granite State, New Hampshire Electric Cooperative, Public Service of New Hampshire, and Unitil

(11) A description of the types of customers the applicant intends to serve, and the customer classes as identified in the applicable utility's tariff within which those customers are served;

Commercial and Industrial Customers

(12) A listing of the states where the applicant currently conducts business relating to the sale of electricity;

Maine, Connecticut, Rhode Island, Massachusetts

(13) A listing disclosing the number and type of customer complaints concerning the applicant or its principals, if any, filed with a state licensing/registration agency, attorney general's office or other governmental consumer protection agency for the most recent calendar year in every state in which the applicant has conducted business relating to the sale of electricity;

None

(14) A statement as to whether the applicant or any of the applicant's principals, as listed in a. through c. below, have ever been convicted of any felony that has not been annulled by a court:
a. For partnerships, any of the general partners;
b. For corporations, any of the officers, directors or controlling stockholders; or
c. For limited liability companies, any of the managers or members;

None

(15) A statement as to whether the applicant or any of the applicant's principals:
a. Has, within the 10 years immediately prior to registration, had any civil, criminal or regulatory sanctions or penalties imposed against them pursuant to any state or federal consumer protection law or regulation;

A Federal Energy Regulatory Commission (FERC) investigation into two subsidiaries of South Jersey Industries, South Jersey Gas and South Jersey Resources Group, LLC, was conducted to investigate certain alleged violations of FERC's open access transportation program.

b. Has, within the 10 years immediately prior to registration, settled any civil, criminal or regulatory investigation or complaint involving any state or federal consumer protection law or regulation; or

Please see above

c. Is currently the subject of any pending civil, criminal or regulatory investigation or complaint involving any state or federal consumer protection law or regulation;

None

(16) If an affirmative answer is given to any item in (14) or (15) above, an explanation of the event;

Please see attached SEC Form 8-K for further explanation and resolution.

(17) For those applicants intending to telemarket, a statement that the applicant shall:
a. Maintain a list of consumers who request being placed on the applicant's do-not-call list for the purposes of telemarketing;
b. Obtain monthly updated do-not-call lists from the National Do Not Call Registry; and
c. Not initiate calls to New Hampshire customers who have either requested being placed on the applicant's do-not-call list(s) or customers who are listed on the National Do Not Call Registry;

Not Applicable, as applicant does not intend to offer supply to residential customers

(18) For those applicants that intend not to telemarket, a statement to that effect;
(19) A sample of the bill form(s) the applicant intends to use or a statement that the applicant intends to use the utility's billing service;

Please see sample bill attached, however South Jersey Energy Company may utilize the LDC's billing service.

(20) A copy of each contract to be used for residential and small commercial customers;

Please see attached sample contract for commercial customers. South Jersey Energy does not sell to residential customers.

(21) A statement certifying that the applicant has the authority to file the application on behalf of the CEPS and that its contents are truthful, accurate and complete; and

David Robbins, Jr., Treasurer and Secretary, has the authority to file this application on behalf of South Jersey Energy Company and states that its contents are truthful, accurate and complete.

(22) The signature of the applicant or its representative. David Robbins Jr.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

South Jersey Energy Company

Docket Nos. ER97-1397-010
ER97-1397-012
ER97-1397-013

ERRATA NOTICE

(June 1, 2005)

On May 17, 2005, the Commission issued a Delegated Letter Order accepting South Jersey Energy Company's updated market power analysis as well as a tariff revision to incorporate the Commission's change in status reporting requirements pursuant to Order 652.[1] By this errata notice, the effective date of the change in status reporting requirement as referenced in the last sentence of the first paragraph is corrected to read "March 21, 2005."

Sincerely,

Michelle S. Barnaby

Steve P. Rodgers, Director
Division of Tariffs and Market
Development-South

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[1] *Reporting Requirement for Changes in Status for Public Utilities with Market-Based Rate Authority*, Order No. 652, 70 Fed. Reg. 8,253 (Feb. 18, 2005), FERC Stats. & Regs. ¶ 31,175 (2005).

GUARANTY

THIS GUARANTY is executed as of this 19 day of July, 2010, by **South Jersey Industries, Inc.**, a New Jersey corporation (which shall be referred to as "Guarantor"), in favor of the **Public Utilities Commission of The State of New Hampshire**, ("Commission").

1. In consideration of and in order to induce the Commission to issue a retail electric supplier license to **South Jersey Energy Company ("SJE")**, Guarantor hereby unconditionally guarantees the full and faithful payment of all of the obligations of SJE that are now due or may hereafter become due and payable to the Commission (collectively, the "Obligations").

2. Guarantor expressly waives any notice of exoneration, notice of acceptance of this Guaranty, demands, notice of nonpayment and any right to require Commission to first proceed against SJE or exhaust any security held from SJE or pursue any other remedy in its power whatsoever, and consents to any rescission, waiver, amendment or modification of any of the terms or provisions of any agreements between SJE and Commission, or any extension of time of payment of all or any of the Obligations hereby guaranteed.

3. The maximum liability of Guarantor under this Guaranty shall not exceed **$350,000** (Three Hundred Fifty Thousand Dollars US$) and such amount shall include all expenses incurred by Commission in enforcing its rights under this Guaranty, including reasonable attorney's fees. This Guaranty shall remain in full force and effect until (i) **July 31, 2011** or (ii) terminated upon thirty (30) days prior written notice from Guarantor or SJE, whichever is earlier. Such termination shall not release Guarantor from liability from any of the Obligations arising prior to the effective date of such termination.

4. Guarantor shall not be discharged, released or exonerated, in any way, from its absolute, unconditional and independent obligations and liabilities hereunder, by any proceeding, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of SJE or by any defense which SJE may have by reason of the order, decree or decision of any court or administrative body resulting from any such proceeding, including without limitation, the rejection of the underlying contract as an executory contract; provided, however, Guarantor reserves the right to assert defenses which SJE may have had to payment of any of the Obligations other than defenses arising from the bankruptcy or insolvency of the SJE and other defenses expressly waived hereby.

5. All notices or communications to the other party shall be in writing and shall be directed by registered or certified mail or overnight delivery service to:

To Guarantor:

South Jersey Industries, Inc.
Attn: Ying Liu- Manager, Risk Management
1 South Jersey Plaza
Folsom, New Jersey 08037
Tel: 609-561-9000
Fax: 609-704-1304

To Commission:

The State of New Hampshire
Public Utilities Commission
Attn: Henry J. Bergeron
21 S. Fruit Street
Suite 10
Concord, New Hampshire 03301-2429
Tel: 603-271-2431
Fax: 603-271-3878

6. This Guaranty constitutes the entire agreement and supersedes all prior agreements and understandings both written and oral, between Guarantor and Commission and with respect to the subject matters hereof neither this Guaranty nor any of the terms hereof may be terminated, amended, supplemented, waived or modified orally, except by written instrument signed by the party against which the enforcement of this termination, amendment or supplement, waiver or modification shall be sought. If any one or more provisions of this Guaranty shall for any reason or to any extent be determined invalid or unenforceable, all other provisions shall, nevertheless, remain in force and effective. This Guaranty shall be binding upon Guarantor and upon the legal representatives, successors, and assigns of Guarantor and shall be for the benefit of Commission, its successors and assigns.

7. THIS GUARANTY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT RECOURSE TO PROVISIONS GOVERNING CHOICE OF LAW OR CONFLICTS OF LAW, AND IS INTENDED TO BE PERFORMED IN ACCORDANCE WITH, AND TO THE EXTENT PERMITTED BY, SUCH LAWS.

IN WITNESS WHEREOF, the foregoing instrument is executed this 19 day of July, 2010.

South Jersey Industries, Inc. *(GUARANTOR)*

By: ______________________

Printed: David A. Kindlick

Its: Chief Financial Officer
(Executive/Authorized Officer)

State of New Hampshire
New Hampshire Department of State
William M. Gardner

Secretary of State

Invoice Number: 5548835 **Invoice Date:** 03/16/2011 11:13 AM **User ID:** 324

Billing Information

South Jersey Energy Company, Inc.
One Norrth White Horse Pike
PO Box 152
Hammonton, NJ 08037

Product Description	Certification Number	Order Date	Qty	Pages	Item Cost	Extended	Amount Due
Corp Misc - Handling Charge Re: South Jersey Energy Company, Inc. Contact: South Jersey Energy Company, Inc. Shipped Via: Mail	3173776	03/16/2011	1	1	2.00	2.00	Paid
Annual Reports - Fee - Form 47 - (Corporations) Re: South Jersey Energy Company, Inc. Contact: South Jersey Energy Company, Inc. Shipped Via: Mail	3173777	03/16/2011	1	1	100.00	100.00	Paid

Credit Balance as of 03/16/2011 11:14 AM: $0.00

Invoice Total: $102.00

Payment Details:

Payment for $102.00 from Web with Credit Card VISA Acct XXXXXXXXXXXX6320, Auth: 075751

Payment Total: $102.00

Contact(s):

PO Box 2694
Concord, NH 03302
United States
greg@concordsearch.net
(603) 856-0087

Amount Due: **$0.00**

Include invoice number on all correspondence and send to:

New Hampshire Department of State
Attn: Accounts Receivable
107 N. Main St.
Concord, NH 03301

For questions regarding this invoice, contact Accounts Receivable at:

(603) 271-3242

8-K 1 form8k.htm SOUTH JERSEY INDUSTRIES, INC 8-K 9-27-2010

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): September 27, 2010

SOUTH JERSEY INDUSTRIES, INC

(Exact Name of Registrant as Specified in Charter)

New Jersey	1-6364	22-1901645
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1 South Jersey Plaza, Folsom, NJ 08037
(Address of Principal Executive Offices) (Zip Code)

(609) 561-9000
(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

The staff of the Office of Enforcement of the Federal Energy Regulatory Commission (FERC) and two subsidiaries of South Jersey Industries, Inc., South Jersey Gas Company (South Jersey Gas) and South Jersey Resources Group, LLC (South Jersey Resources and, together with South Jersey Gas Company, South Jersey), have entered into a Stipulation and Consent Agreement that has been approved by order of the FERC resolving an investigation into certain alleged violations of FERC's open access transportation program, including the competitive bidding requirements for long-term, discounted rate capacity releases, the shipper-must-have-title requirement, and the prohibition against buy/sell transactions.

FERC recently began focusing on the way in which participants in the natural gas industry were conducting natural gas transactions relative to its interpretation of certain specific rules governing such transactions. FERC's investigation of South Jersey arose from an investigation of Constellation NewEnergy – Gas Division (Constellation). South Jersey Gas was a releasing shipper in certain of Constellation's flipping transactions. Upon notification by FERC that these transactions were viewed as being in violation of certain FERC regulations, South Jersey conducted a comprehensive internal review of its natural gas trading and transportation practices to confirm compliance with FERC's capacity release rules and voluntarily disclosed possible violations of the shipper-must-have-title requirement and the prohibition on buy/sell transactions.

The FERC staff determined that South Jersey's cooperation in the investigation was "exemplary." South Jersey engaged outside counsel to assist with a comprehensive review of its interstate pipeline and gas storage transportation transactions, which resulted in South Jersey providing the Office of Enforcement staff with a thorough self-report. South Jersey promptly ceased all activities in question and revised its operational practices to avoid potential violations in the future.

South Jersey has always strived to maintain a culture of compliance, with no history of violating FERC rules, regulations or policies. At the time of the transactions in question, South Jersey had in place a substantial compliance program to address recognized compliance risks. However, that program under-identified risks associated with FERC's open access transportation program. Upon becoming aware of the views of FERC on these issues, South Jersey formulated and implemented significant enhancements to its existing compliance program. Those enhancements include providing extensive training on the Commission's open access transportation requirements to its employees, senior management and Board of Directors.

While not admitting that it had, in fact, violated the FERC's rules and regulations, South Jersey reached agreement with the FERC to resolve the dispute without further proceedings. South Jersey has agreed to pay a civil penalty of $950,000 and to disgorge approximately $121,000, plus interest, of profits from the transactions in question.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SOUTH JERSEY INDUSTRIES, INC.

Dated: September 27, 2010

By: /s/ David A. Kindlick
Name: David A. Kindlick
Title: Senior Vice President and
Chief Financial Officer

Halifax-American Energy Co.

816 Elm Street, Suite 364
Manchester NH 03101
Phone (603) 625 2244
Fax (603) 625 8448
Email: energy49@comcast.net

Billing Address

[redacted]

Date:	June 23, 2009
Invoice #	E06230900012
Due Date:	July 3, 2009

Qty	Description	Period	Unit Price	Total
128,433	Energy Real Time, Account # 15890510025	5/13 - 6/11/09	0.0350431317	$4,500.68
128,433	Non-Hourly	5/13 - 6/11/09	0.0010492138	$134.75
	ICAP	5/13 - 6/11/09		$1,352.96
	Non-Hourly Adjustment	3/13 - 4/12/09		$35.06
	Non-Hourly Adjustment	4/13 - 5/12/09		$49.12
	ICAP Adjustment	4/13 - 5/12/09		$1.24
128,433	Scheduling Fee		0.00275	$353.19
128,433	Service Fee		0.003	$385.30
128,433	Renewables		0.00249600	$320.82

SubTotal	$7,133.12
Tax Rate	$0.00
Total	$7,133.12

Please make checks payable to Halifax-American Energy Co.

Billing Address: c/o South Jersey Energy, Lockbox # 6471, PO Box 8500, Philadelphia, PA 19178-6471

Wire Instructions: Wachovia Bank, ABA#031201467, account # 2000003202340

Public Service of New Hampshire

PSNH Energy Park
780 North Commercial Street, Manchester, NH 03101

Public Service Company of New Hampshire
P.O. Box 330
Manchester, NH 03105-0330
(603) 669-4000
www.psnh.com

The Northeast Utilities System

January 30, 2009

South Jersey Energy Company
Edward H. Peterson Jr.
Manager, Commercial Sales
Brickworks Office Park
5429 Harding Highway, Building 501
Mays Landing, New Jersey 08330

Dear Edward Peterson,

Thank you for your interest in becoming a supplier in New Hampshire and providing this service to our PSNH customers.

PSNH and South Jersey Energy Company have successfully completed EDI Testing. I have enclosed a Certificate of Completion for your files.

As soon as South Jersey Energy Company is granted certification by the New Hampshire PUC, you will be ready to contract with PSNH customers.

Thanks once again, Edward, for your interest, and I look forward to working with you in the future.

Sincerely,

Aaron Downing

Aaron Downing
PSNH Supplier Services

CHAIRMAN
Thomas B. Getz

COMMISSIONERS
Graham J. Morrison
Clifton C. Below

EXECUTIVE DIRECTOR
AND SECRETARY
Debra A. Howland

THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION
21 S. Fruit Street, Suite 10
Concord, N.H. 03301-2429

Tel. (603) 271-2431

FAX (603) 271-3878

TDD Access: Relay NH
1-800-735-2964

Website:
www.puc.nh.gov

March 12, 2009

Edward H. Peterson, Jr.
Manager, Commercial Sales
South Jersey Energy Company
Brickworks Office Park
5429 Harding Highway, Building 501
Mays Landing, NJ 08330

Re: DM 07-069 South Jersey Energy Company's Request to Add Franchise Area

Dear Mr. Peterson:

This is to inform you that the New Hampshire Public Utilities Commission (Commission) has received South Jersey Energy Company's (SJE) request to add the franchise area of Public Service Company of New Hampshire (PSNH) to the areas in which SJE is authorized to operate. The Commission has also received confirmation from PSNH that SJE has successfully completed EDI testing. The Commission is pleased to inform you that SJE will be authorized to operate in PSNH's franchise area effective immediately.

Should you have any further questions or requests, please do not hesitate to contact the Commission.

Sincerely,

Debra A. Howland

Debra A. Howland
Executive Director & Secretary

Public Service of New Hampshire
Certificate of Completion

is hereby granted to:

South Jersey Energy Company

to certify that they have completed to satisfaction

EDI Testing

Granted: 01/30/09

Aaron Downing
PSNH Supplier Services

CERTIFICATE OF COMPLETION

Awarded to:

Halifax American Operating Co.

This certificate of completion acknowledges that you have completed EDI system testing with National Grid in New Hampshire.

10/4/07.

Date

Kathleen S Yetman

Kathleen Yetman

SOUTH JERSEY INDUSTRIES

2010 ANNUAL REPORT TO SHAREHOLDERS

On the Cover

Pictured on the cover is Eun-Joo Ahn, a participant in SJI's POWER program. Through POWER, SJI hires new employees and places them into rotational assignments in key, strategic business functions to develop them into tomorrow's leaders.

CORPORATE HEADQUARTERS

1 South Jersey Plaza
Folsom, NJ 08037-9917
609-561-9000
www.sjindustries.com

TRANSFER AGENT AND REGISTRAR

BNY Mellon
P.O. Box 358015
Pittsburgh, PA 15252-8015
or
480 Washington Boulevard
Jersey City, NJ 07310-1900

DIVIDEND, DIVIDEND REINVESTMENT AND OTHER SHAREHOLDER INQUIRIES

South Jersey Industries
Shareholder Records Department
Toll-free: 1-888-754-3100
sharehld@sjindustries.com

INVESTOR RELATIONS

Stephen H. Clark, Treasurer
609-561-9000 ext. 4260
investorrelations@sjindustries.com

ANNUAL MEETING INFORMATION –

Note New Location

The Annual Meeting of Shareholders will be held Thursday, April 28, 2011 at 10:00 a.m. at the Mansion on Main Street, Plaza 3000, Voorhees, NJ 08043

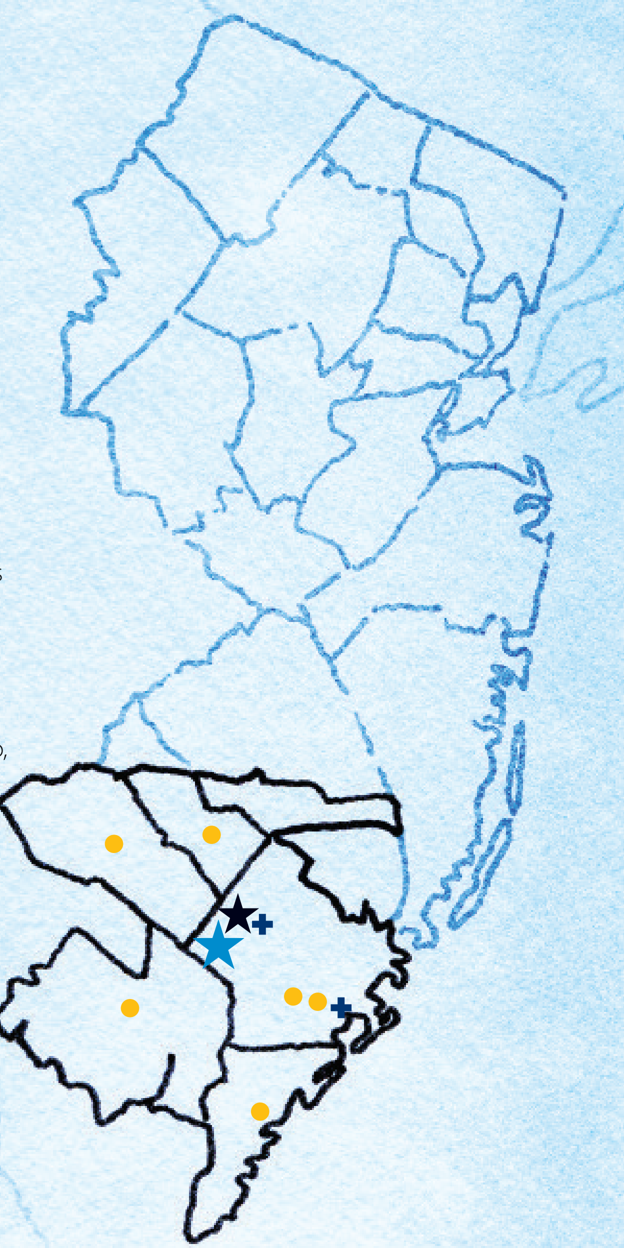
LOCATIONS

★ The Corporate Headquarters for South Jersey Industries and South Jersey Gas is in Folsom, N.J.

★ The Corporate Headquarters for South Jersey Energy Solutions, South Jersey Resources Group, Marina Energy, South Jersey Energy and South Jersey Energy Service Plus is in Hammonton, N.J., Open Flow Energy offices are located in Titusville and DuBois, PA.

● SJG operating offices are located in the N.J. municipalities of Glassboro, McKee City, Millville, Pleasantville, Swainton and Waterford.

✚ SJESP offices are located in the N.J. municipalities of Hammonton and Absecon.



2010 HIGHLIGHTS
FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(In Thousands Where Applicable)

South Jersey Industries, Inc. and Subsidiaries
Year Ended December 31,

	2010	2009	2008	2007	2006
Operating Results:					
Operating Revenues	$ 925,067	$ 845,444	$ 961,977	$ 956,371	$ 931,428
Operating Income	$ 116,492	$ 111,110	$ 153,509	$ 129,623	$ 145,802
Income Attributable to South Jersey Industries, Inc. Shareholders					
Continuing Operations	$ 67,285	$ 58,532	$ 77,178	$ 62,659	$ 72,250
Discontinued Operations – Net (1)	(633)	(427)	(247)	(391)	(818)
Net Income Applicable to Common Stock	$ 66,652	$ 58,105	$ 76,931	$ 62,268	$ 71,432
Total Assets	$ 2,076,615	$1,782,008	$1,793,427	$1,529,441	$1,573,032
Capitalization:					
Equity	$ 570,097	$ 544,564	$ 516,448	$ 481,520	$ 443,497
Long-Term Debt	340,000	$ 312,793	332,784	357,896	358,022
Total Capitalization	$ 910,097	$ 857,357	$ 849,232	$ 839,416	$ 801,519
Ratio of Operating Income to Fixed Charges (2)	5.3x	5.9x	6.0x	4.8x	5.3x
Diluted Earnings Per Common Share Attributable to South Jersey Industries, Inc. Shareholders:					
(Based on Average Diluted Shares Outstanding):					
Continuing Operations	$ 2.25	$ 1.96	$ 2.59	$ 2.12	$ 2.47
Discontinued Operations – Net (1)	(0.03)	(0.02)	(0.01)	(0.02)	(0.03)
Diluted Earnings Per Common Share	$ 2.22	$ 1.94	$ 2.58	$ 2.10	$ 2.44
Return on Average Common Equity (3)	12.1%	11.0%	15.5%	13.3%	16.9%
Share Data:					
Number of Shareholders of Record	7.1	7.3	7.5	7.7	7.9
Average Common Shares	29,861	29,785	29,707	29,480	29,175
Common Shares Outstanding at Year End	29,873	29,796	29,729	29,607	29,326
Dividend Reinvestment Plan:					
Number of Shareholders	4.9	5.1	5.1	5.3	5.3
Number of Participating Shares	2,682	2,072	2,102	2,179	2,194
Book Value at Year End	$ 19.08	$ 18.28	$ 17.33	$ 16.26	$ 15.12
Dividends Declared per Common Share	$ 1.36	$ 1.22	$ 1.11	$ 1.01	$ 0.92
Market Price at Year End	$ 52.82	$ 38.18	$ 39.85	$ 36.09	$ 33.41
Dividend Payout:					
From Continuing Operations	60.1%	62.2%	42.6%	47.3%	37.2%
From Total Net Income	60.7%	62.7%	42.8%	47.6%	37.6%
Market-to-Book Ratio	2.8x	2.1x	2.3x	2.2x	2.2x
Price Earnings Ratio (3)	23.4x	19.5x	15.4x	17.0x	13.5x
Consolidated Economic Earnings (4)					
Income from Continuing Operations	$ 67,285	$ 58,532	$ 77,178	$ 62,659	$ 72,250
Minus/Plus:					
Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges	13,698	12,723	(9,302)	(852)	(18,214)
Economic Earnings	$ 80,983	$ 71,255	$ 67,876	$ 61,807	$ 54,036
Earnings per Share from Continuing Operations	$ 2.25	$ 1.96	$ 2.59	$ 2.12	$ 2.47
Minus/Plus:					
Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges	0.45	0.42	(0.32)	(0.03)	(0.62)
Economic Earnings per Share	$ 2.70	$ 2.38	$ 2.27	$ 2.09	$ 1.85

(1) Represents discontinued business segments: sand mining and distribution operations (sold in 1996) and fuel oil operations with related environmental liabilities (discontinued in 1986) (See Note 3 to Consolidated Financial Statements).
(2) Calculated as Operating Income divided by Interest Charges.
(3) Calculated based on Income from Continuing Operations.
(4) This section includes the non-generally accepted accounting principles ("non-GAAP") financial measures of Economic Earnings and Economic Earnings per share. See Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 15-17 of this report for a discussion regarding the use of non-GAAP financial measures.

We are proud to announce another record year of Economic Earnings Per Share thanks to the great performance, dedication and talent of our workforce. The year 2010 was our seventh year in a row of record EEPS.

The Formula for Success

While excited about our results, we are equally excited that investors realize the potential value of our company because of the many opportunities in front of us. Year-after-year investors have seen our ability to recognize those opportunities and execute on them to produce results. This formula for success works because we have transitioned from traditional utility thinking to an entrepreneurial approach to conducting our business.

I'm pleased to report that in 2010, SJI's Economic Earnings rose to $81.0 million from $71.3 million in 2009. Our Economic Earnings Per Share grew by 13 percent in 2010 to $2.70, compared with $2.38 in 2009. Over the past five years, SJI's Economic Earnings Per Share grew an average of 9.2 percent.

Our strong performance in 2010, coupled with very attractive growth opportunities in our regulated utility and non-regulated businesses, supported our board of directors' decision to increase our dividend by 11 percent in December. This marks the 12th year in a row of dividend increases. Over the past five years, our dividend increases averaged over 10 percent, well above the base targeted level in our dividend policy of 6 percent to 7 percent per year. These increases emphasize our board's continued confidence in SJI's future. Since the end of 2005, we raised our annual dividend by $0.56 per share, a very significant increase of 62 percent.

In addition to consistent long-term dividend growth, our shareholders have been well rewarded in terms of total shareholder return. Over the past five years, our shareholders received a total average annual return, including stock price appreciation and dividends, of 16.1 percent, compared with average annual returns of the S&P 500 of 2.3 percent and of the S&P Utilities of 3.9 percent. Even in a tough economic environment SJI produced a total shareholder return in 2010 of 42.4 percent.

SUSTAINABLE GROWTH

At no time in the company's history have we felt more confident with the growth prospects ahead of us. On the regulatory front, our utility, South Jersey Gas, received approval in September to increase base rates, which will provide an annual net income benefit of $10.9 million. We will experience the full impact of the rate increase in 2011.

Additionally, SJG filed a proposal in 2010 with the New Jersey Board of Public Utilities for a second Capital Investment Recovery Tracker. We believe the proposal will ultimately result in significant incremental infrastructure improvements over the next year. If approved, SJG will earn a return of, and a return on, these specific investments.

SJG's customer growth reflects a positive attitude toward natural gas use. Comparing favorably to other energy sources in terms of price and value, natural gas is a very attractive choice not only for new construction, but also for consumers wishing to convert to a cleaner, more efficient fuel source.

Executive Leadership Team: *L. to R., Michael J. Renna, Gina M. Merritt-Epps, Sharon M. Pennington, David A. Kindlick, Jeffrey E. DuBois, Kevin D. Patrick and Edward J. Graham.*

Natural gas is at the energy forefront in New Jersey with Governor Christie signing into law a program of long-term incentives to developers for the construction of 2,000 megawatts of natural gas-fired electric generation. Christie's commitment to Atlantic City's revitalization also places natural gas at an advantage and SJG is a key component of the city's energy infrastructure. The Governor's actions provide exciting opportunities for our future.

Our non-regulated businesses under South Jersey Energy Solutions have outstanding growth prospects as leaders in renewable energy sources. Rich federal and state incentives for renewable projects have created business development opportunities inside and outside of New Jersey. Our strong project queue includes solar generation projects, landfill gas to electricity facilities and thermal and cogeneration plants. Also, retail sales of natural gas and electricity continue to increase in Northern New Jersey, Pennsylvania, New England and New York.

Our involvement in the Marcellus Shale holds significant potential. Our activities include marketing for producers and our passive interest in 21,000 acres. As one of the largest marketers in the Marcellus, we can obtain competitively priced gas to use for our own asset management business and we have opportunities to earn attractive margins on the services we provide. Currently, we have nine long-term contracts to market for producers.

SM Energy, the operator of our acreage, recently announced its intent to sell all of its working interest positions in the Marcellus. We are offering our working interest as part of the SM Energy package. If SM Energy is successful in selling its interest, we would expect the deal to close by the end of the first quarter 2011.

With the opportunities ahead, it is easy to see why sustained growth is clear to our investors and why we are the energy solution for customers and New Jersey's energy cost challenges. Through our infrastructure investments, regulatory innovations and renewable projects, SJI creates jobs, brings a higher level of service and provides environmentally friendly energy at an affordable price to our customers and our communities. We look forward to improving investor value through employee innovation and commitment to excellence. We thank you for your loyalty and support.

BOARD OF DIRECTORS

On a personal note, it is with regret and sadness that I acknowledge the passing during 2010 of two long-term members of SJI's board, W. Cary Edwards and Herman D. James, Ph. D. Both were talented and knowledgeable men who added tremendous value to SJI's growth. They will be deeply missed.

SJI's board elected Victor A. Fortkiewicz in November 2010 and Shahid Malik in January 2011 to SJI's board. Both have accomplished and thorough backgrounds as energy industry leaders and we look forward to their contributions to SJI's future.

Edward J. Graham, President & CEO
February 28, 2011

The past year has shown that even amidst challenging economic conditions, as an organization, we can find ways to improve upon our performance and enhance our success. In 2010, SJI grew Economic Earnings per Share by 13 percent over 2009 results. And at no time in our history have we felt more confident with the growth prospects in front of us. SJI's stock price more than quadrupled over the past 10 years. With the S&P 500 and Utilities indices performing well under this level, it is clear not many companies offered the kind of value SJI has. Recognizing opportunities and executing on them has been a key factor in building the diverse energy portfolio we have today. We're excited about where we're headed – we hope you are too.

Drawing on Experience

In 2010, SJI produced GAAP income from continuing operations of $67.3 million, or $2.25 per share, compared with $58.5 million, or $1.96 per share, in 2009.

Income from continuing operations on an Economic Earnings basis for 2010 increased to $81.0 million, or $2.70 per share, compared with $71.3 million, or $2.38 per share, in 2009. The strength of SJI's 2010 performance, specifically in a difficult economic climate, continues to show the solid foundation upon which our company is built.

Economic Earnings eliminates the GAAP non-cash earnings component generated in mark-to-market accounting associated with commodity and interest rate derivatives. We use Economic Earnings to manage our business because it provides a clearer understanding of company performance when comparing periods.

Our company is divided into three key areas of business focus – wholesale, retail and utility.

South Jersey Gas, our regulated utility, continues to play a vital role as the most prominent business line and net income source for SJI. SJG ended 2010 with net income of $43.9 million, compared with $39.2 million in 2009.

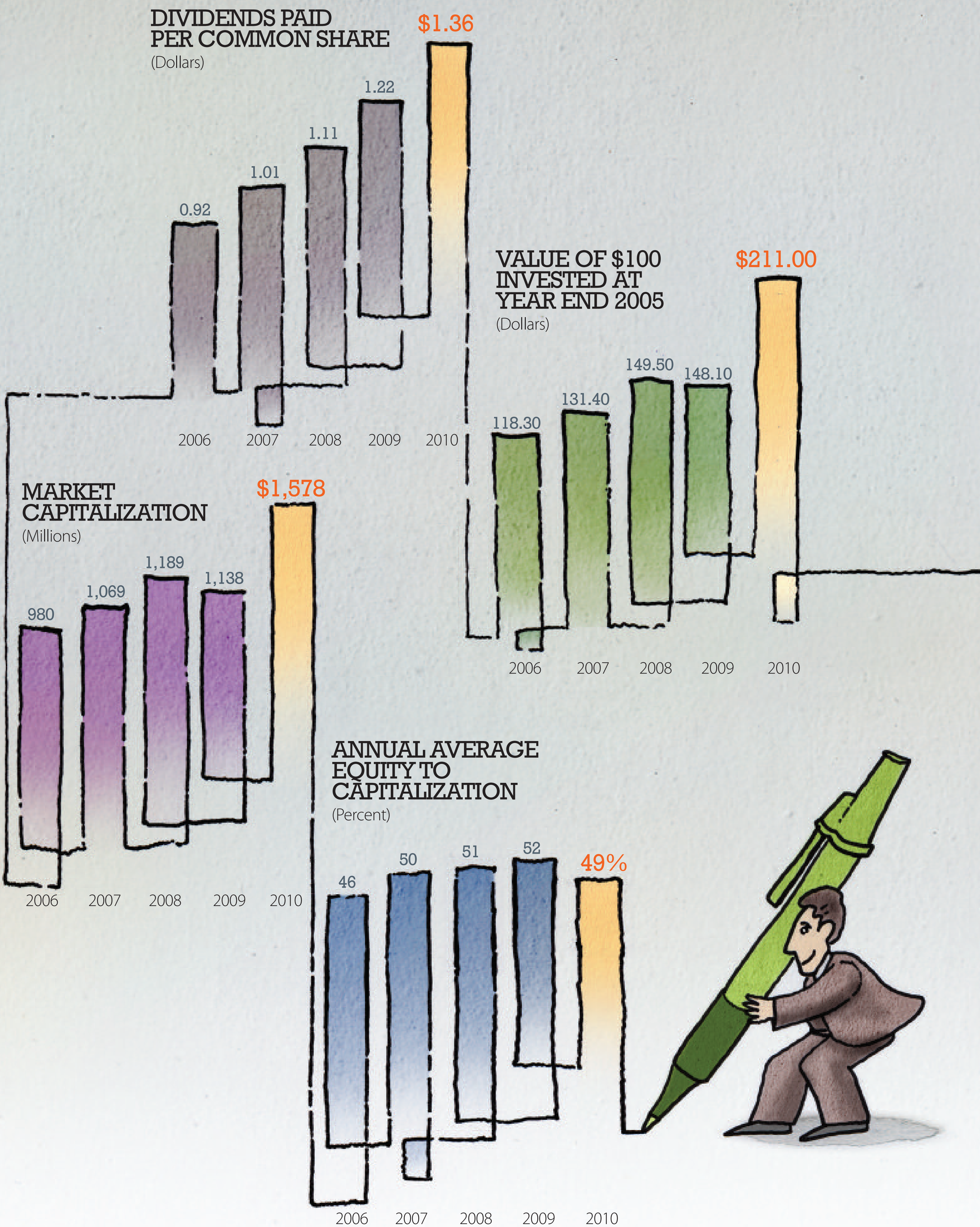
South Jersey Energy Solutions, the holding company for our wholesale and retail non-regulated businesses, reported income from continuing operations on a GAAP basis of $23.4 million in 2010, compared with $19.4 million in 2009.

