SOUTH JERSEY INDUSTRIES INC
Form 10-Q
November 08, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from ________________ to __________________

Commission File Number 1-6364

SOUTH JERSEY INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

New Jersey	22-1901645
(State of incorporation)	(IRS employer identification no.)

1 South Jersey Plaza, Folsom, NJ 08037
(Address of principal executive offices, including zip code)

(609) 561-9000
(Registrant's telephone number, including area code)

Common Stock	
($1.25 par value per share)	New York Stock Exchange
(Title of each class)	(Name of exchange on which registered)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

As of November 1, 2010 there were 29,872,825 shares of the registrant’s common stock outstanding.

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In Thousands Except for Per Share Data)

	Three Months Ended September 30, 2010	2009
Operating Revenues:		
Utility	$56,839	$55,958
Nonutility	103,828	71,129
Total Operating Revenues	160,667	127,087
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	28,534	31,377
- Nonutility	96,279	63,751
Operations	21,977	20,044
Maintenance	2,847	2,301
Depreciation	8,851	7,880
Energy and Other Taxes	1,642	1,649
Total Operating Expenses	160,130	127,002
Operating Income	537	85
Other Income and Expense	648	294
Interest Charges	(6,276)	(5,298)
Loss Before Income Taxes	(5,091)	(4,919)
Income Taxes	7,427	3,206
Equity in Loss of Affiliated Companies	(895)	(314)
Income (Loss) from Continuing Operations	1,441	(2,027)
Loss from Discontinued Operations - (Net of tax benefit)	(133)	(16)
Net Income (Loss)	1,308	(2,043)
Less: Net Loss Attributable to Noncontrolling Interest in Subsidiaries	-	169
Net Income (Loss) - Attributable to South Jersey Industries, Inc. Shareholders	$1,308	$(1,874)
Amounts Attributable to South Jersey Industries, Inc. Shareholders		

Income (Loss) from Continuing Operations	$1,441	$(1,858)
Loss from Discontinued Operations - (Net of tax benefit)	(133)	(16)
Net Income (Loss) - Attributable to South Jersey Industries, Inc. Shareholders	$1,308	$(1,874)
Basic Earnings Per Common Share Attributable to South Jersey Industries, Inc. Shareholders:		
Continuing Operations	$0.048	$(0.062)
Discontinued Operations	(0.004)	(0.001)
Basic Earnings Per Common Share	$0.044	$(0.063)
Average Shares of Common Stock Outstanding - Basic	29,873	29,796
Diluted Earnings Per Common Share Attributable to South Jersey Industries, Inc. Shareholders:		
Continuing Operations	$0.048	$(0.062)
Discontinued Operations	(0.004)	(0.001)
Diluted Earnings Per Common Share	$0.044	$(0.063)
Average Shares of Common Stock Outstanding - Diluted	30,000	29,796
Dividends Declared per Common Share (Note 4)	$0.000	$0.298

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

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In Thousands Except for Per Share Data)

	Nine Months Ended September 30, 2010	2009
Operating Revenues:		
Utility	$314,081	$360,522
Nonutility	327,517	263,224
Total Operating Revenues	641,598	623,746
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	168,531	223,876
- Nonutility	287,974	227,392
Operations	68,013	65,034
Maintenance	8,448	6,162
Depreciation	25,585	23,169
Energy and Other Taxes	8,462	8,483
Total Operating Expenses	567,013	554,116
Operating Income	74,585	69,630
Other Income and Expense	2,150	638
Interest Charges	(16,906)	(14,303)
Income Before Income Taxes	59,829	55,965
Income Taxes	(14,809)	(20,068)
Equity in Loss of Affiliated Companies	(3,470)	(1,247)
Income from Continuing Operations	41,550	34,650
Loss from Discontinued Operations - (Net of tax benefit)	(263)	(58)
Net Income	41,287	34,592
Less: Net Loss Attributable to Noncontrolling Interest in Subsidiaries	-	145
Net Income - Attributable to South Jersey Industries, Inc. Shareholders	$41,287	$34,737

Amounts Attributable to South Jersey Industries, Inc. Shareholders		
Income from Continuing Operations	$41,550	$34,795
Loss from Discontinued Operations - (Net of tax benefit)	(263)	(58)
Net Income - Attributable to South Jersey Industries, Inc. Shareholders	$41,287	$34,737
Basic Earnings Per Common Share Attributable to South Jersey Industries, Inc. Shareholders:		
Continuing Operations	$1.392	$1.168
Discontinued Operations	(0.009)	(0.002)
Basic Earnings Per Common Share	$1.383	$1.166
Average Shares of Common Stock Outstanding - Basic	29,857	29,782
Diluted Earnings Per Common Share Attributable to South Jersey Industries, Inc. Shareholders:		
Continuing Operations	$1.387	$1.164
Discontinued Operations	(0.009)	(0.002)
Diluted Earnings Per Common Share	$1.378	$1.162
Average Shares of Common Stock Outstanding - Diluted	29,962	29,885
Dividends Declared per Common Share	$0.990	$0.893

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

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In Thousands)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Net Income (Loss)	$1,308	$(2,043)
Other Comprehensive Loss, Net of Tax:*		
Unrealized Gain on Available-for-Sale Securities	283	344
Unrealized Loss on Derivatives - Other	(367)	(339)
Other Comprehensive Loss of Affiliated Companies	(54)	(600)
Other Comprehensive Loss - Net of Tax*	(138)	(595)
Comprehensive Income (Loss)	1,170	(2,638)
Less: Comprehensive Loss Attributable to Noncontrolling Interest in Subsidiaries	-	169
Comprehensive Income (Loss) Attributable to South Jersey Industries, Inc.	$1,170	$(2,469)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net Income	$41,287	$34,592
Other Comprehensive (Loss) Income, Net of Tax:*		
Unrealized Gain on Available-for-Sale Securities	162	441
Unrealized (Loss) Gain on Derivatives - Other	(633)	605
Other Comprehensive (Loss) Income of Affiliated Companies	(190)	1,800
Other Comprehensive (Loss) Income - Net of Tax*	(661)	2,846
Comprehensive Income	40,626	37,438
Less: Comprehensive Loss Attributable to Noncontrolling Interest in Subsidiaries	-	145
Comprehensive Income Attributable to South Jersey Industries, Inc.	$40,626	$37,583

* Determined using a combined statutory tax rate of 41%.

