SOUTH JERSEY INDUSTRIES INC
Form 10-Q
November 08, 2011
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, 2011
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, 2011 there were 30,140,819 shares of the registrant’s common stock outstanding.

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Item 1. Unaudited Condensed Consolidated Financial Statements

SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In Thousands Except for Per Share Data)

	Three Months Ended September 30,	
	2011	2010
Operating Revenues:		
Utility	$58,208	$56,839
Nonutility	79,413	103,828
Total Operating Revenues	137,621	160,667
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	27,242	28,534
- Nonutility	79,413	96,279
Operations	24,002	21,977
Maintenance	3,414	2,847
Depreciation	9,023	8,851
Energy and Other Taxes	1,673	1,642
Total Operating Expenses	144,767	160,130
Operating (Loss) Income	(7,146)	537
Other Income and Expense	2,586	648
Interest Charges	(6,242)	(6,276)
Loss Before Income Taxes	(10,802)	(5,091)
Income Taxes	6,034	7,427
Equity in Loss of Affiliated Companies	(435)	(895)
(Loss) Income from Continuing Operations	(5,203)	1,441
Income (Loss) from Discontinued Operations - (Net of tax expense or benefit)	65	(133)
Net (Loss) Income	$(5,138)	$1,308
Basic Earnings Per Common Share:		
Continuing Operations	$(0.173)	$0.048
Discontinued Operations	0.002	(0.004)
Basic Earnings Per Common Share	$(0.171)	$0.044
Average Shares of Common Stock Outstanding - Basic	30,029	29,873
Diluted Earnings Per Common Share:		
Continuing Operations	$(0.173)	$0.048
Discontinued Operations	0.002	(0.004)
Diluted Earnings Per Common Share	$(0.171)	$0.044
Average Shares of Common Stock Outstanding - Diluted	30,029	30,000
Dividends Declared per Common Share (See Note 4)	$0.365	0.000

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, 2011	2010
Operating Revenues:		
Utility	$297,567	$314,081
Nonutility	332,453	327,517
Total Operating Revenues	630,020	641,598
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	137,924	168,531
- Nonutility	294,309	287,974
Operations	74,187	68,013
Maintenance	9,638	8,448
Depreciation	26,528	25,585
Energy and Other Taxes	9,094	8,462
Total Operating Expenses	551,680	567,013
Operating Income	78,340	74,585
Other Income and Expense	12,963	2,150
Interest Charges	(18,457)	(16,906)
Income Before Income Taxes	72,846	59,829
Income Taxes	(19,480)	(14,809)
Equity in Loss of Affiliated Companies	(493)	(3,470)
Income from Continuing Operations	52,873	41,550
Loss from Discontinued Operations - (Net of tax benefit)	(484)	(263)
Net Income	$52,389	$41,287
Basic Earnings Per Common Share:		
Continuing Operations	$1.765	$1.392
Discontinued Operations	(0.016)	(0.009)
Basic Earnings Per Common Share	$1.749	$1.383
Average Shares of Common Stock Outstanding - Basic	29,961	29,857
Diluted Earnings Per Common Share:		
Continuing Operations	$1.760	$1.387
Discontinued Operations	(0.016)	(0.009)
Diluted Earnings Per Common Share	$1.744	$1.378
Average Shares of Common Stock Outstanding - Diluted	30,045	29,962
Dividends Declared per Common Share (See Note 4)	$1.095	$0.990

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,	
	2011	2010
Net (Loss) Income	$(5,138)	$1,308
Other Comprehensive Loss, Net of Tax:*		
Unrealized (Loss) Gain on Available-for-Sale Securities	(478)	283
Unrealized Loss on Derivatives - Other	(814)	(367)
Other Comprehensive Income (Loss) of Affiliated Companies	666	(54)
Other Comprehensive Loss - Net of Tax*	(626)	(138)
Comprehensive (Loss) Income	$(5,764)	$1,170

	Nine Months Ended September 30,	
	2011	2010
Net Income	$52,389	$41,287
Other Comprehensive Loss, Net of Tax:*		
Unrealized (Loss) Gain on Available-for-Sale Securities	(581)	162
Unrealized Loss on Derivatives - Other	(757)	(633)
Other Comprehensive Loss of Affiliated Companies	(167)	(190)
Other Comprehensive Loss - Net of Tax*	(1,505)	(661)
Comprehensive Income	$50,884	$40,626