On an Economic Earnings basis, non-utility operations contributed $37.1 million to the bottom line in 2010, compared with $32.2 million in 2009. Continued strong performance from our retail energy business led to the 2010 earnings increase.

Retail Energy consists of the companies that serve consumers including Marina Energy's projects, South Jersey Energy's commodity marketing and consulting services, and South Jersey Energy Service Plus' residential and commercial services. Wholesale Energy consists of South Jersey Resources Group, which encompasses our pipeline and storage management activities and our Marcellus Shale assets.

As with any investment, it is important to focus on long-term results. Another solid year of earnings growth has reflected the significant value of a long-term investment in SJI. A $100 investment in SJI's stock at the start of 2006 rose in value to roughly $211 by the end of 2010. Similar $100 investments in the S&P 500 Index and S&P Utilities Index were worth about $112 and $121, respectively.

While some companies continued to decrease or even eliminate dividend payments in 2010, SJI continued its pattern of increasing its dividend annually. In fact, 2010 was the fifth year in a row that we have exceeded our policy of 6 to 7 percent increases. Our ability to make these significant dividend improvements stems not only from the growth opportunities in front of us, but also from SJI's strong balance sheet. Our continuing goal is to maintain SJI's average annual capital structure at about 50 percent equity. SJI's equity-to-capitalization ratio in 2010 averaged 49 percent for the full year.


DIVIDENDS PAID PER COMMON SHARE
(Dollars)
0.92
1.01
1.11
1.22
$1.36
2006 2007 2008 2009 2010
VALUE OF $100 INVESTED AT YEAR END 2005
(Dollars)
118.30
131.40
149.50
148.10
$211.00
2006 2007 2008 2009 2010
MARKET CAPITALIZATION
(Millions)
980
1,069
1,189
1,138
$1,578
2006 2007 2008 2009 2010
ANNUAL AVERAGE EQUITY TO CAPITALIZATION
(Percent)
46
50
51
52
49%
2006 2007 2008 2009 2010

In 2010, as in other years, our utility's success was shaped by two main factors – customer growth and key regulatory initiatives. It's our balanced approach to growing our business that consistently enhances our operating results.

Empowering Our Customers

CUSTOMER GROWTH Customer growth continues to play a key role in driving SJG's performance year after year. In 2010, SJG's customer base increased by 1.2 percent to a total of 347,725. We continue to push ourselves to meet significant new business goals, despite weakened but improving economic conditions throughout 2010. Historically, our customer growth performance was better than our industry as a whole, and we believe 2010 was no exception.

While new home construction did begin to see a slight upswing during the year, the primary driver for customer additions was conversions to natural gas from other fuel sources. Factors driving conversions include lower price, available rebates and tax credits related to energy efficiency, and natural gas being the cleanest fossil fuel from an environmental performance perspective. Residential and commercial conversions in 2010 totaled 3,271, a 21 percent increase over the average for the previous five years.

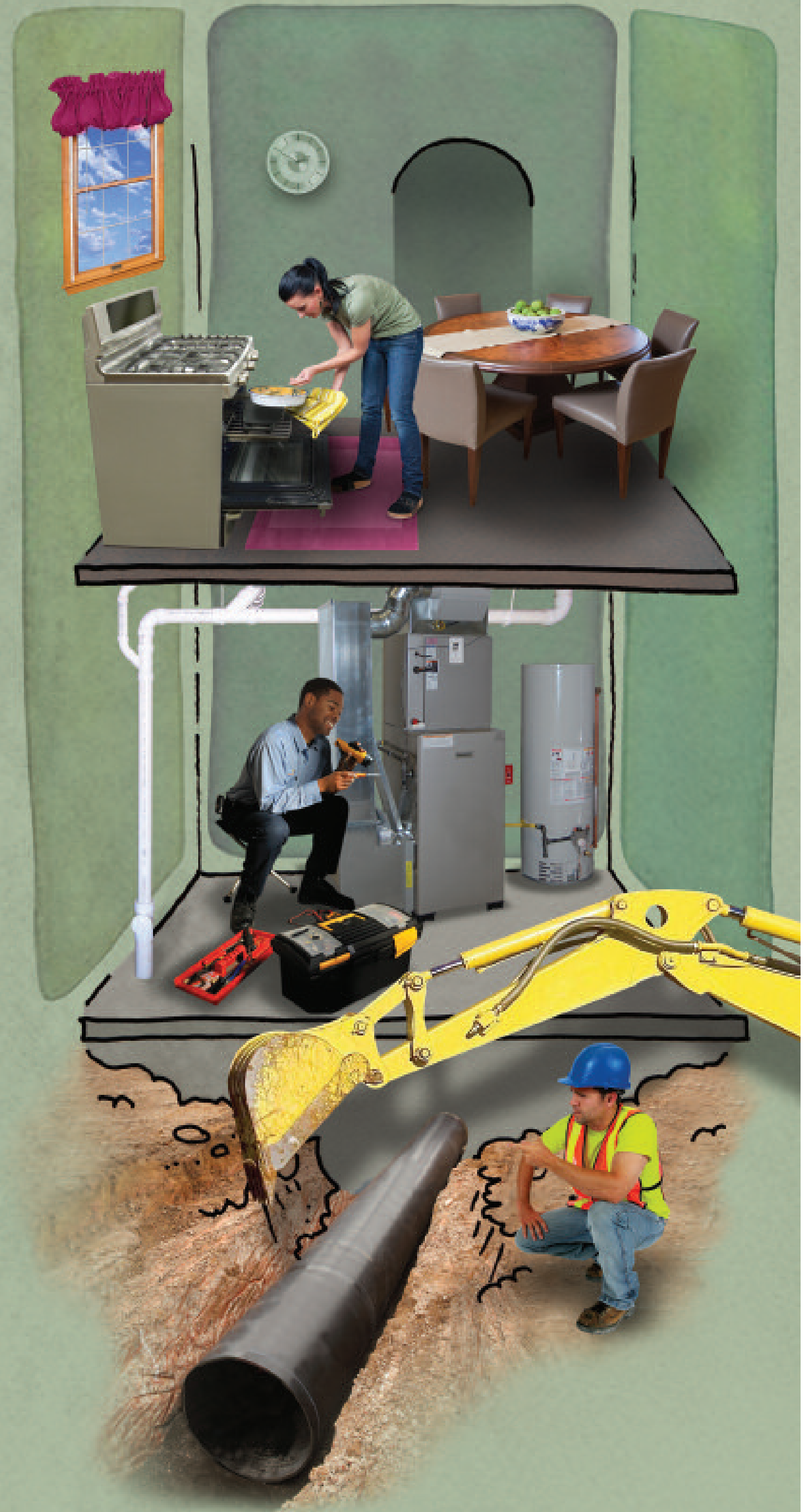
As we move into 2011, we will continue our aggressive pursuit of conversions of potential customers located on or near our gas mains and also identify new areas for system expansion. Conversions, coupled with gains in new housing additions, are expected to contribute to future growth in utility performance.

> "As we move into 2011, we will continue our aggressive pursuit of conversion of potential customers located on or near our gas mains and also identify new areas for system expansion."

REGULATORY ACTIVITIES In January 2010, SJG filed its first base rate case in more than six years with the New Jersey Board of Public Utilities. The case was settled within eight months, going into effect September 17, 2010. The change in rates resulted from two primary components. First, the BPU approved reductions in two of SJG's rate clauses totaling approximately $39.1 million. Almost this entire amount reflected a reduction in SJG's Basic Gas Supply Service rates, which has no impact on the utility's net income. Second, the BPU approved base rates that will add $10.9 million to SJG's net income annually, reflecting a return on the more than $450 million the company invested to improve its distribution system over the past six years. As approved, SJG's new base rates were based upon a 51.2 percent equity component in SJG's capital structure, and a 10.3 percent return on equity. In total, SJG customers have realized a more than 3 percent decrease in bills as a result of the settlement.

Beyond rate case approval, a number of other regulatory initiatives helped add to 2010 performance. SJG's Conservation Incentive Program, approved by the NJBPU and placed into effect in October 2006, encourages customers to use natural gas more efficiently by educating them about ways they can reduce their energy consumption. Due to the success of the program since its inception, the NJBPU approved the CIP's extension through 2014. The program benefits investors by eliminating the link between SJG's profits and the quantity of natural gas the company sells. From October 2006 through December 2010, customers in SJG's service area reduced their natural gas usage by a total of 16.4 billion cubic feet, enough gas to heat over 54,000 homes annually. This reduction enabled customers to save approximately $214 million, while the CIP protected nearly $31 million of SJG's net income.

In addition, two programs approved by the NJBPU in 2009 that continued into 2010 were also keys to enhancing company performance. The operation of our Capital Investment Recovery Tracker since April 2009, which allowed the company to make significant infrastructure improvements and earn a return on these substantial investments in the near term, has allowed us to spend



The customer experience begins with the delivery of safe, reliable and clean burning natural gas. SJG continually improves its delivery system and through the Capital Investment Recovery Tracker we have significantly accelerated infrastructure improvements since 2009. Our Energy Efficiency Tracker provides incentives that help customers install high efficiency equipment at a very low cost with resulting reductions in their energy bills. SJG's customers have recognized our efforts on their behalf with a number one ranking on the J.D. Power and Associates residential gas survey.

an incremental $103 million to enhance system integrity. Currently, SJG has a pending application with the NJBPU to extend the CIRT to support further infrastructure enhancements throughout our service area.

The Energy Efficiency Tracker program, which began in July 2009, provides incentives that support energy efficiency and reduce consumers' energy bills in addition to creating jobs. The initiative involves five programs that are being implemented through 2011 totaling $17 million. These programs are incremental to SJG's Conservation Incentive Program. Expenditures under the EET totaled approximately $2.3 million in 2010. Our investment in these new energy efficiency programs continues to allow our customers to install high efficiency equipment at a very low cost and obtain significant energy cost savings over time. In January 2011, we received approval from the NJBPU to extend our EET program by one year.

CUSTOMER SATISFACTION In the J.D. Power and Associates 2010 Gas Utility Residential Customer Satisfaction Study released in September 2010, SJG ranked #1 for mid-sized utilities in the East Region. The study, in its ninth year, measures residential customer satisfaction with gas utilities across six factors: corporate citizenship, communications, price and value, billing and payment, customer service and field service. Utilities are ranked in four geographical regions. SJG has consistently ranked within the top five gas utilities in the East Region year-after-year.

OTHER 2010 HIGHLIGHTS & 2011 PROSPECTS Also worth mentioning, SJG received recognition from the American Gas Association in 2010, highlighting its place as one of the top two utilities in the country for safe driving among company employees. In addition, SJG implemented a new customer service telephone system near the close of the year that uses enhanced customer interaction software to provide better service to our customers.

SJG is kicking off 2011 with some exciting projects on the horizon. To complement our work with the Atlantic County Utilities Authority and the Atlantic City Jitney Association on enhancing compressed natural gas initiatives throughout the region, SJG also plans to integrate CNG vehicles into our fleet beginning in 2011. Additionally, we are planning for the construction of our own CNG refueling facility for public and private use in the near future. We were also recently successful in establishing a Natural Gas Vehicle tariff, which should help to stimulate the CNG vehicle market in southern New Jersey.

Dovetailing with the continuing consistency and success of our regulated utility, SJI's unregulated businesses, housed under our South Jersey Energy Solutions subsidiary, also effectively contributed to the company's bottom line, driving results throughout 2010.

Delivering Results

Our success in 2011 will stem primarily from an expansion of initiatives we executed on in the previous year. We are excited about new marketing opportunities in the Marcellus Shale, Marina Energy projects in process and upcoming and continued growth opportunities throughout the mid-Atlantic region for our natural gas and electricity marketing businesses.

RETAIL ENERGY Retail energy encompasses all goods and services sold to end users – whether office buildings, schools or homes. This business line consists of Marina Energy, South Jersey Energy and South Jersey Energy Service Plus.

Our on-site energy production business, Marina Energy, through its long-time partnership with DCO Energy, announced and completed a number of new projects in 2010 under the Energenic brand. Early in the year, Energenic announced a 20-year agreement with the Sussex County Municipal Utility Authority to design, build, own and operate a renewable energy generation facility at the Sussex County Solid Waste and Recycling Facility in Lafayette, N.J. Named the SX Renewable Energy Generation Facility, the 3.2 MW landfill gas-to-electric facility will be fully operational by the second quarter of 2011.

Throughout the year, Marina/Energenic produced more than 20 megawatts of power from landfill gas-to-electricity facilities in two states and 3.2 MW from solar generation facilities in two N.J. counties. In 2011, the company expects to add significantly to last year's results, producing 33.4 MW from landfill gas and other generation facilities in three states and 17.5 MW from solar facilities in four N.J. counties.

In addition, Marina/Energenic remains excited about additional opportunities in 2011 – commissioning of the Marina Thermal combined heat and power project began in December 2010 and full operations began in February 2011. In February, Energenic executed an agreement to own and operate the central energy center at Revel Entertainment Resort in Atlantic City, which is expected to open in June 2012. We are also anticipating a potential expansion at an existing energy facility to serve

a growing customer, along with continued interest by prospective clients in solar and renewable generation projects. With both state and federal grants, as well as tax credits driving these initiatives, we are well positioned to meet a growing demand and add significant bottom line results.

SJES markets natural gas and electricity through South Jersey Energy, a licensed, non-regulated energy supplier. In 2010, SJE extended its contract with more than 400 New Jersey school districts to supply power through May of 2012. In addition, the company is expanding its presence in New York and New England selling natural gas — areas where the company has been previously successful selling electricity. And with electric rate caps having expired at the close of 2010 in Pennsylvania, SJE will be expanding its service there as well.

South Jersey Energy Service Plus is one of the region's leading authorities in high-efficiency HVAC and plumbing services solutions. As we reported last year, SJESP participates in the New Jersey Office of Clean Energy's Direct Install Program. Under this program, small- to medium-sized businesses that have peak usage under 200 kilowatts can take advantage of incentives that will pay for 80 percent of the cost of energy efficiency improvements by replacing outdated or obsolete lighting, HVAC and other operational equipment. In 2010, SJESP saw increased demand for small commercial retrofit jobs.

On the residential side, SJESP remains heavily involved in the N.J. Office of Clean Energy programs that provide a reduced cost energy audit, free air-sealing, and up to 50 percent off the cost associated with improved energy measures. The program also provides zero percent financing to qualified customers. Consumer interest in this program is expected to carry through 2011, which we expect will drive higher residential sales.

WHOLESALE ENERGY South Jersey Resources Group, our non-regulated natural gas marketing company, provides natural gas commodity, storage, and transportation services to wholesale customers throughout the mid-Atlantic, Appalachia and southern areas of the country. Our customers include Fortune 500 companies, energy marketers, natural gas and electric utilities and natural gas producers. This business' portfolio also includes our Marcellus Shale assets.

Throughout the past few years, wholesale energy has been the largest contributor to SJI's non-regulated earnings. These results were driven primarily by natural gas storage and transportation assets. Recently, SJRG began to see a shift in the value of those traditional assets, due to increased gas supplies found within the Marcellus. As a result of these market changes, SJRG is expanding on its marketing activities within the Marcellus. In 2010, we marketed up to 635,000 dekatherms per day, compared with a maximum of 410,000 per day in 2009.

One of our core strategies moving forward will be to help Marcellus Shale producers move gas away from the well head and to the end user. To date, we have been marketing more than 275,000 dekatherms per day for area producers on a short-term basis. Moving forward, we are entering into long-term contracts that will provide greater certainty of takeaway for producers.

Lastly, we are pursuing an interesting opportunity in terms of gas production. In 2008, SM Energy — our leaseholder in the Marcellus Shale — leased our interest in 21,000 acres in McKean County, PA. As a result, we received an upfront lease payment of $7.5 million. Using the midpoint of the recoverable reserve estimate at a $5 long term natural gas price along with our 10.25 percent share, this could potentially generate over $250 million in pre-tax income to SJI. Recently, SM Energy announced their intent to sell their interest in the Marcellus. We, in turn, are offering to sell our working interest as part of that package at the right price.

Opportunities to give back – it's our responsibility

Business success isn't just about executing exciting projects that enhance bottom line results. It's also about recognizing opportunities to help the communities that we serve. It's an inherent responsibility and one that we take very seriously.

Since we began operating, SJI has been committed to supporting the community resources our customers and employees depend upon when they find themselves faced with challenging situations. Our company also makes considerable investments in environmental stewardship and energy efficiency to ensure a sustainable, thriving future for generations to come. As an organization, we support more than 200 civic and non-profit groups each year. Below is a selection of those we supported throughout 2010. The common theme expressed by each group is an unwavering need to help and better society as a whole – a philosophy that we stand behind fully.

- UnitedWay organizations providing resources to residents throughout each of the seven Southern NJ counties served by SJG. SJI staff raised more than $85,000 in 2010 in support of local UnitedWay organizations.
- NJ SHARES and its mission to provide assistance to individuals and families who need temporary help paying their energy bills.
- Wetlands Institute and its mission to promote the conservation and preservation of coastal ecosystems.
- South Jersey Land and Water Trust and its work to educate children in our local schools about conservation as well as encourage their participation in Habitat Restoration projects.
- Gilda's Club South Jersey, which provides emotional and social support, information and inspiration, fellowship and fun, hope and heart for men, women and children whose lives have been affected by cancer.
- Abilities Center of Southern NJ, a group dedicated to developing employment opportunities for people with disabilities or other disadvantages through education, training and job placement.
- Big Brothers, Big Sisters programs throughout southern New Jersey, which aim to help children reach their potential through professionally supported one-to-one relationships with mentors that have a measurable impact on youth.
- Community Food Bank of New Jersey, Southern Branch, helping the organization to fight hunger and poverty in New Jersey.
- Scholarship funding for secondary education to Rowan University, Richard Stockton College of NJ, Atlantic Cape Community College, Cumberland County College, NJ School Counts, New Jersey Utilities Association and Penn State University among others.
- Rutgers Center for Energy, Economic and Environmental Policy and its work to strengthen energy, economic and environmental public policy in close cooperation with faculty, students, and other centers within the Bloustein School. The Bloustein School conducts research and education in the areas of housing, transportation, workforce development, public health, economic development, ecological balance, and social equity and justice.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW — South Jersey Industries, Inc. (SJI or the Company) is an energy services holding company that provides a variety of products and services through the following wholly owned subsidiaries:

South Jersey Gas Company (SJG)

SJG, a New Jersey corporation, is an operating public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also sells natural gas and pipeline transportation capacity (off-system sales) on a wholesale basis to various customers on the interstate pipeline system and transports natural gas purchased directly from producers or suppliers to their customers. SJG contributed approximately 65.9% of SJI's net income on a consolidated basis in 2010.

SJG's service territory covers approximately 2,500 square miles in the southern part of New Jersey. It includes 112 municipalities throughout Atlantic, Cape May, Cumberland and Salem Counties and portions of Burlington, Camden and Gloucester Counties, with an estimated permanent population of 1.2 million. SJG benefits from its proximity to Philadelphia, PA and Wilmington, DE on the western side of its service territory and Atlantic City, NJ and the popular shore communities on the eastern side. Economic development and housing growth have long been driven by the development of the Philadelphia metropolitan area. The gradual extension of SJG's infrastructure, particularly in the eastern portion of the service territory, has contributed to SJG's annual customer growth. In the past, economic growth in Atlantic City and the surrounding region has been primarily driven by new and proposed gaming and non-gaming investments that emphasize destination style attractions. While many of these new projects were suspended or postponed due to the current economic environment, the casino industry is expected to remain a significant source of regional economic development going forward. Over the years, the ripple effect from Atlantic City has produced new housing and commercial construction. Combining with the gaming industry catalyst is the ongoing transition of southern New Jersey's oceanfront communities from seasonal resorts to year round economies. New and expanded hospitals, schools and large-scale retail developments throughout the service territory have contributed to SJG's growth. Presently, SJG serves approximately 66% of households within its territory with natural gas. SJG also serves southern New Jersey's diversified industrial base that includes processors of petroleum and agricultural products; chemical, glass and consumer goods manufacturers; and high technology industrial parks.

As of December 31, 2010, SJG served a total of 347,725 residential, commercial and industrial customers in southern New Jersey, compared with 343,566 customers at December 31, 2009. No material part of SJG's business is dependent upon a single customer or a few customers. Gas sales, transportation and capacity release for 2010 amounted to 110.8 MMdts (million decatherms), of which 56.6 MMdts were firm sales and transportation, 1.9 MMdts were interruptible sales and transportation and 52.3 MMdts were off-system sales and capacity release. The breakdown of firm sales and transportation throughput includes 44.3% residential, 21.1% commercial, 22.8% industrial, and 11.8% cogeneration and electric generation. At year-end 2010, SJG served 324,246 residential customers, 23,010 commercial customers and 469 industrial customers. This includes 2010 net additions of 3,956 residential customers and 208 commercial customers.

SJG makes wholesale gas sales to gas marketers for resale and ultimate delivery to end users. These "off-system" sales are made possible through the issuance of the Federal Energy Regulatory Commission (FERC) Orders No. 547 and 636. Order No. 547 issued a blanket certificate of public convenience and necessity authorizing all parties, which are not interstate pipelines, to make FERC jurisdictional gas sales for resale at negotiated rates, while Order No. 636 allowed SJG to deliver gas at delivery points on the interstate pipeline system other than its own city gate stations and release excess pipeline capacity to third parties. During 2010, off-system sales amounted to 6.0 MMdts and capacity release amounted to 46.3 MMdts.

Supplies of natural gas available to SJG that are in excess of the quantity required by those customers who use gas as their sole source of fuel (firm customers) make possible the sale and transportation of gas on an interruptible basis to commercial and industrial customers whose equipment is capable of using natural gas or other fuels, such as fuel oil and propane. The term "interruptible" is used in the sense that deliveries of natural gas may be terminated by SJG at any time if this action is necessary to meet the needs of higher priority customers as described in SJG's tariffs. In 2010, usage by interruptible customers, excluding off-system customers amounted to 1.9 MMdts, approximately 1.7% of the total throughput.

South Jersey Energy Solutions, LLC

Effective January 1, 2006, SJI established South Jersey Energy Solutions, LLC, (SJES) as a direct subsidiary for the purpose of serving as a holding company for all of SJI's non-utility businesses. The following businesses are wholly owned subsidiaries of SJES:

South Jersey Resources Group, LLC (SJRG)

SJRG markets natural gas storage, commodity and transportation assets on a wholesale basis. Customers include energy marketers, electric and gas utilities and natural gas producers. SJRG's marketing activities occur mainly in the mid-Atlantic, Appalachian and southern regions of the country. SJRG also conducts price-risk management activities by entering into a variety of physical and financial transactions including forward contracts, swap agreements, option contracts and futures contracts. In 2010, SJRG transacted 245.9 Bcf of natural gas. SJRG contributed approximately 6.7% of SJI's net income on a consolidated basis.

Marina Energy, LLC (Marina)

Marina develops and operates energy-related projects. Marina's largest operating project provides cooling, heating and emergency power to the Borgata Hotel Casino & Spa in Atlantic City, NJ. Marina added service to Borgata's new hotel tower completed in June of 2008. Marina also has a 50% equity interest in LVE Energy Partners, LLC (LVE), which has entered into a contract to design, build, own and operate a district energy system and central energy center for a planned resort in Las Vegas, Nevada.

Marina's other projects include 50% equity interests in various partnerships that primarily operate landfill gas-fired electric production facilities and solar projects. Marina contributed approximately 14.1% of SJI's net income on a consolidated basis.

South Jersey Energy Company (SJE)

SJE provides services for the acquisition and transportation of natural gas and electricity for retail end users and markets total energy management services. As of December 31, 2010, SJE marketed natural gas and electricity to approximately 13,217 customers, which consist of approximately 54% residential customers and 46% commercial/industrial customers. Most customers served by SJE are located within southern New Jersey, northwestern Pennsylvania and New England. In 2010, SJE contributed approximately 13.3% of SJI's net income on a consolidated basis.

South Jersey Energy Service Plus, LLC (SJESP)

SJESP installs and services residential and light commercial HVAC systems, provides plumbing services, and services appliances via the sale of appliance service programs as well as on a time and materials basis. SJESP serves southern New Jersey where it is the largest local HVAC service company with nearly 50 experienced, NATE certified technicians and installers. As of December 31, 2010, SJESP had approximately 56,000 service contract customers, representing approximately 161,000 service contracts for the repair and maintenance of major appliances, such as house heaters, water heaters, gas ranges and electric central air conditioning units. SJESP contributed approximately 0.5% of SJI's net income on a consolidated basis.

Other

SJI Services, LLC provides services such as information technology, human resources, government relations, corporate communications, materials purchasing, fleet management and insurance to SJI and its other subsidiaries.

Energy & Minerals, Inc. (EMI) principally manages liabilities associated with the discontinued operations of nonutility subsidiaries.

SJI also has a 50% joint venture investment with Conectiv Solutions, LLC in Millennium Account Services, LLC (Millennium). Millennium provides meter reading services to SJG and Atlantic City Electric Company in southern New Jersey.

Primary Factors Affecting SJI's Business

SJI's stated long-term goals are to: 1) Grow earnings per share from continuing operations by an average of at least 6% to 7% per year; 2) Increase the dividend on common stock by at least 6% to 7% annually; and 3) Maintain a low-to-moderate risk platform. Management established those goals in conjunction with SJI's Board of Directors based upon a number of different internal and external factors that characterize and influence SJI's current and expected future activities.

The following is a summary of the primary factors we expect to have the greatest impact on SJI's performance and ability to achieve long-term goals going forward:

Business Model — In developing SJI's current business model, our focus has been on our core utility and natural extensions of that business. That focus enables us to concentrate on business activities that match our core competencies. Going forward, we expect to pursue business opportunities that fit this model.

Customer Growth — Southern New Jersey, our primary area of operations, has not been immune to the issues impacting the new housing market nationally. However, net customers for SJG still grew 1.2% for 2010, as we increased our focus on customer conversions. In 2010, the 3,271 consumers converting their homes and businesses from other heating fuels, such as electric, propane or oil represented over 54% of the total new customer acquisitions for the year. In comparison, conversions over the past five years averaged 2,697 annually. Customers in our service territory typically base their decisions to convert on comparisons of fuel costs, environmental considerations and efficiencies. As such, SJG began a comprehensive partnership with the State's Office of Clean Energy to educate consumers on energy efficiency and to promote the rebates and incentives available to natural gas users.

Regulatory Environment — SJG is primarily regulated by the New Jersey Board of Public Utilities (BPU). The BPU sets the rates that SJG charges its rate-regulated customers for services provided and establishes the terms of service under which SJG operates. We expect the BPU to continue to set rates and establish terms of service that will enable SJG to obtain a fair and reasonable return on capital invested. The BPU approved a Conservation Incentive Program (CIP) effective October 1, 2006, discussed in greater detail under Results of Operations, that protects SJG's net income from reductions in gas used by residential, commercial and small industrial customers.

In addition, in April 2009, the BPU approved the Capital Investment Recovery Tracker (CIRT), an accelerated infrastructure investment program and an associated rate tracker, which allows SJG to accelerate $103.0 million of capital spending into 2009 and 2010. The CIRT allows SJG to earn a return of, and return on, investment as the capital is spent.

Weather Conditions and Customer Usage Patterns — Usage patterns can be affected by a number of factors, such as wind, precipitation, temperature extremes and customer conservation. SJG's earnings are largely protected from fluctuations in temperatures by the CIP. The CIP has a stabilizing effect on utility earnings as SJG adjusts revenues when actual usage per customer experienced during an annual period varies from an established baseline usage per customer. Our nonutility gas retail marketing business is directly affected by weather conditions, as it does not have regulatory mechanisms that address weather volatility. The impact of different weather conditions on the earnings of our nonutility businesses is dependent on a range of different factors. Consequently, weather may impact the earnings of SJI's various subsidiaries in different, or even opposite, ways. Further, the profitability of individual subsidiaries may vary from year-to-year despite experiencing substantially similar weather conditions.

Changes in Natural Gas Prices — The utility's gas costs are passed on directly to customers without any profit margin added by SJG. The price the utility charges its periodic customers is set annually, with a regulatory mechanism in place to make limited adjustments to that price during the course of a year. In the event that gas cost increases would justify customer price increases greater than those permitted under the regulatory mechanism, SJG can petition the BPU for an incremental rate increase. High prices can make it more difficult for our customers to pay their bills and may result in elevated levels of bad-debt expense. Among our nonutility activities, the one most likely to be impacted by changes in natural gas prices is our wholesale gas marketing business. Wholesale gas marketing typically benefits from volatility in gas prices during different points in time. The actual price of the commodity does not typically have an impact on the performance of this business line. Our ability to add and retain customers at our retail gas marketing business is affected by the relationship between the price that the utility charges customers for gas and the cost of gas available in the market at specific points in time. However, retail gas marketing accounts for a very small portion of SJI's overall activities.

Energy Project Development — Marina Energy, LLC, SJI's energy project development business, focuses on designing, building, owning and/or operating energy production facilities on, or adjacent to, customer sites. That business is currently involved with several projects that are either operating, or are under development. Based upon our experience to date, market issues that impact the reliability and price of electricity supplied by utilities, and discussions that we are having regarding additional projects, we expect to continue to expand this business. However, the price of natural gas, as well as the availability of various tax incentives and rebates, has a direct effect on the economics of these projects. Further, our largest project opportunities to date have been and are expected to continue to be in the casino gaming industry. Consequently, the economic condition of that industry is important to the near term prospects for obtaining additional projects.

Changes in Interest Rates — SJI has operated in a relatively low interest rate environment over the past several years. Rising interest rates would raise the expense associated with existing variable-rate debt and all issuances of new debt. We have sought to mitigate the impact of a potential rising rate environment by directly issuing fixed-rate debt, or by entering into derivative transactions to hedge against rising interest rates.

Labor and Benefit Costs — Labor and benefit costs have a significant impact on SJI's profitability. Benefit costs, especially those related to pension and health care, have risen in recent years. We sought to manage these costs by revising health care plans offered to existing employees, capping postretirement health care benefits, and changing health care and pension packages offered to new hires. We expect savings from these changes to gradually increase as new hires replace retiring employees. In an effort to accelerate the realization of those benefits, we offered a voluntary separation program at the beginning of 2010 to our unionized employees. Our workforce totaled approximately 650 employees at the end of 2010, of which approximately 52% of that total are under collective bargaining agreements.

Balance Sheet Strength — Our goal is to maintain a strong balance sheet with an average annual equity-to-capitalization ratio of 50%. Our equity-to-capitalization ratio, inclusive of short-term debt, was 44.8% and 50.0% at the end of 2010 and 2009, respectively. A strong balance sheet permits us to maintain the financial flexibility necessary to take advantage of growth opportunities and to address volatile economic and commodity markets while maintaining a low-to-moderate risk platform.

Forward Looking Statements

Certain statements contained in this Annual Report may qualify as "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this Report should be considered forward-looking statements made in good faith and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Words such as "anticipate," "believe," "expect," "estimate," "forecast," "goal," "intend," "objective," "plan," "project," "seek," "strategy" and similar expressions are intended to identify forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. These risks and uncertainties include, but are not limited to the following: general economic conditions on an international, national, state and local level; weather conditions in our marketing areas; changes in commodity costs; changes in the availability of natural gas; regulatory, legislative and court decisions; competition; the availability and cost of capital; costs and effects of legal proceedings and environmental liabilities; the failure of customers or suppliers to fulfill their contractual obligations; and changes in business strategies. A discussion of these and other risks and uncertainties may be found throughout the Report and in filings made by SJI with the Securities and Exchange Commission. These cautionary statements should not be construed by you to be exhaustive and they are made only as of the date of this Report. While SJI believes these forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. Further, SJI undertakes no obligation to update or revise any of its forward-looking statements whether as a result of new information, future events or otherwise.

Critical Accounting Policies — Estimates And Assumptions

Critical Accounting Policies — Estimates And Assumptions — As described in the notes to our consolidated financial statements, management must make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related disclosures. Actual results could differ from those estimates. Five types of transactions presented in our consolidated financial statements require a significant amount of judgment and estimation. These relate to regulatory accounting, derivatives, environmental remediation costs, pension and other postretirement benefit costs, and revenue recognition.