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

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In Thousands)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net Cash Provided by Operating Activities	$120,840	$121,591
Cash Flows from Investing Activities:		
Capital Expenditures	(101,564)	(61,314)
Net (Purchase of) Proceeds from Restricted Investments in Margin Account	(21,793)	28,958
Investment in Long-Term Receivables	(2,009)	(3,486)
Proceeds from Long-Term Receivables	1,213	3,633
Purchase of Company Owned Life Insurance	(4,276)	(4,444)
Investment in Affiliate	(2,700)	(2,436)
Advances on Notes Receivable - Affiliate	(61,783)	(11,647)
Repayment of Notes Receivable - Affiliate	3,566	1,100
Other	-	175
Net Cash Used in Investing Activities	(189,346)	(49,461)
Cash Flows from Financing Activities:		
Net Borrowings from (Repayments of) Lines of Credit	27,600	(56,750)
Proceeds from Issuance of Long-Term Debt	60,000	-
Principal Repayments of Long-Term Debt	-	(100)
Payments for Issuance of Long-Term Debt	(1,016)	(96)
Dividends on Common Stock	(19,716)	(17,729)
Net Cash Provided by (Used in) Financing Activities	66,868	(74,675)
Net Decrease in Cash and Cash Equivalents	(1,638)	(2,545)
Cash and Cash Equivalents at Beginning of Period	3,823	5,775
Cash and Cash Equivalents at End of Period	$2,185	$3,230

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

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In Thousands)

	September 30, 2010	December 31, 2009
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$1,352,935	$1,275,792
Accumulated Depreciation	(331,979)	(314,627)
Nonutility Property and Equipment, at cost	133,549	132,119
Accumulated Depreciation	(22,142)	(20,212)
Property, Plant and Equipment - Net	1,132,363	1,073,072
Investments:		
Available-for-Sale Securities	6,297	5,958
Restricted	27,008	5,215
Investment in Affiliates	6,671	2,483
Total Investments	39,976	13,656
Current Assets:		
Cash and Cash Equivalents	2,185	3,823
Accounts Receivable	131,845	141,109
Unbilled Revenues	19,240	58,598
Provision for Uncollectibles	(7,665)	(6,268)
Notes Receivable - Affiliate	1,110	502
Natural Gas in Storage, average cost	99,052	99,697
Materials and Supplies, average cost	4,491	6,877
Prepaid Taxes	48,513	20,093
Derivatives - Energy Related Assets	40,374	36,512
Other Prepayments and Current Assets	11,980	7,412
Total Current Assets	351,125	368,355
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	245,477	240,462
Derivatives - Energy Related Assets	11,302	11,585
Unamortized Debt Issuance Costs	7,527	6,788
Notes Receivables-Affiliates	99,417	30,838
Contract Receivables	12,421	13,544
Other	26,501	23,708

Total Regulatory and Other Noncurrent Assets	402,645	326,925
Total Assets	$ 1,926,109	$ 1,782,008

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

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In Thousands)

	September 30, 2010	December 31, 2009
Capitalization and Liabilities		
Equity:		
Common Stock	$37,341	$37,245
Premium on Common Stock	255,968	254,503
Treasury Stock (at par)	(178)	(183)
Accumulated Other Comprehensive Loss	(20,130)	(19,469)
Retained Earnings	283,217	271,505
Total South Jersey Industries, Inc. Shareholders' Equity	556,218	543,601
Noncontrolling Interest in Subsidiaries	-	963
Total Equity	556,218	544,564
Long-Term Debt	285,000	312,793
Total Capitalization	841,218	857,357
Current Liabilities:		
Notes Payable	224,200	196,600
Current Portion of Long-Term Debt	121,400	35,119
Accounts Payable	107,381	123,921
Customer Deposits and Credit Balances	22,031	14,128
Environmental Remediation Costs	23,595	23,639
Taxes Accrued	5,648	6,518
Derivatives - Energy Related Liabilities	54,194	28,260
Deferred Income Taxes - Net	7,594	19,897
Deferred Contract Revenues	6,164	6,081
Dividends Payable	9,858	-
Interest Accrued	5,065	6,211
Pension and Other Postretirement Benefits	1,109	1,109
Other Current Liabilities	16,776	17,301
Total Current Liabilities	605,015	478,784
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes - Net	247,936	215,346
Investment Tax Credits	1,285	1,518
Pension and Other Postretirement Benefits	65,296	69,141
Environmental Remediation Costs	48,602	49,803

Asset Retirement Obligations	23,419	23,229
Derivatives - Energy Related Liabilities	13,389	10,931
Derivatives - Other	12,053	5,823
Regulatory Liabilities	51,013	50,193
Other	16,883	19,883
Total Deferred Credits and Other Noncurrent Liabilities	479,876	445,867
Commitments and Contingencies (Note 11)		
Total Capitalization and Liabilities	$1,926,109	$1,782,008

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

Notes to Unaudited Condensed 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 condensed consolidated financial statements include the accounts of SJI, its wholly owned subsidiaries and subsidiaries in which we have a controlling interest. All significant intercompany accounts and transactions have been eliminated. In management’s opinion, the condensed 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. SJI’s businesses are subject to seasonal fluctuations and, accordingly, this interim financial information should not be the basis for estimating the full year’s operating results. As permitted by the rules and regulations of the Securities and Exchange Commission, the accompanying unaudited condensed consolidated financial statements contain certain condensed financial information and exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These financial statements should be read in conjunction with SJI’s 2009 Annual Report on Form 10-K for a more complete discussion of the Company’s accounting policies and certain other information.

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 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 September 30, 2010, ACLE and WCLE are included with other equity investments in Investment in Affiliates on the condensed consolidated balance sheet. The results of operations of ACLE and WCLE for the three and nine months ended September 30, 2010 are included in Equity in Loss of Affiliated Companies on the condensed 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.