* 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, 2011	2010
Net Cash Provided by Operating Activities	$135,569	$120,840
Cash Flows from Investing Activities:		
Capital Expenditures	(113,993)	(101,564)
Proceeds from Sale of Property, Plant and Equipment	3,500	—
Net Proceeds from Sale (Purchase) of Restricted Investments in Margin Account	743	(21,793)
Investment in Long-Term Receivables	(3,780)	(2,009)
Proceeds from Long-Term Receivables	4,297	1,213
Purchase of Company Owned Life Insurance	(4,352)	(4,276)
Investment in Affiliate	(23,034)	(2,700)
Return of Investment in Affiliate	1,902	—
Advances on Notes Receivable - Affiliate	(28,827)	(61,783)
Repayment of Notes Receivable - Affiliate	39,977	3,566
Other	(5,847)	—
Net Cash Used in Investing Activities	(129,414)	(189,346)
Cash Flows from Financing Activities:		
Net Borrowings from Short-Term Credit Facilities	12,150	27,600
Proceeds from Issuance of Long-Term Debt	—	60,000
Payments for Issuance of Long-Term Debt	(32)	(1,016)
Principal Repayments of Long-Term Debt	(25,000)	—
Dividends on Common Stock	(21,866)	(19,716)
Proceeds from Sale of Common Stock	5,359	—
Proceeds from Finance Obligation	23,482	—
Net Cash (Used in) Provided by Financing Activities	(5,907)	66,868
Net Increase (Decrease) in Cash and Cash Equivalents	248	(1,638)
Cash and Cash Equivalents at Beginning of Period	2,363	3,823
Cash and Cash Equivalents at End of Period	$2,611	$2,185

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, 2011	December 31, 2010
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$1,472,488	$1,384,797
Accumulated Depreciation	(351,436)	(337,993)
Nonutility Property and Equipment, at cost	185,634	169,770
Accumulated Depreciation	(25,268)	(23,319)
Property, Plant and Equipment - Net	1,281,418	1,193,255
Investments:		
Available-for-Sale Securities	6,297	6,720
Restricted	7,647	8,389
Investment in Affiliates	31,877	8,005
Total Investments	45,821	23,114
Current Assets:		
Cash and Cash Equivalents	2,611	2,363
Accounts Receivable	144,853	200,773
Unbilled Revenues	18,909	72,457
Provision for Uncollectibles	(6,936)	(8,071)
Notes Receivable - Affiliate	8,728	1,183
Natural Gas in Storage, average cost	71,338	69,725
Materials and Supplies, average cost	3,656	3,796
Accumulated Deferred Income Taxes	4,776	—
Prepaid Taxes	32,327	31,384
Derivatives - Energy Related Assets	29,572	39,513
Other Prepayments and Current Assets	17,128	10,714
Total Current Assets	326,962	423,837
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	257,632	248,413
Derivatives - Energy Related Assets	7,319	11,556
Unamortized Debt Issuance Costs	7,129	7,583
Notes Receivables-Affiliate	101,849	126,727
Contract Receivables	12,546	12,486
Other	42,350	29,644
Total Regulatory and Other Noncurrent Assets	428,825	436,409
Total Assets	$2,083,026	$2,076,615

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, 2011	December 31, 2010
Capitalization and Liabilities		
Equity:		
Common Stock	$37,575	$37,341
Premium on Common Stock	264,374	257,274
Treasury Stock (at par)	(184)	(179)
Accumulated Other Comprehensive Loss	(23,317)	(21,812)
Retained Earnings	317,025	297,473
Total South Jersey Industries, Inc. Shareholders' Equity	595,473	570,097
Long-Term Debt	424,213	340,000
Total Capitalization	1,019,686	910,097
Current Liabilities:		
Notes Payable	262,837	250,687
Current Portion of Long-Term Debt	2,187	111,400
Accounts Payable	131,361	165,197
Customer Deposits and Credit Balances	23,507	10,917
Environmental Remediation Costs	21,797	27,074
Taxes Accrued	2,896	6,709
Derivatives - Energy Related Liabilities	32,570	42,297
Deferred Income Taxes - Net	—	3,282
Deferred Contract Revenues	2,319	5,442
Dividends Payable	10,972	—
Interest Accrued	5,066	7,259
Pension and Other Postretirement Benefits	1,212	1,217
Other Current Liabilities	5,125	9,043
Total Current Liabilities	501,849	640,524
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes - Net	280,440	258,402
Investment Tax Credits	981	1,207
Pension and Other Postretirement Benefits	77,598	71,675
Environmental Remediation Costs	63,899	64,759
Asset Retirement Obligations	28,594	27,965
Derivatives - Energy Related Liabilities	7,318	8,641
Derivatives - Other	13,783	7,404
Regulatory Liabilities	49,637	69,248
Finance Obligation	23,482	—
Other	15,759	16,693