Regulatory Accounting — SJI's largest subsidiary, SJG, maintains its accounts according to the Uniform System of Accounts as prescribed by the BPU. As a result of the ratemaking process, SJG is required to follow Financial Accounting Standards Board (FASB) ASC Topic 980 — "Regulated Operations." SJG is required under Topic 980 to recognize the impact of regulatory decisions on its financial statements. SJG is required under its Basic Gas Supply Service clause (BGSS) to forecast its natural gas costs and customer consumption in setting its rates. Subject to BPU approval, SJG is able to recover or return the difference between gas cost recoveries and the actual costs of gas through a BGSS charge to customers. SJG records any over/under recoveries as a regulatory asset or liability on the consolidated balance sheets and reflects it in the BGSS charge to customers in subsequent years. SJG also enters into derivatives that are used to hedge natural gas purchases. The offset to the resulting derivative assets or liabilities is also recorded as a regulatory asset or liability on the consolidated balance sheets.

The CIP is a BPU-approved pilot program that is designed to eliminate the link between SJG's profits and the quantity of natural gas sold, and to foster conservation efforts. With the CIP, SJG's profits are tied to the number of customers served and how efficiently we serve them, thus allowing SJG to focus on encouraging conservation and energy efficiency among our customers without negatively impacting net income. The CIP tracking mechanism adjusts earnings based on weather and also adjusts earnings where actual usage per customer experienced during an annual period varies from an established baseline usage per customer. Utility earnings are recognized during current periods based upon the application of the CIP. The cash impact of variations in customer usage will result in cash being collected from, or returned to, customers during the subsequent CIP year, which runs from October 1 to September 30.

In addition to the BGSS and the CIP, other regulatory assets consist primarily of remediation costs associated with manufactured gas plant sites (discussed below under Environmental Remediation Costs), deferred pension and other postretirement benefit cost, and several other assets as detailed in Note 11 to the consolidated financial statements. If there are changes in future regulatory positions that indicate the recovery of such regulatory assets is not probable, SJG would charge the related cost to earnings. Currently there are no such anticipated changes at the BPU.

Derivatives — SJI recognizes assets or liabilities for contracts that qualify as derivatives that are entered into by its subsidiaries when contracts are executed. We record contracts at their fair value in accordance with FASB ASC Topic 815 –"Derivatives and Hedging." We record changes in the fair value of the effective portion of derivatives qualifying as cash flow hedges, net of tax, in Accumulated Other Comprehensive Loss and recognize such changes in the income statement when the hedged item affects earnings. Changes in the fair value of derivatives not designated as hedges are recorded in earnings in the current period. Currently we do not designate energy-related derivative instruments as cash flow hedges. Certain derivatives that result in the physical delivery of the commodity may meet the criteria to be accounted for as normal purchases and normal sales if so designated, in which case the contract is not marked-to-market, but rather is accounted for when the commodity is delivered. Due to the application of regulatory accounting principles generally accepted in the United States of America (GAAP), derivatives related to SJG's gas purchases that are marked-to-market are recorded through the BGSS. SJG occasionally enters into financial derivatives to hedge against forward price risk. These derivatives are recorded at fair value with an offset to regulatory assets and liabilities through SJG's BGSS, subject to BPU approval (See Notes 10 and 11 to the consolidated financial statements). We adjust the fair value of the contracts each reporting period for changes in the market. As discussed in Notes 16 and 17 of the consolidated financial statements, energy-related derivative instruments are traded in both exchange-based and non-exchange-based markets. Exchange-based contracts are valued using unadjusted quoted market sources in active markets and are categorized in Level 1 in the fair value hierarchy established by FASB ASC Topic 820 – "Fair Value Measurements and Disclosures." Certain non-exchange-based contracts are valued using indicative non-binding price quotations available through brokers or from over-the-counter, on-line exchanges and are categorized in Level 2. These price quotations reflect the average of the bid-ask, mid-point prices and are obtained from sources that management believes provide the most liquid market. Management reviews and corroborates the price quotations with at least one additional source to ensure the prices are observable market information, which includes consideration of actual transaction volumes, market delivery points, bid-ask spreads and contract duration. Derivative instruments that are used to limit our exposure to changes in interest rates on variable-rate, long-term debt are valued using quoted prices on commonly quoted intervals, which are interpolated for periods different than the quoted intervals, as inputs to a market valuation model. Market inputs can generally be verified and model selection does not involve significant management judgment, as a result, these instruments are categorized in Level 2 in the fair value hierarchy. For non-exchange-based derivatives that trade in less liquid markets with limited pricing information, model inputs generally would include both observable and unobservable inputs. In instances where observable data is unavailable, management considers the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 in the fair value hierarchy as the model inputs generally are not observable. Counterparty credit risk and the credit risk of SJI are incorporated and considered in the valuation of all derivative instruments as appropriate. The effect of counterparty credit risk and the credit risk of SJI on the derivative valuations is not significant.

Environmental Remediation Costs — We estimate a range of future costs based on projected investigation and work plans using existing technologies. In preparing consolidated financial statements, SJI records liabilities for future costs using the lower end of the range of future costs because a single reliable estimation point is not feasible due to the amount of uncertainty involved in the nature of projected remediation efforts and the long period over which remediation efforts will continue. We update estimates each year to take into account past efforts, changes in work plans, remediation technologies, government regulations and site-specific requirements (See Note 15 to the consolidated financial statements).

Pension and Other Postretirement Benefit Costs — The costs of providing pension and other postretirement employee benefits are impacted by actual plan experience as well as assumptions of future experience. Employee demographics, plan contributions, investment performance, and assumptions concerning mortality, return on plan assets, discount rates and health care cost trends all have a significant impact on determining our projected benefit obligations. We evaluate these assumptions annually and adjust them accordingly. These adjustments could result in significant changes to the net periodic benefit costs of providing such benefits and the related liabilities recognized by SJI. While the discount rate and expected return on plan assets both decreased slightly in the determination of the 2009 benefit costs, the primary cost driver in 2009 was the erosion of plan assets during 2008. The declines in the equity markets during 2008 resulted in significant unrealized losses in the assets of the plans, causing the 2009 cost of providing such benefits to more than double.

The recognition of the unrealized losses originating in 2008 over the average remaining service period of active plan participants continued to cause the cost of providing such plans to remain relatively high in 2010. However, additional pension contributions and improvements in equity markets during both 2009 and 2010 further reduced the cost of providing such benefits in 2010, despite a 50 basis point decrease in the expected return on plan assets.

Revenue Recognition — Gas and electricity revenues are recognized in the period the commodity is delivered to customers. SJG, SJRG and SJE bill customers monthly. A majority of SJG and SJE customers have their meters read on a cycle basis throughout the month. For SJG and SJE retail customers that are not billed at the end of each month, we record an estimate to recognize unbilled revenues for gas/electricity delivered from the date of the last meter reading to the end of the month. SJG's and SJE's unbilled revenue for natural gas is estimated each month based on monthly deliveries into the system; unaccounted for natural gas based on historical results; customer-specific use factors, when available; actual temperatures during the period; and applicable customer rates. SJE's unbilled revenue for retail electricity is based on customer-specific use factors and applicable customer rates. We bill SJG customers at rates approved by the BPU. SJE and SJRG customers are billed at rates negotiated between the parties.

We recognize revenues related to SJESP's appliance service contracts seasonally over the full 12-month term of the contract. Revenues related to services provided on a time and materials basis are recognized on a monthly basis as the services are provided.

Marina recognizes revenue on a monthly basis as services are provided and for on-site energy production that is delivered to its customers.

The BPU allows SJG to recover gas costs in rates through the BGSS price structure. SJG defers over/under recoveries of gas costs and includes them in subsequent adjustments to the BGSS rate. These adjustments result in over/under recoveries of gas costs being included in rates during future periods. As a result of these deferrals, utility revenue recognition does not directly translate to profitability. While SJG realizes profits on gas sales during the month of providing the utility service, significant shifts in revenue recognition may result from the various recovery clauses approved by the BPU. This revenue recognition process does not shift earnings between periods, as these clauses only provide for cost recovery on a dollar-for-dollar basis (See Notes 10 and 11 to the consolidated financial statements).

In January 2010, the BPU approved an extension of the CIP through 2013. The CIP may be extended for a 1-year period in the absence of a Board order taking any affirmative action to the contrary. Each CIP year begins October 1 and ends September 30 of the subsequent year. On a monthly basis during the CIP year, SJG records adjustments to earnings based on weather and customer usage factors, as incurred. Subsequent to each year, SJG makes filings with the BPU to review and approve amounts recorded under the CIP. BPU approved cash inflows or outflows generally will not begin until the next CIP year and have no impact on earnings at that time.

New Accounting Pronouncements — See detailed discussions concerning New Accounting Pronouncements and their impact on SJI in Note 1 to the consolidated financial statements.

Rates And Regulation — As a public utility, SJG is subject to regulation by the BPU. Additionally, the Natural Gas Policy Act, which was enacted in November 1978, contains provisions for Federal regulation of certain aspects of SJG's business. SJG is affected by Federal regulation with respect to transportation and pricing policies applicable to pipeline capacity from Transcontinental Gas Pipeline Corporation (SJG's major supplier), Columbia Gas Transmission Corporation and Dominion Transmission, Inc., since such services are provided under rates and terms established under the jurisdiction of the FERC. SJG's retail sales are made under rate schedules within a tariff filed with, and subject to, the jurisdiction of the BPU. These rate schedules provide primarily for either block rates or demand/commodity rate structures. SJG's primary rate mechanisms include base rates, the Basic Gas Supply Service Clause, Capital Investment Recovery Tracker, Energy Efficiency Tracker and the Conservation Incentive Program.

Effective September 17, 2010, the BPU granted SJG a base rate increase of $42.1 million, which was predicated, in part, upon an 8.21% rate of return on rate base that included a 10.3% return on common equity. The $42.1 million includes $16.6 million of revenue previously recovered through the CIP and $6.8 million of revenues previously recovered through the CIRT, resulting in incremental revenue of $18.7 million. SJG was permitted to recover regulatory assets contained in its petition and is allowed to defer certain federally mandated pipeline integrity management program costs for recovery in its next base rate case. In addition, annual depreciation expense will be reduced by $1.2 million as a result of the amortization of excess cost of removal recoveries. The BPU also authorized a Phase II of the rate proceeding to address the recovery of investment in CIRT not rolled into rate base in this case.

Basic Gas Supply Service Clause (BGSS) — In December 2002, the BPU approved the BGSS price structure which gave SJG customers the ability to make more informed decisions regarding their choices of an alternate supplier by having a utility price structure that is more consistent with market conditions. The cost of gas purchased from the utility by periodic consumers is set annually by the BPU through a BGSS clause within the tariff. When actual gas costs experienced are less than those charged to customers under the BGSS, customer bills in the subsequent BGSS period(s) are reduced by returning the overrecovery with interest. When actual gas costs are more than is recovered through rates, SJG is permitted to charge customers more for gas in future periods to recover the shortfall.

Capital Investment Recovery Tracker (CIRT) — In April 2009, the BPU approved an accelerated infrastructure investment program and an associated rate tracker, which allowed SJG to accelerate $103.0 million of capital spending into 2009 and 2010. The BPU authorized Phase II of its rate case proceeding to address the recovery of investments in CIRT not rolled into rate base in its September 2010 rate case settlement. The CIRT allows SJG to earn a return of, and return on, investment as the capital is spent.

Energy Efficiency Tracker (EET) — In July 2009, the BPU approved an energy efficiency program to invest $17.0 million over two years in energy efficiency programs for residential, commercial and industrial customers. Under this program, SJG can recover incremental operating and maintenance expenses and earn a return of, and return on, program investments.

Conservation Incentive Program (CIP) — The CIP is a BPU-approved pilot program that is designed to eliminate the link between SJG profits and the quantity of natural gas SJG sells, and to foster conservation efforts. With the CIP, SJG's profits are tied to the number of customers served and how efficiently SJG serves them, thus allowing SJG to focus on encouraging conservation and energy efficiency among its customers without negatively impacting net income. The CIP tracking mechanism adjusts earnings based on weather, and also adjusts SJG's earnings when actual usage per customer experienced during an annual period varies from an established baseline usage per customer. In January 2010, the BPU approved an extension of the CIP through September 2013. The CIP may be extended for a 1-year period in the absence of a Board order taking any affirmative action to the contrary with regard to the pilot program.

Utility earnings are recognized during current periods based upon the application of the CIP. The cash impact of variations in customer usage will result in cash being collected from, or returned to, customers during the subsequent CIP year, which runs from October 1 to September 30.

The effects of the CIP on SJG's net income for the last three years and the associated weather comparisons were as follows ($'s in millions):

	2010	2009	2008
Net Income Benefit:			
CIP — Weather Related	$ 1.1	$ 0.8	$ 1.6
CIP — Usage Related	5.5	8.5	9.2
Total Net Income Benefit	$ 6.6	$ 9.3	$ 10.8
Weather Compared to 20-Year Average	2.2% warmer	1.1% warmer	4.7% warmer
Weather Compared to Prior Year	0.1% warmer	3.9% colder	1.6% warmer

As part of the CIP, SJG is required to implement additional conservation programs including customized customer communication and outreach efforts, targeted upgrade furnace efficiency packages, financing offers, and an outreach program to speak to local and state institutional constituents. SJG is also required to reduce gas supply and storage assets and their associated fees. Note that changes in fees associated with supply and storage assets have no effect on SJG's net income as these costs are passed through directly to customers on a dollar-for-dollar basis.

Earnings accrued and payments received under the CIP are limited to a level that will not cause SJG's return on equity to exceed 10.3% (excluding earnings from off-system gas sales and certain other tariff clauses) and the annualized savings attained from reducing gas supply and storage assets.

Other Rate Mechanisms — SJG's tariff also contains provisions permitting the recovery of environmental remediation costs associated with former manufactured gas plant sites, energy efficiency and renewable energy program costs, consumer education program costs and low-income program costs. These costs are recovered from customers through the Societal Benefits Clause.

See additional detailed discussions on Rates and Regulatory Actions in Note 10 to the consolidated financial statements.

Environmental Remediation — See detailed discussion concerning Environmental Remediation in Note 15 to the consolidated financial statements.

Competition — SJG's franchises are non-exclusive. Currently, no other utility provides retail gas distribution services within SJG's territory. SJG does not expect any other utilities to do so in the foreseeable future because of the extensive investment required for utility plant and related costs. SJG competes with oil, propane and electricity suppliers for residential, commercial and industrial users, with alternative fuel source providers (wind, solar and fuel cells) based upon price, convenience and environmental factors, and with other marketers/brokers in the selling of wholesale natural gas services. The market for natural gas commodity sales is subject to competition due to deregulation. SJG's competitive position against alternate fuels was enhanced while maintaining margins by using an unbundled tariff. This tariff allows full cost-of-service recovery when transporting gas for our customers. Under this tariff, SJG profits from transporting, rather than selling, the commodity. SJG's residential, commercial and industrial customers can choose their supplier while we recover the cost of service through transportation service (See Customer Choice Legislation below).

SJRG competes in the wholesale natural gas market against a wide array of competitors on a cost competitive, term of service, and reliability basis. SJRG has been a reliable energy provider in this arena for 15 years. There has been significant consolidation of energy wholesale operations and large financial institutions have also entered the marketplace. We expect this trend to continue in the near term, which could result in downward pressure on the margins available.

Marina competes with other companies that develop and operate on-site energy production. Marina also faces competition from customers' preferences for alternative technologies for energy production, as well as those customers that address their energy needs internally.

SJE competes with utilities and other third-party marketers to sell the unregulated natural gas and electricity commodity to customers. Marketers compete largely on price, which is driven by the commodity market. While the utilities are typically indifferent as to where customers get their gas or electricity, the price they set for the commodity they sell creates competition for SJE. Based on its market share, SJE is one of the largest marketers of natural gas in southern New Jersey as of December 31, 2010. In addition, similar to SJG, SJE faces competition from other energy products.

SJESP competes primarily with smaller, local contractors in southern New Jersey that install residential and commercial HVAC systems and provide major appliance repair and plumbing services. These contractors typically only serve their local communities and do not serve the entire southern part of New Jersey.

Customer Choice Legislation — All residential natural gas customers in New Jersey can choose their natural gas commodity supplier under the terms of the *"Electric Discount and Energy Competition Act of 1999."* This bill created the framework and necessary time schedules for the restructuring of the state's electric and natural gas utilities. The Act established *unbundling*, where redesigned utility rate structures allow natural gas and electric consumers to choose their energy supplier. It also established time frames for instituting competitive services for customer account functions and for determining whether basic gas supply services should become competitive. Customers purchasing natural gas from a provider other than the local utility (the "marketer") are charged for the gas costs by the marketer and charged for the transportation costs by the utility. The total number of customers in SJG's service territory purchasing natural gas from a marketer averaged 30,152, 28,379 and 28,637 during 2010, 2009 and 2008 respectively.

Results Of Operations — SJI operates in several different reportable operating segments. Gas Utility Operations (SJG) consists primarily of natural gas distribution to residential, commercial and industrial customers. Wholesale Energy Operations include SJRG's activities. SJE is involved in both retail gas and retail electric activities. Retail Gas and Other Operations include natural gas acquisition and transportation service business lines. Retail Electric Operations consist of electricity acquisition and transportation to commercial and industrial customers. On-Site Energy Production consists of Marina's thermal energy facility and other energy-related projects. Appliance Service Operations includes SJESP's servicing of appliances via the sale of appliance service programs as well as on a time and materials basis, and the installation of residential and small commercial HVAC systems. The Retail Energy Operations caption includes Retail Gas and Other, Retail Electric, On-Site Energy Production and Appliance Service Operations.

Net Income attributable to SJI for 2010 increased $8.5 million, or 14.7%, to $66.7 million, compared to 2009 primarily as a result of the following:

- The income contribution from SJE for 2010 increased $13.2 million to $8.8 million due primarily to the change in unrealized gains and losses on derivatives used to mitigate price risk on electricity as discussed below.
- The decrease in the effective tax rate in 2010, compared to 2009 is due to the impact of the investment tax credit available on renewable energy facilities at Marina, which resulted in a $6.4 million decrease in income taxes.
- The income contribution from SJG for 2010 increased $4.7 million, or 12.0%, to $43.9 million due primarily to the settlement of the base rate case in September 2010.
- The income contribution from SJRG for 2010 decreased $13.4 million, or 75.1%, to $4.4 million due primarily to the change in unrealized gains and losses on derivatives used by SJRG to mitigate natural gas commodity price risk, as discussed below.
- Net Income in 2009 decreased $18.8 million, or 24.5%, to $58.1 million compared with 2008. This decrease was primarily due to a 58.6% decrease in income contribution from SJRG and SJE related to the change in unrealized gains and losses on derivatives used to mitigate price risk on natural gas and electric as discussed below.

A significant portion of the volatility in operating results is due to the impact of the accounting methods associated with SJI's derivative activities. The Company uses derivatives to limit its exposure to market risk on transactions to buy, sell, transport and store natural gas and to buy and sell retail electricity. The Company also uses derivatives to limit its exposure to increasing interest rates on variable-rate debt.

The types of transactions that cause the most significant volatility in operating results are as follows:

- SJRG purchases and holds natural gas in storage to earn a profit margin from its ultimate sale in the future. SJRG uses derivatives to mitigate commodity price risk in order to substantially lock in the profit margin that will ultimately be realized. However, gas stored in inventory is accounted for at the lower of average cost or market; the derivatives used to reduce the risk associated with a change in the value of the inventory are accounted for at fair value, with changes in fair value recorded in operating results in the period of change. As a result, earnings are subject to volatility as the market price of derivatives change, even when the underlying hedged value of the inventory is unchanged. This volatility can be significant from period to period. Over time, gains or losses on sale of gas in storage will be offset by losses or gains on the derivatives, resulting in the realization of the profit margin expected when the transactions were initiated.
- SJE uses forward contracts to mitigate commodity price risk on fixed-price electric contracts with customers. In accordance with GAAP, the forward contracts are recorded at fair value, with changes in fair value recorded in earnings in the period of change. The related customer contracts are not considered derivatives and, therefore, are not recorded in earnings until the electricity is delivered. As a result, earnings are subject to volatility as the market price of the forward contracts change, even when the underlying hedged value of the customer contract is unchanged. Over time, gains or losses on the sale of the fixed-price electricity under contract will be offset by losses or gains on the forward contracts, resulting in the realization of the profit margin expected when the transactions were initiated.

As a result, management also uses the non-generally accepted accounting principles ("non-GAAP") financial measures of Economic Earnings, and Economic Earnings per share, non-utility Economic Earnings, Wholesale Energy Economic Earnings and Retail Energy Economic Earnings when internally evaluating the results of operations for its non-utility operations. These non-GAAP financial measures should not be considered as an alternative to GAAP measures, such as net income, operating income, earnings per share from continuing operations or any other GAAP measure of liquidity or financial performance.

We define Economic Earnings as: Income from continuing operations, (1) less the change in unrealized gains and plus the change in unrealized losses, as applicable and in each case after tax, on all commodity derivative transactions and the ineffective portion of interest rate derivative transactions that we are marking to market, and (2) adjusting for realized gains and losses, as applicable and in each case after tax, on all hedges attributed to inventory transactions to align them with the related cost of inventory in the period of withdrawal.

Economic Earnings is a significant performance metric used by our management to indicate the amount and timing of income from continuing operations that we expect to earn after taking into account the impact of derivative instruments on the related transactions. Specifically, we believe that this financial measure indicates to investors the profitability of the entire derivative related transaction and not just the portion that is subject to mark-to-market valuation under GAAP. Considering only the change in market value on the derivative side of the transaction can produce a false sense as to the ultimate profitability of the total transaction as no change in value is reflected for the non-derivative portion of the transaction.

Economic Earnings for 2010 increased $9.7 million, or 13.7%, to $81.0 million, compared to 2009 primarily as a result of the following:

- The decrease in the effective tax rate in 2010, compared to 2009, is due to the impact of the investment tax credit available on renewable energy facilities at Marina, which resulted in a $6.4 million decrease in income taxes.
- The income contribution from SJG for 2010 increased $4.7 million, or 12.0%, to $43.9 million due primarily to the settlement of the base rate case in September 2010.

The following table presents a reconciliation of our income from continuing operations and earnings per share from continuing operations to Economic Earnings and Economic Earnings per share (in thousands except per share data):

	2010	2009	2008
Income from Continuing Operations	$ 67,285	$ 58,532	$ 77,178
Minus/Plus:			
Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges	13,698	12,723	(9,302)
Economic Earnings	$ 80,983	$ 71,255	$ 67,876
Earnings per Share from Continuing Operations	$ 2.25	$ 1.96	$ 2.59
Minus/Plus:			
Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges	0.45	0.42	(0.32)
Economic Earnings per Share	$ 2.70	$ 2.38	$ 2.27
Non-Utility Income from Continuing Operations	$ 23,361	$ 19,440	$ 37,803
Minus/Plus:			
Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges	13,698	12,723	(9,302)
Non-Utility Economic Earnings	$ 37,059	$ 32,163	$ 28,501

	2010	2009	2008
Wholesale Energy Income from Continuing Operations	$ 4,447	$ 17,859	$ 29,787
Minus/Plus:			
Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges	16,771	6,817	(10,775)
Wholesale Energy Economic Earnings	$ 21,218	$ 24,676	$ 19,012
Retail Energy Income from Continuing Operations	$ 18,914	$ 1,581	$ 8,016
Minus/Plus:			
Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges	(3,073)	5,906	1,473
Retail Energy Economic Earnings	$ 15,841	$ 7,487	$ 9,489

Operating Revenues and Throughput — Utility — The following table summarizes the composition of select gas utility data for the 3-years ended December 31 (in thousands, except for customer and degree day data):

	2010		2009		2008	
Utility Throughput — dth:						
Firm Sales —						
Residential	22,962	21%	22,736	23%	21,530	15%
Commercial	5,884	5%	6,063	6%	6,127	4%
Industrial	292	—	331	1%	188	—
Cogeneration and electric generation	1,167	1%	322	—	561	—
Firm Transportation —						
Residential	2,136	2%	2,005	2%	1,988	1%
Commercial	6,043	6%	5,930	6%	5,687	4%
Industrial	12,625	11%	12,002	12%	12,661	9%
Cogeneration and electric generation	5,500	5%	2,290	2%	2,536	2%
Total Firm Throughput	56,609	51%	51,679	52%	51,278	35%
Interruptible Sales	52	—	5	—	35	—
Interruptible Transportation	1,842	2%	2,314	2%	2,716	2%
Off-System	6,034	5%	6,282	7%	9,632	7%
Capacity Release	46,278	42%	38,387	39%	80,665	56%
Total Throughput — Utility	110,815	100%	98,667	100%	144,326	100%
Utility Operating Revenues:						
Firm Sales —						
Residential	$302,824	64%	$318,143	66%	$320,401	57%
Commercial	67,967	14%	71,669	15%	81,914	15%
Industrial	3,573	1%	3,824	1%	5,434	1%
Cogeneration and electric generation	7,774	2%	2,709	1%	7,940	1%
Firm Transportation —						
Residential	11,908	2%	10,491	2%	10,408	2%
Commercial	21,989	5%	19,722	4%	18,286	3%
Industrial	16,613	3%	14,751	3%	12,504	2%
Cogeneration and electric generation	4,598	1%	2,272	—	1,682	—
Total Firm Revenues	437,246	92%	443,581	92%	458,569	81%
Interruptible Sales	770	—	89	—	403	—
Interruptible Transportation	1,842	—	2,122	—	1,786	—
Off-System	30,757	7%	32,978	7%	90,430	16%
Capacity Release	4,156	1%	4,282	1%	15,549	3%
Other	1,211	—	1,324	—	1,309	—
	475,982	100%	484,376	100%	568,046	100%

	2010		2009		2008	
Less:						
Intercompany Sales	6,575		4,112		7,855	
Total Utility Operating Revenues	469,407		480,264		560,191	
Less:						
Cost of sales	259,807		289,740		375,549	
Conservation recoveries *	6,910		7,718		7,741	
RAC recoveries *	6,863		5,189		3,079	
EET recoveries *	1,433		190		—	
Revenue taxes	8,607		8,836		8,655	
Utility Margin	$185,787		$168,591		$165,167	
Margin:						
Residential	$115,697	62%	$104,373	62%	$99,862	61%
Commercial and industrial	44,705	24%	39,853	24%	38,995	24%
Cogeneration and electric generation	2,957	2%	2,251	1%	1,997	1%
Interruptible	177	—	144	—	143	—
Off-system & capacity release	1,258	1%	1,416	1%	3,349	2%
Other revenues	2,158	1%	2,511	1%	2,440	1%
Margin before weather normalization & decoupling	166,952	90%	150,548	89%	146,786	89%
CIRT mechanism	7,523	4%	2,198	1%	—	—
CIP mechanism	11,139	6%	15,809	10%	18,381	11%
EET mechanism	173	—	36	—	—	—
Utility Margin	$185,787	100%	$168,591	100%	$165,167	100%
Number of Customers at Year End:						
Residential	324,246	93%	320,290	93%	317,026	93%
Commercial	23,010	7%	22,802	7%	22,636	7%
Industrial	469	—	474	—	474	—
Total Customers	347,725	100%	343,566	100%	340,136	100%
Annual Degree Days:	4,582		4,588		4,417	

* Represents expenses for which there is a corresponding credit in operating revenues. Therefore, such recoveries have no impact on our financial results.

Throughput — Utility — Total gas throughput increased 12.1 MMdts, or 12.3%, from 2009 to 2010. The majority of the increase is attributable to higher capacity release, which increased by 7.9 MMdts over the prior year, as reflected in the table above. More capacity became available during 2010 as capacity previously transferred out of SJG under the provisions of the CIP were returned to the utility. See additional discussion of the CIP under "Rates and Regulation." In addition, cogeneration and electric generation sales and transportation throughput increased in 2010. As the summer of 2010 was one of the hottest on record, higher electric consumption for air conditioning drove the demand for greater natural gas consumption by the region's electric utility. In the cogeneration market, a significant increase in transportation throughput was realized as a single customer increased its contract significantly to shift supply from its alternative pipeline supplier to SJG. Firm throughput also increased moderately due to the addition of 3,956 residential customers in 2010.

Total gas throughput decreased 45.7 MMdts, or 31.6%, from 2008 to 2009. Off-System sales (OSS) and capacity release volume decreased substantially in 2009 as SJG's portfolio of assets available for such activities had been reduced in prior years under the CIP. As the majority of profits from OSS and capacity release are returned to the ratepayers via a BPU-approved sharing formula, the resulting impact of such activity on SJG earnings was greatly mitigated, as reflected in the margin table above. Firm throughput increased in the residential market as a result of 3.9% colder weather and the addition of 3,264 residential customers during 2009, as compared with 2008. Changes in throughput in other customer categories were not significant.

Operating Revenues — Utility — Revenues decreased $10.9 million, or 2.3%, during 2010, compared with 2009, after eliminating intercompany transactions. Firm revenues decreased $6.3 million, or 1.4%, primarily as a result of a lower BGSS rate in effect during 2010. While changes in gas costs and BGSS recoveries may fluctuate from period to period, SJG does not profit from the sale of the commodity. Therefore, corresponding fluctuations in Operating Revenue or Cost of Sales have no impact on Company profitability, as further discussed under "Margin." There was also a $2.2 million decrease in OSS during 2010 versus 2009. This decrease was primarily related to more volume being marketed as capacity release, compared with 2009. As reflected in the Margin table above, the impact of lower OSS did not have a material impact on the earnings of the Company, as SJG is required to share 85% of the profits of such activity with the ratepayers.

Revenues for SJG decreased $79.9 million during 2009, compared with 2008, primarily due to lower OSS revenue after eliminating intercompany transactions.

OSS and capacity release revenue decreased by $57.5 million and $11.3 million, respectively, during 2009, compared with 2008. These decreases were primarily related to continued reductions in SJG's portfolio of assets available for such activities under the provisions of the CIP, as noted above under "Throughput," and a significant decrease in the average cost per unit sold during 2009. The OSS unit sales prices declined from an average of $9.39 per dt during 2008 to $5.25 per dt during 2009 due to significant declines in the cost of natural gas during 2009. The impact of lower OSS and capacity release did not have a material impact on earnings. Firm sales revenue decreased approximately $15.0 million during 2009, compared with 2008, also as a result of significantly lower natural gas prices. The average cost of natural gas purchased during 2009 was $7.52 per dt, representing a 27.5% decrease relative to the average cost of $10.38 per dt in 2008. This decrease in natural gas costs precipitated a customer refund of over-recovered gas costs through the BPU-approved BGSS in October 2009 totaling approximately $20.4 million. As previously stated, SJG does not profit from the sale of the commodity. Therefore, corresponding fluctuations in Operating Revenue or Cost of Sales have no impact on Company profitability.

Operating Revenues — Nonutility 2010 vs. 2009 — Combined revenues for SJI's nonutility businesses, net of intercompany transactions, increased by $90.5 million in 2010, compared with 2009.

SJE's revenues from retail gas, net of intercompany transactions, increased by $4.4 million, or 4.1%, in 2010, compared with 2009 due mainly to volumetric growth of 13.1% and a 10.8% increase in the average monthly NYMEX settle price. The majority of SJE's natural gas customer contracts are market priced. As of December 31, SJE was serving the following number of retail gas customers:

	2010	2009
Residential	7,177	8,772
Commercial & Large Volume	1,533	1,415

Sales volumes for the comparative period were as follows (in dekatherms):

	2010	2009
Residential	686,689	826,234
Commercial & Large Volume	17,633,243	15,365,834

Market conditions continue to make it difficult to be competitive in the residential and small commercial markets. We continue to focus our marketing efforts on the pursuit of non-heat-sensitive commercial customers in an effort to mitigate price volatility and weather risk.

SJE's revenues from retail electricity, net of intercompany transactions, increased $92.1 million, or 88.2%, in 2010, compared with 2009. Excluding the impact of the net change in unrealized gains/losses recorded on forward financial contracts due to price volatility of $18.5 million, as discussed above, revenues increased $73.6 million, or 64.0%. A summary of SJE's retail electric revenue is as follows (in millions):

	2010	2009	Change
SJE Retail Electric Revenue	$ 196.5	$ 104.4	$ 92.1
Add: Unrealized Losses (Subtract: Unrealized Gains)	(8.0)	10.5	(18.5)
SJE Retail Electric Revenue, Excluding Unrealized Losses (Gains)	$ 188.5	$ 114.9	$ 73.6

This increase was mainly due to the impact of SJE being the successful bidder on a contract to supply retail electricity to over 400 school districts located throughout the state of New Jersey beginning in April 2009 and a 27.8% increase in the average monthly Locational Marginal Price (LMP) per megawatt hour in 2010, compared with 2009. Excluding the school bid, most of SJE's retail electric customer contracts are market priced.

SJRG's revenues, net of intercompany transactions, decreased $8.7 million in 2010, compared with 2009. Excluding the impact of the net change in unrealized gains/losses recorded on forward financial contracts of $26.6 million due to price volatility and adjusting for realized gains and losses on all hedges attributed to inventory transactions of $(9.8) million to align them with the related cost of inventory in the period of withdrawal, as discussed above, SJRG's revenues increased $8.1 million. A summary of SJRG's revenue is as follows (in millions):

	2010	2009	Change
SJRG Revenue	$ 88.4	$ 97.1	$ (8.7)
Add: Unrealized Losses (Subtract: Unrealized Gains)	30.7	4.1	26.6
Add: Realized Losses (Subtract: Realized Gains) on Inventory Injection Hedges	(2.3)	7.5	(9.8)
SJRG Revenue, Excluding Unrealized Losses (Gains) and Realized Losses (Gains) on Inventory Injection Hedges	$ 116.8	$ 108.7	$ 8.1

This increase in revenues is mainly attributable to increased marketing of Marcellus area production gas and a 43.1% increase in sales of storage volumes. As discussed in Note 16 to the consolidated financial statements, revenues and expenses related to the energy trading activities of SJRG are presented on a net basis in Operating Revenues — Nonutility.