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 $0.9 million and $1.0 million for the three months ended September 30, 2010 and 2009, respectively, and $5.7 million and $6.3 million for the nine months ended September 30, 2010 and 2009, respectively.

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CAPITALIZED INTEREST — SJG capitalizes interest on construction at the rate of return on rate base utilized by the New Jersey Board of Public Utilities (BPU) to set rates in its last base rate proceeding. 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 condensed consolidated balance sheets. Interest Charges are presented net of capitalized interest on the condensed consolidated statements of income. The amount of interest capitalized by SJI for the three and nine months ended September 30, 2010 and 2009 was not significant.

DERIVATIVE INSTRUMENTS —The Company uses a variety of derivative instruments to limit its exposure to market risk in accordance with strict corporate guidelines (See Note 12). 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 condensed 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.

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 condensed consolidated balance sheets. The fair value represents the amount SJI would have to pay the counterparty to terminate these contracts as of those dates.

The interest rate derivatives that have been designated as cash flow hedges have been determined to be highly effective. Therefore, the changes in fair value of the effective portion of these interest rate 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 hedged forecasted cash flows of the related variable-rate debt occurs, or when it is probable that they 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 condensed consolidated balance sheets.

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 September 30, 2010 and December 31, 2009, $3.5 million related to the acquisition of interests in proved and unproved properties in Pennsylvania is included with Nonutility Property and Equipment on the condensed consolidated balance sheets, respectively.

TREASURY STOCK – SJI uses the par value method of accounting for treasury stock. As of September 30, 2010 and December 31, 2009, SJI held 142,585 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". 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, which may result in variations in the customary relationship between income taxes and pre-tax income for interim periods.

NEW ACCOUNTING PRONOUNCEMENTS — Other than as described below, no new accounting pronouncement issued or effective during 2009 and 2010 had, or is expected to have, a material impact on the condensed consolidated financial statements.

In June 2009, the FASB issued new accounting guidance on the consolidation of variable interest entities (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.

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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 impact our accounting for retiree medical benefits in future periods. However, the extent of that impact, if any, cannot be determined until regulations are promulgated under the Acts and additional interpretations of the Acts become available. Based on the analysis to date of the provision in the Acts in which the impacts are reasonably determinable, a re-measurement of our Other Postretirement Benefits liability is not required at this time. See Note 11 to the Financial Statements in Item 8 of SJI's Form 10-K as of December 31, 2009 for additional information related to SJI's pension and other postretirement benefits.

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 nine months ended September 30, 2010 and 2009. No stock appreciation rights have been issued under the plan. During the nine months ended September 30, 2010 and 2009, SJI granted 52,940 and 41,437 restricted shares to Officers and other key employees, respectively. These restricted shares vest over a three-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. During the nine months ended September 30, 2010 and 2009, SJI granted 16,700 and 9,559 restricted shares to Directors, respectively. Shares issued to Directors vest over a three-year service period but contain no performance conditions. As a result, 100% of the shares granted generally vest.

See Note 1 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2009 for the related accounting policy.

The following table summarizes the nonvested restricted stock awards outstanding at September 30, 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 Employees -	Jan. 2008	42,144	$ 34.030	21.7%	2.90%
	Jan. 2009	37,748	$ 39.350	28.6%	1.20%
	Jan. 2010	52,940	$ 39.020	29.0%	1.65%
Directors -	Jan. 2008	7,704	$ 36.355	—	—
	Jan. 2009	8,690	$ 40.265	—	—
	Jan. 2010	16,700	$ 37.825	—	—

Expected volatility is based on the actual daily volatility of SJI's share price over the preceding three-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 three-year term of the Officers' and other key employees' restricted shares. As notional dividend equivalents are credited to the holders, which are reinvested during the three-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 three-year service period, the fair value of these awards are equal to the market value of the shares on the date of grant.

The following table summarizes the total compensation cost for the three and nine months ended September 30, 2010 and 2009 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Officers & Key Employees	$ 407	$ 335	$ 1,221	$ 1,005
Directors	97	82	319	247
Total Cost	504	417	1,540	1,252
Capitalized	(50)	(43)	(151)	(128)
Net Expense	$ 454	$ 374	$ 1,389	$ 1,124

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As of September 30, 2010, there was $2.9 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 1.9 years.

The following table summarizes information regarding restricted stock award activity during the nine months ended September 30, 2010 excluding accrued dividend equivalents:

	Officers & Other Key Employees	Directors	Weighted Average Fair Value
Nonvested Shares Outstanding, January 1, 2010	80,281	16,394	$ 36.874
Granted	52,940	16,700	$ 38.733
Forfeited	(389)	—	$ 39.350
Nonvested Shares Outstanding, September 30, 2010	132,832	33,094	$ 37.649

During the nine months ended September 30, 2010 and 2009, SJI awarded 59,893 shares to its Officers and other key employees, which had vested at December 31, 2009, at a market value of $2.3 million, and 57,976 shares, which had vested at December 31, 2008, at a market value of $2.3 million, respectively. Also during the nine months ended September 30, 2010 and 2009, SJI awarded 16,700 and 9,559 shares to its Directors at a market value of $0.6 million and $0.4 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 nonforfeitable or immediately payable in cash. At the discretion of the Officers, Directors 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 condensed consolidated balance sheets.

3. 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 three and nine months ended September 30, were (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Gain (Loss) before Income Taxes:				
Sand Mining	$ (89)	$ (22)	$ (63)	$ (77)
Fuel Oil	(116)	(3)	(342)	(12)
Income Tax Benefits	72	9	142	31
Loss from Discontinued Operations — Net	$ (133)	$ (16)	$ (263)	$ (58)
Earnings Per Common Share from				
Discontinued Operations — Net:				

Basic and Diluted	$	(0.004)	$	(0.001)	$	(0.009)	$	(0.002)

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4. COMMON STOCK:

The following shares were issued and outstanding at September 30:

	2010
Beginning Balance, January 1	29,796,232
New Issues During Period:	
Stock-Based Compensation Plan	76,593
Ending Balance, September 30	29,872,825

The par value ($1.25 per share) of stock issued was recorded in Common Stock and the net excess over par value of approximately $1.5 million was recorded in Premium on Common Stock.