Total Deferred Credits and Other Noncurrent Liabilities	561,491	525,994
Commitments and Contingencies (Note 11)		
Total Capitalization and Liabilities	$2,083,026	$2,076,615

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

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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, and owns oil, gas and mineral rights in the Marcellus Shale region of Pennsylvania.

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 under warranty via a subcontractor arrangement.

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. We eliminate all significant intercompany accounts and transactions. In management’s opinion, the condensed consolidated financial statements reflect all normal and recurring adjustments needed to fairly present SJI’s financial position,operating results and cash flows 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 (SEC), 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 2010 Annual Report on Form 10-K for a more complete discussion of the Company’s accounting policies and certain other information.

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 for both the three months ended September 30, 2011 and 2010, and $5.9 million and $5.7 million for the nine months ended September 30, 2011 and 2010, respectively.

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, 2011 and December 31, 2010, $8.8 million and $3.3 million, respectively, related to interests in proved and unproved properties in Pennsylvania, net of amortization, is included with Nonutility Property and Equipment and Other Noncurrent Assets on the condensed consolidated balance sheets.

TREASURY STOCK – SJI uses the par value method of accounting for treasury stock. As of September 30, 2011 and December 31, 2010, SJI held 147,467 and 143,546 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 bases of assets and liabilities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (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.

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NEW ACCOUNTING PRONOUNCEMENTS — Other than as described below, no new accounting pronouncement issued or effective during 2010 and 2011 had, or is expected to have, a material impact on the condensed consolidated financial statements.

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU amends ASC Topic 820 to include a consistent definition of the term "fair value" and set forth common requirements for measuring fair value and disclosing information about fair value measurements in financial statements. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Management is currently evaluating the impact that the adoption of this guidance will have on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Management is currently evaluating the impact that the adoption of this guidance will have on the Company's consolidated financial statements.

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, 2011 and 2010. No stock appreciation rights have been issued under the plan. During the nine months ended September 30, 2011 and 2010, SJI granted 40,711 and 52,940 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, 2011 and 2010, SJI granted 12,220 and 16,700 restricted shares to Directors, respectively. Shares issued to Directors vest over a three-year service period and contain no performance conditions. As a result, 100% of the shares granted generally vest.

See Note 2 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2010 for the related accounting policy.

The following table summarizes the nonvested restricted stock awards outstanding at September 30, 2011 and the assumptions used to estimate the fair value of the awards:

	Grant Date	Shares Outstanding	Fair Value Per Share	Expected Volatility		Risk-Free InterestRate	
Officers & Key Employees -	Jan. 2009	37,748	$39.350	28.6	%	1.20	%
	Jan. 2010	52,940	$39.020	29.0	%	1.65	%
	Jan. 2011	40,711	$50.940	27.5	%	1.01	%
Directors -	Jan. 2009	6,952	$40.265	—		—	

Jan. 2010	13,360	$37.825	—	—
Jan. 2011	8,554	$52.940	—	—
Jun. 2011	1,222	$53.170	—	—

Expected volatility is based on the actual 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, 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.

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The following table summarizes the total stock-based compensation cost for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Officers & Key Employees	$467	$407	$1,399	$1,221
Directors	110	97	567	319
Total Cost	577	504	1,966	1,540
Capitalized	(55)	(50)	(165)	(151)
Net Expense	$522	$454	$1,801	$1,389

As of September 30, 2011, there was $3.2 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 1.8 years.