Revenues for Marina increased $1.1 million, or 3.0%, in 2010, compared with 2009, due mainly to higher chilled (23.8%) and hot (34.6%) water volumetric production. Volumetric increases were driven by the impact of improving economic conditions on resort occupancy and the significance of temperature extremes experienced in the summer and winter of 2010, compared with 2009. The increase was partially offset by the impact of the deconsolidation of AC Landfill Energy, LLC (ACLE) and WC Landfill Energy, LLC (WCLE) as discussed in Note 1 to the consolidated financial statements.

Revenues for SJESP increased $0.8 million, or 4.4%, in 2010, compared with 2009, due mainly to additional installation jobs fueled by the availability of state stimulus incentives, which was partially offset by revenues from a large commercial installation job recorded in 2009.

Operating Revenues — Nonutility 2009 vs. 2008 — Combined revenues for SJI's nonutility businesses, net of intercompany transactions, decreased by $36.6 million in 2009, compared with 2008.

SJE's revenues from retail gas, net of intercompany transactions, decreased by $65.5 million, or 37.8%, in 2009, compared with 2008 due mainly to a 56.1% decrease in the average monthly NYMEX settle price. The majority of SJE's natural gas customer contracts are market priced.

In addition, as of December 31, 2009, SJE was serving 8,772 residential and 871 commercial customers compared with 10,310 residential and 1,089 commercial customers as of December 31, 2008. Market conditions continue to make it difficult to be competitive in these markets. We continue to focus our marketing efforts on the pursuit of non-heat-sensitive commercial customers in an effort to mitigate price volatility and weather risk.

SJE's revenues from retail electricity, net of intercompany transactions, increased $57.6 million, or 123.2%, in 2009, compared with 2008. Excluding the impact of the net change in unrealized losses recorded on forward financial contracts due to price volatility of $10.5 million, revenues increased $68.1 million, or 145.6%. This increase was mainly due to the impact of SJE being the successful bidder on a contract to supply retail electricity to over 400 school districts located throughout the state of New Jersey beginning in April 2009. Partially offsetting this was a 51.9% decrease in the average monthly LMP per megawatt hour in 2009, compared with 2008. Excluding the school bid, essentially all of SJE's retail electric customer contracts are market priced.

SJRG's revenues, net of intercompany transactions, decreased $18.0 million in 2009, compared with 2008. Excluding the impact of the net change in unrealized gains and losses recorded on forward financial contracts of $13.0 million due to price volatility, SJRG's revenues decreased $5.0 million. A summary of SJRG's revenue is as follows (in millions):

	2009	2008	Change
SJRG Revenue	$ 97.1	$ 115.1	$ (18.0)
Add: Unrealized Losses			
(Subtract: Unrealized Gains)	4.1	(8.9)	13.0
SJRG Revenue, Excluding			
Unrealized Losses (Gains)	$ 101.2	$ 106.2	$ (5.0)

This decrease in revenues is mainly attributable to the timing of realized storage hedge gains and losses (see Gross Margin — Nonutility). The decrease is partially offset by a 9.2% increase in sales of storage volumes. Revenues and expenses related to the energy trading activities of SJRG are presented on a net basis in Operating Revenues — Nonutility.

Revenues for Marina decreased $9.9 million, or 21.2%, in 2009, compared with 2008 due mainly to significantly lower sales rates for chilled and hot water. Lower sales rates were driven by lower underlying commodity prices. Volumetric hot water production increased 3.9% and chilled water production increased 1.8% in 2009, compared with 2008. Additional production was mainly attributable to a full year's usage from Borgata's Water Club tower, which opened in June 2008. This was offset by lower demand, particularly for chilled water, at Borgata's other facilities mainly driven by the impact of current economic conditions on resort occupancy and significantly cooler temperatures in the summer of 2009, compared with 2008.

Revenues for SJESP decreased $0.3 million, or 1.5%, in 2009, compared with 2008 due mainly to lower time and materials, plumbing and installation sales that were negatively impacted by depressed economic conditions. This was mostly offset by revenues from a large commercial installation job and a price increase to our warranty contracts that took effect April 1, 2008.

Margin — Utility — SJG's margin is defined as natural gas revenues less natural gas costs; volumetric and revenue based energy taxes; and regulatory rider expenses. We believe that margin provides a more meaningful basis for evaluating utility operations than revenues since natural gas costs, energy taxes and regulatory rider expenses are passed through to customers, and therefore, have no effect on margin. Natural gas costs are charged to operating expenses on the basis of therm sales at the prices approved by the New Jersey Board of Public Utilities through the BGSS tariff.

Total margin in 2010 increased $17.2 million, or 10.2%, from 2009 primarily due to the rate case settlement discussed above under "Rates and Regulation," a full year of the CIRT and customer additions. The CIRT allows SJG to earn a return on approved infrastructure investments made under this program.

The CIP protected $11.1 million of pre-tax margin in 2010 that would have been lost due to lower customer usage, compared to $15.8 million in 2009. Of these amounts, $1.9 million and $1.4 million were related to weather variations and $9.2 million and $14.4 million were related to other customer usage variations in 2010 and 2009, respectively.

Total margin in 2009 increased $3.4 million, or 2.1%, from 2008 primarily due to customer additions of 3,430 and approval in 2009 of SJG's CIRT, as discussed above under "Rates and Regulation." Partially offsetting these increases was a decrease in OSS and capacity release margins due to continued reductions in SJG's portfolio of assets available for such activities as discussed above.

The CIP protected $15.8 million of pre-tax margin that would have been lost due to lower customer usage, compared with $18.4 million in 2008. Of these amounts, $1.4 million and $2.7 million were related to weather variations and $14.4 million and $15.7 million were related to other customer usage variations in 2009 and 2008, respectively.

Gross Margin — Nonutility — Gross margin for the nonutility businesses is defined as revenue less all costs that are directly related to the production, selling and delivery of the company's products and services. These costs primarily include natural gas and electric commodity costs as well as certain payroll and related benefits. On the statements of consolidated income, revenue is reflected in Operating Revenues — Nonutility and the costs are reflected in Cost of Sales — Nonutility. As discussed in Note 16 to the consolidated financial statements, revenues and expenses related to the energy trading activities of SJRG are presented on a net basis in Operating Revenues — Nonutility.

For 2010, combined gross margins for the nonutility businesses, net of intercompany transactions, decreased $0.9 million to $60.6 million compared with 2009. This decrease is primarily due to the following:

- Gross margin for SJRG decreased $21.8 million in 2010, compared with 2009. Excluding the impact of the net change in unrealized gains and losses recorded on forward financial contracts and the net change in realized gains and losses on all hedges attributed to inventory transactions as discussed above, gross margin for SJRG decreased $5.1 million due mainly to tighter spreads attained on our storage and transportation assets. These tighter spreads were partially offset by margins derived from increased marketing of Marcellus production gas. Storage assets allow SJRG to lock in the differential between purchasing natural gas at low current prices and selling equivalent quantities at higher future prices. Gross margin is generated via seasonal pricing differentials. While this margin will be attained over the transaction cycle, the timing of physical injections and withdrawals and related hedge settlements can cause earnings fluctuations for accounting purposes due to the volatile nature of wholesale gas prices. During the injection season of 2009, NYMEX prices decreased significantly. Typical to our business cycle, we entered into financial hedges designed to protect our ultimate injection prices at a time when NYMEX prices were relatively high. These contracts settled in the injection months when the NYMEX had fallen considerably and thus produced significant realized hedge losses that were recorded into earnings. During this period, we purchased less expensive physical gas that was injected into storage. During the injection season of 2010, the impact of realized hedge gains/losses recorded into earnings was not significant.

Overall, SJRG's contribution to margin from storage and transportation assets has decreased due to market conditions and we have begun to shed some of these assets. However, we expect to continue to add substantial margin from marketing and related opportunities in the Marcellus region, capitalizing on our established presence in the area. Future margins could fluctuate significantly due to the volatile nature of wholesale gas prices.

Storage and transportation assets under contract as of December 31, are as follows:

	2010	2009	2008
Storage (Bcf)	12.5	12.2	12.2
Transportation (dts/day)	83,115	153,000	124,375

- Gross Margin for Marina decreased $1.3 million in 2010, compared with 2009. Gross margin as a percentage of Operating Revenues decreased 5.1 percentage points due mainly to the deconsolidation of ACLE and WCLE as discussed in Note 1 to the consolidated financial statements and an increase in low-margin electricity sales to the Borgata.
- Gross margin from SJE's retail gas sales increased $0.8 million in 2010, compared with 2009. Excluding the impact of a $0.3 million change in unrealized gains/losses recorded on forward financial contracts as discussed above, gross margin increased $0.5 million in 2010, compared with 2009 due mainly to incremental margins from new customers acquired in our Pennsylvania retail book, which was partially offset by the impact of lower New Jersey customer counts (See Operating Revenues — Nonutility). Gross margins as a percentage of Operating Revenues did not change significantly in 2010, compared with 2009.
- Gross margin from SJE's retail electricity sales increased $21.0 million in 2010, compared with 2009. Excluding the impact of a $18.5 million change in unrealized gains/losses recorded on forward financial contracts, gross margin increased $2.5 million in 2010, compared with 2009. This increase was mainly due to the impact of the school bid and additional customer growth as mentioned in Operating Revenues — Nonutility. Excluding the impact of the change in unrealized gains/losses, gross margin as a percentage of Operating Revenues did not change significantly in 2010, compared with 2009.
- Gross margin for SJESP increased $0.1 million in 2010, compared with 2009. Gross margin as a percentage of Operating Revenues did not change significantly between years.

For 2009, combined gross margins for the nonutility businesses, net of intercompany transactions, decreased $36.4 million to $61.5 million, compared with 2008. This decrease is primarily due to the following:

- Gross Margin for SJRG decreased $20.5 million in 2009, compared with 2008. Excluding the impact of the net change in unrealized gains and losses recorded on forward financial contracts as discussed above, gross margin for SJRG decreased $8.3 million due mainly to the timing of realized hedge gains and losses related to our storage assets. Storage assets allow SJRG to lock in the differential between purchasing natural gas at low current prices and selling equivalent quantities at higher future prices. Gross margin is generated via seasonal pricing differentials. While this margin will be attained over the transaction cycle, the timing of physical injections and withdraws and related hedge settlements can cause earnings fluctuations for accounting purposes due to the volatile nature of wholesale gas prices. During the injection season of 2008, NYMEX prices increased significantly. Typical to our business cycle, we entered into financial hedges designed to protect our ultimate injection prices at a time when NYMEX prices were relatively low. These contracts settled in the injection months when the NYMEX had risen considerably and thus produced significant realized hedge gains that were recorded into earnings. During this period we purchased more expensive physical gas that was injected into storage. During the injection season of 2009, just the opposite occurred as NYMEX prices fell considerably and our hedge contracts were settled at significant losses, which were recorded into earnings. However, during this period we were able to purchase physical injection gas at relatively low prices.

  Storage and transportation assets under contract as of December 31, are as follows:

	2009	2008	2007
Storage (Bcf)	12.2	12.2	10.0
Transportation (dts/day)	153,000	124,375	69,429

- Gross Margin for Marina decreased $3.8 million in 2009, compared with 2008. Gross margin as a percentage of Operating Revenues increased 3.9 percentage points due mainly to a decrease in low-margin electric sales to Borgata. As per our contract, the billing rates are designed to recover the underlying commodity costs over time. However during interim periods, certain components of the underlying commodity costs are not adjusted proportionately.
- Gross margin from SJE's retail gas sales decreased $2.8 million in 2009, compared with 2008. Excluding the impact of a $0.6 million change in unrealized gains/losses recorded on forward financial contracts, gross margin decreased $2.2 million in 2009, compared with 2008 due mainly to lower customer counts (See Operating Revenues — Nonutility) and tighter margins due to increased competition. Also, during the first quarter of 2008, SJE partially recovered losses from a full requirements customer in the commercial market that were recognized in 2006. Gross margin as a percentage of Operating Revenues did not change significantly in 2009, compared with 2008.
- Gross margin from SJE's retail electricity sales decreased $8.9 million in 2009, compared with 2008. Excluding the impact of a $10.5 million increase in unrealized losses recorded on forward financial contracts, gross margin increased $1.6 million in 2009, compared with 2008. This increase was mainly due to the impact of the school bid as mentioned in Operating Revenues — Nonutility. Excluding the impact of the unrealized losses, gross margin as a percentage of Operating Revenues decreased 2.1 percentage points in 2009, compared with 2008. Margins as a percentage of Operating Revenues declined due to three main factors. First, we recovered some previously expensed costs in 2008. Second, several of our larger higher margin customers consumed significantly fewer volumes in 2009. Third, charges for transmission and marginal losses were substantially higher in 2009.
- Gross Margin for SJESP decreased $0.1 million in 2009, compared with 2008. Gross margin as a percentage of Operating Revenues did not change significantly between years.

Operations Expense — A summary of net changes in operations expense follows (in thousands):

	2010 vs. 2009	2009 vs. 2008
Utility	$ 4,728	$ 6,422
Nonutility:		
Wholesale Gas	1,625	865
Retail Gas and Other	115	(366)
Retail Electricity	472	584
On-Site Energy Production	(539)	1,311
Appliance Service	1,031	586
Total Nonutility	2,704	2,980
Intercompany Eliminations and Other	(456)	(105)
Total Operations	$ 6,976	$ 9,297

Utility Operations expense increased $4.7 million during 2010, compared with 2009. This is the result of increases in expense associated with uncollectible customer accounts receivable, higher bank fees required to support credit availability and the Company's variable-rate debt, along with moderate increases in corporate support, governance, compliance and employee compensation costs.

Utility Operations expense increased $6.4 million during 2009, as compared with 2008. This increase is primarily the result of a $4.0 million increase in the cost of providing pension and other postretirement benefits plans during 2009 due to significant losses in the assets of those plans during 2008. The Company also experienced moderate increases in insurance, governance, compliance and employee compensation costs during 2009.

Nonutility operations expense increased in 2010, compared with the previous year due mainly to additional personnel, governance and compliance costs to support continued growth. These increases were partially offset by the impact of the deconsolidation of ACLE and WCLE, as discussed in Note 1 to the consolidated financial statements.

Nonutility On-Site Energy Production Operations expense increased in 2009 and 2008, compared with the previous year due mainly to higher labor and operating costs at all active projects, costs related to landfill projects and the thermal plant expansion that began operations during 2008.

Other changes in Operations Expense during 2010 and 2009 were not significant.

Other Operating Expenses — A summary of changes in other consolidated operating expenses (in thousands):

	2010 vs. 2009	2009 vs. 2008
Maintenance	$ 2,681	$ 970
Depreciation	$ 2,738	$ 2,043
Energy and Other Taxes	$ 411	$ (390)

Maintenance — Maintenance expense increased $2.7 million during 2010, compared with 2009; and $1.0 million during 2009, compared with 2008; primarily due to higher levels of Remediation Adjustment Clause (RAC) amortization. These costs are recovered from ratepayers; therefore, SJG experienced an offsetting increase in revenue during 2010 and 2009.

Depreciation Expense — Depreciation increased $2.7 million during 2010, compared with 2009; and $2.0 million during 2009, compared with 2008; due mainly to the increased investment in property, plant and equipment by SJG and Marina.

Energy and Other Taxes — The change in Energy and Other Taxes in 2010 and 2009, compared with the prior year, was not significant.

Other Income and Expense — Other income and expense increased $3.1 million and $0.5 million in 2010 and 2009, compared to the prior year, respectively, due to higher interest income charged for notes receivable advances to affiliates.

Interest Charges — Interest charges increased by $2.9 million in 2010, as compared with 2009, and decreased $6.7 million in 2009, as compared with 2008. The increase in 2010 was due primarily to higher average levels of short-term debt during 2010, along with the issuance of long-term debt at SJG (see Note 14 of the consolidated financial statements). The reduction in interest charges in 2009, as compared to 2008, was due to lower interest rates on short- and long-term debt that more than offset higher average borrowing levels experienced during 2009. Higher borrowings were incurred in 2010 and 2009 mainly to support increased levels of capital investment.

Income Taxes — Income tax expense decreased by $5.5 million for 2010, as compared to 2009. The effective tax rate decreased from 37.0% in 2009 to 30.0% in 2010. This decrease is primarily due to the impact of the investment tax credit available on renewable energy facilities at Marina.

Equity in Earnings of Affiliated Companies — Equity in earnings of affiliated companies decreased by $2.1 million for 2010, as compared to 2009. This decrease in equity in earnings of affiliated companies is primarily due to unrealized losses on interest rate swaps at LVE.

Discontinued Operations — The losses are primarily comprised of environmental remediation and product liability litigation associated with previously disposed of businesses.

Liquidity And Capital Resources:

Liquidity needs are driven by factors that include natural gas commodity prices; the impact of weather on customer bills; lags in fully collecting gas costs from customers under the Basic Gas Supply Service charge; working capital needs of our energy trading and marketing activities; the timing of construction and remediation expenditures and related permanent financings; the timing of equity contributions to unconsolidated affiliates; mandated tax payment dates; both discretionary and required repayments of long-term debt; and the amounts and timing of dividend payments.

Cash Flows from Operating Activities — Liquidity needs are first met with net cash provided by operating activities. Net cash provided by operating activities totaled $159.1 million, $175.2 million and $26.4 million in 2010, 2009 and 2008, respectively. Net cash provided by operating activities varies from year-to-year primarily due to the impact of weather on customer demand and related gas purchases, customer usage factors related to conservation efforts and the price of the natural gas commodity, inventory utilization and gas-cost recoveries. Net cash provided by operating activities declined in 2010, as compared with 2009 due to higher accounts receivable balances at the end of 2010 caused by increased commodity marketing activities and the impact of cold weather on natural gas demand; higher prepaid taxes due to a late-year tax law change; and high levels of cash produced in 2009 from the liquidation of high-priced natural gas in inventory was not repeated in 2010. These factors more than offset an improved recovery of gas costs from customers under our BGSS clause and higher accounts payable due to the increased commodity sales at year end 2010. Net cash provided by operating activities in 2009 were positively impacted by lower unit gas costs and the impact of those costs on natural gas inventory balances. The Company also incurred lower environmental remediation costs in 2009, as compared with 2008. The lower environmental remediation costs include a decrease in remediation expenditures as well as increased insurance recoveries during 2009.

Cash Flows from Investing Activities — SJI has a continuing need for cash resources and capital, primarily to invest in new and replacement facilities and equipment. Net cash outflows for construction projects for 2010, 2009 and 2008 amounted to $166.9 million, $109.3 million and $62.0 million, respectively. We estimate the net cash outflows for construction projects for 2011, 2012 and 2013 to be approximately $145.0 million, $159.6 million and $118.0 million, respectively. The increase in the 2010 capital expenditures was a direct result of SJG's CIRT program, which began in 2009. See additional details under "Rates and Regulation." For capital expenditures, including those under SJG's CIRT, the Company will use short-term borrowings under lines of credit from commercial banks to finance capital expenditures as incurred. From time to time, the Company will refinance the short-term debt incurred to support capital expenditures with long-term debt.

In support of its risk management activities, the Company is required to maintain margin accounts with selected counterparties as collateral for its forward contracts, swap agreements, options contracts and futures contracts. These margin accounts are included in Restricted Investments or Margin Account Liability, depending upon the value of the related contracts, (the change in the Margin Account Liability is reflected in cash flows from Operating Activities) on the consolidated balance sheets. The required amount of restricted investments changes on a daily basis due to fluctuations in the market value of the related outstanding contracts and are difficult to predict. Margin posted by the Company increased by $3.3 million during 2010, compared with a decrease of $25.9 million during 2009 and a $29.7 million increase in 2008.

During 2010, 2009 and 2008, the Company provided net advances to unconsolidated affiliates of $96.1 million, $23.9 million and $7.5 million, respectively. The purpose of the advances was to develop several energy production facilities and to cover certain project related costs of LVE (See Commitments and Contingencies in Note 15 to the consolidated financial statements).

Cash Flows from Financing Activities — Short-term borrowings under lines of credit from commercial banks are used to supplement cash from operations, to support working capital needs and to finance capital expenditures as incurred. From time to time, short-term debt incurred to finance capital expenditures is refinanced with long-term debt.

Credit facilities and available liquidity as of December 31, 2010 were as follows (in thousands):

Company	Total Facility	Usage	Available Liquidity	Expiration Date
SJG:				
Revolving Credit Facility	$ 100,000	$ 50,000	$ 50,000	August 2011(A)
Line of Credit	40,000	—	40,000	August 2011(A)
Uncommitted Bank Lines	40,000	8,900	31,100	Various
Total SJG	180,000	58,900	121,100	
SJI:				
Revolving Credit Facility	200,000	182,793	17,207	Aug. 2011(A), (B)
Term Line of Credit	30,437	30,437	—	October 2011
Uncommitted Bank Lines	95,000	66,150	28,850	Various
Total SJI	325,437	279,380	46,057	
Total	$ 505,437	$ 338,280	$ 167,157	

(A) The Company anticipates extending these lines of credit during the second quarter of 2011.

(B) Includes letters of credit in the amount of $87.6 million under the SJI revolving credit facility.

The SJG facilities are restricted as to use and availability specifically to SJG; however, if necessary the SJI facilities can also be used to support SJG's liquidity needs. All committed facilities contain one financial covenant regarding the ratio of total debt to total capitalization, measured on a quarterly basis. SJI and SJG were in compliance with this covenant as of December 31, 2010. Borrowings under these credit facilities are at market rates. The weighted average borrowing cost, which changes daily, was 0.99%, 0.77% and 1.16% at December 31, 2010, 2009 and 2008, respectively. Based upon the existing credit facilities and a regular dialogue with our banks, we believe there will continue to be sufficient credit available to meet our business' future liquidity needs.

SJI supplements its operating cash flow and credit lines with both debt and equity capital. Over the years, SJG has used long-term debt, primarily in the form of First Mortgage Bonds and Medium Term Notes (MTN), secured by the same pool of utility assets, to finance its long-term borrowing needs. These needs are primarily capital expenditures for property, plant and equipment. In September 2009, SJG received approval from the New Jersey Board of Public Utilities to issue up to $150.0 million in long-term debt by September 2011. During 2010, SJG issued $115.0 million aggregate principal amount of its MTNs under private placements and retired $10.0 million of MTNs at par. In November 2009, SJG completed an early redemption of $9.9 million of 6.50% bonds due in 2016. SJG redeemed this debt early to achieve significant interest expense savings due to the low interest rates available to SJG.

In June 2008, SJG repurchased $25.0 million of its auction-rate securities at par by drawing under its lines of credit. That action resulted in a $25.0 million reduction in long-term debt on SJG's balance sheet. SJG converted these repurchased auction-rate securities to variable rate demand bonds and remarketed them to the public during the third quarter of 2008. No other long-term debt was issued during 2008 or 2009.

In 2008, SJI raised equity capital through its Dividend Reinvestment Plan (DRP). Historically, participants in SJI's DRP received newly issued shares. Through the end of March 2008, we offered a 2% discount on DRP investments as it was the most cost-effective way to raise equity capital in the quantities we were seeking. Due to our continued strong equity position, beginning in April 2008, the 2% discount was not offered and DRP participants began receiving shares purchased in the market. Through the DRP, SJI raised $2.1 million of equity capital by issuing 60,390 shares in 2008. In September 2008, we announced our intent to establish a stock repurchase program for SJI that could result in the repurchase of up to 1.5 million shares of SJI common stock at any time prior to October 2012. No purchases have been made to date.

SJI's capital structure was as follows:

	As of December 31,	
	2010	2009
Equity	44.8%	50.0%
Long-Term Debt	35.5	32.0
Short-Term Debt	19.7	18.0
Total	100.0%	100.0%

The change in the SJI capital structure from 2009 to 2010 is primarily related to an increase in borrowings to support higher accounts receivable balances at the end of 2010 caused by increased commodity marketing activities and the impact of cold weather on natural gas demand; an increase in the 2010 capital expenditures which was a direct result of SJG's CIRT program and an increase in net advances to unconsolidated affiliates to develop several energy production facilities and to cover certain project related costs of LVE as discussed above. A significant porton of these borrowings will be repaid in the first quarter of 2011 as the receivables are collected and the advances to unconsolidated affiliates are replaced with permanent financing.

For 2010, 2009 and 2008, SJI paid quarterly dividends to its common shareholders. SJI has paid dividends on its common stock for 59 consecutive years and has increased that dividend each year for the last 10 years. The Company currently looks to grow that dividend by at least 6% to 7% per year and has a targeted payout ratio of between 50% and 60%. In setting the dividend rate, the Board of Directors of SJI considers future earnings expectations, payout ratio and dividend yield relative to those at peer companies, as well as returns available on other income-oriented investments. However, there can be no assurance that the Company will be able to continue to increase the dividend, meet the targeted payout ratio or pay a dividend at all in the future.

Commitments And Contingencies — SJI has a continuing need for cash resources and capital, primarily to invest in new and replacement facilities and equipment and for environmental remediation costs. Cash outflows for capital expenditures for 2010, 2009 and 2008 amounted to $166.9 million, $109.3 million and $62.0 million, respectively. Management estimates net cash outflows for construction projects for 2011, 2012 and 2013 to be approximately $145.0 million, $159.6 million and $118.0 million, respectively. Costs for remediation projects, net of insurance reimbursements for 2010, 2009 and 2008 amounted to net cash outflows of $3.5 million, $0.4 million and $26.2 million, respectively. Total cash outflows for remediation projects are expected to be approximately $23.7 million, $11.2 million and $8.7 million for 2011, 2012 and 2013, respectively. As discussed in Notes 10 and 15 to the consolidated financial statements, certain environmental costs are subject to recovery from insurance carriers and ratepayers.

Standby Letters Of Credit — As of December 31, 2010, SJI provided $87.6 million of standby letters of credit through SJI's revolving credit facility. Letters of credit in the amount of $62.3 million support variable-rate demand bonds issued through the New Jersey Economic Development Authority (NJEDA) to finance Marina's initial thermal plant project and $25.3 million were posted to enable SJE to market retail electricity and for various construction activities. The Company also provided an additional $25.2 million letter of credit under a separate facility outside of the revolving credit facility to support variable-rate demand bonds issued through the NJEDA to finance the expansion of SJG's natural gas distribution system. This letter of credit expires in August 2011.

SJG and SJRG have certain commitments for both pipeline capacity and gas supply for which they pay fees regardless of usage. Those commitments as of December 31, 2010, average $46.1 million annually and total $243.3 million over the contracts' lives. Approximately 26% of the financial commitments under these contracts expire during the next five years. We expect to renew each of these contracts under renewal provisions as provided in each contract. SJG recovers all prudently incurred fees through rates via the Basic Gas Supply Service clause.

The following table summarizes our contractual cash obligations and their applicable payment due dates as of December 31, 2010 (in thousands):

Contractual Cash Obligations	Total	Up to 1 Year	Years 2 & 3	Years 4 & 5	More than 5 Years
Long-Term Debt	$ 451,400	$ 111,400	$ 29,375	$ 36,284	$ 274,341
Interest on Long-Term Debt	295,757	23,762	43,869	39,792	188,334
Construction Obligations	13,277	13,277	—	—	—
Operating Leases	3,078	676	1,106	840	456
Commodity Supply Purchase Obligations	611,798	372,762	132,264	27,745	79,027
New Jersey Clean Energy Program (Note 10)	24,031	11,053	12,978	—	—
Other Purchase Obligations	754	754	—	—	—
Total Contractual Cash Obligations	$1,400,095	$ 533,684	$ 219,592	$104,661	$ 542,158

SJG's variable rate debt of $25.0 million and Marina's variable rate debt of $61.4 million have been included in the current portion of long-term debt above because the letters of credit that provide liquidity support expire in 2011 (see Note 14 of the consolidated financial statements). However, interest on long-term debt in the table above includes the related interest obligations through maturity as well as the impact of all interest rate swap agreements. Expected environmental remediation costs, asset retirement obligations and the liability for unrecognized tax benefits are not included in the table above as the total obligation cannot be calculated due to the subjective nature of these costs and the timing of anticipated payments. SJG's regulatory obligation to contribute $3.6 million annually to its other postretirement benefit plans' trusts, less costs incurred directly by the company, is not included as the duration is indefinite.

Off-Balance Sheet Arrangements — An off-balance sheet arrangement is any contractual arrangement involving an unconsolidated entity under which the company has either made guarantees or has certain other interests or obligations.

The Company has recorded a liability of $1.9 million, which is included in Other Noncurrent Liabilities with a corresponding increase in Investment in Affiliates, on the consolidated balance sheets as of December 31, 2010 for the fair value of the following guarantees:

- In April 2007, SJI guaranteed certain obligations of LVE an unconsolidated joint venture in which Marina has a 50% equity interest. LVE entered into a 25-year contract with a resort developer to design, build, own and operate a district energy system and central energy center for a planned resort in Las Vegas, Nevada. LVE began construction of the facility in 2007 and expected to provide full energy services in 2010, when the resort was originally scheduled to be completed. LVE suspended construction of the district energy system and central energy center in January 2009 after the resort developer's August 2008 announcement that it was delaying the completion of construction of the resort due to the difficult environment in the capital markets and weak economic conditions. The resort developer had indicated that it was considering different strategies to move its project forward, including opening its project in phases and obtaining a partner, but that it was unlikely construction would resume during 2009. In October 2010, the resort developer announced that they do not expect to resume construction on the project for three to five years. They stated that they remain committed to having a significant presence on the Las Vegas Strip as part of a long-term growth strategy and continue to view this site as a major strategic asset.

  The district energy system and central energy center are being financed by LVE with debt that is non-recourse to SJI. The outstanding balance of LVE's bank debt is approximately $220.6 million as of December 31, 2010. In September 2009, LVE reached an agreement with the banks that are financing the energy facilities to address defaults under the financing agreements. These LVE defaults were caused by the resort developer's construction delay and the termination of an energy services agreement by a hotel operator associated with the project. As a result of these defaults, the banks had previously stopped funding the project. The terms of the September 2009 agreement required SJI and its partner in this joint venture to guarantee the payment of future interest costs by LVE through, at the latest, December 2010. In addition, SJI and its partner in this joint venture each committed to provide approximately $8.9 million of additional capital as of September 2009 to cover costs related to the termination of the energy services agreement by a hotel operator and interest costs incurred since August 2008, when the resort developer suspended construction. Of this amount, $6.7 million was in the form of an irrevocable letter of credit from a bank and the remaining $2.2 million was provided in cash in 2009. In turn, the banks waived all existing defaults under the financing agreements and were relieved of their commitment to provide additional funding. The $6.7 million discussed above, along with the $30.4 million of capital that Marina originally agreed to contribute as part of its construction period financing, was contributed in December 2010. As a result of the construction delay, the district energy system and central energy center was not completed by the end of 2010 as originally expected. Consequently, the full amount of LVE's debt became due and payable in December 2010. LVE intends to seek additional financing to complete the facility once construction of the resort resumes, however, as of December 31, 2010, LVE was in default under the financing agreements with the banks. The Energy Sales Agreement between LVE and the resort developer includes a payment obligation by the resort developer to pay certain fees and expenses to LVE. A portion of this payment obligation is guaranteed to LVE's lenders by the parent of the resort developer. LVE is currently in discussions with (a) the resort developer to determine the amount and timing of the payments to be made by the resort developer to LVE during the suspension period and (b) the banks that are financing the energy facilities to address the existing default under the financing agreements. As of December 31, 2010, the Company had a net liability of approximately $1.6 million included in Other Noncurrent Liabilities on the consolidated balance sheets related to this project, in addition to unsecured Notes Receivable — Affiliate of approximately $52.2 million due from LVE. As of December 31, 2010, SJI's capital at risk is limited to its equity contributions and the unsecured notes receivable totaling approximately $65.3 million. During 2010, SJI and its partner in this joint venture each provided support to LVE of approximately $48.5 million to cover interest and other project-related costs and capital contribution obligations.

As a result of the construction delay, management has evaluated the investment in LVE and concluded that the fair value of this investment continues to be in excess of the carrying value as of December 31, 2010.

In 2007, SJI issued a performance guaranty for up to $180.0 million to the resort developer to ensure that certain construction milestones relating to the development of the thermal facility are met. As a result of the resort developer not achieving certain milestones, SJI was no longer obligated under this guaranty as of December 31, 2010. SJI has also guaranteed certain performance obligations of LVE under the operating agreements between LVE and the resort developer, up to $20.0 million each year for the term of the agreement, commencing with the first year of operations. SJI and its partner in this joint venture have entered into reimbursement agreements that secure reimbursement for SJI of a proportionate share of any payments made by SJI on these guarantees.