EARNINGS PER COMMON SHARE — 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 127,064 for the three months ended September 30, 2010, and 105,056 and 103,196 shares for the nine months ended September 30, 2010 and 2009, respectively. For the three months ended September 30, 2009, incremental shares of 105,422 were not included in the denominator for the diluted EPS calculation because they would have an antidilutive effect on EPS. These shares relate to SJI’s restricted stock as discussed in Note 2.

DIVIDENDS DECLARED – 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 is payable in October 2010. During 2009, SJI did not declare its October dividend until August. Consequently, Dividends Declared per Common Share on the condensed consolidated statements of income for the three months ended September 30, 2010 does not include the impact of the October dividend declaration.

DIVIDEND REINVESTMENT PLAN (DRP) — The Company offers a DRP which allows participating shareholders to purchase shares of SJI common stock by the automatic reinvestment of dividends or optional purchases. During 2010 and 2009, shares of SJI common stock offered by the DRP have been purchased in open market transactions.

5. 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 September 30, 2010 and December 31, 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 September 30, 2010 and December 31, 2009, the balances in these accounts totaled $25.7 million and $3.8 million, respectively. The carrying amounts of the Restricted Investments approximate their fair values at September 30, 2010 and December 31, 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 $10.0 million and $10.8 million as of September 30, 2010 and December 31, 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 condensed consolidated balance sheets. The carrying amounts noted above are net of unamortized discounts resulting from imputed interest in the amount of approximately $1.1 million and $1.2 million as of September 30, 2010 and December 31, 2009, respectively. The annual amortization to interest is not material to the Company's condensed consolidated financial statements. The carrying amounts of these receivables approximate their fair value at September 30, 2010 and December 31, 2009.

LONG-TERM DEBT – In March 2010, SJG issued $15.0 million aggregate principal amount of its Medium Term Notes in a private placement. These notes bear interest at 4.84%, are secured by a first mortgage lien on substantially all utility plant and are due in 2026. In June 2010, SJG issued an additional $45.0 million aggregate principal amount of its Medium Term notes in a private placement. These notes bear interest at 4.93%, are secured by a first mortgage lien on substantially all utility plant and are also due in 2026. The estimated fair values of SJI's long-term debt, including current maturities, as of September 30, 2010 and December 31, 2009, were $493.6 million and $394.5 million, respectively. The carrying amounts of SJI's long-term debt, including current maturities, as of September 30, 2010 and December 31, 2009 were $406.4 million and $347.9 million, respectively. We based the estimates on interest rates available to SJI at the end of each period for debt with similar terms and maturities. The carrying amounts of SJI's other financial instruments approximate their fair values at September 30, 2010 and December 31, 2009. No other long-term debt was issued by SJI or its subsidiaries in the first nine months of 2010 or 2009.

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As discussed in Note 11, SJI has provided standby letters of credit through its revolving credit facility and uncommitted bank lines to support variable-rate demand bonds of $61.4 million issued for Marina and $25.0 million issued for SJG. These letters of credit expire in August 2011 and consequently, these bonds are included in the current portion of long-term debt as of September 30, 2010. As of December 31, 2009, the SJG bonds were included in the current portion of long-term debt because the outstanding letter of credit at that time expired in August 2010. These letters of credit are expected to be renewed before expiration.

Certain long-term debt agreements contain one financial covenant which potentially restricts SJG's ability to pay cash dividends and other distributions on its common stock. As of September 30, 2010, SJG was in compliance with this covenant.

CONCENTRATION OF CREDIT RISK - As of September 30, 2010, approximately 49.2% of the current and noncurrent Derivatives – Energy Related Assets or $25.4 million 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.

6. SEGMENTS OF BUSINESS:

SJI operates in several different reportable operating segments which reflect the financial information regularly evaluated by the chief operating decision maker. Gas Utility Operations (SJG) consists primarily of natural gas distribution to residential, commercial and industrial customers. Wholesale Gas 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 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 at current market prices.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Operating Revenues:				
Gas Utility Operations	$ 57,140	$ 56,305	$ 315,200	$ 364,253
Wholesale Gas Operations	21,792	4,337	71,460	78,352
Retail Gas and Other Operations	24,160	20,482	85,775	81,641
Retail Electric Operations	45,762	35,725	136,580	70,187
On-Site Energy Production	11,003	9,528	29,533	28,228
Appliance Service Operations	5,148	4,002	14,440	13,233
Corporate & Services	5,130	4,375	16,041	14,536
Subtotal	170,135	134,754	669,029	650,430
Intersegment Sales	(9,468)	(7,667)	(27,431)	(26,684)
Total Operating Revenues	$ 160,667	$ 127,087	$ 641,598	$ 623,746
Operating Income:				
Gas Utility Operations	$ 1,335	$ 233	$ 58,350	$ 55,522

Wholesale Gas Operations	4,790	(898)	15,440	17,843
Retail Gas and Other Operations	241	(49)	887	(134)
Retail Electric Operations	(8,301)	(753)	(5,871)	(10,441)
On-Site Energy Production	1,962	1,140	4,517	5,082
Appliance Service Operations	371	142	373	757
Corporate and Services	139	270	889	1,001
Total Operating Income	$ 537	$ 85	$ 74,585	$ 69,630
Depreciation and Amortization:				
Gas Utility Operations	$ 10,137	$ 7,287	$ 29,362	$ 24,101
Wholesale Gas Operations	63	78	200	68
Retail Gas and Other Operations	8	6	26	16
Appliance Services Operations	86	76	262	219
On-Site Energy Production	981	933	2,937	2,747
Corporate and Services	150	135	488	378
Total Depreciation and Amortization	$ 11,425	$ 8,515	$ 33,275	$ 27,529