The following table summarizes information regarding restricted stock award activity during the nine months ended September 30, 2011, excluding accrued dividend equivalents:

	Officers &Other Key Employees	Directors	Weighted Average Fair Value
Nonvested Shares Outstanding, January 1, 2011	90,688	25,390	$39.049
Granted	40,711	12,220	$51.407
Vested	—	(7,522)	$43.300
Nonvested Shares Outstanding, September 30, 2011	131,399	30,088	$42.901

During the nine months ended September 30, 2011 and 2010, SJI awarded 69,271 shares to its Officers and other key employees, which had vested at December 31, 2010, at a market value of $3.7 million, and 59,893 shares, which had vested at December 31, 2009, at a market value of $2.3 million, respectively. Also, during the nine months ended September 30, 2011 and 2010, SJI awarded 12,220 and 16,700 shares to its Directors at a market value of $0.6 million for each period. 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 AND AFFILATIONS:

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.

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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,	
	2011	2010	2011	2010
Income (Loss) before Income Taxes:				
Sand Mining	$126	$(89)	$(225)	$(63)
Fuel Oil	(25)	(116)	(519)	(342)
Income Tax (Expense) Benefits	(36)	72	260	142
Income (Loss) from Discontinued Operations — Net	$65	$(133)	$(484)	$(263)
Earnings Per Common Share from Discontinued Operations — Net:				
Basic	$0.002	$(0.004)	$(0.016)	$(0.009)
Diluted	$0.002	$(0.004)	$(0.016)	$(0.009)

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 in 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 the first nine months of 2011 and 2010, the Company made investments in, and provided net advances to, unconsolidated affiliates of $10.0 million and $60.9 million, respectively. The purpose of these investments and advances was to cover certain project related costs of LVE (See Note 11), to provide working capital for a retail marketing operation, and to develop several landfill gas-fired electric production facilities, solar and thermal energy projects. As of September 30, 2011 and December 31, 2010, the outstanding balance on these Notes Receivable – Affiliate was $110.6 million and $127.9 million, respectively. Approximately $54.5 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 $56.1 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 September 30, 2011, the Company had a net asset of approximately $30.0 million included in Investment in Affiliates and Other Noncurrent Liabilities on the condensed consolidated balance sheets related to Millennium, LVE and Energenic, in addition to Notes Receivable – Affiliate as discussed above. SJI's maximum exposure to loss from these entities as of September 30, 2011 is limited to its combined equity contributions and the Notes Receivable-Affiliate in the amount of $143.6 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. During the third quarter of 2011, Potato Creek entered into agreements to sell certain natural gas production assets in the Marcellus Shale region of Pennsylvania. Potato Creek will retain its interest in the oil, gas and minerals and will continue to earn royalties on production, consistent with an existing lease agreement. Total cash proceeds to the Company from the sale are expected to be approximately $9.0 million. The sale is expected to close in the fourth quarter of 2011.

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4. COMMON STOCK:

The following shares were issued and outstanding at September 30:

	2011
Beginning Balance, January 1	29,872,825
New Issues During Period:	
Dividend Reinvestment Plan	105,524
Stock-Based Compensation Plan	81,491
Ending Balance, September 30	30,059,840

The par value ($1.25 per share) of stock issued was recorded in Common Stock and the net excess over par value of approximately $7.1 million 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 127,064 for the three months ended September 30, 2010, and 84,072 and 105,056 shares for the nine months ended September 30, 2011 and 2010, respectively. For the three months ended September 30, 2011, incremental shares of 76,257 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 2011 and the first six months of 2010, 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 2011, SJI did not declare its October dividend until July 2011. 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 2010 dividend declaration, causing it to be lower than those declared for the three months ended September 30, 2011.

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. From April 2008 through April 2011, shares of common stock offered by the DRP have been purchased in open market transactions. Beginning in May 2011, shares of common stock offered by the DRP have been issued directly by SJI from its authorized but unissued shares of common stock.

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 approval of construction expenditures. As of both September 30, 2011 and December 31, 2010, the escrowed proceeds, including interest earned, totaled $1.3 million.

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, 2011 and December 31, 2010, the balances in these accounts totaled $6.3 million and $7.1 million, respectively. The carrying amounts of the Restricted Investments approximate their fair values at September 30, 2011 and December 31, 2010.

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 $10.9 million and $10.4 million as of September 30, 2011 and December 31, 2010, 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 $1.2 million as of both September 30, 2011 and December 31, 2010, 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, 2011 and December 31, 2010.

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CREDIT RISK - As of September 30, 2011, approximately $10.8 million, or 29.3%, 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.