- SJI has guaranteed certain obligations of BC Landfill Energy, LLC (BCLE) and WC Landfill Energy, LLC (WCLE), unconsolidated joint ventures in which Marina has a 50% equity interest. BCLE and WCLE have entered into agreements ranging from 15-20 years with the respective county governments to lease and operate facilities that will produce electricity from landfill methane gas. Although unlikely, the maximum amount that SJI could be obligated for, in the event that BCLE and WCLE do not meet minimum specified levels of operating performance and no mitigating action is taken, or are unable to meet certain financial obligations as they become due, is approximately $4.2 million each year. SJI and its partner in these joint ventures have entered into reimbursement agreements that secure reimbursement for SJI of a proportionate share of any payments made by SJI on these guarantees. SJI holds variable interests in BCLE and WCLE but is not the primary beneficiary.
- SJI has guaranteed the long-term debt obligations of ACLE, an unconsolidated joint venture in which Marina has a 50% equity interest. ACLE has entered into a long-term agreement with a county government to lease and operate a facility that will produce electricity from landfill methane gas. Although unlikely, the maximum amount that SJI could be obligated for, in the event that ACLE is unable to meet certain financial obligations as they become due, is approximately $1.5 million. SJI and its partner in this joint venture have entered into a reimbursement agreement that secures reimbursement for SJI of a proportionate share of any payments made by SJI on this guarantee. SJI holds a variable interest in ACLE, but is not the primary beneficiary.
- As of December 31, 2010, SJI had issued $4.4 million of parental guarantees on behalf of an unconsolidated subsidiary. These guarantees generally expire within the next two years and were issued to enable our subsidiary to market retail natural gas.

Pending Litigation — SJI is subject to claims arising in the ordinary course of business and other legal proceedings. We accrue liabilities related to claims when we can reasonably estimate the amount or range of amounts of probable settlement costs or other charges. SJI has been named in, among other actions, certain product liability claims related to our former sand mining subsidiary. Management does not currently anticipate the disposition of any known claims to have a material adverse effect on SJI's financial position, results of operations or liquidity.

Market Risks:

Commodity Market Risks — Certain regulated and nonregulated SJI subsidiaries are involved in buying, selling, transporting and storing natural gas and buying and selling retail electricity for their own accounts, as well as managing these activities for other third parties. These subsidiaries are subject to market risk due to price fluctuations. To hedge against this risk, we enter into a variety of physical and financial transactions including forward contracts, swaps, futures and options agreements. To manage these transactions, SJI has a well-defined risk management policy approved by our Board of Directors that includes volumetric and monetary limits. Management reviews reports detailing activity daily. Generally, the derivative activities described above are entered into for risk management purposes.

SJG and SJE transact commodities on a physical basis and typically do not enter into financial derivative positions directly. SJRG manages risk in the natural gas markets for these entities as well as for its own portfolio by entering into the types of transactions noted above. As part of its gas purchasing strategy, SJG uses financial contracts through SJRG to hedge against forward price risk. These contracts are recoverable through SJG's BGSS, subject to BPU approval. It is management's policy, to the extent practical, and within predetermined risk management policy guidelines, to have limited unmatched positions on a deal or portfolio basis while conducting these activities. As a result of holding open positions to a minimal level, the economic impact of changes in value of a particular transaction is substantially offset by an opposite change in the related hedge transaction.

SJI has entered into certain contracts to buy, sell, and transport natural gas and to buy and sell retail electricity. For those derivatives not designated as hedges, we recorded the net unrealized pre-tax (loss) gain of $(22.6) million, $(14.8) million and $9.3 million in earnings during the years 2010, 2009 and 2008, respectively, which are included with realized gains and losses in Operating Revenues — Nonutility. The fair value and maturity of these energy-trading contracts determined under the mark-to-market method as of December 31, 2010 is as follows (in thousands):

Assets

Source of Fair Value	Maturity < 1 Year	Maturity 1–3 Years	Maturity Beyond 3 Years	**Total**
Prices actively quoted	$ 18,143	$ 3,061	$ —	$ 21,204
Prices provided by other external sources	19,515	5,363	—	24,878
Prices based on internal models or other valuation methods	1,855	3,132	—	4,987
Total	$ 39,513	$ 11,556	$ —	$ 51,069

Liabilities

Source of Fair Value	Maturity < 1 Year	Maturity 1–3 Years	Maturity Beyond 3 Years	**Total**
Prices actively quoted	$ 17,569	$ 1,944	$ —	$ 19,513
Prices provided by other external sources	17,680	5,325	270	23,275
Prices based on internal models or other valuation methods	7,048	1,102	—	8,150
Total	$ 42,297	$ 8,371	$ 270	$ 50,938

NYMEX (New York Mercantile Exchange) is the primary national commodities exchange on which natural gas is traded. Basis represents the price of a NYMEX natural gas futures contract adjusted for the difference in price for delivering the gas at another location. Contracted volumes of our NYMEX contracts are 6.6 million dekatherms (dts) with a weighted-average settlement price of $5.31 per dt. Contracted volumes of our basis contracts are 5.9 million dts with a weighted average settlement price of $0.52 per dt. Contracted volumes of electricity are 2.2 million MWh with a weighted average settlement price of $56.72 per MWh.

A reconciliation of SJI's estimated net fair value of energy-related derivatives follows (in thousands):

Net Derivatives — Energy Related Assets, January 1, 2010	$ 8,906
Contracts Settled During 2010, Net	(8,252)
Other Changes in Fair Value from Continuing and New Contracts, Net	(523)
Net Derivatives — Energy Related Assets, December 31, 2010	$ 131

Interest Rate Risk — Our exposure to interest-rate risk relates primarily to short-term, variable-rate borrowings. Short-term, variable-rate debt outstanding at December 31, 2010 was $250.7 million and averaged $191.6 million during 2010. A hypothetical 100 basis point (1%) increase in interest rates on our average variable-rate debt outstanding would result in a $1.1 million increase in our annual interest expense, net of tax. The 100 basis point increase was chosen for illustrative purposes, as it provides a simple basis for calculating the impact of interest rate changes under a variety of interest rate scenarios. Over the past five years, the change in basis points (b.p.) of our average monthly interest rates from the beginning to end of each year was as follows: 2010 – 13 b.p. decrease; 2009 – 29 b.p. decrease; 2008 – 397 b.p. decrease; 2007 – 45 b.p. decrease; and 2006 – 67 b.p. increase. For December 2010, our average interest rate on variable-rate debt was 0.86%.

We issue long-term debt either at fixed rates or use interest rate derivatives to limit our exposure to changes in interest rates on variable-rate, long-term debt. As of December 31, 2010, the interest costs on all but $7.1 million of our long-term debt was either at a fixed rate or hedged via an interest rate derivative. Consequently, interest expense on existing long-term debt is not significantly impacted by changes in market interest rates.

As of December 31, 2010, SJI's active interest rate swaps were as follows:

Amount	Fixed Interest Rate	Start Date	Maturity	Type of Debt	Obligor
$ 3,900,000	4.795%	12/01/2004	12/01/2014	Taxable	Marina
$ 8,000,000	4.775%	11/12/2004	11/12/2014	Taxable	Marina
$ 20,000,000	4.080%	11/19/2001	12/01/2011	Tax-exempt	Marina
$ 14,500,000	3.905%	03/17/2006	01/15/2026	Tax-exempt	Marina
$ 500,000	3.905%	03/17/2006	01/15/2026	Tax-exempt	Marina
$ 330,000	3.905%	03/17/2006	01/15/2026	Tax-exempt	Marina
$ 7,100,000	4.895%	02/01/2006	02/01/2016	Taxable	Marina
$ 12,500,000	3.430%	12/01/2006	02/01/2036	Tax-exempt	SJG
$ 12,500,000	3.430%	12/01/2006	02/01/2036	Tax-exempt	SJG

Credit Risk — As of December 31, 2010, approximately $17.0 million, or 33.2%, of the current and noncurrent Derivatives — Energy Related Assets are with a single retail counterparty. This counterparty has contracts with a large number of diverse customers, which minimizes the concentration of this risk. A portion of these contracts may be assignable to SJI in the event of a default by the counterparty.

As of December 31, 2010, SJRG had $102.9 million of Accounts Receivable under sales contracts. Of that total, 86% were with regulated utilities or companies rated investment-grade or guaranteed by an investment-grade-rated parent or were with companies where we have a collateral arrangement or insurance coverage. The remainder of the Accounts Receivable were within approved credit limits.

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of its chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2010. Based on that evaluation, the Company's chief executive officer and chief financial officer concluded that the disclosure controls and procedures employed at the Company are effective.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined under Exchange Act Rules 13a-15(f). The Company's internal control system is designed to provide reasonable assurance to its management and board of directors regarding the preparation and fair presentation of published financial statements. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under that framework, management concluded that our internal control over financial reporting was effective as of December 31, 2010.

The effectiveness of our internal control over financial reporting as of December 31, 2010 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included on page 26.

Changes in Internal Control over Financial Reporting

There has not been any change in the Company's internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the fiscal quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
South Jersey Industries, Inc.
Folsom, New Jersey

We have audited the internal control over financial reporting of South Jersey Industries, Inc. and subsidiaries (the "Company") as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Company and our report dated February 28, 2011 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Philadelphia, Pennsylvania
February 28, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
South Jersey Industries, Inc.
Folsom, New Jersey

We have audited the accompanying consolidated balance sheets of South Jersey Industries, Inc. and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related statements of consolidated income, cash flows, changes in equity and comprehensive income for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of South Jersey Industries, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

Philadelphia, Pennsylvania
February 28, 2011

STATEMENTS OF CONSOLIDATED INCOME

(In Thousands Except for Per Share Data)

South Jersey Industries, Inc. and Subsidiaries
Year Ended December 31,

	2010	2009	2008
Operating Revenues:			
Utility	$ 469,407	$ 480,264	$ 560,191
Nonutility	455,660	365,180	401,786
Total Operating Revenues	925,067	845,444	961,977
Operating Expenses:			
Cost of Sales – (Excluding depreciation)			
– Utility	259,808	289,740	375,549
– Nonutility	395,015	303,648	303,893
Operations	96,042	89,066	79,769
Maintenance	11,550	8,869	7,899
Depreciation	34,018	31,280	29,237
Energy and Other Taxes	12,142	11,731	12,121
Total Operating Expenses	808,575	734,334	808,468
Operating Income	116,492	111,110	153,509
Other Income and Expense	4,551	1,411	890
Interest Charges	(21,896)	(18,992)	(25,676)
Income Before Income Taxes	99,147	93,529	128,723
Income Taxes	(28,811)	(34,302)	(51,948)
Equity in (Loss) Earnings of Affiliated Companies	(3,051)	(926)	176
Income from Continuing Operations	67,285	58,301	76,951
Loss from Discontinued Operations – (Net of tax benefit)	(633)	(427)	(247)
Net Income	66,652	57,874	76,704
Less: Net Loss Attributable to Noncontrolling Interest in Subsidiaries	—	231	227
Net Income – Attributable to South Jersey Industries, Inc. Shareholders	$ 66,652	$ 58,105	$ 76,931
Amounts Attributable to South Jersey Industries, Inc. Shareholders			
Income from Continuing Operations	$ 67,285	$ 58,532	$ 77,178
Loss from Discontinued Operations – (Net of tax benefit)	(633)	(427)	(247)
Net Income — Attributable to South Jersey Industries, Inc. Shareholders	$ 66,652	$ 58,105	$ 76,931
Basic Earnings per Common Share Attributable to South Jersey Industries, Inc. Shareholders:			
Continuing Operations	$ 2.25	$ 1.97	$ 2.60
Discontinued Operations	(0.02)	(0.02)	(0.01)
Basic Earnings per Common Share	$ 2.23	$ 1.95	$ 2.59
Average Shares of Common Stock Outstanding – Basic	29,861	29,785	29,707
Diluted Earnings per Common Share Attributable to South Jersey Industries, Inc. Shareholders:			
Continuing Operations	$ 2.25	$ 1.96	$ 2.59
Discontinued Operations	(0.03)	(0.02)	(0.01)
Diluted Earnings per Common Share	$ 2.22	$ 1.94	$ 2.58
Average Shares of Common Stock Outstanding – Diluted	29,974	29,893	29,843
Dividends Declared per Common Share	$ 1.36	$ 1.22	$ 1.11

The accompanying notes are an integral part of the consolidated financial statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS

(In Thousands)

South Jersey Industries, Inc. and Subsidiaries
Year Ended December 31,

	2010	2009	2008
Cash Flows from Operating Activities:			
Net Income	$ 66,652	$ 57,874	$ 76,704
Loss from Discontinued Operations	633	427	247
Income from Continuing Operations	67,285	58,301	76,951
Adjustments to Reconcile Income from Continuing Operations to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	44,694	39,447	35,665
Net Unrealized Loss (Gain) on Derivatives – Energy Related	22,624	14,815	(9,317)
Unrealized Loss on Derivatives – Other	641	1,210	2,174
Provision for Losses on Accounts Receivable	4,943	2,728	2,332
CIP Receivable	4,381	5,376	2,641
Deferred Gas Costs – Net of Recoveries	22,492	(7,910)	5,885
Deferred SBC Costs – Net of Recoveries	(2,344)	(119)	1,199
Stock-Based Compensation Expense	2,047	1,481	1,263
Deferred and Noncurrent Income Taxes – Net	28,895	21,917	23,014
Environmental Remediation Costs – Net	(3,520)	(449)	(26,175)
Gas Plant Cost of Removal	(1,596)	(1,678)	(1,463)
Changes in:			
Accounts Receivable	(76,634)	(28,003)	(14,293)
Inventories	32,421	68,591	(48,599)
Prepaid and Accrued Taxes – Net	(10,483)	(4,818)	(7,022)
Accounts Payable and Other Accrued Liabilities	37,595	(8,213)	14,018
Margin Account Liability	–	–	(4,112)
Derivatives – Energy Related	(9,645)	12,366	(17,564)
Other Assets and Liabilities	(3,515)	(345)	(8,931)
Cash Flows from Discontinued Operations	(1,187)	493	(1,277)
Net Cash Provided by Operating Activities	159,094	175,190	26,389
Cash Flows from Investing Activities:			
Capital Expenditures	(166,910)	(109,307)	(61,972)
(Purchase of) Net Proceeds from Sale of Restricted Investments in Margin Account	(3,174)	25,883	(29,731)
Proceeds from Sale of Restricted Investments from Escrowed Loan Proceeds	–	–	5,170
Purchase of Restricted Investments with Escrowed Loan Proceeds	–	–	(77)
Investment in Long-Term Receivables	(3,313)	(4,730)	(5,558)
Proceeds from Long-Term Receivables	2,901	5,399	3,399
Purchase of Company Owned Life Insurance	(4,354)	(4,444)	(4,287)
Investment in Affiliate	(4,750)	(3,999)	(2,969)
Return of Investment in Affiliate	–	175	7,470
Proceeds from Sale of Investment in Affiliate	–	–	58
Advances on Notes Receivable – Affilate	(101,957)	(26,780)	(7,457)
Repayment of Advances on Notes Receivable – Affiliate	5,834	2,897	–
Other	(2,843)	–	–
Net Cash Used in Investing Activities	(278,566)	(114,906)	(95,954)
Cash Flows from Financing Activities:			
Net Borrowings from (Repayments of) Lines of Credit	54,087	(15,950)	94,260
Proceeds from Issuance of Long-Term Debt	115,000	–	25,000
Principal Repayments of Long-Term Debt	(10,000)	(9,985)	(25,106)
Dividends on Common Stock	(40,478)	(36,426)	(32,914)
Proceeds from Sale of Common Stock	–	–	2,076
Payments for Issuance of Long-Term Debt	(1,215)	(178)	(320)
Other	618	303	666
Net Cash Provided by (Used in) Financing Activities	118,012	(62,236)	63,662
Net Decrease in Cash and Cash Equivalents	(1,460)	(1,952)	(5,903)
Cash and Cash Equivalents at Beginning of Year	3,823	5,775	11,678
Cash and Cash Equivalents at End of Year	$ 2,363	$ 3,823	$ 5,775
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for:			
Interest (Net of Amounts Capitalized)	$ 21,850	$ 20,519	$ 24,253
Income Taxes (Net of Refunds)	$ 12,120	$ 11,844	$ 35,363
Supplemental Disclosures of Non-Cash Investing Activities			
Capital Expenditures acquired on account but unpaid as of year-end	$ 15,404	$ 19,934	$ 7,877
Guarantee of certain obligations of unconsolidated affiliates	$ –	$ 6,852	$ –

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(In Thousands)	South Jersey Industries, Inc. and Subsidiaries December 31, 2010	2009
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$1,384,797	$1,275,792
Accumulated Depreciation	(337,993)	(314,627)
Nonutility Property and Equipment, at cost	169,770	132,119
Accumulated Depreciation	(23,319)	(20,212)
Property, Plant and Equipment – Net	1,193,255	1,073,072
Investments:		
Available-for-Sale Securities	6,720	5,958
Restricted	8,389	5,215
Investment in Affiliates	8,005	2,483
Total Investments	23,114	13,656
Current Assets:		
Cash and Cash Equivalents	2,363	3,823
Accounts Receivable	200,773	141,109
Unbilled Revenues	72,457	58,598
Provision for Uncollectibles	(8,071)	(6,268)
Notes Receivable – Affiliate	1,183	502
Natural Gas in Storage, average cost	69,725	99,697
Materials and Supplies, average cost	3,796	6,877
Prepaid Taxes	31,384	20,093
Derivatives – Energy Related Assets	39,513	36,512
Other Prepayments and Current Assets	10,714	7,412
Total Current Assets	423,837	368,355
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	248,413	240,462
Derivatives – Energy Related Assets	11,556	11,585
Unamortized Debt Issuance Costs	7,583	6,788
Notes Receivable – Affiliate	126,727	30,838
Contract Receivables	12,486	13,544
Other	29,644	23,708
Total Regulatory and Other Noncurrent Assets	436,409	326,925
Total Assets	$2,076,615	$1,782,008
Capitalization and Liabilities		
Capitalization:		
Equity		
Common Stock: Par Value $1.25 per share; Authorized 60,000,000 shares;		
Outstanding Shares: 29,872,825 (2010) and 29,796,232 (2009)		
Balance at Beginning of Year	$ 37,245	$37,161
Common Stock Issued or Granted Under Stock Plans	96	84
Balance at End of Year	37,341	37,245
Premium on Common Stock	257,274	254,503
Treasury Stock (at par)	(179)	(183)
Accumulated Other Comprehensive Loss	(21,812)	(19,469)
Retained Earnings	297,473	271,505
Total South Jersey Industries, Inc. Shareholders' Equity	570,097	543,601
Noncontrolling Interest in Subsidiaries	—	963
Total Equity	570,097	544,564
Long-Term Debt	340,000	312,793
Total Capitalization	910,097	857,357
Current Liabilities:		
Notes Payable	250,687	196,600
Current Portion of Long-Term Debt	111,400	35,119
Accounts Payable	165,197	123,921
Customer Deposits and Credit Balances	10,917	14,128
Environmental Remediation Costs	27,074	23,639
Taxes Accrued	6,709	6,518
Derivatives – Energy Related Liabilities	42,297	28,260
Deferred Income Taxes – Net	3,282	19,897
Deferred Contract Revenues	5,442	6,081
Interest Accrued	7,259	6,211
Pension and Other Postretirement Benefits	1,217	1,109
Other Current Liabilities	9,043	17,301
Total Current Liabilities	640,524	478,784
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes – Net	258,402	215,346
Investment Tax Credits	1,207	1,518
Pension and Other Postretirement Benefits	71,675	69,141
Environmental Remediation Costs	64,759	49,803
Asset Retirement Obligations	27,965	23,229
Derivatives – Energy Related Liabilities	8,641	10,931
Derivatives – Other	7,404	5,823
Regulatory Liabilities	69,248	50,193
Other	16,693	19,883
Total Deferred Credits and Other Noncurrent Liabilities	525,994	445,867
Commitments and Contingencies (Note 15)		
Total Capitalization and Liabilities	$2,076,615	$1,782,008

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY AND COMPREHENSIVE INCOME

(In Thousands)

South Jersey Industries, Inc. and Subsidiaries
Year Ended December 31, 2008, 2009 & 2010

	Common Stock	Premium on Common Stock	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interest in Subsidiaries	**Total**
Balance at January 1, 2008	$ 37,010	$ 248,449	$ (187)	$ (10,315)	$ 206,123	$ 440	$ 481,520
Net Income					76,931	(227)	76,704
Other Comprehensive Loss, Net of Tax (a)				(13,884)			(13,884)
Contributions to noncontrolling interest in subsidiaries						981	981
Common Stock Issued or Granted Under Stock Plans	151	4,046	11		(167)		4,041
Cash Dividends Declared – Common Stock					(32,914)		(32,914)
Balance at December 31, 2008	37,161	252,495	(176)	(24,199)	249,973	1,194	516,448
Net Income					58,105	(231)	57,874
Other Comprehensive Income, Net of Tax (a)				4,730			4,730
Common Stock Issued or Granted Under Stock Plans	84	2,008	(7)		(147)		1,938
Cash Dividends Declared – Common Stock					(36,426)		(36,426)
Balance at December 31, 2009	37,245	254,503	(183)	(19,469)	271,505	963	544,564
Net Income					66,652		66,652
Other Comprehensive Loss, Net of Tax (a)				(2,343)			(2,343)
Common Stock Issued or Granted Under Stock Plans	96	2,771	4		(206)		2,665
Cash Dividends Declared – Common Stock					(40,478)		(40,478)
Deconsolidation of Joint Ventures (See Note 1)						(963)	(963)
Balance at December 31, 2010	$ 37,341	$ 257,274	$ (179)	$ (21,812)	$ 297,473	$ —	$ 570,097

Disclosure of Changes in Accumulated Other Comprehensive Loss Balances (a)

(In Thousands)

	Postretirement Liability Adjustment	Unrealized Gain (Loss) on Derivatives – Other	Unrealized Gain (Loss) on Available-for-Sale Securities	Other Comprehensive Income (Loss) of Affiliated Companies	Accumulated Other Comprehensive Loss
Balance at January 1, 2008	$ (6,957)	$ (2,227)	$ 12	$ (1,143)	$ (10,315)
Changes During Year	(6,877)	(1,062)	(730)	(5,215)	(13,884)
Balance at December 31, 2008	(13,834)	(3,289)	(718)	(6,358)	(24,199)
Changes During Year	1,208	958	533	2,031	4,730
Balance at December 31, 2009	(12,626)	(2,331)	(185)	(4,327)	(19,469)
Changes During Year	(3,302)	249	339	371	(2,343)
Balance at December 31, 2010	$ (15,928)	$ (2,082)	$ 154	$ (3,956)	$ (21,812)

(a) Determined using a combined statutory tax rate of 41%

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(In Thousands)

South Jersey Industries, Inc. and Subsidiaries
Year Ended December 31,

	2010	2009	2008
Net Income	$ 66,652	$ 57,874	$ 76,704
Other Comprehensive Income (Loss), Net of Tax: (a)			
Postretirement Liability Adjustment	(3,302)	1,208	(6,877)
Unrealized Gain (Loss) on Available-for-Sale Securities	339	533	(730)
Unrealized Gain (Loss) on Derivatives – Other	249	958	(1,062)
Other Comprehensive Income (Loss) of Affiliated Companies	371	2,031	(5,215)
Other Comprehensive Income (Loss) – Net of Tax (a)	(2,343)	4,730	(13,884)
Comprehensive Income	64,309	62,604	62,820
Less: Comprehensive Loss Attributable to Noncontrolling Interest in Subsidiaries	—	231	227
Comprehensive Income Attributable to South Jersey Industries, Inc. Shareholders	$ 64,309	$ 62,835	$ 63,047

(a) Determined using a combined statutory tax rate of 41%.

The Accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary Of Significant Accounting Policies:

General — South Jersey Industries, Inc. (SJI or the Company) currently provides a variety of energy-related products and services primarily through the following subsidiaries:

- South Jersey Gas Company (SJG) is a regulated natural gas utility. SJG distributes natural gas in the seven southernmost counties of New Jersey.
- South Jersey Resources Group, LLC (SJRG) markets wholesale natural gas storage, commodity and transportation in the mid-Atlantic, Appalachian and southern states.
- Marina Energy, LLC (Marina) develops and operates on-site energy-related projects.
- South Jersey Energy Company (SJE) acquires and markets natural gas and electricity to retail end users and provides total energy management services to commercial and industrial customers.
- South Jersey Energy Service Plus, LLC (SJESP) installs residential and small commercial HVAC systems, provides plumbing services and services appliances via the sale of appliance service programs.

Basis Of Presentation — The consolidated financial statements include the accounts of SJI , its wholly owned subsidiaries and subsidiaries in which we have a controlling interest. We eliminate all significant intercompany accounts and transactions. In management's opinion, the consolidated financial statements reflect all normal and recurring adjustments needed to fairly present SJI's financial position and operating results at the dates and for the periods presented. Marina and a joint venture partner formed AC Landfill Energy, LLC (ACLE) and WC Landfill Energy, LLC (WCLE) to develop and install methane-to-electric power generation systems at certain county-owned landfills. Prior to January 1, 2010, the Company accounted for these entities as consolidated subsidiaries. In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance on the consolidation of variable interest entities (VIEs) which was effective for fiscal years beginning after November 15, 2009. The new accounting guidance for VIEs considers if a company has a controlling financial interest in a VIE. A controlling financial interest will have both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and, therefore, are the primary beneficiary of that VIE.

Marina and the joint venture partner of ACLE and WCLE share the executive board seats and their voting rights equally and equally approve the annual budgets of both entities. Based on the shared control of operations, management concluded as of January 1, 2010 that the Company is no longer the primary beneficiary of ACLE and WCLE as defined by the new accounting guidance. As a result, ACLE and WCLE are no longer accounted for as consolidated subsidiaries. As of December 31, 2010, ACLE and WCLE are included with other equity investments in Investment in Affiliates on the consolidated balance sheet. The results of operations of ACLE and WCLE for the year ended December 31, 2010 are included in Equity in Loss of Affiliated Companies on the consolidated statements of income. The adoption of this guidance modified our financial statement presentation, but did not have an impact on our financial statement results.

Equity Investments — Marketable equity securities that are purchased as long-term investments are classified as Available-for-Sale Securities and carried at their fair value on our consolidated balance sheets. Any unrealized gains or losses are included in Accumulated Other Comprehensive Loss. SJI, through wholly owned subsidiaries, holds significant variable interests in several companies but is not the primary beneficiary. Consequently, these investments are accounted for under the equity method. In the event that losses and/or distributions from these equity method investments exceed the carrying value, and the Company is obligated to provide additional financial support, the excess will be recorded as either a current or non-current liability on the consolidated balance sheets. We include the operations of these affiliated companies on a pre-tax basis in the statements of consolidated income under Equity in Affiliated Companies (See Note 3). An impairment loss is recorded when there is clear evidence that a decline in value is other than temporary. An insignificant impairment loss on Available-for-Sale Securities was recorded in 2008. No impairment losses were recorded on Investments during 2010 or 2009.

Estimates And Assumptions — We prepare our consolidated financial statements to conform with accounting principles generally accepted in the United States of America (GAAP). Management makes estimates and assumptions that affect the amounts reported in the consolidated financial statements and related disclosures. Therefore, actual results could differ from those estimates. Significant estimates include amounts related to regulatory accounting, energy derivatives, environmental remediation costs, pension and other postretirement benefit costs, and revenue recognition.

Regulation — SJG is subject to the rules and regulations of the New Jersey Board of Public Utilities (BPU). See Note 10 for a detailed discussion of SJG's rate structure and regulatory actions. SJG maintains its accounts according to the BPU's prescribed Uniform System of Accounts. SJG follows the accounting for regulated enterprises prescribed by FASB ASC Topic 980 -"Regulated Operations." In general, Topic 980 allows for the deferral of certain costs (regulatory assets) and creation of certain obligations (regulatory liabilities) when it is probable that such items will be recovered from or refunded to customers in future periods. See Note 11 for a detailed discussion of regulatory assets and liabilities.

Operating Revenues — Gas and electricity revenues are recognized in the period the commodity is delivered to customers. For SJG and SJE retail customers that are not billed at the end of the month, we record an estimate to recognize unbilled revenues for gas and electricity delivered from the date of the last meter reading to the end of the month. SJRG's gas revenues are recognized in the period the commodity is delivered. Unrealized gains and losses on energy-related derivative instruments are also recognized in operating revenues for SJRG. See further discussion under Derivative Instruments. We recognize revenues related to SJESP appliance service contracts seasonally over the full 12-month terms of the contracts. Revenue related to services provided on a time and materials basis is recognized on a monthly basis as the jobs are completed. Marina recognizes revenue on a monthly basis as services are provided, as lease income is earned, and for on-site energy production that is delivered to its customers.

Revenue Based Taxes — SJI collects certain revenue-based energy taxes from customers. Such taxes include New Jersey State Sales Tax, Transitional Energy Facility Assessment (TEFA) and Public Utilities Assessment (PUA). State sales tax is recorded as a liability when billed to customers and is not included in revenue or operating expenses. TEFA and PUA are included in both utility revenue and cost of sales and totaled \$8.6 million, \$8.8 million and \$8.7 million in 2010, 2009 and 2008, respectively.

Accounts Receivable And Provision For Uncollectible Accounts — Accounts receivable are carried at the amount owed by customers. A provision for uncollectible accounts is established based on our collection experience and an assessment of the collectability of specific accounts.

Property, Plant And Equipment — For regulatory purposes, utility plant is stated at original cost, which may be different than SJG's cost if the assets were acquired from another regulated entity. Nonutility plant is stated at cost. The cost of adding, replacing and renewing property is charged to the appropriate plant account.

Asset Retirement Obligations — The amounts included under Asset Retirement Obligations (ARO) are primarily related to the legal obligations the Company has to cut and cap gas distribution pipelines when taking those pipelines out of service in future years. These liabilities are generally recognized upon the acquisition or construction of the asset. The related asset retirement cost is capitalized concurrently by increasing the carrying amount of the related asset by the same amount as the liability. Changes in the liability are recorded for the passage of time (accretion) or for revisions to cash flows originally estimated to settle the ARO.

ARO activity was as follows (in thousands):

	2010	2009
AROs as of January 1,	$ 23,229	$ 22,553
Accretion	481	507
Additions	242	193
Settlements	(29)	(24)
Revisions in Estimated Cash Flows[1]	4,273	—
Deconsolidation[2]	(231)	—
AROs as of December 31,	$ 27,965	$ 23,229

[1] A corresponding increase was made to Regulatory Assets, thus having no impact on earnings.

[2] Reduction resulting from the deconsolidation of ACLE and WCLE as discussed above.

Depreciation — We depreciate utility plant on a straight-line basis over the estimated remaining lives of the various property classes. These estimates are periodically reviewed and adjusted as required after BPU approval. The composite annual rate for all depreciable utility property was approximately 2.4% in 2010 and 2.3% in both 2009 and 2008. The actual composite rate may differ from the approved rate as the asset mix changes over time. Except for retirements outside of the normal course of business, accumulated depreciation is charged with the cost of depreciable utility property retired, less salvage. Nonutility property depreciation is computed on a straight-line basis over the estimated useful lives of the property, ranging up to 50 years. Gain or loss on the disposition of nonutility property is recognized in operating income.

Capitalized Interest — SJG capitalizes interest on construction at the rate of return on the rate base utilized by the BPU to set rates in its last base rate proceeding (See Note10). Marina capitalizes interest on construction projects in progress based on the actual cost of borrowed funds. SJG's amounts are included in Utility Plant and Marina's amounts are included in Nonutility Property and Equipment on the consolidated balance sheets. Interest Charges are presented net of capitalized interest on the consolidated statements of income. The amount of interest capitalized by SJI for the years ended December 31, 2010, 2009 and 2008 was not significant.

Impairment Of Long-Lived Assets — We review the carrying amount of long-lived assets for possible impairment whenever events or changes in circumstances indicate that such amounts may not be recoverable. For the years ended 2010, 2009 and 2008, no significant impairments were identified.

Derivative Instruments — SJI accounts for derivative instruments in accordance with FASB ASC Topic 815 – "Derivatives and Hedging." We record all derivatives, whether designated in hedging relationships or not, on the consolidated balance sheets at fair value unless the derivative contracts qualify for the normal purchase and sale exemption. In general, if the derivative is designated as a fair value hedge, we recognize the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk in earnings. We currently have no fair value hedges. If the derivative is designated as a cash flow hedge, we record the effective portion of the hedge in Accumulated Other Comprehensive Loss and recognize it in the income statement when the hedged item affects earnings. We recognize ineffective portions of the cash flow hedges immediately in earnings. Currently, we do not designate energy-related derivative instruments as cash flow hedges. We formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives, strategies for undertaking various hedge transactions and our methods for assessing and testing correlation and hedge ineffectiveness. All hedging instruments are linked to the hedged asset, liability, firm commitment or forecasted transaction. Due to the application of regulatory accounting principles under FASB ASC Topic 980, gains and losses on derivatives related to SJG's gas purchases are recorded through the Basic Gas Supply Service (BGSS) clause.

Initially and on an ongoing basis, we assess whether derivatives designated as hedges are highly effective in offsetting changes in cash flows or fair values of the hedged items. We discontinue hedge accounting prospectively if we decide to discontinue the hedging relationship; determine that the anticipated transaction is no longer likely to occur; or determine that a derivative is no longer highly effective as a hedge. In the event that hedge accounting is discontinued, we will continue to carry the derivative on the balance sheet at its current fair value and recognize subsequent changes in fair value in current period earnings. Unrealized gains and losses on the discontinued hedges that were previously included in Accumulated Other Comprehensive Loss will be reclassified into earnings when the forecasted transaction occurs, or when it is probable that it will not occur.