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Interest Charges:				
Gas Utility Operations	$ 4,775	$ 4,085	$ 12,953	$ 12,334
Wholesale Gas Operations	54	43	81	305
Retail Gas and Other Operations	66	7	123	7
On-Site Energy Production	1,292	1,133	3,694	1,479
Corporate and Services	372	136	689	575
Subtotal	6,559	5,404	17,540	14,700
Intersegment Borrowings	(283)	(106)	(634)	(397)
Total Interest Charges	$ 6,276	$ 5,298	$ 16,906	$ 14,303
Income Taxes:				
Gas Utility Operations	$ (2,132)	$ (1,665)	$ 18,132	$ 18,051
Wholesale Gas Operations	2,145	(280)	6,794	7,553
Retail Gas and Other Operations	144	(19)	634	(40)
Retail Electric Operations	(3,375)	(309)	(2,377)	(4,289)
On-Site Energy Production	(4,457)	(1,221)	(8,812)	(1,912)
Appliance Service Operations	157	83	169	349
Corporate and Services	91	205	269	356
Total Income Taxes	$ (7,427)	$ (3,206)	$ 14,809	$ 20,068
Property Additions:				
Gas Utility Operations	$ 22,855	$ 24,111	$ 81,388	$ 57,732
Wholesale Gas Operations	14	8	20	14
Retail Gas and Other Operations	15	0	29	14
Appliance Service Operations	50	135	124	504
On-Site Energy Production	13,958	3,980	16,122	5,338
Corporate and Services	462	77	963	242
Total Property Additions	$ 37,354	$ 28,311	$ 98,646	$ 63,844

	September 30, 2010	December 31, 2009
Identifiable Assets:		
Gas Utility Operations	$ 1,417,270	$ 1,357,062
Wholesale Gas Operations	203,956	194,989
Retail Gas and Other Operations	15,016	35,506
Retail Electric Operations	33,207	13,433
On-Site Energy Production	157,232	135,288
Appliance Service Operations	19,439	18,832
Discontinued Operations	997	1,215
Corporate and Services	102,477	56,543
Subtotal	1,949,594	1,812,868
Intersegment Assets	(23,485)	(30,860)
Total Identifiable Assets	$ 1,926,109	$ 1,782,008

7. RATES AND REGULATORY ACTIONS:

SJG is subject to the rules and regulations of the BPU. 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 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 projects not rolled into rate base in this case.

Also effective September 17, 2010, the BPU approved, on a provisional basis, the Company’s request to reduce its BGSS rates by 10.6% and its request to increase the CIP rates by 0.3%. The resulting net rate reduction will more than offset the increase in base rates resulting in a net revenue reduction of $19.1 million to SJG customers. Residential customers will benefit from a 3.4% decrease to their natural gas bills during a typical winter month. In July, the Company filed its Energy Efficiency Tracker petition requesting a 0.4% increase. This matter is still pending.

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8. REGULATORY ASSETS & REGULATORY LIABILITIES:

There have been no significant changes to the nature of the Company's regulatory assets and liabilities since December 31, 2009 which are described in Note 10 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2009.

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

	September 30, 2010	December 31, 2009
Environmental Remediation Costs:		
Expended - Net	$ 39,142	$ 42,924
Liability for Future Expenditures	68,054	69,056
Income Taxes-Flowthrough Depreciation	1,018	1,752
Deferred Asset Retirement Obligation Costs	22,715	22,438
Deferred Gas Costs - Net	7,645	6,519
Deferred Pension and Other Postretirement Benefit Costs	70,049	71,192
Conservation Incentive Program Receivable	19,557	16,672
Societal Benefit Costs Receivable	3,090	1,872
Premium for Early Retirement of Debt	740	1,046
Other Regulatory Assets	13,467	6,991
Total Regulatory Assets	$ 245,477	$ 240,462

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

	September 30, 2010	December 31, 2009
Excess Plant Removal Costs	$ 48,758	$ 48,715
Other Regulatory Liabilities	2,255	1,478
Total Regulatory Liabilities	$ 51,013	$ 50,193

DEFERRED GAS COSTS – NET – Over/under collections of gas costs are monitored through SJG's Basic Gas Supply Service Clause (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 natural gas purchases are also included in the BGSS, subject to BPU approval. The BGSS increased from a $6.5 million regulatory asset at December 31, 2009 to a $7.6 million regulatory asset at September 30, 2010 primarily due to a change of $11.8 million in the fair value of energy related derivatives, partially offset by gas costs recovered from customers exceeding the actual cost of the commodity incurred during the first nine months of 2010 as a result of natural gas prices remaining at very low levels.

9. PENSION AND OTHER POSTRETIREMENT BENEFITS:

For the three and nine months ended September 30, 2010 and 2009, 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			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Service Cost	$ 856	$ 806	$ 2,569	$ 2,419
Interest Cost	2,299	2,174	6,898	6,521
Expected Return on Plan Assets	(2,100)	(1,888)	(6,301)	(5,665)
Amortizations:				
Prior Service Cost	70	70	210	209
Actuarial Loss	1,188	1,351	3,563	4,053
Net Periodic Benefit Cost	2,313	2,513	6,939	7,537
Capitalized Benefit Costs	(878)	(949)	(2,632)	(2,848)
Total Net Periodic Benefit Expense	$ 1,435	$ 1,564	$ 4,307	$ 4,689

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	Other Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Service Cost	$ 230	$ 223	$ 690	$ 670
Interest Cost	816	802	2,450	2,406
Expected Return on Plan Assets	(484)	(388)	(1,453)	(1,164)
Amortizations:				
Prior Service Credits	(89)	(89)	(266)	(266)
Actuarial Loss	374	503	1,121	1,422
Net Periodic Benefit Cost	847	1,051	2,542	3,068
Capitalized Benefit Costs	(330)	(480)	(989)	(1,257)
Total Net Periodic Benefit Expense	$ 517	$ 571	$ 1,553	$ 1,811

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

During May 2010 and 2009, SJI contributed $8.0 million and $10.4 million to its pension plans, respectively. No additional contributions are anticipated for the remainder of the year.

See Note 11 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2009, for additional information related to SJI's pension and other postretirement benefits.

10. UNUSED LINES OF CREDIT:

Credit facilities and available liquidity as of September 30, 2010 were as follows (in thousands):

Company	Total Facility	Usage	Available Liquidity	Expiration Date
SJG:				
Revolving Credit Facility	$ 100,000	$ 88,500	$ 11,500	August 2011
Line of Credit	40,000	—	40,000	August 2011
Uncommitted Bank Lines	40,000	16,800	23,200	Various
Total SJG	180,000	105,300	74,700	
SJI:				
Revolving Credit Facility	$ 200,000	$ 179,125	$ 20,875	August 2011 (A)
Uncommitted Bank Lines	70,000	35,600	34,400	Various
Total SJI	270,000	214,725	55,275	
Total	$ 450,000	$ 320,025	$ 129,975	

(A) Includes letters of credit outstanding in the amount of $95.8 million.