FINANCE OBLIGATION - During 2010, ACB Energy Partners LLC (ACB), a wholly-owned subsidiary of Energenic, of which Marina has a 50% equity interest, completed construction of a combined heat and power generating facility that will serve, under an energy services agreement, a thermal plant owned by Marina. Construction period financing was provided by Marina. Due to the continuing involvement in the facility, Marina is considered the owner of the facility for accounting purposes. As a result, the Company has included $23.5 million and $20.2 million of costs to construct the facility within Nonutility Property and Equipment on the condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010, respectively. In addition, the Company recorded $23.5 million of repayments from ACB to Marina on the construction loan, within the Finance Obligation on the condensed consolidated balance sheets as of September 30, 2011. Marina does not have a fixed payment obligation to ACB; as a result, the Finance Obligation is classified as a noncurrent liability. The costs to construct the facility and the repayments of the construction loan will be amortized over the term of the energy services agreement. The impact on the condensed consolidated statements of income is not significant.

OTHER FINANCIAL INSTRUMENTS – The carrying amounts of SJI's other financial instruments approximate their fair values at September 30, 2011 and December 31, 2010.

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 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 under warranty via a subcontractor arrangement 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 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,	
	2011	2010	2011	2010
Operating Revenues:				
Gas Utility Operations	$58,482	$57,140	$303,992	$315,200
Wholesale Energy Operations	(5,274)	21,792	49,472	71,460
Retail Energy Operations:				
Retail Gas and Other Operations	20,582	24,160	80,866	85,775

Retail Electric Operations	51,305	45,762	165,458	136,580
On-Site Energy Production	11,049	11,003	30,700	29,533
Appliance Service Operations	3,720	5,148	12,308	14,440
Subtotal Retail Energy Operations	86,656	86,073	289,332	266,328
Corporate & Services	5,788	5,130	17,822	16,041
Subtotal	145,652	170,135	660,618	669,029
Intersegment Sales	(8,031)	(9,468)	(30,598)	(27,431)
Total Operating Revenues	$137,621	$160,667	$630,020	$641,598

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Operating Income (Loss):				
Gas Utility Operations	$2,860	$1,335	$68,418	$58,350
Wholesale Energy Operations	(9,379)	4,790	1,716	15,440
Retail Energy Operations:				
Retail Gas and Other Operations	(150)	241	564	887
Retail Electric Operations	(888)	(8,301)	5,953	(5,871)
On-Site Energy Production	578	1,962	2,945	4,517
Appliance Service Operations	(321)	371	(1,143)	373
Subtotal Retail Energy Operations	(781)	(5,727)	8,319	(94)
Corporate and Services	154	139	(113)	889
Total Operating Income (Loss)	$(7,146)	$537	$78,340	$74,585
Depreciation and Amortization:				
Gas Utility Operations	$10,463	$10,137	$31,141	$29,362
Wholesale Energy Operations	64	63	198	200
Retail Energy Operations:				
Retail Gas and Other Operations	8	8	25	26
On-Site Energy Production	1,185	981	3,288	2,937
Appliance Service Operations	86	86	235	262
Subtotal Retail Energy Operations	1,279	1,075	3,548	3,225
Corporate and Services	159	150	498	488
Total Depreciation and Amortization	$11,965	$11,425	$35,385	$33,275
Interest Charges:				
Gas Utility Operations	$4,539	$4,775	$14,463	$12,953
Wholesale Energy Operations	4	54	26	81
Retail Energy Operations:				
Retail Gas and Other Operations	46	66	157	123
On-Site Energy Production	1,799	1,292	4,325	3,694
Subtotal Retail Energy Operations	1,845	1,358	4,482	3,817
Corporate and Services	777	372	1,961	689
Subtotal	7,165	6,559	20,932	17,540
Intersegment Borrowings	(923)	(283)	(2,475)	(634)
Total Interest Charges	$6,242	$6,276	$18,457	$16,906
Income Taxes:				
Gas Utility Operations	$(699)	$(2,132)	$22,412	$18,132
Wholesale Energy Operations	(3,547)	2,145	1,473	6,794
Retail Energy Operations:				
Retail Gas and Other Operations	(59)	144	479	634
Retail Electric Operations	(363)	(3,375)	2,432	(2,377)
On-Site Energy Production	(1,621)	(4,457)	(9,278)	(8,812)
Appliance Service Operations	163	157	1,796	169
Subtotal Retail Energy Operations	(1,880)	(7,531)	(4,571)	(10,386)
Corporate and Services	92	91	166	269
Total Income Taxes	$(6,034)	$(7,427)	$19,480	$14,809