Gas Exploration And Development — The Company capitalizes all costs associated with gas property acquisition, exploration and development activities under the full cost method of accounting. Capitalized costs include costs related to unproved properties, which are not amortized until proved reserves are found or it is determined that the unproved properties are impaired. All costs related to unproved properties are reviewed quarterly to determine if impairment has occurred. As of December 31, 2010 and 2009, $3.3 million and $3.5 million, respectively, related to interests in proved and unproved properties in Pennsylvania, net of amortization, are included with Nonutility Property and Equipment on the consolidated balance sheets.

Treasury Stock — SJI uses the par value method of accounting for treasury stock. As of December 31, 2010 and 2009, SJI held 143,546 and 146,028 shares of treasury stock respectively. These shares are related to deferred compensation arrangements where the amounts earned are held in the stock of SJI.

Income Taxes — Deferred income taxes are provided for all significant temporary differences between the book and taxable basis of assets and liabilities in accordance with FASB ASC Topic 740 – "Income Taxes" (See Note 4). A valuation allowance is established when it is determined that it is more likely than not that a deferred tax asset will not be realized. Investment tax credits related to renewable energy facilities of the non-regulated entities are recognized on the flow through method.

Cash And Cash Equivalents — For purposes of reporting cash flows, highly liquid investments with original maturities of three months or less are considered cash equivalents.

New Accounting Pronouncements — Other than as described below, no new accounting pronouncement issued or effective during 2009 and 2010 had, or are expected to have, a material impact on the consolidated financial statements.

In June 2009, the FASB issued new accounting guidance on the consolidation of VIEs. Accordingly, companies needed to carefully reconsider previous conclusions, including (1) whether an entity is a VIE, (2) whether the company is the VIE's primary beneficiary, and (3) what type of financial statement disclosures are required. The new guidance was effective for fiscal years beginning after November 15, 2009. As a result of adopting this guidance, we have deconsolidated ACLE and WCLE as of January 1, 2010 due to the shared control between the Company and the joint venture partner as discussed under "Basis of Presentation" above. Beginning January 1, 2010, ACLE and WCLE are reported using the equity method of accounting. The adoption of this guidance modified our financial statement presentation, but did not have an impact on our financial statement results.

Health Care Legislation — In March of 2010, the President of the United States signed into law comprehensive health care reform legislation under the Patient Protection and Affordable Care Act (HR 3590) and the Health Care Education and Affordability Reconciliation Act (HR 4872) (the "Acts"). The Acts contain provisions which could have impacted our accounting for retiree medical benefits in future periods. However, based on our analysis of the provisions in the Acts, a re-measurement of our Other Postretirement Benefits liability is not required at this time due to the retiree medical benefit plan design, which includes benefit caps and cost sharing provisions. The Acts also contain provisions that will increase the cost of providing medical benefits to active employees and their dependents. This increase is not expected to be material to the financial results of the Company.

2. Stock-Based Compensation Plan

Under the Amended and Restated 1997 Stock-Based Compensation Plan, no more than 2,000,000 shares in the aggregate may be issued to SJI's officers (Officers), non-employee directors (Directors) and other key employees. The plan will terminate on January 26, 2015, unless terminated earlier by the Board of Directors. No options were granted or outstanding during the years ended December 31, 2010, 2009 and 2008 and no stock appreciation rights have been issued under the plan. During the years ended December 31, 2010, 2009 and 2008, SJI granted 52,940, 41,437, and 45,241 restricted shares to Officers and other key employees, respectively. These restricted shares vest over a 3-year period and are subject to SJI achieving certain market-based performance targets as compared to a peer group average, which can cause the actual amount of shares that ultimately vest to range from between 0% to 150% of the original share units granted. SJI granted 16,700, 9,559 and 8,667 restricted shares to Directors in January 2010, 2009 and 2008 respectively. These shares vest over a 3-year service period and contain no performance conditions. As a result, 100% of the shares granted generally vest.

As the vesting requirements for officers and other key employees under the plan are contingent upon market and service conditions, SJI is required to measure and recognize stock-based compensation expense based on the fair value at the date of grant for its share-based awards on a straight-line basis over the requisite service period of each award. In addition, SJI identifies specific forfeitures of share-based awards and compensation expense is adjusted accordingly over the requisite service period. Compensation expense is not adjusted based on the actual achievement of performance goals. The Company estimated the fair value of Officers' restricted stock awards on the date of grant using a Monte Carlo simulation model.

The following table summarizes the nonvested restricted stock awards outstanding at December 31, 2010 and the assumptions used to estimate the fair value of the awards:

	Grant Date	Shares Outstanding	Fair Value Per Share	Expected Volatility	Risk-Free Interest Rate
Officers & Key	Jan. 2009	37,748	$ 39.350	28.6%	1.20%
Employees	Jan. 2010	52,940	$ 39.020	29.0%	1.65%
Directors	Jan. 2009	8,690	$ 40.265	—	—
	Jan. 2010	16,700	$ 37.825	—	—

Expected volatility is based on the actual volatility of SJI's share price over the preceding 3-year period as of the valuation date. The risk-free interest rate is based on the zero-coupon U.S. Treasury Bond, with a term equal to the 3-year term of the Officers' and other key employees' restricted shares. As notional dividend equivalents are credited to the holders during the 3-year service period, no reduction to the fair value of the award is required. As the Directors' restricted stock awards contain no performance conditions and dividends are paid or credited to the holder during the 3-year service period, the fair value of these awards are equal to the market value of shares on the date of grant.

The following table summarizes the total stock based compensation cost for the years ended December 31, (in thousands):

	2010	2009	2008
Officers & Key Employees	$ 1,628	$ 1,322	$ 1,144
Directors	394	330	268
Total Cost	2,022	1,652	1,412
Capitalized	(202)	(171)	(149)
Net Expense	$ 1,820	$ 1,481	$ 1,263

As of December 31, 2010, there was $2.4 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the restricted stock plans. That cost is expected to be recognized over a weighted average period of 1.7 years.

The following table summarizes information regarding restricted stock award activity during 2010, excluding accrued dividend equivalents:

	Officers & Key Employees	Directors	Weighted Average Grant Date Fair Value
Nonvested Shares Outstanding,			
January 1, 2010	80,281	16,394	$ 36.874
Granted	52,940	16,700	$ 38.733
Vested*	(42,144)	(7,704)	$ 34.389
Cancelled/Forfeited	(389)	—	$ 39.350
Nonvested Shares Outstanding,			
December 31, 2010	90,688	25,390	$ 39.049

* Actual shares expected to be awarded to officers and other key employees during the first quarter of 2011, including dividend equivalents and adjustments for performance measures, total 69,271 shares.

During the years ended December 31, 2010, 2009 and 2008, SJI awarded 59,893 shares at a market value of $2.3 million, 57,976 shares at a market value of $2.3 million, and 51,838 shares at a market value of $1.9 million, respectively, to its Officers and other key employees. Also, during the years ended December 31, 2010, 2009 and 2008, SJI awarded 16,700, 9,559 and 8,667 shares to its Directors at a market value of $0.6 million, $0.4 million and $0.3 million, respectively. The Company has a policy of issuing new shares to satisfy its obligations under these plans; therefore, there are no cash payment requirements resulting from the normal operation of this plan. However, a change in control could result in such shares becoming nonforefeitable or immediately payable in cash. At the discretion of the officers and other key employees, the receipt of vested shares can be deferred until future periods. These deferred shares are included in Treasury Stock on the Consolidated Balance Sheet.

3. Discontinued Operations And Affiliations:

Discontinued Operations — Discontinued Operations consist of the environmental remediation activities related to the properties of South Jersey Fuel, Inc. (SJF) and the product liability litigation and environmental remediation activities related to the prior business of The Morie Company, Inc. (Morie). SJF is a subsidiary of Energy & Minerals, Inc. (EMI), an SJI subsidiary, which previously operated a fuel oil business. Morie is the former sand mining and processing subsidiary of EMI. EMI sold the common stock of Morie in 1996.

SJI conducts tests annually to estimate the environmental remediation costs for these properties.

Summarized operating results of the discontinued operations for the years ended December 31, were (in thousands, except per share amounts):

	2010	2009	2008
Loss before Income Taxes:			
Sand Mining	$ (440)	$ (289)	$ (227)
Fuel Oil	(530)	(362)	(149)
Income Tax Benefits	337	224	129
Loss from Discontinued Operations	$ (633)	$ (427)	$ (247)
Earnings Per Common Share from Discontinued Operations			
Basic	$ (0.02)	$ (0.02)	$ (0.01)
Diluted	$ (0.03)	$ (0.02)	$ (0.01)

Affiliations — The following affiliated entities are accounted for under the equity method:

SJI and Conectiv Solutions, LLC formed Millennium Account Services, LLC in which SJI has a 50% equity interest, to provide meter reading services in southern New Jersey.

Marina and a joint venture partner formed the following entities of which Marina has a 50% equity interest:

LVE Energy Partners, LLC (LVE), which has entered into a contract to design, build, own and operate a district energy system and central energy center for a planned resort in Las Vegas, Nevada.

Energenic – US, LLC (Energenic), which develops and operates on-site, self contained, energy related projects.

During 2010, 2009 and 2008, the Company provided advances to unconsolidated affiliates of $102.0 million, $26.8 million and $7.5 million, respectively. The purpose of the advances was to cover certain project related costs of LVE (See Note 15), to provide a portion of the financing needed to acquire a central utility plant at a new casino in Pennsylvania and develop several landfill gas-fired electric production facilities and solar projects. As of December 31, 2010 and 2009, the outstanding balance on these Notes Receivable — Affiliate was $127.9 million and $31.3 million, respectively. Approximately $63.0 million of these notes are secured by property, plant and equipment of the affiliates, accrue interest at 7.5% and are to be repaid through 2025. The remaining $64.9 million of these notes are unsecured, and are either non-interest bearing or accrue interest at variable rates and are to be repaid when the affiliate secures permanent financing.

SJI holds significant variable interests in these entities but is not the primary beneficiary. Consequently, these entities are accounted for under the equity method because SJI does not have both a) the power to direct the activities of the entity that most significantly impact the entity's economic performance and b) the obligation to absorb losses of the entity that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. As of December 31, 2010, the Company had a net asset of approximately $6.0 million included in Investment in Affiliates and Other Noncurrent Liabilities on the consolidated balance sheets related to Millenium, LVE and Energenic, in addition to Notes Receivable — Affiliate as discussed above. SJI's maximum exposure to loss from these entities as of December 31, 2010 is limited to its combined equity contributions and the Notes Receivable-Affiliate in the amount of $138.4 million.

SJRG and a joint venture partner formed Potato Creek, LLC (Potato Creek) in which SJRG has a 30% equity interest. Potato Creek owns and manages the oil, gas and mineral rights of certain real estate in Pennsylvania. The mineral rights have been leased to a third party production company.

4. Income Taxes:

SJI files a consolidated federal income tax return. State income tax returns are filed on a separate company basis in states where SJI has operations and/or a requirement to file. Total income taxes applicable to operations differ from the tax that would have resulted by applying the statutory Federal income tax rate to pre-tax income for the following reasons (in thousands):

	2010	2009	2008
Tax at Statutory Rate	$ 33,634	$ 32,492	$ 45,194
Increase (Decrease) Resulting from:			
State Income Taxes	5,669	6,079	8,291
ESOP	(971)	(894)	(818)
Amortization of Investment Tax Credits	(310)	(314)	(318)
Amortization of Flowthrough Depreciation	664	664	664
Energy Tax Credits	(10,107)	(3,660)	(391)
Other — Net	232	(65)	(674)
Income Taxes:			
Continuing Operations	28,811	34,302	51,948
Discontinued Operations	(337)	(224)	(129)
Net Income Taxes	$ 28,474	$ 34,078	$ 51,819

The provision for Income Taxes is comprised of the following (in thousands):

	2010	2009	2008
Current:			
Federal	$ (7,527)	$ 7,396	$ 19,684
State	7,753	5,303	9,568
Total Current	226	12,699	29,252
Deferred:			
Federal	27,927	17,867	19,839
State	968	4,050	3,175
Total Deferred	28,895	21,917	23,014
Investment Tax Credits	(310)	(314)	(318)
Income Taxes:			
Continuing Operations	28,811	34,302	51,948
Discontinued Operations	(337)	(224)	(129)
Net Income Taxes	$ 28,474	$ 34,078	$ 51,819

Investment Tax Credits attributable to SJG are deferred and amortized at the annual rate of 3%, which approximates the life of related assets.

The net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes resulted in the following net deferred tax liabilities (assets) at December 31 (in thousands):

	2010	2009
Current:		
Deferred Gas Costs — Net	$ —	$ 4,122
Derivatives / Unrealized Gain	(272)	8,818
Conservation Incentive Program	5,408	7,396
Other	(1,854)	(439)
Current Deferred Tax Liability — Net	$ 3,282	$ 19,897
Noncurrent:		
Book versus Tax Basis of Property	$ 263,429	$ 212,452
Deferred Gas Costs — Net	2,955	7,567
Environmental	14,953	15,712
Deferred Regulatory Costs	3,278	1,259
Deferred State Tax	(9,839)	(9,369)
Investment Tax Credit Basis Gross-Up	(622)	(782)
Deferred Pension & Other Post Retirement Benefits	27,885	28,783
Pension & Other Post Retirement Benefits	(26,261)	(25,776)
Deferred Revenues	(15,769)	(14,924)
Derivatives / Unrealized Gain	(1,740)	(2,545)
Other	133	2,969
Noncurrent Deferred Tax Liability — Net	$ 258,402	$ 215,346

The total unrecognized tax benefits as of December 31, 2010, 2009 and 2008 were $0.8 million, $1.1 million and $1.7 million, respectively, which excludes $0.7 million, $1.0 million and $1.0 million of accrued interest and penalties, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, is as follows (in thousands):

	2010	2009	2008
Balance at January 1,	$ 1,098	$ 1,722	$ 1,926
Increase as a result of tax positions taken in prior years	—	59	253
Decrease due to a lapse in the statute of limitations	(85)	(683)	(457)
Settlements	(220)	—	—
Balance at December 31,	$ 793	$ 1,098	$ 1,722

The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is not significant. The Company's policy is to record interest and penalties related to unrecognized tax benefits as interest expense and other expense respectively. These amounts were not significant in 2010, 2009 or 2008. There have been no significant changes to the unrecognized tax benefits during 2010, 2009 or 2008 and the Company does not anticipate any significant changes in the total unrecognized tax benefits within the next 12 months.

The unrecognized tax benefits are primarily related to an uncertainty of state income taxes. Federal income tax returns from 2007 forward and state income tax returns primarily from 2006 forward are open and subject to examination.

5. Preferred Stock:

Redeemable Cumulative Preferred Stock — SJI has 2,500,000 authorized shares of Preference Stock, no par value, which has not been issued.

6. Common Stock:

The following shares were issued and outstanding at December 31:

	2010	2009	2008
Beginning of Year	29,796,232	29,728,697	29,607,802
New Issues During Year:			
Dividend Reinvestment Plan	—	—	60,390
Stock-Based Compensation Plan	76,593	67,535	60,505
End of Year	29,872,825	29,796,232	29,728,697

The par value ($1.25 per share) of stock issued was recorded in Common Stock and the net excess over par value of approximately $2.8 million, $2.0 million and $4.0 million, respectively, was recorded in Premium on Common Stock.

Earnings Per Common Share (EPS) — Basic EPS is based on the weighted-average number of common shares outstanding. The incremental shares required for inclusion in the denominator for the diluted EPS calculation were 112,551, 107,333 and 136,123 shares for the years ended December 31, 2010, 2009 and 2008, respectively. These shares relate to SJI's restricted stock as discussed in Note 2.

Dividend Reinvestment Plan (DRP) — Through April 2008, shares of common stock offered through the DRP have been new shares issued directly by SJI. Beginning in April 2008, shares of common stock offered by the DRP have been purchased in open market transactions.

7. Financial Instruments:

Restricted Investments — In accordance with the terms of the Marina and certain SJG loan agreements, unused proceeds are required to be escrowed pending approved construction expenditures. As of December 31, 2010 and 2009, the escrowed proceeds, including interest earned, totaled $1.3 million and $1.4 million, respectively.

The Company maintains margin accounts with selected counterparties to support its risk management activities. The balances required to be held in these margin accounts increase as the net value of the outstanding energy-related contracts with the respective counterparties decrease. As of December 31, 2010 and 2009, the balances in these accounts totaled $7.1 million and $3.8 million, respectively. The carrying amounts of the Restricted Investments approximate their fair values at December 31, 2010 and 2009.

Long-Term Receivables — SJG provides financing to customers for the purpose of attracting conversions to natural gas heating systems from competing fuel sources. The terms of these loans call for customers to make monthly payments over a period of up to five years with no interest. The carrying amounts of such loans were $10.4 million and $10.8 million as of December 31, 2010 and 2009, respectively. The current portion of these receivables is reflected in Accounts Receivable and the non-current portion is reflected in Contract Receivables on the consolidated balance sheets. The carrying amounts noted above are net of unamortized discounts resulting from imputed interest in the amount of $1.2 million as of both December 31, 2010 and 2009. The annual amortization to interest is not material to the Company's consolidated financial statements. The carrying amounts of these receivables approximate their fair value at December 31, 2010 and 2009.

Concentration Of Credit Risk — As of December 31, 2010, approximately $17.0 million, or 33.2%, of the current and noncurrent Derivatives — Energy Related Assets are with a single retail counterparty. This counterparty has contracts with a large number of diverse customers which minimizes the concentration of this risk. A portion of these contracts may be assigned to SJI in the event of a default by the counterparty.

Other Financial Instruments — The carrying amounts of SJI's other financial instruments approximate their fair values at December 31, 2010 and 2009.

8. Segments Of Business:

SJI operates in several different reportable operating segments. Gas Utility Operations (SJG) consists primarily of natural gas distribution to residential, commercial and industrial customers. Wholesale Energy Operations include SJRG's activities. SJE is involved in both retail gas and retail electric activities. Retail Gas and Other Operations include natural gas acquisition and transportation service business lines. Retail Electric Operations consist of electricity acquisition and transportation to commercial and industrial customers. On-Site Energy Production consists of Marina's thermal energy facility and other energy-related projects. Appliance Service Operations includes SJESP's servicing of appliances via the sale of appliance service programs as well as on a time and materials basis, and the installation of residential and small commercial HVAC systems. The Retail Energy Operations caption includes Retail Gas and Other, Retail Electric, On-Site Energy Production and Appliance Service Operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are treated as if the sales or transfers were to third parties, that is, at current market prices.

Information about SJI's operations in different reportable operating segments is presented below (in thousands):

	2010	2009	2008
Operating Revenues:			
Gas Utility Operations	$ 475,982	$ 484,376	$ 568,046
Wholesale Energy Operations	88,729	97,475	115,550
Retail Energy Operations			
Retail Gas and Other Operations	114,536	109,414	177,342
Retail Electric Operations	207,576	113,606	60,046
On-Site Energy Production	38,138	37,031	46,980
Appliance Service Operations	19,735	18,900	19,184
Subtotal Retail Energy Operations	379,985	278,951	303,552
Corporate & Services	22,468	19,948	18,221
Subtotal	967,164	880,750	1,005,369
Intersegment Sales	(42,097)	(35,306)	(43,392)
Total Operating Revenues	$ 925,067	$ 845,444	$ 961,977
Operating Income:			
Gas Utility Operations	$ 90,700	$ 81,439	$ 84,417
Wholesale Energy Operations	6,154	29,601	50,985
Retail Energy Operations			
Retail Gas and Other Operations	1,065	78	2,718
Retail Electric Operations	13,051	(7,459)	2,096
On-Site Energy Production	4,063	5,309	10,435
Appliance Service Operations	432	1,361	2,040
Subtotal Retail Energy Operations	18,611	(711)	17,289
Corporate and Services	1,027	781	818
Total Operating Income	$ 116,492	$ 111,110	$ 153,509

	2010	2009	2008
Depreciation and Amortization:			
Gas Utility Operations	$ 39,502	$ 34,507	$ 31,506
Wholesale Energy Operations	252	304	311
Retail Energy Operations			
Retail Gas and Other Operations	35	21	18
On-Site Energy Production	3,920	3,804	3,097
Appliance Service Operations	344	306	301
Subtotal Retail Energy Operations	4,299	4,131	3,416
Corporate and Services	641	505	432
Total Depreciation and Amortization	$ 44,694	$ 39,447	$ 35,665
Interest Charges:			
Gas Utility Operations	$ 17,641	$ 16,442	$ 18,938
Wholesale Energy Operations	94	339	956
Retail Energy Operations			
Retail Gas and Other Operations	172	16	111
On-Site Energy Production	3,898	1,928	5,541
Subtotal Retail Energy Operations	4,070	1,944	5,652
Corporate and Services	1,076	780	1,704
Subtotal	22,881	19,505	27,250
Intersegment Borrowings	(985)	(513)	(1,574)
Total Interest Charges	$ 21,896	$ 18,992	$ 25,676
Income Taxes:			
Gas Utility Operations	$ 29,676	$ 27,104	$ 26,508
Wholesale Energy Operations	3,243	12,456	20,738
Retail Energy Operations			
Retail Gas and Other Operations	678	20	1,087
Retail Electric Operations	5,353	(3,064)	853
On-Site Energy Production	(10,635)	(3,138)	1,486
Appliance Service Operations	174	601	890
Subtotal Retail Energy Operations	(4,430)	(5,581)	4,316
Corporate and Services	322	323	386
Total Income Taxes	$ 28,811	$ 34,302	$ 51,948
Property Additions:			
Gas Utility Operations	$ 111,653	$ 110,694	$ 56,198
Wholesale Energy Operations	682	27	2,707
Retail Energy Operations			
Retail Gas and Other Operations	31	16	11
On-Site Energy Production	50,427	9,760	5,911
Appliance Service Operations	141	577	86
Subtotal Retail Energy Operations	50,599	10,353	6,008
Corporate and Services	1,029	290	140
Total Property Additions	$ 163,963	$ 121,364	$ 65,053
Identifiable Assets:			
Gas Utility Operations	$1,468,635	$1,357,062	
Wholesale Energy Operations	237,978	194,989	
Retail Energy Operations			
Retail Gas and Other Operations	21,532	35,506	
Retail Electric Operations	37,383	13,433	
On-Site Energy Production	147,064	135,288	
Appliance Service Operations	18,528	18,832	
Subtotal Retail Energy Operations	224,507	203,059	
Discontinued Operations	890	1,215	
Subtotal	1,932,010	1,756,325	
Corporate and Services	168,788	56,543	
Intersegment Assets	(24,183)	(30,860)	
Total Identifiable Assets	$2,076,615	$1,782,008	

9. Leases:

The Company is considered to be the lessor of certain thermal energy generating property and equipment under an operating lease that expires in May 2027. As of December 31, 2010 and 2009, the carrying costs of this property and equipment under operating lease was $73.6 million and $75.3 million, respectively, (net of accumulated depreciation of $15.0 million and $12.6 million, respectively) and is included in Nonutility Property and Equipment in the consolidated balance sheets.

Minimum future rentals to be received on non-cancelable leases as of December 31, 2010 for each of the next five years and in the aggregate are (in thousands):

Year ended December 31,	
2011	$ 5,396
2012	5,396
2013	5,396
2014	5,396
2015	5,396
Thereafter	61,606
Total minimum future rentals	$ 88,586

Minimum future rentals do not include additional amounts to be received based on actual use of the leased property.

10. Rates And Regulatory Actions:

Base Rates — SJG is subject to the rules and regulations of the BPU. In July 2004, the BPU approved SJG's rate structure based on a 7.97% rate of return on rate base that included a 10.0% return on common equity. SJG was also permitted to recover regulatory assets contained in the petition and to reduce the composite depreciation rate from 2.9% to 2.4%. Included in the base rate increase was also a change to the sharing of pre-tax margins on interruptible, off-system sales, and transportation. The sharing of pre-tax margins begins from dollar one, with SJG retaining 15% of such margins. SJG filed a new base rate case in January 2010. Effective September 17, 2010, the BPU granted SJG a base rate increase of $42.1 million, which was predicated in part upon an 8.21% rate of return on rate base that included a 10.3% return on common equity. The $42.1 million includes $16.6 million of revenue previously recovered through the Conservation Incentive Program (CIP) and $6.8 million of revenues previously recovered through the Capital Investment Recovery Tracker (CIRT), resulting in incremental revenue of $18.7 million. SJG was permitted to recover regulatory assets contained in its petition and defer certain federally mandated pipeline integrity management program costs for recovery in its next base rate case. In addition, annual depreciation expense will be reduced by $1.2 million as a result of the amortization of excess cost of removal recoveries. The BPU also authorized a Phase II of the base rate proceeding to review the costs of CIRT projects not rolled into rate base in the September 2010 settlement.

Rate Mechanisms — SJG's tariff, a schedule detailing the terms, conditions and rate information applicable to the various types of natural gas service, as approved by the BPU, has several primary rate mechanisms as discussed in detail below:

Basic Gas Supply Service (BGSS) Clause — The BGSS price structure was approved by the BPU in January 2003, and allows SJG to recover all prudently incurred gas costs. BGSS charges to customers can be either monthly or periodic (annual). Monthly BGSS charges are applicable to large-use customers and are referred to as monthly because the rate changes on a monthly basis pursuant to a BPU-approved formula based on commodity market prices. Periodic BGSS charges are applicable to lower-usage customers, which include all of SJG's residential customers, and are evaluated at least annually by the BPU. However, to some extent, more frequent rate changes to the periodic BGSS are allowed. SJG collects gas costs from customers on a forecasted basis and defers periodic over/underrecoveries to the following BGSS year, which runs from October 1 though September 30. If SJG is in a net cumulative undercollected position, gas cost deferrals are reflected on the balance sheet as a regulatory asset. If SJG is in a net cumulative overcollected position, amounts due back to customers are reflected on the balance sheet as a regulatory liability. SJG pays interest on net overcollected BGSS balances at the rate of return on rate base utilized by the BPU to set rates in the last base rate proceeding.

Regulatory actions regarding the BGSS were as follows:

- May 2008 — SJG made its annual periodic BGSS filing with the BPU requesting a $73.7 million, or 23%, increase in gas cost recoveries in response to increasing wholesale gas costs.
- November 2008 — The BPU approved, on a provisional basis, a $38.0 million, or 12%, increase in gas costs recoveries reflecting a lower increase in gas costs than originally projected in our May 2008 filing.
- December 2008 — As part of a global settlement, the BPU approved, on a provisional basis, a decrease in gas cost recoveries of $9.0 million, or 3%, due to the continued decline in projections in the wholesale gas market.
- June 2009 — SJG made its annual BGSS filing to the BPU requesting a $54.7 million reduction, or 17.5% decrease, in gas cost recoveries in response to projected decreases in wholesale gas costs.
- August 2009 — The BPU issued an Order finalizing the 2008-2009 provisional BGSS rates.
- September 2009 — The BPU approved, on a provisional basis, SJG's request for a $54.7 million, or 17.5%, reduction in gas cost recoveries.
- June 2010 — SJG made its annual BGSS filing to the BPU requesting a $38.0 million, or 13.9%, reduction in gas cost recoveries in response to projected decreases in wholesale gas costs.
- September 2010 — The BPU approved, on a provisional basis, SJG's request for a $38.0 million, or 13.9%, reduction in gas cost recoveries.

Conservation Incentive Program (CIP) — The primary purpose of the CIP is to promote conservation efforts, without negatively impacting financial stability and to base SJG's profit margin on the number of customers rather than the amount of natural gas distributed to customers. In October 2006, the BPU approved SJG's CIP as a 3-year pilot program. In January 2010, the BPU approved an extension of this program through September 2013. Each CIP year begins October 1 and ends September 30 of the subsequent year. On a monthly basis during the CIP year, SJG records adjustments to earnings based on weather and customer usage factors, as incurred. Subsequent to each year, SJG will make filings with the BPU to review and approve amounts recorded under the CIP. BPU approved cash inflows or outflows generally will not begin until the next CIP year.

Regulatory actions regarding the CIP were as follows:

- May 2008 — SJG made its annual CIP filing requesting recovery of $19.1 million, of which $14.1 million was non-weather related.
- December 2008 — As part of a global settlement, the BPU approved, on a provisional basis, the recovery of CIP revenue of $20.4 million, of which $16.4 million was non-weather related.
- June 2009 — SJG made its annual CIP filing to the BPU requesting recovery of $13.4 million, which included a $13.7 million non-weather related recovery, partially offset by a credit of $0.3 million, which was weather related.
- August 2009 — The BPU issued an Order finalizing the 2008-2009 provisional CIP rates.
- September 2009 — The BPU approved, on a provisional basis, the recovery of CIP revenue of $13.4 million.
- June 2010 — SJG made its annual CIP filing to the BPU requesting recovery of $20.0 million, which included a $14.4 million non-weather related recovery and $5.6 million, which was weather related. The BGSS savings to be applied as an offset to the non-weather related recovery totaled $8.9 million. As a result, SJG will carry forward $5.5 million to be recovered from customers in the next CIP year.
- September 2010 — The BPU approved, on a provisional basis, the recovery of CIP revenue of $14.5 million.

Capital Investment Recovery Tracker (CIRT) — In January 2009, SJG made a filing with the BPU requesting approval for an accelerated infrastructure investment program. The purpose of the CIRT was to accelerate $103.0 million of capital expenditures from five years to two years. The petition requested that the Company be allowed to earn a return of, and a return on, its investment. Under the CIRT, 2009 spending was projected to be $70.5 million and 2010 spending was projected to be $32.5 million. On a monthly basis during the CIRT year, SJG records adjustments to earnings based on actual CIRT program expenditures, as incurred. Annually, SJG makes a filing to the BPU for review and approval of expenditures recorded under the CIRT.

Regulatory actions regarding the CIRT were as follows:

- January 2009 — SJG filed a petition with the BPU for approval of an accelerated infrastructure investment program and associated rate tracker as discussed above.
- April 2009 — The BPU approved SJG's petition for the CIRT, including a first year estimated capital expenditure level of $70.5 million and estimated revenue of $3.2 million.
- November 2009 — SJG made its annual CIRT filing, requesting $10.6 million in additional revenue.
- December 2009 — The BPU approved, on a provisional basis, recovery of an additional $9.9 million in CIRT revenue.
- September 2010 — The BPU authorized $81.3 million of CIRT-related expenditures to be rolled into rate base and also authorized that the remaining balance of CIRT-related expenditures continue to be recovered. These remaining expenditures will be reviewed and rolled into rate base during Phase II of the base rate case in 2011.
- October 2010 — SJG made its annual CIRT filing, requesting approval to earn a return of, and a return on, $150.0 million in additional CIRT-related expenditures during 2011, 2012, and 2013.

Energy Efficiency Tracker (EET) — In January 2009, SJG filed a petition with the BPU requesting approval of an energy efficiency program for residential, commercial and industrial customers. Under this program, SJG can invest $17.0 million over two years in energy efficiency measures to be installed in customer homes and businesses. SJG can also recover incremental operating and maintenance expenses and earn a return of, and return on, program investments.

Regulatory actions regarding the EET were as follows:

- January 2009 — SJG filed a petition with the BPU for approval of an energy efficiency program as noted above, with a projected 2009 revenue of $1.7 million.
- July 2009 — The BPU approved SJG's petition for the EET with a revenue recovery of $1.3 million.
- July 2010 — SJG filed a petition with the BPU requesting a reallocation of investment dollars between the EET programs to fund the more popular programs.
- November 2010 — SJG filed a petition with the BPU requesting a 1-year extension of the program.
- January 2011 — SJG's requests were approved by the BPU.

Societal Benefits Clause (SBC) — The SBC allows SJG to recover costs related to several BPU-mandated programs. Within the SBC are a Remediation Adjustment Clause (RAC), a New Jersey Clean Energy Program (NJCEP), a Universal Service Fund (USF) program and a Consumer Education Program (CEP).

Regulatory actions regarding the SBC, with the exception of USF, which requires separate regulatory filings, were as follows:

- December 2008 — As part of a global settlement, the BPU approved an increase in the RAC portion of the SBC, resulting in an increase in revenue of $8.5 million. In addition, the BPU approved a reduction in the interest rate utilized to calculate deferred tax on the RAC.
- January 2009 — SJG made its annual 2008-2009 SBC filing requesting $7.9 million increase in SBC recoveries.
- August 2009 — SJG made its annual 2009-2010 SBC filing, requesting a $15.5 million increase in SBC recoveries, which includes a net increase in Remediation Adjustment Clause, Clean Energy Program Clause and Transportation Initiation Clause.
- September 2010 — SJG made its annual 2010-2011 SBC Filing, requesting a $21.5 million increase in SBC recoveries, which includes a net increase in Remediation Adjustment Clause, Clean Energy Program Clause and Transportation Initiation Clause.

Remediation Adjustment Clause (RAC) — The RAC recovers environmental remediation costs of 12 former gas manufacturing plants (See Note15). The BPU allows SJG to recover such costs over 7-year amortization periods. The net between the amounts actually spent and amounts recovered from customers is recorded as a regulatory asset, Environmental Remediation Cost Expended — Net. Note that RAC activity affects revenue and cash flows but does not directly affect earnings because of the cost recovery over 7-year amortization periods. As of December 31, 2010 and 2009, SJG reflected the unamortized remediation costs of $39.1 million and $42.9 million, respectively, on the consolidated balance sheets under Regulatory Assets (See Note 11). Since implementing the RAC in 1992, SJG has recovered $50.1 million through rates as of December 31, 2010.

New Jersey Clean Energy Program (NJCEP) — This mechanism recovers costs associated with SJG's energy efficiency and renewable energy programs. In August 2008, the BPU approved the statewide funding of the NJCEP of $1.2 billion for the years 2009 through 2012. Of this amount, SJG will be responsible for approximately $41.5 million over the 4-year period. NJCEP adjustments affect revenue and cash flows but do not directly affect earnings as related costs are deferred and recovered through rates on an ongoing basis.