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 September 30, 2010. Borrowings under these credit facilities are at market rates. The weighted average borrowing cost, which changes daily, was 0.79% and 0.70% at September 30, 2010 and 2009, respectively.

11. COMMITMENTS AND CONTINGENCIES:

GUARANTEES — The Company has recorded a liability of $2.9 million which is included in Other Current Liabilities and Other Noncurrent Liabilities with a corresponding increase in Investment in Affiliates on the condensed consolidated balance sheets as of September 30, 2010 for the fair value of the following guarantees:

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In April 2007, SJI guaranteed certain obligations of LVE Energy Partners, LLC (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 $218.1 million as of September 30, 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 new agreement require SJI and its partner in this joint venture to guaranty the payment of future interest costs by LVE through, at the latest, December 2010. SJI and its partner in this joint venture have each provided the banks with a $2.0 million irrevocable letter of credit from a bank to support this guaranty. The maximum amount of remaining LVE interest costs to be paid by SJI under this guaranty if payments are required, and SJI was the only guarantor, would be approximately $1.9 million. 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. These funds are in addition to the $30.4 million capital contribution obligation discussed below. In turn, the banks waived all existing defaults under the financing agreements and were relieved of their commitment to provide additional funding. As a result of the construction delay, the district energy system and central energy center will not be completed by the fourth quarter of 2010 as originally expected and, consequently, the full amount of LVE's debt could become due and payable in December 2010. LVE is currently in discussions with the resort developer and the banks that are financing the energy facilities to address the issues raised by the delay. LVE intends to seek additional financing to complete the facility once construction of the resort resumes. The Energy Sales Agreement between LVE and the resort developer includes a payment obligation by the resort developer to pay certain fees to LVE beginning in the fourth quarter of 2010. A portion of this payment obligation is guaranteed by the parent of the resort developer. However, although the resort developer has acknowledged the obligation to pay certain annual fees beginning in the fourth quarter of 2010, the resort developer has indicated that they do not believe they are obligated to make a cash payment of these fees for approximately the next 12 months. LVE and the resort developer are currently working to address issues related to these payments. As of September 30, 2010, the Company had a net liability of approximately $13.3 million included in Other Current Liabilities and Other Noncurrent Liabilities on the condensed consolidated balance sheets related to this project, in addition to unsecured Notes Receivable – Affiliate of approximately $20.1 million due from LVE. As of September 30, 2010, SJI's capital at risk is limited to its equity contributions, contribution obligations and the unsecured notes receivable totaling approximately $59.7 million. During the first nine months of 2010, SJI and its partner in this joint venture each provided support to LVE of approximately $5.8 million to cover project related costs.

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 September 30, 2010.

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 achieving certain milestones, the guaranty was reduced to $94.0 million as of September 30, 2010. Concurrently, SJI is the beneficiary of a surety bond purchased by the project's general contractor that provides security to SJI in the event of missed construction milestones. LVE has proposed a revised milestone schedule due to delays announced by the resort developer. In addition, SJI has guaranteed the obligations of LVE under certain insurance policies during the construction period. The maximum amount that SJI could be obligated for, in the event that LVE does not have sufficient resources to make deductible payments on future claims under these insurance policies, is approximately $6.0 million. 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.

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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 AC Landfill Energy, LLC (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 September 30, 2010, SJI had issued approximately $5.0 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.

CAPITAL CONTRIBUTION OBLIGATION - In December 2007, Marina and its joint venture partner agreed to each contribute approximately $30.4 million of equity to LVE as part of its construction period financing. In September 2009, Marina and its joint venture partner agreed to each contribute an additional $6.7 million of equity to LVE as discussed above. These equity contributions are expected to be made within the next twelve months, and are secured by irrevocable letters of credit from a bank.

COLLECTIVE BARGAINING AGREEMENTS — Unionized personnel represent approximately 54% of our workforce at September 30, 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. The remaining unionized employees represented by the IAM operate under a collective bargaining agreement that expires in August 2014.

STANDBY LETTERS OF CREDIT — As of September 30, 2010, SJI provided $95.8 million of standby letters of credit through SJI’s revolving credit facility and uncommitted bank lines. 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 $8.7 million was posted to support SJI’s guaranty of LVE discussed above. The additional outstanding letters of credit total $24.8 million, and were posted to enable SJE to market retail electricity and for various construction activities. The Company also provided two additional letters of credit under separate facilities outside of the revolving credit facility. Those letters of credit consist of a $25.2 million letter of credit provided by SJG to support variable-rate demand bonds issued through the NJEDA to finance the expansion of SJG’s natural gas distribution system; and a $30.7 million letter of credit provided by Marina to support a capital contribution obligation as discussed above. These letters of credit expire in August 2011 and January 2011, respectively.

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 accrued costs for environmental cleanup of sites where SJF previously operated a fuel oil business and Morie maintained equipment, fueling stations and storage. There have been no changes to the status of the Company's environmental remediation efforts since December 31, 2009 as described in Note 14 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2009.

12. 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 third parties. These subsidiaries are subject to market risk on expected future purchases and sales due to commodity price fluctuations. As of September 30, 2010, the Company had outstanding derivative contracts intended to limit the exposure to market risk on 25.8 MMdts of expected future purchases of natural gas, 21.6 MMdts of expected future sales of natural gas, 2.5 MMmwh of expected future purchases of electricity and 0.1 MMmwh of expected future sales of electricity. These derivative instruments include forward contracts, futures contracts, swap agreements and options contracts.

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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. There have been no significant changes to the Company's active interest rate swaps since December 31, 2009 which are described in Note 1 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2009.