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	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Property Additions:				
Gas Utility Operations	$38,792	$22,855	$97,868	$81,388
Wholesale Energy Operations	53	14	83	20
Retail Energy Operations:				
Retail Gas and Other Operations	3	15	18	29
On-Site Energy Production	5,510	13,958	20,807	16,122
Appliance Service Operations	111	50	244	124
Subtotal Retail Energy Operations	5,624	14,023	21,069	16,275
Corporate and Services	24	462	406	963
Total Property Additions	$44,493	$37,354	$119,426	$98,646

	September 30, 2011	December 31, 2010
Identifiable Assets:		
Gas Utility Operations	$1,516,458	$1,468,635
Wholesale Energy Operations	210,449	237,978
Retail Energy Operations:		
Retail Gas and Other Operations	20,814	21,532
Retail Electric Operations	32,217	37,383
On-Site Energy Production	182,256	147,064
Appliance Service Operations	18,228	18,528
Subtotal Retail Energy Operations	253,515	224,507
Discontinued Operations	217	890
Corporate and Services	117,560	168,788
Intersegment Assets	(15,173)	(24,183)
Total Identifiable Assets	$2,083,026	$2,076,615

7. RATES AND REGULATORY ACTIONS:

SJG is subject to the rules and regulations of the New Jersey Board of Public Utilities (BPU). The BPU approved an extension of the Capital Investment Recovery Tracker (CIRT II) program in March 2011, allowing SJG to accelerate an additional $60.3 million of capital spending into 2011 and 2012. Under CIRT II, SJG capitalizes the return on CIRT II investments until they are recovered in rate base as utility plant in service. In June 2011, SJG filed a petition with the BPU requesting recovery of CIRT II investments through a 0.5% increase in base rates. This petition is currently pending.

On October 4, 2011, SJG filed a petition with the BPU requesting an additional extension of the CIRT II program allowing SJG to accelerate $40.0 million of capital spending into 2012 and $50.0 million of spending into 2013. The petition also requests recovery of the additional $40.0 million investment in 2012 through a 0.91% increase in base rates effective January 1, 2013. This petition is also currently pending.

In March 2011, SJG credited the accounts of its Basic Gas Supply Service (BGSS) customers with refunds totaling $21.1 million due to actual gas costs being lower than projected.

In September 2011, the BPU approved, on a provisional basis, SJG's request to reduce its BGSS rates by 2.9% and its Conservation Incentive Program (CIP) rates by 2.5%, effective October 1, 2011.

In June 2011, SJG filed its annual Energy Efficiency Tracker (EET) petition, requesting a 0.5% increase. This petition is currently pending.

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There have been no other significant regulatory actions or changes to SJG's rate structure since December 31, 2010. See Note 10 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2010.

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, 2010 which are described in Note 11 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2010.

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

	September 30, 2011	December 31, 2010
Environmental Remediation Costs:		
Expended - Net	$48,199	$39,056
Liability for Future Expenditures	81,357	87,393
Income Taxes - Flowthrough Depreciation	40	774
Deferred Asset Retirement Obligation Costs	24,781	24,247
Deferred Pension and Other Postretirement Benefit Costs	68,733	69,017
Deferred Gas Costs - Net	4,750	—
Conservation Incentive Program Receivable	4,805	12,291
Societal Benefit Costs Receivable	6,919	4,216
Premium for Early Retirement of Debt	578	699
Deferred Interest Rate Contracts	7,825	3,150
Other Regulatory Assets	9,645	7,570
Total Regulatory Assets	$257,632	$248,413

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

	September 30, 2011	December 31, 2010
Excess Plant Removal Costs	$47,498	$48,409
Deferred Revenues - Net	—	20,179
Other Regulatory Liabilities	2,139	660
Total Regulatory Liabilities	$49,637	$69,248

DEFERRED GAS COSTS AND DEFERRED REVENUES – NET – Over/under collections of gas costs are monitored through SJG's BGSS clause. 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 decreased from a $20.2 million regulatory liability at December 31, 2010 to a $4.8 million regulatory asset at September 30, 2011 primarily due to the BGSS refund to customers discussed above in Note 7.