Universal Service Fund (USF) — The USF is a statewide program through which funds for the USF and Lifeline Credit and Tenants Assistance Programs are collected from customers of all New Jersey electric and gas utilities. USF adjustments affect cash flows but do not directly affect revenue or earnings as related costs are deferred and recovered through rates on an ongoing basis.

Separate regulatory actions regarding the USF were as follows:

- June 2008 — SJG made its annual USF filing, along with the state's other electric and gas utilities, proposing to increase annual statewide gas revenues to $97.3 million. This proposal is designed to increase the annual USF revenue by $2.6 million for SJG.
- October 2008 — The BPU approved the statewide budget of $96.7 million for all of the State's gas utilities. SJG's portion of this total is approximately $8.8 million and increased rates were implemented effective October 27, 2008, resulting in a $2.5 million increase to SJG's annual USF recoveries.
- June 2009 — SJG made its annual USF filing, along with the state's other electric and gas utilities, proposing to decrease annual statewide gas revenues by $39.1 million. This proposal was designed to decrease SJG's annual USF revenue by $4.9 million.
- October 2009 — The BPU approved the statewide budget of $60.1 million for all of the State's gas utilities. SJG's portion of this total is approximately $5.1 million and decreased rates were implemented effective October 12, 2009, resulting in a $4.1 million decrease to SJG's annual USF recoveries.
- July 2010 — SJG made its annual USF filing, along with the state's other electric and gas utilities, proposing to increase annual statewide gas revenues by $3.4 million. This proposal was designed to increase SJG's annual USF revenue by $0.4 million.
- August 2010 — SJG updated its July 2010 filing to reflect actual data through June 2010.
- October 2010 — The BPU approved the statewide budget of $64.8 million for all of the State's gas utilities. SJG's portion of the total is approximately $6.6 million and increased rates were implemented effective November 1, 2010, resulting in a $0.4 million increase to SJG's annual USF recoveries.

Other Regulatory Matters —

Unbundling — Effective January 10, 2000, the BPU approved full unbundling of SJG's system. This allows all natural gas consumers to select their natural gas commodity supplier. As of December 31, 2010, 33,762 of SJG's residential customers were purchasing their gas commodity from someone other than SJG. Customers choosing to purchase natural gas from providers other than the utility are charged for the cost of gas by the marketer. The resulting decrease in utility revenues is offset by a corresponding decrease in gas costs. While customer choice can reduce utility revenues, it does not negatively affect SJG's net income or financial condition. The BPU continues to allow for full recovery of prudently incurred natural gas costs through the BGSS. Unbundling did not change the fact that SJG still recovers cost of service, including certain deferred costs, through base rates.

Pipeline Integrity — In October 2005, SJG filed a petition with the BPU to implement a Pipeline Integrity Management Tracker (Tracker). The purpose of this Tracker was to recover incremental costs to be incurred by SJG as a result of new federal regulations, which are aimed at enhancing public safety and reliability. The regulations require that utilities use a comprehensive analysis to assess, evaluate, repair and validate the integrity of certain transmission lines in the event of a leak or failure. As part of SJG's September 2010 base rate increase, SJG was permitted to recover previously deferred pipeline integrity costs incurred through September 2010. In addition, SJG is authorized to defer future program costs, and related carrying costs, for recovery in the next base rate proceeding, subject to review by the BPU. Accordingly, SJG withdrew its petition for the Pipeline Integrity Management Tracker. As of December 31, 2010 and 2009, deferred pipeline integrity costs totaled $1.7 million and $1.2 million, respectively, and are included in other regulatory assets.

Filings and petitions described above are still pending unless otherwise indicated.

11. Regulatory Assets & Regulatory Liabilities:

The discussion under Note 10, Rates and Regulatory Actions, is integral to the following explanations of specific regulatory assets and liabilities.

Regulatory Assets at December 31 consisted of the following items (in thousands):

	2010	2009
Environmental Remediation Costs:		
Expended — Net	$ 39,056	$ 42,924
Liability for Future Expenditures	87,393	69,056
Income Taxes-Flowthrough Depreciation	774	1,752
Deferred Asset Retirement Obligation Costs	24,247	22,438
Deferred Gas Costs — Net	—	6,519
Deferred Pension and Other Postretirement Benefit Costs	69,017	71,192
Conservation Incentive Program Receivable	12,291	16,672
Societal Benefit Costs Receivable	4,216	1,872
Premium for Early Retirement of Debt	699	1,046
Other Regulatory Assets	10,720	6,991
Total Regulatory Assets	$ 248,413	$ 240,462

Except where noted below, all regulatory assets are or will be recovered through utility rate charges as detailed in the following discussion. SJG is currently permitted to recover interest on Environmental Remediation Costs and Societal Benefit Costs Receivable, while the other assets are being recovered without a return on investment.

Environmental Remediation Costs — SJG has two regulatory assets associated with environmental costs related to the cleanup of 12 sites where SJG or their predecessors previously operated gas manufacturing plants. The first asset, Environmental Remediation Cost: Expended — Net, represents what was actually spent to clean up the sites, less recoveries through the RAC and insurance carriers. These costs meet the deferral requirements of GAAP as the BPU allows SJG to recover such expenditures through the RAC. The other asset, Environmental Remediation Cost: Liability for Future Expenditures, relates to estimated future expenditures required to complete the remediation of these sites. SJG recorded this estimated amount as a regulatory asset with the corresponding current and noncurrent liabilities reflected on the consolidated balance sheets under the captions Current Liabilities and Deferred Credits and Other Noncurrent Liabilities. The BPU allows SJG to recover the deferred costs over 7-year periods after they are spent.

Income Taxes — Flowthrough Depreciation — This regulatory asset was created upon the adoption of FASB ASC Topic 740 "Income Taxes" in 1993. The amount represents unamortized excess tax depreciation over book depreciation on utility plant because of temporary differences for which, prior to adoption, deferred taxes previously were not provided. SJG previously passed these tax benefits through to ratepayers and are recovering the amortization of the regulatory asset through rates until 2011.

Deferred Asset Retirement Obligation Costs — This regulatory asset was created with the adoption of FASB ASC Topic 440 "Commitments" in 2005. This resulted in the recording of ARO's and additional utility plant, primarily related to a legal obligation SJG has for certain safety requirements upon the retirement of its gas distribution and transmission system. SJG recovers asset retirement costs through rates charged to customers. All related accumulated accretion and depreciation amounts for these ARO's represent timing differences in the recognition of retirement costs that SJG is currently recovering in rates and, as such, SJG is deferring such differences as regulatory assets.

Deferred Gas Costs — Net — Over/under collections of gas costs are monitored through the BGSS mechanism. Net undercollected gas costs are classified as a regulatory asset and net overcollected gas costs are classified as a regulatory liability. Derivative contracts used to hedge SJG's natural gas purchases are also included in the BGSS, subject to BPU approval. See detailed discussion under Derivative Instruments in Note 16.

Deferred Pension and Other Postretirement Benefit Costs — The BPU authorized SJG to recover costs related to postretirement benefits under the accrual method of accounting consistent with GAAP. SJG deferred amounts accrued prior to that authorization and are amortizing them as allowed by the BPU over 15 years through 2012. The unamortized balance was $0.8 million at December 31, 2010. Upon the adoption of FASB ASC Topic 715 "Compensation — Retirement Benefits" in 2006, SJG's regulatory asset was increased by $37.1 million representing the recognition of underfunded positions of SJG's pension and other postretirement benefit plans. Subsequent adjustments to this balance occur annually 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 (See Note 12).

Conservation Incentive Program Receivable — The impact of the CIP is recorded as an adjustment to earnings as incurred. The first year of cash recovery under the CIP began October 2007.

Societal Benefit Costs Receivable — At both December 31, 2010 and 2009, this regulatory asset primarily represents cumulative costs less recoveries under the USF program.

Premium for Early Retirement of Debt — At December 31, 2010, this regulatory asset represents unamortized debt issuance costs related to long-term debt refinancings and a call premium of $0.2 million associated with the retirement of debt, all occurring in 2005 and 2004. Unamortized debt issuance costs are being amortized over the term of the new debt issue pursuant to regulatory approval by the BPU. As part of our September 2010 base rate increase, the call premium was transferred to unamortized debt issuance costs and is being amortized over the term of the new debt issue.

Other Regulatory Assets — Some of the assets included in Other Regulatory Assets are currently being recovered from ratepayers as approved by the BPU. Management believes the remaining deferred costs are probable of recovery from ratepayers through future utility rates.

Regulatory Liabilities at December 31 consisted of the following items (in thousands):

	2010	2009
Excess Plant Removal Costs	$ 48,409	$ 48,715
Deferred Revenues — Net	20,179	—
Other	660	1,478
Total Regulatory Liabilities	$ 69,248	$ 50,193

Excess Plant Removal Costs — Represents amounts accrued in excess of actual utility plant removal costs incurred to date. As part of our September 2010 base rate increase, we are required to start amortizing approximately $1.2 million of this balance to depreciation expense each year.

Deferred Revenues — Net — See previous discussion under "Deferred Gas Costs — Net."

Other Regulatory Liabilities — All other regulatory liabilities are subject to being returned to ratepayers in future rate proceedings.

12. Pension And Other Postretirement Benefits:

SJI has several defined benefit pension plans and other postretirement benefit plans. The pension plans provide annuity payments to the majority of full-time, regular employees upon retirement. Participation in the Company's qualified defined benefit pension plans was closed to new employees beginning in 2003; however, employees who are not eligible for these pension plans are eligible to receive an enhanced version of SJI's defined contribution plan. Certain SJI officers also participate in a non-funded supplemental executive retirement plan (SERP), a non-qualified defined benefit pension plan. The other postretirement benefit plans provide health care and life insurance benefits to some retirees.

Net periodic benefit cost related to the employee and officer pension and other postretirement benefit plans consisted of the following components (in thousands):

	Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	**2010**	2009	2008
Service Cost	$ 3,426	$ 3,225	$ 3,198	$ 920	$ 893	$ 968
Interest Cost	9,197	8,694	8,320	3,267	3,208	2,957
Expected Return on Plan Assets	(8,402)	(7,553)	(10,417)	(1,937)	(1,551)	(2,195)
Amortizations:						
Prior Service Cost (Credits)	280	278	292	(355)	(355)	(355)
Actuarial Loss	4,751	5,405	1,608	1,495	1,896	744
Net Periodic Benefit Cost	9,252	10,049	3,001	3,390	4,091	2,119
Capitalized Benefit Costs	(3,445)	(3,798)	(1,073)	(1,295)	(1,676)	(765)
Total Net Periodic Benefit Expense	$ 5,807	$ 6,251	$ 1,928	$ 2,095	$ 2,415	$ 1,354

Capitalized benefit costs reflected in the table above relate to SJG's construction program.

Companies with publicly traded equity securities that sponsor a postretirement benefit plan are required to fully recognize, as an asset or liability, the overfunded or underfunded status of its benefit plans and recognize changes in the funded status in the year in which the changes occur. Changes in funded status are generally reported in Other Comprehensive Loss; however, since SJG recovers all prudently incurred pension and postretirement benefit costs from its ratepayers, a significant portion of the charges resulting from the recording of additional liabilities under this statement are reported as regulatory assets (See Note 11).

Details of the activity within the Regulatory Asset and Accumulated Other Comprehensive Loss associated with Pension and Other Postretirement Benefits are as follows (in thousands):

	Regulatory Assets		Accumulated Other Comprehensive Loss (pre-tax)	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Balance at January 1, 2009	$ 55,774	$ 22,876	$ 21,108	$ 2,374
Amounts Arising during the Period:				
Net Actuarial (Gain) Loss	(4,188)	610	(357)	72
Prior Service Cost	347	—	60	—
Amounts Amortized to Net Periodic Costs:				
Net Actuarial Loss	(3,641)	(1,746)	(1,729)	(142)
Prior Service (Cost) Credit	(228)	254	(48)	94
Balance at December 31, 2009	48,064	21,994	19,034	2,398
Amounts Arising during the Period:				
Net Actuarial (Gain) Loss	2,300	167	6,569	818
Amounts Amortized to Net Periodic Costs:				
Net Actuarial Loss	(2,935)	(1,351)	(1,793)	(144)
Prior Service (Cost) Credit	(232)	254	(47)	94
Balance at December 31, 2010	$ 47,197	$ 21,064	$ 23,763	$ 3,166

The estimated costs that will be amortized from Regulatory Assets into net periodic benefit costs in 2011 are as follows (in thousands):

	Pension Benefits	Other Postretirement Benefits
Prior Service Costs (Credits)	$ 220	$ (254)
Net Actuarial Loss	$ 2,980	$ 1,337

The estimated costs that will be amortized from Accumulated Other Comprehensive Loss into net periodic benefit costs in 2011 are as follows (in thousands):

	Pension Benefits	Other Postretirement Benefits
Prior Service Costs (Credits)	$ 47	$ (101)
Net Actuarial Loss	$ 2,173	$ 214

A reconciliation of the plans' benefit obligations, fair value of plan assets, funded status and amounts recognized in SJI's consolidated balance sheets follows (in thousands):

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	**2010**	2009
Change in Benefit Obligations:				
Benefit Obligation at Beginning of Year	$ 149,008	$ 142,672	$ 56,138	$ 50,842
Service Cost	3,426	3,225	920	893
Interest Cost	9,197	8,694	3,267	3,208
Actuarial Loss	13,777	1,943	2,567	4,329
Retiree Contributions	—	—	185	193
Plan Amendments	—	407	—	—
Benefits Paid	(7,908)	(7,933)	(4,612)	(3,327)
Benefit Obligation at End of Year	$ 167,500	$ 149,008	$ 58,465	$ 56,138

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	**2010**	2009
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Year	$ 105,898	$ 88,276	$ 28,489	$ 22,815
Actual Return on Plan Assets	13,380	14,027	3,630	5,172
Employer Contributions	9,230	11,528	4,427	3,636
Retiree Contributions	—	—	185	193
Benefits Paid	(7,908)	(7,933)	(4,612)	(3,327)
Fair Value of Plan Assets at End of Year	$ 120,600	$ 105,898	$ 32,119	$ 28,489
Funded Status at End of Year:	$ (46,900)	$ (43,110)	$ (26,346)	$ (27,649)
Amounts Related to Unconsolidated Affiliate	105	169	249	340
Accrued Net Benefit Cost at End of Year	$ (46,795)	$ (42,941)	$ (26,097)	$ (27,309)
Amounts Recognized in the Statement of Financial Position Consist of:				
Current Liabilities	$ (1,217)	$ (1,109)	$ —	$ —
Noncurrent Liabilities	(45,578)	(41,832)	(26,097)	(27,309)
Net Amount Recognized at End of Year	$ (46,795)	$ (42,941)	$ (26,097)	$ (27,309)
Amounts Recognized in Regulatory Assets Consist of:				
Prior Service Costs (Credit)	$ 1,268	$ 1,500	$ (215)	$ (469)
Net Actuarial Loss	45,929	46,564	21,279	22,463
	$ 47,197	$ 48,064	$ 21,064	$ 21,994
Amounts Recognized in Accumulated Other Comprehensive Loss Consist of (pre-tax):				
Prior Service Costs (Credit)	$ 200	$ 246	$ (212)	$ (306)
Net Actuarial Loss	23,563	18,788	3,378	2,704
	$ 23,763	$ 19,034	$ 3,166	$ 2,398

The projected benefit obligation (PBO) and accumulated benefit obligation (ABO) of SJI's qualified employee pension plans were $142.4 million and $128.8 million, respectively, as of December 31, 2010, and $130.5 million and $117.4 million, respectively, as of December 31, 2009. The ABO of these plans exceeded the value of the plan assets as of December 31, 2010 and December 31, 2009. The value of these assets can be seen in the table above. The PBO and ABO for SJI's non-funded SERP were $25.1 million and $24.7 million, respectively, as of December 31, 2010, and $18.5 million and $18.3 million, respectively, as of December 31, 2009. The SERP is reflected in the tables above and has no assets.

The weighted-average assumptions used to determine benefit obligations at December 31 were:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	**2010**	2009
Discount Rate	5.78%	6.22%	5.55%	6.22%
Rate of Compensation Increase	3.25%	3.60%	—	—

The weighted-average assumptions used to determine net periodic benefit cost for years ended December 31 were:

	Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	**2010**	2009	2008
Discount Rate	6.22%	6.24%	6.36%	6.22%	6.24%	6.36%
Expected Long-Term Return on Plan Assets	7.75%	8.25%	8.50%	6.80%	6.80%	7.00%
Rate of Compensation Increase	3.60%	3.60%	3.60%	—	—	—

All obligations disclosed herein reflect the use of the RP 2000 mortality tables.

The discount rates used to determine the benefit obligations at December 31, 2010 and 2009, which are used to determine the net periodic benefit cost for the subsequent year, were based on a portfolio model of high-quality instruments with maturities that match the expected benefit payments under our pension and other postretirement benefit plans.

The expected long-term return on plan assets ("return") has been determined by applying long-term capital market projections provided by our pension plan Trustee to the asset allocation guidelines, as defined in the Company's investment policy, to arrive at a weighted average return. For certain other equity securities held by an investment manager outside of the control of the Trustee, the return has been determined based on historic performance in combination with long-term expectations. The return for the other postretirement benefits plan is determined in the same manner as discussed above; however, the expected return is reduced based on the taxable nature of the underlying trusts.

The assumed health care cost trend rates at December 31 were:

	2010	2009
Medical Care and Drug Cost Trend Rate Assumed for Next Year	8.25%	9.00%
Dental Care Cost Trend Rate Assumed for Next Year	4.75%	4.75%
Rate to which Cost Trend Rates are Assumed to Decline (the Ultimate Trend Rate)	4.75%	4.75%
Year that the Rate Reaches the Ultimate Trend Rate	2019	2019

Assumed health care cost trend rates have a significant effect on the amounts reported for SJI's postretirement health care plans. A 1-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on the Total of Service and Interest Cost	$ 252	$ (197)
Effect on Postretirement Benefit Obligation	$ 2,305	$ (2,104)

Plan Assets — The Company's overall investment strategy for pension plan assets is to achieve a diversification by asset class, style of manager, and sector and industry limits to achieve investment results that match the actuarially assumed rate of return, while preserving the inflation adjusted value of the plans. The Company has implemented this diversification strategy primarily with commingled common/collective trust funds. The target allocations for pension plan assets are 35-46 percent U.S. equity securities, 12-18 percent international equity securities, 31-43 percent fixed-income investments, and 2-17 percent to all other types of investments. Equity securities include investments in commingled common/collective trust funds as well as large-cap and mid-cap companies. Fixed income securities include commingled common/collective trust funds, group annuity contracts for pension payments and hedge funds. Other types of investments include investments in private equity funds and real estate funds that follow several different strategies.

The strategy recognizes that risk and volatility are present to some degree with all types of investments. We seek to avoid high levels of risk at the total fund level through diversification by asset class, style of manager, and sector and industry limits. Specifically prohibited investments include, but are not limited to, venture capital, margin trading, commodities and securities of companies with less than $250.0 million capitalization (except in the small-cap portion of the fund where capitalization levels as low as $50.0 million are permissible). These restrictions are only applicable to individual investment managers with separately managed portfolios and do not apply to mutual funds or commingled trusts.

SJI evaluated its pension and other postretirement benefit plans' asset portfolios for the existence of significant concentrations of credit risk as of December 31, 2010. Types of concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, type of industry, foreign country, and individual fund. As of December 31, 2010, there were no significant concentrations (defined as greater than 10 percent of plan assets) of risk in SJI's pension and other postretirement benefit plan assets.

GAAP establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques. This hierarchy groups assets into three distinct levels, as fully described in Note 17, that will serve as the basis for presentation throughout the remainder of this Note.

The fair values of SJI's pension plan assets at December 31, 2010, by asset category, are as follows (in thousands):

Asset Category	Total	Level 1	Level 2	Level 3
Cash / Cash Equivalents:				
Common/Collective Trust Funds (a)	$ 465	$ —	$ 465	$ —
STIF-Type Instrument (b)	1,073	—	1,073	—
Equity Securities:				
Common/Collective Trust Funds — U.S. (a)	35,717	—	35,717	—
Common/Collective Trust Funds — International (a)	19,361	—	19,361	—
U.S. Large-Cap (c)	6,338	6,338	—	—
U.S. Mid-Cap (c)	6,104	6,104	—	—
International (c)	1,403	1,403	—	—
Fixed Income:				
Common/Collective Trust Funds (a)	29,678	—	29,678	—
Guaranteed Insurance Contract (d)	12,561	—	—	12,561
Hedge Funds (e)	124	—	—	124
Other types of investments:				
Private Equity Fund (f)	3,152	—	—	3,152
Common/Collective Trust Fund — Real Estate (g)	4,624	—	—	4,624
Total	$ 120,600	$ 13,845	$ 86,294	$ 20,461

(a) This category represents common/collective trust fund investments through a commingled employee benefit trust (excluding real estate). These commingled funds are not traded publicly; however, the majority of the underlying assets held in these funds are stocks and bonds that are traded on active markets and prices for these assets are readily observable. Also included in these funds are interest rate swaps, asset-backed securities, mortgage-backed securities and other investments with observable market values. Holdings in these commingled funds are classified as Level 2 investments.

(b) This category represents short-term investment funds held for the purpose of funding disbursement payment arrangements. Underlying assets are valued based on quoted prices in active markets, or where quoted prices are not available, based on models using observable market information. Since not all values can be obtained from quoted prices in active markets, these funds are classified as Level 2 investments.

(c) This category of equity investments represents a managed portfolio of common stock investments in five sectors: telecommunications, electric utilities, gas utilities, water and energy. These common stocks are actively traded on exchanges and price quotes for these shares are readily available. These common stocks are classified as Level 1 investments.

(d) This category represents SJI's Group Annuity contracts with a nationally recognized life insurance company. The contracts are the assets of the plan, while the underlying assets of the contracts are owned by the contract holder. Valuation is based on a formula and calculation specified within the contract. Since the valuation is based on the reporting enity's own assumptions, these contracts are classified as Level 3 investments.

(e) This category represents a collection of underlying funds which are all domiciled outside of the United States. Most of the underlying fund managers are based in the U.S.; however, they do not necessarily trade only in U.S. markets. It is important to note that the SJI Pension Funds are in the process of divesting investments from this fund of funds. The fair value of these funds is determined by the underlying fund's general partner or manager. These funds are classified as Level 3 investments.

(f) This category represents a limited partnership which includes several investments in U.S. leveraged buyout, venture capital, and special situation funds. Fund valuations are reported on a 90 day lag and, therefore, the value reported herein represents the market value as of September 30, 2010. The fund's investments are stated at fair value, which is generally based on the valuations provided by the general partners or managers of such investments. Fund investments are illiquid and resale is restricted. These funds are classified as Level 3 investments.

(g) This category represents real estate common/collective trust fund investments through a commingled employee benefit trust. These commingled funds are part of a direct investment in a pool of real estate properties. These funds are valued by investment managers on a periodic basis using pricing models that use independent appraisals from sources with professional qualifications. Since these valuation inputs are not highly observable, the real estate funds are classified as Level 3 investments.

The fair value of pension plan assets measured using significant unobservable inputs (Level 3) are as follows (in thousands):

	Guaranteed Insurance Contract	Hedge Funds	Private Equity Funds	Real Estate	**Total**
Balance at December 31, 2009	$11,677	$ 1,101	$ 2,704	$ 4,407	$19,889
Actual return on plan assets:					
Relating to assets still held at the reporting date	2,077	(289)	440	217	2,445
Relating to assets sold during the period	14	(266)	—	—	(252)
Purchases, Sales and Settlements	(1,207)	(422)	8	—	(1,621)
Balance at December 31, 2010	$12,561	$ 124	$ 3,152	$ 4,624	$20,461

As with the pension plan assets, the Company's overall investment strategy for post-retirement benefit plan assets is to achieve a diversification by asset class, style of manager, and sector and industry limits to achieve investment results that match the actuarially assumed rate of return, while preserving the inflation adjusted value of the plans. The Company has implemented this diversification strategy entirely with mutual funds. The target allocations for post-retirement benefit plan assets are 48 percent U.S. equity securities, 15 percent international equity securities, and 37 percent fixed-income investments. Equity securities include investments in large-cap, mid-cap and small-cap companies. Fixed income securities include both investment grade and strategic bond mutual funds.

The fair values of SJI's other postretirement benefit plan assets at December 31, 2010 by asset category are as follows (in thousands):

Asset Category	**Total**	Level 1	Level 2	Level 3
Equities Securities:				
U.S. Large-Cap	$ 11,589	$ 11,589	$ —	$ —
U.S. Mid & Small-Cap	4,498	4,498	—	—
International	4,632	4,632	—	—
Fixed Income:				
Corporate Bonds	11,400	11,400	—	—
Total	$ 32,119	$ 32,119	$ —	$ —

All investments above are holdings in mutual funds and actively traded on major stock exchanges.

Future Benefit Payments — The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the following years (in thousands):

	Pension Benefits	Other Postretirement Benefits
2011	$ 8,077	$ 4,249
2012	$ 8,338	$ 4,242
2013	$ 8,562	$ 4,314
2014	$ 8,858	$ 4,240
2015	$ 9,400	$ 4,317
2016–2020	$ 56,994	$ 23,325

Contributions — SJI made a contribution of $8.0 million to its qualified employee pension plans in 2010. SJI has no obligation to make a contribution in 2011. Payments related to the unfunded SERP plan are expected to approximate $1.2 million in 2011. SJG has a regulatory obligation to contribute approximately $3.6 million annually to its other postretirement benefit plans' trusts, less costs incurred directly by SJG.

Defined Contribution Plan — SJI offers an Employees' Retirement Savings Plan (Savings Plan) to eligible employees. For employees eligible for participation in SJI's defined benefit pension plan, SJI matches 50% of participants' contributions up to 6% of base compensation. For employees who are not eligible for participation in SJI's defined benefit pension plans, SJI matches 50% of participants' contributions up to 8% of base compensation. Employees not eligible for the pension plans also receive a year-end contribution of $1,000 if 10 or fewer years of service or $1,500 if more than 10 years of service. The amount expensed and contributed for the matching provision of the Savings Plan approximated $1.3 million, $1.0 million and $1.0 million for the years ended December 31, 2010, 2009 and 2008, respectively.

13. Unused Lines Of Credit:

Credit facilities and available liquidity as of December 31, 2010 were as follows (in thousands):

Company	**Total Facility**	Usage	Available Liquidity	Expiration Date
SJG:				
Revolving Credit Facility	$ 100,000	$ 50,000	$ 50,000	August 2011(A)
Line of Credit	40,000	—	40,000	August 2011(A)
Uncommitted Bank Lines	40,000	8,900	31,100	Various
Total SJG	180,000	58,900	121,100	
SJI:				
Revolving Credit Facility	200,000	182,793	17,207	Aug. 2011(A), (B)
Term Line of Credit	30,437	30,437	—	October 2011
Uncommitted Bank Lines	95,000	66,150	28,850	Various
Total SJI	325,437	279,380	46,057	
Total	$ 505,437	$ 338,280	$ 167,157	

(A) The Company anticipates extending these lines of credit during the second quarter of 2011.

(B) Includes letters of credit in the amount of $87.6 million under the SJI revolving credit facility.

The SJG facilities are restricted as to use and availability specifically to SJG; however, if necessary the SJI facilities can also be used to support SJG's liquidity needs. All committed facilities contain one financial covenant regarding the ratio of total debt to total capitalization, measured on a quarterly basis. SJI and SJG were in compliance with this covenant as of December 31, 2010. Borrowings under these credit facilities are at market rates. The weighted average borrowing cost, which changes daily, was 0.99%, 0.77% and 1.16% at December 31, 2010, 2009 and 2008, respectively.

14. Long-Term Debt:

Outstanding Long-Term Debt at December 31 consisted of the following:

		2010	2009
Long-Term Debt (A):			
South Jersey Gas Company:			
First Mortgage Bonds: (B)			
6.12%	Series due 2010 (C)	$ —	$ 10,000
6.74%	Series due 2011	10,000	10,000
6.57%	Series due 2011	15,000	15,000
4.46%	Series due 2013	10,500	10,500
5.027%	Series due 2013	14,500	14,500
4.52%	Series due 2014	11,000	11,000
5.115%	Series due 2014	10,000	10,000
5.387%	Series due 2015	10,000	10,000
5.437%	Series due 2016	10,000	10,000
4.60%	Series due 2016	17,000	17,000
4.657%	Series due 2017	15,000	15,000
7.97%	Series due 2018	10,000	10,000
7.125%	Series due 2018	20,000	20,000
5.587%	Series due 2019	10,000	10,000
3.63%	Series due 2025 (D)	10,000	—
4.84%	Series due 2026 (D)	15,000	—
4.93%	Series due 2026 (D)	45,000	—
4.03%	Series due 2027 (D)	45,000	—
7.7%	Series due 2027	35,000	35,000
5.55%	Series due 2033	32,000	32,000
6.213%	Series due 2034	10,000	10,000
5.45%	Series due 2035	10,000	10,000
Series A 2006 Bonds at variable rates due 2036 (E)		25,000	25,000
Marina Energy LLC: (F)			
Series A 2001 Bonds at variable rates due 2031		20,000	20,000
Series B 2001 Bonds at variable rates due 2021		25,000	25,000
Series A 2006 Bonds at variable rates due 2036		16,400	16,400
AC Landfill Energy, LLC: (G)			
Bank Term Loans, 6% due 2014		—	331
Mortgage Bond, 4.19% due 2019		—	1,181
Total Long-Term Debt Outstanding		451,400	347,912
Less Current Maturities		(111,400)	(35,119)
Total Long-Term Debt		$ 340,000	$ 312,793

(A) Long-term debt maturities and sinking funds requirements for the succeeding five years are as follows (in thousands): 2011, $25,000; 2012, $2,187; 2013, $27,187; 2014, $23,188; 2015, $13,097.

(B) Our First Mortgage dated October 1, 1947, as supplemented, securing the First Mortgage Bonds constitutes a direct first mortgage lien on substantially all utility plant.

(C) On October 21, 2010, SJG retired its 6.12% Medium Term Notes (MTN), at par.

(D) During 2010, SJG made the following private placement issuances under its MTN Program: $15.0 million on March 1, 2010, due 2026; $45.0 million on June 30, 2010, due 2026; $10.0 million on December 30, 2010, due 2025, requiring annual principal payments of $0.9 million beginning December 2015; and $45.0 million on December 30, 2010, due 2027, requiring annual principal payments of $9.0 million beginning December 2023. As of December 31, 2010, $35.0 million remains available under this program.

(E) These variable rate demand bonds bear interest at a floating rate that resets weekly. The interest rate as of December 31, 2010 was 0.35%. Liquidity support on these bonds is provided by a letter of credit from a commercial bank that expires in August 2011, and as such, these bonds are included in the current portion of long-term debt. These notes contain no financial covenants.

(F) Marina has issued $61.4 million of unsecured variable-rate revenue bonds through the New Jersey Economic Development Authority (NJEDA). The variable rates at December 31, 2010 for the Series A 2001, Series B 2001, and Series A 2006 bonds were 0.37%, 0.57% and 0.37% respectively. The interest rate on all but $1.1 million of the bonds has been effectively fixed via interest-rate swaps at 3.91% until January 2026. These bonds contain no financial covenants. Liquidity support on these bonds is provided by letters of credit from a commercial bank that expire in 2011, and as such, these bonds are included in the current portion of long-term debt.

(G) AC Landfill Energy, LLC is no longer consolidated into SJI beginning in 2010 as discussed in Note 1.

We estimated the fair values of SJI's long-term debt, including current maturities, as of December 31, 2010 and 2009, to be $517.0 million and $394.5 million, respectively. Carrying amounts as of December 31, 2010 and 2009, were $451.4 million and $347.9 million, respectively. We based the estimates on interest rates available to SJI at the end of each year for debt with similar terms and maturities. SJI retires debt when it is cost effective as permitted by the debt agreements.

15. Commitments And Contingencies:

Gas Supply Contracts — In the normal course of business, SJG and SJRG have entered into long-term contracts for natural gas supplies, firm transportation and gas storage service. The earliest that any of these contracts expire is March 2011. The transportation and storage service agreements with interstate pipeline suppliers were made under FERC approved tariffs. SJRG's cumulative obligation for demand charges and reservation fees paid to suppliers for these services is approximately $0.2 million per month. SJG's cumulative obligation for demand charges and reservation fees paid to suppliers for these services averages approximately $3.7 million per month and is recovered on a current basis through the BGSS. SJRG has also committed to purchase a minimum of 249,000 dts/d and up to 635,000 dts/d of natural gas, from various suppliers, for terms ranging from three to 10 years at index-based prices.

Pending Litigation — SJI is subject to claims arising in the ordinary course of business and other legal proceedings. We accrue liabilities related to these claims when we can reasonably estimate the amount or range of amounts of probable settlement costs or other charges for these claims. SJI has been named in, among other actions, certain product liability claims related to our former sand mining subsidiary. Management does not currently anticipate the disposition of any known claims to have a material adverse effect on SJI's financial position, results of operations or liquidity.

Collective Bargaining Agreements — Unionized personnel represent approximately 52% of our workforce at December 31, 2010. The Company has collective bargaining agreements with two unions that represent these employees: the International Brotherhood of Electrical Workers (IBEW) Local 1293 and the International Association of Machinists and Aerospace Workers (IAM) Local 76. SJG and SJESP employees represented by the IBEW operate under a collective bargaining agreement that runs through February 2013, with the option to extend until February 2014 at the union's election. The remaining unionized employees represented by the IAM operate under a collective bargaining agreement that runs through August 2014.