The fair values of all derivative instruments, as reflected in the condensed consolidated balance sheets as of September 30, 2010 and December 31, 2009, are as follows (in thousands):

Derivatives not designated as hedging instruments under GAAP	September 30, 2010		December 31, 2009	
	Assets	Liabilities	Assets	Liabilities
Energy related commodity contracts:				
Derivatives – Energy Related – Current	$ 40,374	$ 54,194	$ 36,512	$ 28,260
Derivatives – Energy Related – Non-Current	11,302	13,389	11,585	10,931
Interest rate contracts:				
Derivatives - Other	—	8,738	—	3,704
Total derivatives not designated as hedging instruments under GAAP	51,676	76,321	48,097	42,895
Derivatives designated as hedging instruments under GAAP				
Interest rate contracts:				
Derivatives - Other	—	3,315	—	2,119
Total derivatives designated as hedging instruments under GAAP	—	3,315	—	2,119
Total Derivatives	$ 51,676	$ 79,636	$ 48,097	$ 45,014

The effect of derivative instruments on the condensed consolidated statements of income for the three and nine months ended September 30, 2010, and 2009 are as follows (in thousands):

Derivatives in Cash Flow Hedging Relationships	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
Interest Rate Contracts:				
(Losses) gains recognized in OCI on effective portion	$ (391)	$ (390)	$ (705)	$ 514
Losses reclassified from accumulated OCI into income (a)	$ (237)	$ (192)	$ (705)	$ (548)
Gains or (losses) recognized in income on ineffective portion (a)	—	—	—	—

(a) Included in Interest Charges

Derivatives Not Designated as Hedging Instruments under GAAP	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009

Gains (losses) on energy related commodity contracts (a)	$	(1,173)	$	1,541	$	(19,090)	$	(12,019)
(Losses) gains on interest rate contracts (b)		(412)		(300)		(1,250)		855
Total	$	(1,585)	$	1,241	$	(20,340)	$	(11,164)

(a) Included in Operating Revenues - Non Utility

(b) Included in Interest Charges

Net realized losses associated with SJG's energy related financial commodity contracts of $5.5 million and $12.5 million for the three months ended September 30, 2010 and 2009, respectively, and $17.8 million and $45.2 million for the nine months ended September 30, 2010 and 2009, respectively, are not included in the above table. As of September 30, 2010 and December 31, 2009, SJG had $21.0 million and $9.2 million of unrealized losses on energy related financial commodity contracts, respectively, included in its BGSS related to open financial contracts, 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.

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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 September 30, 2010, is $37.7 million. If the credit-risk-related contingent features underlying these agreements were triggered on September 30, 2010, the Company would have been required to settle the instruments immediately or post collateral to its counterparties of approximately $27.1 million after offsetting asset positions with the same counterparties under master netting arrangements.

13. 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 September 30, 2010 is as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Assets				
Available-for-Sale Securities (A)	$ 6,297	$ 6,297	$ —	$ —
Derivatives – Energy Related Assets (B)	51,676	32,068	17,512	2,096
	$ 57,973	$ 38,365	$ 17,512	$ 2,096
Liabilities				
Derivatives – Energy Related Liabilities (B)	$ 67,583	$ 30,892	$ 14,355	$ 22,336
Derivatives – Other (C)	12,053	—	12,053	—
	$ 79,636	$ 30,892	$ 26,408	$ 22,336

(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 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.

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The changes in fair value measurements of Derivatives – Energy Related Assets and Liabilities for the three and nine months ended September 30, 2010, using significant unobservable inputs (Level 3), are as follows (in thousands):

	Three Months	Nine Months
Balance at beginning of period	$ (11,395)	$ (10,299)
Total gains and losses (realized/unrealized) included in earnings	(10,798)	(16,229)
Transfers in and/or out of Level 3, net	-	-
Settlements	1,953	6,288
Balance at September 30, 2010	$ (20,240)	$ (20,240)

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 September 30, 2010, is $16.2 million. These losses are included in Operating Revenues-Nonutility on the condensed consolidated statements of income.

14. AVAILABLE–FOR–SALE SECURITIES:

The Company's portfolio of investments consists of five highly diversified funds which are not used for working capital purposes. These funds are in an unrealized loss position as of September 30, 2010. Due to the nature of the underlying securities, these funds as a whole are susceptible to changes in the economy and have been adversely affected by the economic slowdown, particularly during the fourth quarter of 2008 when certain investments became impaired. The Company has evaluated the near-term prospects of the overall funds in relation to the severity and duration of the impairment. Based on that evaluation, the Company recorded an insignificant impairment loss during the fourth quarter of 2008. The Company does not intend to sell the remaining funds, and it is more likely than not that it will not have to sell the remaining funds before recovery of its' cost basis. The Company does not consider these remaining investments to be other-than-temporarily impaired at September 30, 2010.

The following table shows the gross unrealized losses and fair value of the Company's Available-for-Sale Securities with unrealized losses that are not deemed to be other-than-temporarily impaired (in thousands), aggregated by length of time that the individual funds have been in a continuous unrealized loss position at September 30, 2010.

	Less than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable Equity Securities	$ -	$ -	$ 3,086	$ 482	$ 3,086	$ 482

As of September 30, 2010 and December 31, 2009, the total losses for securities with net losses included in Accumulated Other Comprehensive Loss was $0.3 million. As of September 30, 2010 and December 31, 2009, securities with net gains included in Accumulated Other Comprehensive Loss was $0.3 million and $0.1 million, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements and Risk Factors — Certain statements contained in this Quarterly 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 a 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; “non-routine” or “extraordinary” disruptions in our distribution system; 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, suppliers or business partners to fulfill their contractual obligations; and changes in business strategies.

A discussion of these and other risks and uncertainties may be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and in other filings made by us 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 Quarterly Report on Form 10-Q, or in any document incorporated by reference, at the date of such document. 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 — Management must make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related disclosures. Actual results could differ from those estimates. Five types of transactions presented in our condensed consolidated financial statements require a significant amount of judgment and estimation. These relate to regulatory accounting, derivatives, environmental remediation costs, pension and other postretirement employee benefit costs, and revenue recognition. A discussion of these estimates and assumptions may be found in our Form 10-K for the year ended December 31, 2009.