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9. PENSION AND OTHER POSTRETIREMENT BENEFITS:

For the three and nine months ended September 30, 2011 and 2010, 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,	
	2011	2010	2011	2010
Service Cost	$979	$856	$2,938	$2,569
Interest Cost	2,381	2,299	7,143	6,898
Expected Return on Plan Assets	(2,342)	(2,100)	(7,026)	(6,301)
Amortizations:				
Prior Service Cost	67	70	200	210
Actuarial Loss	1,360	1,188	4,080	3,563
Net Periodic Benefit Cost	2,445	2,313	7,335	6,939
ERIP Costs	—	—	102	—
Capitalized Benefit Costs	(906)	(878)	(2,718)	(2,632)
Total Net Periodic Benefit Expense	$1,539	$1,435	$4,719	$4,307

	Other Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Service Cost	$249	$230	$747	$690
Interest Cost	800	816	2,400	2,450
Expected Return on Plan Assets	(562)	(484)	(1,686)	(1,453)
Amortizations:				
Prior Service Credits	(89)	(89)	(266)	(266)
Actuarial Loss	414	374	1,241	1,121
Net Periodic Benefit Cost	812	847	2,436	2,542
Capitalized Benefit Costs	(302)	(330)	(907)	(989)
Total Net Periodic Benefit Expense	$510	$517	$1,529	$1,553

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

The ERIP costs reflected in the table above relate to an early retirement plan offered during 2011 to one of our business segments.

No contributions were made to the pension plans during the nine month period ended September 30, 2011. During May 2010, SJI contributed $8.0 million to its pension plans. We do not expect to make any contributions to our pension plans in 2011; however, changes in future investment performance and discount rates may ultimately result in a contribution. We also have a regulatory obligation to contribute approximately $3.6 million annually to our other postretirement benefit plans' trusts, less costs incurred directly by us.

See Note 12 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2010, for additional information related to SJI's pension and other postretirement benefits.

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10. UNUSED LINES OF CREDIT:

Credit facilities and available liquidity as of September 30, 2011 were as follows (in thousands):

Company	Total Facility	Usage	Available Liquidity	Expiration Date
SJG:				
Commercial Paper Program/Revolving Credit Facility	$200,000	$106,500	$93,500	May 2015
Uncommitted Bank Lines	20,000	—	20,000	Various
Total SJG	220,000	106,500	113,500	
SJI:				
Revolving Credit Facility	$300,000	$208,908	$91,092	April 2015 (A)
Term Line of Credit	30,437	30,437	—	November 2013
Total SJI	330,437	239,345	91,092	
Total	$550,437	$345,845	$204,592	

(A) Includes letters of credit outstanding in the amount of $83.0 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. Borrowings under these credit facilities are at market rates. The weighted average interest rate on these borrowings, which changes daily, was 1.08% and 0.79% at September 30, 2011 and 2010, respectively. Average borrowings outstanding under these credit facilities during the nine months ended September 30, 2011 and 2010 were $209.2 million and $179.6 million, respectively. The maximum amounts outstanding under these credit facilities during the nine months ended September 30, 2011 and 2010 were $271.4 million and $264.2 million, respectively.

New revolving credit facilities were established by SJI and SJG in April 2011 and May 2011, respectively. The SJI facility is a $300.0 million four-year facility provided by a syndicate of banks. The SJG facility is a $200.0 million, four-year facility, provided by the same syndicate of banks. Each facility contains one financial covenant limiting the ratio of indebtedness to total capitalization (as defined in the respective credit agreements) to not more than 0.65 to 1, measured at the end of each fiscal quarter. SJI and SJG were in compliance with these covenants as of September 30, 2011. These facilities replaced SJI's $200.0 million revolving credit facility and SJG's $100.0 million revolving credit facility and $40.0 million committed line of credit, all of which would otherwise have expired in August of 2011. The letters of credit that provide liquidity support for the variable-rate revenue bonds issued by Marina are now issued under SJI's new revolving credit facility that expires in 2015. Consequently, these bonds, which were included in the current portion of long-term debt as of December 31, 2010, are now included in long-term debt as of September 30, 2011.

During the third quarter of 2011, SJG began a commercial paper program under which SJG may issue short-term, unsecured promissory notes to qualified investors up to a maximum aggregate amount outstanding at any time of $200.0 million. The notes have fixed maturities which vary by note, but may not exceed 270 days from the date of issue. Proceeds from the notes are used for general corporate purposes. SJG uses the commercial paper program in tandem with the new $200.0 million revolving credit facility and does not expect the principal amount of borrowings outstanding under the commercial paper program and the credit facility at any time to exceed an aggregate of $200.0 million.