Guarantees — As of December 31, 2010, SJI had issued $594.5 million of parental guarantees on behalf of its subsidiaries. Of this total, $505.9 million expire within one year, and $88.6 million expire after one year or have no expiration date. These guarantees were issued to guarantee payment to third parties with whom our subsidiaries have commodity supply contracts and for Marina's construction and operating activities. As of December 31, 2010, these guarantees support future firm commitments and $119.2 million of the Accounts Payable recorded on our consolidated balance sheet.

The Company has recorded a liability of $1.9 million, which is included in Other Noncurrent Liabilities, with a corresponding increase in Investment in Affiliates on the consolidated balance sheets as of December 31, 2010 for the fair value of the following guarantees:

- In April 2007, SJI guaranteed certain obligations of LVE, an unconsolidated joint venture in which Marina has a 50% equity interest. LVE entered into a 25-year contract with a resort developer to design, build, own and operate a district energy system and central energy center for a planned resort in Las Vegas, Nevada. LVE began construction of the facility in 2007 and expected to provide full energy services in 2010 when the resort was originally scheduled to be completed. LVE suspended construction of the district energy system and central energy center in January 2009 after the resort developer's August 2008 announcement that it was delaying the completion of construction of the resort due to the difficult environment in the capital markets and weak economic conditions. The resort developer had indicated that it was considering different strategies to move its project forward, including opening its project in phases and obtaining a partner, but that it was unlikely construction would resume during 2009. In October 2010, the resort developer announced that they do not expect to resume construction on the project for three to five years. They stated that they remain committed to having a significant presence on the Las Vegas Strip as part of a long-term growth strategy and continue to view this site as a major strategic asset.

  The district energy system and central energy center are being financed by LVE with debt that is non-recourse to SJI. The outstanding balance of LVE's bank debt is approximately $220.6 million as of December 31, 2010. In September 2009, LVE reached an agreement with the banks that are financing the energy facilities to address defaults under the financing agreements. These LVE defaults were caused by the resort developer's construction delay and the termination of an energy services agreement by a hotel operator associated with the project. As a result of these defaults, the banks had previously stopped funding the project. The terms of the September 2009 agreement required SJI and its partner in this joint venture to guarantee the payment of future interest costs by LVE through, at the latest, December 2010. In addition, SJI and its partner in this joint venture each committed to provide approximately $8.9 million of additional capital as of September 2009 to cover costs related to the termination of the energy services agreement by a hotel operator and interest costs incurred since August 2008 when the resort developer suspended construction. Of this amount, $6.7 million was in the form of an irrevocable letter of credit from a bank and the remaining $2.2 million was provided in cash in 2009. In turn, the banks waived all existing defaults under the financing agreements and were relieved of their commitment to provide additional funding. The $6.7 million discussed above, along with the $30.4 million of capital that Marina originally agreed to contribute as part of its construction period financing, was contributed in December 2010. As a result of the construction delay, the district energy system and central energy center was not completed by the end of 2010 as originally expected. Consequently, the full amount of LVE's debt became due and payable in December 2010. LVE intends to seek additional financing to complete the facility once construction of the resort resumes, however, as of December 31, 2010, LVE was in default under the financing agreements with the banks. The Energy Sales Agreement between LVE and the resort developer includes a payment obligation by the resort developer to pay certain fees and expenses to LVE. A portion of this payment obligation is guaranteed to LVE's lenders by the parent of the resort developer. LVE is currently in discussions with (a) the resort developer to determine the amount and timing of the payments to be made by the resort developer to LVE during the suspension period and (b) the banks that are financing the energy facilities to address the existing default under the financing agreements. As of December 31, 2010, the Company had a net liability of approximately $1.6 million included in Other Noncurrent Liabilities on the consolidated balance sheets related to this project, in addition to unsecured Notes Receivable — Affiliate of approximately $52.2 million due from LVE. As of December 31, 2010, SJI's capital at risk is limited to its equity contributions and the unsecured notes receivable totaling approximately $65.3 million. During 2010, SJI and its partner in this joint venture each provided support to LVE of approximately $48.5 million to cover interest and other project related costs and capital contribution obligations.

  As a result of the construction delay, management has evaluated the investment in LVE and concluded that the fair value of this investment continues to be in excess of the carrying value as of December 31, 2010.

  In 2007, SJI issued a performance guaranty for up to $180.0 million to the resort developer to ensure that certain construction milestones relating to the development of the thermal facility are met. As a result of the resort developer not achieving certain milestones, SJI was no longer obligated under this guaranty as of December 31, 2010. SJI has also guaranteed certain performance obligations of LVE under the operating agreements between LVE and the resort developer, up to $20.0 million each year for the term of the agreement, commencing with the first year of operations. SJI and its partner in this joint venture have entered into reimbursement agreements that secure reimbursement for SJI of a proportionate share of any payments made by SJI on these guarantees.
- SJI has guaranteed certain obligations of BC Landfill Energy, LLC (BCLE) and WC Landfill Energy, LLC (WCLE), unconsolidated joint ventures in which Marina has a 50% equity interest. BCLE and WCLE have entered into agreements ranging from 15-20 years with the respective county governments to lease and operate facilities that will produce electricity from landfill methane gas. Although unlikely, the maximum amount that SJI could be obligated for, in the event that BCLE and WCLE do not meet minimum specified levels of operating performance and no mitigating action is taken, or are unable to meet certain financial obligations as they become due, is approximately $4.2 million each year. SJI and its partner in these joint ventures have entered into reimbursement agreements that secure reimbursement for

SJI of a proportionate share of any payments made by SJI on these guarantees. SJI holds variable interests in BCLE and WCLE but is not the primary beneficiary.

- SJI has guaranteed the long-term debt obligations of ACLE, which has entered into a long-term agreement with a county government to lease and operate a facility that will produce electricity from landfill methane gas. Although unlikely, the maximum amount that SJI could be obligated for, in the event that ACLE is unable to meet certain financial obligations as they become due, is approximately $1.5 million. SJI and its partner in this joint venture have entered into a reimbursement agreement that secures reimbursement for SJI of a proportionate share of any payments made by SJI on this guarantee. SJI holds a variable interest in ACLE but is not the primary beneficiary.
- As of December 31, 2010, SJI had issued $4.4 million of parental guarantees on behalf of an unconsolidated subsidiary. These guarantees generally expire within the next two years and were issued to enable our subsidiary to market retail natural gas.

Standby Letters Of Credit — As of December 31, 2010, SJI provided $87.6 million of standby letters of credit through SJI's revolving credit facility. Letters of credit in the amount of $62.3 million support variable-rate demand bonds issued through the NJEDA to finance Marina's initial thermal plant project and $25.3 million were posted to enable SJE to market retail electricity and for various construction activities. The Company also provided an additional $25.2 million letter of credit under a separate facility outside of the revolving credit facility to support variable-rate demand bonds issued through the NJEDA to finance the expansion of SJG's natural gas distribution system. This letter of credit expires in August 2011.

Environmental Remediation Costs — SJI incurred and recorded costs for environmental cleanup of 12 sites where SJG or its predecessors operated gas manufacturing plants. SJG stopped manufacturing gas in the 1950s. SJI and some of its nonutility subsidiaries also recorded costs for environmental cleanup of sites where SJF previously operated a fuel oil business and Morie maintained equipment, fueling stations and storage.

SJI successfully entered into settlements with all of its historic comprehensive general liability carriers regarding the environmental remediation expenditures at the SJG sites. Also, SJG purchased a Cleanup Cost Cap Insurance Policy limiting the amount of remediation expenditures that SJG will be required to make at 11 of its sites. This policy will be in force until 2024 at 10 sites and until 2029 at one site. The future cost estimates discussed hereafter are not reduced by projected insurance recoveries from the Cleanup Cost Cap Insurance Policy. The policy is limited to an aggregate amount of $50.0 million, of which SJG has recovered $43.1 million through December 31, 2010. As discussed in Note 10, the BPU allows SJG to recover environmental remediation costs through the RAC.

Since the early 1980s, SJI accrued environmental remediation costs of $267.6 million, of which $175.8 million was spent as of December 31, 2010.

The following table details the amounts expended and accrued for SJI's environmental remediation during the last two years (in thousands):

	2010	2009
Beginning of Year	$ 73,442	$ 68,165
Accruals	27,371	16,975
Expenditures	(8,980)	(11,698)
End of Year	$ 91,833	$ 73,442

The balances are segregated between current and noncurrent on the consolidated balance sheets under the captions Current Liabilities and Deferred Credits and Other Noncurrent Liabilities.

Management estimates that undiscounted future costs to clean up SJG's sites will range from $87.4 million to $237.4 million. Six of SJG's sites comprise the majority of these estimates, ranging from a low of $68.5 million to a high of $189.3 million. SJG recorded the lower end of this range as a liability because a single reliable estimation point is not feasible due to the amount of uncertainty involved in the nature of projected remediation efforts and the long period over which remediation efforts will continue. Recorded amounts include estimated costs based on projected investigation and remediation work plans using existing technologies. Actual costs could differ from the estimates due to the long-term nature of the projects, changing technology, government regulations and site-specific requirements. Significant risks surrounding these estimates include unforeseen market price increases for remedial services, property owner acceptance of remedy selection, regulatory approval of selected remedy and remedial investigative findings.

The remediation efforts at SJG's six most significant sites include the following:

Site 1 — Remediation of the site is currently underway in accordance with the remedial action work plan approved by the New Jersey Department of Environmental Protection (NJDEP). Remaining steps to complete the remedy include continued excavation of impacted soil and river sediments as well as groundwater monitoring and sampling.

Site 2 — Various remedial investigation and action activities are ongoing at this site. An interim remedial measure has been implemented and a remedial action work plan has been submitted to the NJDEP for an offsite interim remedial measure. Remaining steps to remediate soil and groundwater include completing the remedial investigation of impacted soil and groundwater in preparation for selecting the appropriate action and implementation and gaining regulatory and property owner approval of the selected remedy.

Site 3 — Various remedial investigation and action activities are ongoing at this site. Remaining steps include completion of an interim remedial action at one off site property and final remedy selection for the remaining impacts at the site, regulatory approval of the final remedy, and implementation of the selected remedy to address remaining impacted soil and groundwater.

Site 4 — Remedial investigation activities are ongoing at this site including pilot studies of potential remedial alternatives and continued soil and groundwater investigation. Remaining steps to remediate the site include completing the investigation of impacted soil and groundwater in preparation for selecting the appropriate action, gaining regulatory and property owner approval of the selected remedy and implementation of the remedy once approved.

Site 5 — Remedial investigation activities are ongoing at this site. Remaining steps include completing the remedial investigation of impacted soil and groundwater in preparation for selecting the appropriate action and implementation and gaining regulatory and property owner approval of the selected remedy.

Site 6 — Remedial investigation activities are ongoing at this site. Remaining steps to remediate include completing the remedial investigation of impacted soil and groundwater in preparation for selecting the appropriate action and implementation and gaining regulatory approval of the selected remedy.

With Morie's sale, EMI assumed responsibility for environmental liabilities, currently estimated between $2.7 million and $8.5 million. The information available on these sites is sufficient only to establish a range of probable liability and no point within the range is more likely than any other. Therefore, EMI has accrued the lower end of the range. Changes in the accrual are included in the statements of consolidated income under Loss from Discontinued Operations.

SJI and SJF estimate their potential exposure for the future remediation of six sites where fuel oil operations existed years ago to range from $1.7 million to $4.0 million. The lower end of this range has been recorded under Current Liabilities and Deferred Credits and Other Noncurrent Liabilities as of December 31, 2010.

16. Derivative Instruments:

Certain SJI subsidiaries are involved in buying, selling, transporting and storing natural gas and buying and selling retail electricity for their own accounts as well as managing these activities for other third parties. These subsidiaries are subject to market risk on expected future purchases and sales due to commodity price fluctuations. The Company uses a variety of derivative instruments to limit this exposure to market risk in accordance with strict corporate guidelines. These derivative instruments include forward contracts, swap agreements, options contracts and futures contracts. As of December 31, 2010, the Company had outstanding derivative contracts intended to limit the exposure to market risk on 22.3 MMdts of expected future purchases of natural gas, 19.1 MMdts of expected future sales of natural gas, 2.3 MMmwh of expected future purchases of electricity, and 0.1 MMmwh of expected future sales of electricity. These contracts, which have not been designated as hedging instruments under GAAP, are measured at fair value and recorded in Derivatives — Energy Related Assets or Derivatives — Energy Related Liabilities on the consolidated balance sheets. The net unrealized pre-tax gains and losses for these energy related commodity contracts are included with realized gains and losses in Operating Revenues — Nonutility.

SJI structured its subsidiaries so that SJG and SJE transact commodities on a physical basis and typically do not directly enter into positions that financially settle. SJRG performs this risk management function for these entities and enters into the types of financial transactions noted above. As part of its gas purchasing strategy, SJG uses financial contracts through SJRG to hedge against forward price risk. The costs or benefits of these short-term contracts are recoverable through SJG's BGSS clause, subject to BPU approval. As of December 31, 2010 and 2009, SJG had $5.0 million and $9.2 million of costs, respectively, included in its BGSS related to open financial contracts.

Management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in identifying, assessing and controlling various risks. Management reviews any open positions in accordance with strict policies to limit exposure to market risk.

SJI presents revenues and expenses related to its energy trading activities on a net basis in Operating Revenues — Nonutility in the consolidated statements of income consistent with GAAP. This net presentation has no effect on operating income or net income.

The Company has also entered into interest rate derivatives to hedge exposure to increasing interest rates and the impact of those rates on cash flows of variable-rate debt. These interest rate derivatives, some of which have been designated as hedging instruments under GAAP, are measured at fair value and recorded in Derivatives-Other on the consolidated balance sheets. The fair value represents the amount SJI would have to pay the counterparty to terminate these contracts as of those dates. As of December 31, 2010, SJI's active interest rate swaps were as follows:

Notional Amount	Fixed Interest Rate	Start Date	Maturity	Type of Debt	Obligor
$ 3,900,000	4.795%	12/01/2004	12/01/2014	Taxable	Marina
$ 8,000,000	4.775%	11/12/2004	11/12/2014	Taxable	Marina
$ 20,000,000	4.080%	11/19/2001	12/01/2011	Tax-exempt	Marina
$ 14,500,000	3.905%	03/17/2006	01/15/2026	Tax-exempt	Marina
$ 500,000	3.905%	03/17/2006	01/15/2026	Tax-exempt	Marina
$ 330,000	3.905%	03/17/2006	01/15/2026	Tax-exempt	Marina
$ 7,100,000	4.895%	02/01/2006	02/01/2016	Taxable	Marina
$ 12,500,000	3.430%	12/01/2006	02/01/2036	Tax-exempt	SJG
$ 12,500,000	3.430%	12/01/2006	02/01/2036	Tax-exempt	SJG

The interest rate derivatives that are currently designated as cash flow hedges have been determined to be highly effective. Therefore, the changes in fair value of the effective portion of these swaps along with the cumulative unamortized costs, net of taxes, have been recorded in Accumulated Other Comprehensive Loss. These unrealized gains and losses will be reclassified into earnings when the forecasted cash flows of the related variable-rate debt affects earnings, or when it is probable that it will not occur. The ineffective portion of these swaps have been included in Interest Charges.

The unrealized gains and losses on the interest rate derivatives that have not been designated as cash flow hedges have also been included in Interest Charges. However, for selected interest rate derivatives at SJG, management believes that, subject to BPU approval, the market value upon termination can be recovered in rates and therefore these unrealized losses have been included in Other Regulatory Assets in the consolidated balance sheets.

The fair values of all derivative instruments, as reflected in the consolidated balance sheets as of December 31, are as follows (in thousands):

Derivatives not designated as hedging instruments under GAAP	2010 Assets	2010 Liabilities	2009 Assets	2009 Liabilities
Energy related commodity contracts:				
Derivatives – Energy Related – Current	$ 39,513	$ 42,297	$ 36,512	$ 28,260
Derivatives – Energy Related – Non-Current	11,556	8,641	11,585	10,931
Interest rate contracts:				
Derivatives – Other	—	5,539	—	3,704
Total derivatives not designated as hedging instruments under GAAP	51,069	56,477	48,097	42,895
Derivatives designated as hedging instruments under GAAP				
Interest rate contracts:				
Derivatives – Other	—	1,865	—	2,119
Total derivatives designated as hedging instruments under GAAP	—	1,865	—	2,119
Total Derivatives	$ 51,069	$ 58,342	$ 48,097	$ 45,014

The effect of derivative instruments on the consolidated statements of income for the years ended December 31, is as follows (in thousands):

Derivatives in Cash Flow Hedging Relationships	2010	2009	2008
Interest Rate Contracts:			
Gains or (losses) recognized in OCI on effective portion	$ (1,063)	$ 164	$ (2,739)
Losses reclassified from accumulated OCI into income (a)	$ (1,486)	$ (1,462)	$ (936)
Gains or (losses) recognized in income on ineffective portion (a)	$ —	$ —	$ —

(a) Included in Interest Charges

Derivatives Not Designated as Hedging Instruments under GAAP	2010	2009	2008
Gains (losses) on Energy related commodity contracts (a)	$(22,624)	$(14,815)	$ 9,318
Gains (losses) on Interest rate contracts (b)	(641)	1,210	(2,173)
Total	$(23,265)	$(13,605)	$ 7,145

(a) Included in Operating Revenues — Non Utility
(b) Included in Interest Charges

Net realized (losses) gains associated with SJG's energy-related financial commodity contracts of $(23.5) million, $(51.9) million and $6.2 million for 2010, 2009 and 2008, respectively, are not included in the above table. As of December 31, 2010 and 2009, SJG had $5.0 million and $9.2 million of unrealized losses on energy-related financial commodity contracts, respectively, included in its BGSS which are also not included in the above table. These contracts are part of SJG's regulated risk management activities that serve to mitigate BGSS costs passed on to its customers. As these transactions are entered into pursuant to, and recoverable through, regulatory riders, any changes in the value of SJG's energy-related financial commodity contracts are deferred in Regulatory Assets or Liabilities and there is no impact to earnings.

Certain of the Company's derivative instruments contain provisions that require immediate payment or demand immediate and ongoing collateralization on derivative instruments in net liability positions in the event of a material adverse change in the credit standing of the Company. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on December 31, 2010, is $19.8 million. If the credit-risk-related contingent features underlying these agreements were triggered on December 31, 2010, the Company would have been required to settle the instruments immediately or post collateral to its counterparties of approximately $13.2 million after offsetting asset positions with the same counterparties under master netting arrangements.

17. Fair Value Of Financial Assets And Financial Liabilities:

GAAP establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques. The levels of the hierarchy are described below:

- ***Level 1***: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- ***Level 2***: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- ***Level 3***: Unobservable inputs that reflect the reporting entity's own assumptions.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy.

For financial assets and financial liabilities measured at fair value on a recurring basis, information about the fair value measurements for each major category as of December 31, 2010 is as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Assets:				
Available-for-Sale Securities (A)	$ 6,720	$ 6,720	$ —	$ —
Derivatives — Energy Related Assets (B)	51,069	21,204	24,878	4,987
	$ 57,789	$ 27,924	$ 24,878	$ 4,987
Liabilities:				
Derivatives — Energy Related Liabilities (B)	$ 50,938	$ 19,513	$ 23,275	$ 8,150
Derivatives — Other (C)	7,404	—	7,404	—
	$ 58,342	$ 19,513	$ 30,679	$ 8,150

(A) Available-for-Sale Securities are valued using the quoted principal market close prices that are provided by the trustees of these securities.

(B) Derivatives — Energy Related Assets and Liabilities are traded in both exchange-based and non-exchange-based markets. Exchange-based contracts are valued using unadjusted quoted market sources in active markets and are categorized in Level 1 in the fair value hierarchy. Certain non-exchange-based contracts are valued using indicative price quotations available through brokers or over-the-counter, on-line exchanges and are categorized in Level 2. These price quotations reflect the average of the bid-ask, mid-point prices and are obtained from sources that management believes provide the most liquid market. For non-exchange-based derivatives that trade in less liquid markets with limited pricing information, model inputs generally would include both observable and unobservable inputs. In instances where observable data is unavailable, management considers the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. Management reviews and corroborates the price quotations to ensure the prices are observable which includes consideration of actual transaction volumes, market delivery points, bid-ask spreads and contract duration.

(C) Derivatives — Other, include interest rate swaps that are valued using quoted prices on commonly quoted intervals, which are interpolated for periods different than the quoted intervals, as inputs to a market valuation model. Market inputs can generally be verified and model selection does not involve significant management judgment.

Transfers between different levels of the fair value hierarchy may occur based on the level of observable inputs used to value the instruments from period to period. During the year ended December 31, 2010, there were no transfers between levels within the fair value hierarchy, including no transfers in or out of Level 3.

The changes in fair value measurements of Derivatives — Energy Related Assets and Liabilities at December 31, 2010 using significant unobservable inputs (Level 3) are as follows (in thousands):

Balance at January 1, 2010	$(10,299)
Total gains and losses (realized/unrealized) included in earnings	(774)
Transfers in and/or out of Level 3, net	—
Settlements	7,910
Balance at December 31, 2010	$ (3,163)

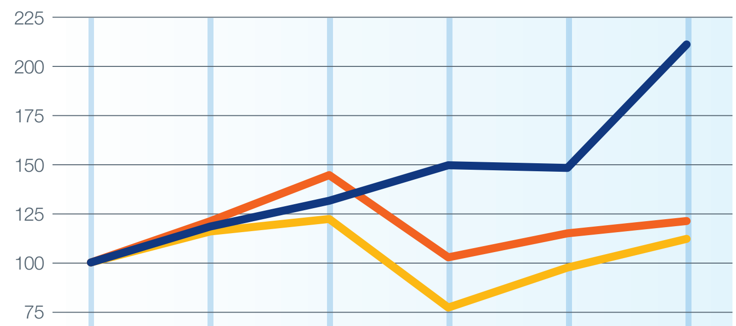
Total losses for 2010 included in earnings, that are attributable to the change in unrealized losses relating to those assets and liabilities still held as of December 31, 2010, are $0.8 million. These losses are included in Operating Revenues — Nonutility on the statement of consolidated income.

18. Subsequent Event:

In February 2011, ACR Energy Partners, LLC (ACR), a joint venture in which Marina has a 50% equity interest, entered into a 20-year contract with a developer to build, own and operate a central energy center and energy distribution system for a planned hotel, casino and entertainment complex in Atlantic City, New Jersey. ACR expects to provide construction energy to the complex in 2011 and provide full energy services when the complex is completed in 2012. Marina is obligated to contribute approximately $21.0 million to ACR, provided the developer has met certain conditions. These conditions include, among others, substantial completion of the complex and demonstration of adequate financial resources to operate the complex.

STOCK PERFORMANCE

This graph compares the cumulative total return on the company's common stock for the 5-year period ended December 31, 2010 with the cumulative total return on the S&P 500 and the S&P Utility Index. The graph assumes that $100 was invested on December 31, 2005 in the company's common stock, the S&P 500 and the S&P Utility Index and that all dividends were reinvested. Standard & Poor's Utility Index is a commonly used indicator of utility common stock performance based on selected gas, electric and telephone companies. For the 5-year period ending December 31, 2010, investors received a 16.1% annualized total return compared with the 2.3% and 3.9% returns from the S&P 500 and S&P Utility Index, respectively. SJI shareholders received a 42.4% total return in 2010. This compares with returns of 15.1% for the S&P 500 and 5.5% for the S&P Utility Index.



	2005	2006	2007	2008	2009	2010
S&P 500	100	115.8	122.2	77.0	97.3	112.0
S&P UTIL	100	121.0	144.4	102.6	114.8	121.1
SJI	100	118.3	131.4	149.5	148.1	211.0

MARKET PRICE OF COMMON STOCK AND RELATED INFORMATION

Quarter Ended 2010	**Market Price Per Share High**	**Low**	**Dividends Declared Per Share**	Quarter Ended 2009	Market Price Per Share High	Low	Dividends Declared Per Share
March 31	$ 42.50	$ 37.19	$ 0.3300	March 31	$ 40.78	$ 31.98	$ 0.2975
June 30	$ 46.21	$ 41.17	$ 0.6600[1]	June 30	$ 36.20	$ 33.04	$ 0.2975
September 30	$ 49.79	$ 41.97	$ 0.0000[1]	September 30	$ 37.53	$ 33.12	$ 0.2975
December 31	$ 54.24	$ 49.27	$ 0.3650	December 31	$ 40.24	$ 34.07	$ 0.3300

[1] During the first six months of 2010 and 2009, SJI declared quarterly dividends to its common shareholders that were payable in April and July of each year. In June 2010, SJI also declared its normal quarterly dividend that was payable in October 2010. During 2009, SJI did not declare its October dividend until August. Consequently, Dividends Declared per Common Share for the 3-months ended September 30, 2010 do not include the impact of the October dividend.

These quotations are based on the list of composite transactions of the New York Stock Exchange. Our stock is traded on the New York Stock Exchange under the symbol SJI. We have declared and expect to continue to declare regular quarterly cash dividends. As of December 31, 2010, the latest available date, our records indicate that there were 7,130 shareholders of record.

QUARTERLY FINANCIAL DATA (Unaudited)

(Summarized quarterly results of SJI's operations, in thousands except for per share amounts)

	2010 Quarter Ended				2009 Quarter Ended			
	March 31	**June 30**	**Sept. 30**	**Dec. 31**	March 31	June 30	Sept. 30	Dec. 31
Operating Revenues	$329,283	$151,648	$160,667	$283,469	$362,176	$134,483	$127,087	$ 221,698
Expenses:								
Cost of Sales – (Excluding depreciation)	231,244	100,447	124,813	198,319	265,508	90,632	95,128	142,120
Operations and Maintenance Including Fixed Charges	39,504	39,498	39,951	44,553	37,621	35,524	35,523	39,539
Income Taxes	21,971	265	(7,427)	14,002	20,218	3,056	(3,206)	14,234
Energy and Other Taxes	4,872	1,949	1,642	3,679	5,167	1,667	1,649	3,248
Total Expenses	297,591	142,159	158,979	260,553	328,514	130,879	129,094	199,141
Other Income and Expense	(124)	(948)	(247)	2,819	(1,974)	1,385	(20)	1,094
Income (Loss) from Continuing Operations	31,568	8,541	1,441	25,735	31,688	4,989	(2,027)	23,651
Loss from Discontinued Operations – (Net of tax benefit)	(29)	(101)	(133)	(370)	(19)	(23)	(16)	(369)
Net Income (Loss)	31,539	8,440	1,308	25,365	31,669	4,966	(2,043)	23,282
Less: Net (Income) Loss Attributable to Noncontrolling Interest in Subsidiaries	—	—	—	—	(66)	42	169	86
Net Income (Loss) – Attributable to South Jersey Industries, Inc. Shareholders	$ 31,539	$ 8,440	$ 1,308	$ 25,365	$ 31,603	$ 5,008	$ (1,874)	$ 23,368
Amounts Attributable to South Jersey Industries, Inc. Shareholders								
Income (Loss) from Continuing Operations	$ 31,568	$ 8,541	$ 1,441	$ 25,735	$ 31,622	$ 5,031	$ (1,858)	$ 23,737
Loss from Discontinued Operations – (Net of tax benefit)	(29)	(101)	(133)	(370)	(19)	(23)	(16)	(369)
Net Income (Loss) Attributable to South Jersey Industries, Inc. Shareholders	$ 31,539	$ 8,440	$ 1,308	$ 25,365	$ 31,603	$ 5,008	$ (1,874)	$ 23,368
Basic Earnings Per Common Share Attributable to South Jersey Industries, Inc. Shareholders:*								
Continuing Operations	$ 1.06	$ 0.29	$ 0.05	$ 0.86	$ 1.06	$ 0.17	$ (0.06)	$ 0.80
Discontinued Operations	(0.00)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	(0.02)
Basic Earnings Per Common Share	$ 1.06	$ 0.28	$ 0.04	$ 0.85	$ 1.06	$ 0.17	$ (0.06)	$ 0.78
Average Shares of Common Stock Outstanding – Basic	29,826	29,873	29,873	29,873	29,752	29,796	29,796	29,796
Diluted Earnings Per Common Share Attributable to South Jersey Industries, Inc. Shareholders:*								
Continuing Operations	$ 1.06	$ 0.29	$ 0.05	$ 0.86	$ 1.06	$ 0.17	$ (0.06)	$ 0.79
Discontinued Operations	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)
Diluted Earnings Per Common Share	$ 1.05	$ 0.28	$ 0.04	$ 0.85	$ 1.06	$ 0.17	$ (0.06)	$ 0.78
Average Shares of Common Stock Outstanding – Diluted	29,913	29,975	30,000	30,008	29,851	29,902	29,796	29,916

* The sum of the quarters per share amounts for 2010 and 2009 do not equal the year's total due to rounding.

NOTE: Because of the seasonal nature of the business and the volatility from energy related derivatives, statements for the 3-month periods are not indicative of the results for a full year.

SOUTH JERSEY INDUSTRIES

Current Board of Directors

SHIRLI M. BILLINGS, PH.D.
Director since 1983, Age 70 [2, 3, 4*]
President, Billings & Company, New Albany, OH

HELEN R. BOSLEY, CFA
Director since 2004, Age 63 [1, 5]
President, Corporate Financial Management, Inc., Yardley, PA

THOMAS A. BRACKEN
Director since 2004, Age 63 [1, 5]
President, New Jersey Chamber of Commerce, Trenton, NJ

KEITH S. CAMPBELL
Director since 2000, Age 56 [2*, 3, 5]
Chairman, Mannington Mills, Salem, NJ

VICTOR A. FORTKIEWICZ
Director since 2010, Age 58 [4, 5]
Formerly Executive Director of New Jersey Board of Public Utilities

EDWARD J. GRAHAM
Director since 2004, Age 53 [3*]
Chairman, President and CEO, South Jersey Industries, Folsom, NJ

SHEILA HARTNETT-DEVLIN, CFA
Director since 1999, Age 52 [1*, 3, 4]
Vice President, American Century Investments, New York, NY

WILLIAM J. HUGHES
Director since 2002, Age 78 [3, 4, 5*]
Formerly Of Counsel, law firm of Riker, Danzig, Scherer, Hyland & Perretti, LLP, Morristown and Trenton, NJ; Former Ambassador to Panama and former member of the United States House of Representatives

WALTER M. HIGGINS, III
Lead Independent Director
Director since 2008, Age 66 [1, 2, 3]
Retired Chairman, President and CEO of Sierra Pacific Resources (now called NVEnergy), Reno, NV

SHAHID J. MALIK
Director since 2011, Age 49 [1, 2]
Management Consultant, Pittiglio, Rabin, Todd and McGrath, Pittsburgh, PA

JOSEPH H. PETROWSKI
Director since 2008, Age 56 [1, 2]
CEO of the Gulf Oil/Cumberland Farms Groups, Newton, MA

1 Audit Committee
2 Compensation Committee
3 Executive Committee
4 Governance Committee
5 Corporate Responsibility Committee

* Committee Chair

SOUTH JERSEY INDUSTRIES

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Assistant Vice President,
Financial Reporting and Risk Management

CHRISTINE MARI-MAZZOLA
Assistant Vice President, Internal Audit

DIVIDEND REINVESTMENT PLAN

SJI's Dividend Reinvestment Plan provides record shareholders of SJI's common stock with a way to increase their investment in the company without payment of any brokerage commission or service charge.

Shareholders participating in the Plan may purchase shares of common stock by the automatic reinvestment of dividends and optional purchases. The Plan is now available to any person who, upon enrollment, agrees to become a shareholder by purchasing at least $100 of SJI common stock. Optional purchases may be made up to a maximum of $100,000 in any calendar year, as prescribed in the Plan. The offer and sale of shares under the Plan will be made only through a Prospectus, obtainable by contacting our Transfer Agent, BNY Mellon, at 1-888-754-3100 or on-line at *www.bnymellon.com/shareowner*.

The company is now offering Automatic Direct Draft for optional cash investments in its Dividend Reinvestment Plan. This is a convenient way to purchase shares on a monthly basis. You may have your optional cash payment electronically withdrawn from your checking or savings account and the funds will be automatically credited to your Dividend Reinvestment Plan account to purchase shares at the end of the month. Enrollment forms can be obtained by contacting our Transfer Agent, BNY Mellon, at 1-888-754-3100 or on-line at *www.bnymellon.com/shareowner*.

DIRECT DEPOSIT OF DIVIDENDS (ELECTRONIC FUNDS TRANSFER)

Stockholders of record can have immediate access to dividend funds. Your dividend funds can be deposited directly into your checking or savings account. Enrollment forms can be obtained by contacting our Transfer Agent, BNY Mellon, at 1-888-754-3100 or on-line at *www.bnymellon.com/shareowner*.

South Jersey Industries stock is traded on the New York Stock Exchange under the trading symbol SJI. The information contained herein is not given in connection with any sale or offer of, or solicitation of an offer to buy, any securities.

CERTIFICATIONS

South Jersey Industries has included as Exhibit 31 to its Annual Report on Form 10-K for fiscal year 2010 filed with the Securities and Exchange Commission certificates of the company's Chief Executive Officer and Chief Financial Officer certifying the quality of the company's public disclosure, and the company has submitted to the New York Stock Exchange a certificate of the Chief Executive Officer of the company certifying that he is not aware of any violation by the company of New York Stock Exchange corporate governance listing standards.

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