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

Regulatory Actions —Other than the changes discussed in Note 7 to the condensed consolidated financial statements, there have been no significant regulatory actions since December 31, 2009. See detailed discussion concerning Regulatory Actions in Note 9 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2009.

Environmental Remediation —There have been no significant changes to the status of the Company's environmental remediation efforts since December 31, 2009. See detailed discussion concerning Environmental Remediation in Note 14 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2009.

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 Gas 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.

A significant portion of the volatility in operating results is due to the impact of the accounting methods associated with SJRG's storage activities. 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 prices 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 the sale of gas in storage will generally be offset by losses or gains on the derivatives, resulting in the realization of the profit margin expected when the transactions were initiated.

Net Income attributable to SJI for the three months ended September 30, 2010 increased $3.2 million, or 169.8% to $1.3 million compared to the three months ended September 30, 2009 primarily as a result of the following:

- The income contribution from SJE for the three months ended September 30, 2010 decreased $4.2 million to a net loss of $4.7 million due primarily to the change in unrealized gains and losses on derivatives used to mitigate price risk on electric as discussed under Operating Revenues – Nonutility below.

- The income contribution from SJRG for the three months ended September 30, 2010 increased $3.3 million to $2.9 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 above.

- The increase in the income tax benefit of $3.6 million during the three months ended September 30, 2010 compared to the three months ended September 30, 2009 due to the impact of the investment tax credit available on renewable energy facilities at Marina.

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Net Income attributable to SJI for the nine months ended September 30, 2010 increased $6.6 million, or 18.9% to $41.3 million compared to the nine months ended September 30, 2009 primarily as a result of the following:

- The income contribution from SJE for the nine months ended September 30, 2010 increased $3.6 million to a net loss of $2.6 million due primarily to the change in unrealized gains and losses on derivatives used to mitigate price risk on electric as discussed under Operating Revenues – Nonutility below.

- The income contribution from SJRG for the nine months ended September 30, 2010 decreased $1.3 million to $9.5 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 above.

- The decrease in the effective tax rate in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 due to the impact of the investment tax credit available on renewable energy facilities at Marina, which results in a $5.6 million decrease in income taxes.

These changes are also discussed in more detail below.

The following tables summarize the composition of selected SJG data for the three and nine months ended September 30 (in thousands, except for degree day data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Utility Throughput – dth:				
Firm Sales -				
Residential	1,506	1,706	15,246	16,070
Commercial	627	673	3,955	4,319
Industrial	28	26	200	231
Cogeneration & Electric Generation	701	176	1,101	278
Firm Transportation -				
Residential	136	139	1,325	1,410
Commercial	617	647	4,067	4,132
Industrial	3,036	2,906	9,379	8,875
Cogeneration & Electric Generation	1,638	799	4,634	1,518
Total Firm Throughput	8,289	7,072	39,907	36,833
Interruptible Sales	8	-	51	4
Interruptible Transportation	402	492	1,256	1,700
Off-System	969	544	4,006	4,309
Capacity Release	12,337	10,560	31,729	28,023
Total Throughput - Utility	22,005	18,668	76,949	70,869

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	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Utility Operating Revenues:				
Firm Sales -				
Residential	$ 28,745	$ 33,929	$ 198,105	$ 243,212
Commercial	8,743	9,129	45,228	53,663
Industrial	435	309	2,436	2,637
Cogeneration & Electric Generation	4,480	1,267	7,164	2,312
Firm Transportation -				
Residential	1,212	1,090	7,168	7,413
Commercial	2,662	2,449	14,505	13,435
Industrial	4,155	3,638	12,806	10,841
Cogeneration & Electric Generation	1,098	681	3,816	1,474
Total Firm Revenues	51,530	52,492	291,228	334,987
Interruptible Sales	118	(16)	756	79
Interruptible Transportation	410	465	1,308	1,551
Off-System	4,525	1,904	20,071	23,154
Capacity Release	358	1,171	1,088	3,594
Other	199	289	749	888
	57,140	56,305	315,200	364,253
Less Intercompany Sales	(301)	(347)	(1,119)	(3,731)
Total Utility Operating Revenues	56,839	55,958	314,081	360,522
Less:				
Cost of Sales	28,534	31,377	168,531	223,876
Conservation Recoveries*	1,025	1,247	5,398	6,636
RAC Recoveries*	1,741	1,210	5,222	3,627
EET Recoveries*	426	81	964	81
Revenue Taxes	862	923	5,709	6,264
Utility Margin	$ 24,251	$ 21,120	$ 128,257	$ 120,038
Margin:				
Residential	$ 12,806	$ 12,699	$ 72,889	$ 74,836
Commercial and Industrial	6,673	6,325	28,395	28,779
Cogeneration and Electric Generation	916	875	2,304	1,750
Interruptible	25	8	139	96
Off-system & Capacity Release	85	208	462	1,108
Other Revenues	467	859	1,458	2,075
Margin Before Weather Normalization & Decoupling	20,972	20,974	105,647	108,644
CIRT Mechanism	2,505	551	7,067	926
CIP Mechanism	733	(409)	15,425	10,464
EET Mechanism	41	4	118	4
Utility Margin	$ 24,251	$ 21,120	$ 128,257	$ 120,038

Degree Days:	3	34	2,782	3,033

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

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Throughput - Total gas throughput increased 3.3 MMdts, or 17.9%, for the three months ended September 30, 2010, compared to the same period in 2009. Total gas throughput increased 6.1 MMdts, or 8.6%, for the nine months ended September 30, 2010, compared with the same period in 2009. The majority of the increase is attributable to higher capacity release, which increased by 1.8 MMdts and 3.7 MMdts during the three and nine months ended September 30, 2010, respectively, as reflected in the table above. Higher capacity release throughput was the result of increased capacity made available during 2010 when the weather was 8.3% warmer than 2009. In addition, cogeneration and electric generation sales and transportation throughput increased on a year-to-date basis. 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 pipeline supplier to SJG.

Conservation Incentive Program (CIP) - Utility - The effects of the CIP on SJG's net income for the three and nine months ended September 30, 2010 and 2009 and the associated weather comparisons were as follows ($'s in millions):

	Three Months Ended September 30,	Nine Months Ended September 30,
	2010	