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11. COMMITMENTS AND CONTINGENCIES:

GUARANTEES — 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 condensed consolidated balance sheets as of September 30, 2011 for the fair value of the following guarantees:

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 service 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 August 2011, the resort developer, repeating previous disclosures, indicated again that it does not expect to resume construction on the project for three to five years. The resort developer stated that it remains committed to having a significant presence on the Las Vegas Strip as part of a long-term growth strategy and continues 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 $193.2 million as of September 30, 2011. As a result of the construction delay, the district energy system and central energy center were 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.

In March 2011, LVE reached agreements with (a) the resort developer, that specified the payments to be made by the developer to LVE during the suspension period and provided the developer and its corporate parent with an option to purchase the assets of LVE, and (b) the banks that are financing the energy facilities to address the existing default under the financing agreements. The terms of the March 2011 agreement require the resort developer to pay certain fees and expenses to LVE on a monthly basis beginning in March 2011 until construction of the resort resumes or until the resort developer has exercised its option to purchase the energy facilities from LVE. The monthly payments that are being paid to LVE by the resort developer are expected to be sufficient to reimburse LVE for costs to maintain the energy facilities and to cover debt service costs over time. The resort developer has provided LVE with a $6.0 million letter of credit to support its monthly payment obligation.

The banks that are financing the energy facilities have agreed not to exercise their rights under the financing agreements resulting from the event of default discussed above through December 2013, provided that no additional events of default occur. SJI and its joint venture partner have provided a total of $10.0 million in letters of credit to the banks to support LVE's obligations, which can be drawn upon by the banks at the end of the existing agreement in December 2013 or upon the occurrence of an event of default by LVE prior to December 2013.

As of September 30, 2011, the Company had a net liability of approximately $1.6 million included in Other Noncurrent Liabilities on the condensed consolidated balance sheets related to this project, in addition to unsecured Notes Receivable – Affiliate of approximately $56.1 million due from LVE. As of September 30, 2011, SJI's capital at risk is limited to its equity contributions, letters of credit and the unsecured notes receivable totaling approximately $70.4 million. During 2011, SJI provided support to LVE of approximately $5.4 million to cover interest and other 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, 2011.

SJI has 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 this guarantee.

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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 through Energenic. 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.

As of September 30, 2011, SJI had issued $4.9 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 February 2011, ACR Energy Partners, LLC (ACR), a wholly-owned subsidiary of Energenic, of 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 is currently providing construction energy to the complex and will provide full energy services when the complex is completed in 2012. Marina and its joint venture partner will make capital contributions to ACR that will enable ACR to a) repay $42.0 million of construction advances made by the developer and b) deposit $2.8 million in a debt service reserve fund, provided, in each case, that 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. Marina and its joint venture partner have also agreed to provide a $5.0 million letter of credit in 2012 to support certain operating performance obligations of ACR under the operating agreements between ACR and the developer, provided the developer has met the conditions just outlined. 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 to or on behalf of ACR.

COLLECTIVE BARGAINING AGREEMENTS — Unionized personnel represent approximately 49.0% of our workforce at September 30, 2011. 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 expires in August 2014.

STANDBY LETTERS OF CREDIT — SJI provided $83.0 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 $20.7 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. As of December 31, 2010, these bonds were included in the current portion of long-term debt because this letter of credit expired during 2011. The replacement letter of credit expires in August 2015, and as a result, the related bonds are now included in long-term debt as of September 30, 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. There have been no changes to the status of the Company's environmental remediation efforts since December 31, 2010 as described in Note 15 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2010.

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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. 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 September 30, 2011, the Company had outstanding derivative contracts intended to limit the exposure to market risk on 17.0 MMdts (1 MMdts = one million decatherms) of expected future purchases of natural gas, 16.7 MMdts of expected future sales of natural gas, 1.3 MMmwh (1 MMmwh = one million megawatt hours) 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 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. There have been no significant changes to the Company's active interest rate swaps since December 31, 2010 which are described in Note 16 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2010.

The fair values of all derivative instruments, as reflected in the condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010, are as follows (in thousands):

Derivatives not designated as hedging instruments under GAAP	September 30, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
Energy related commodity contracts:				
Derivatives – Energy Related – Current	$29,572	$32,570	$39,513	$42,297
Derivatives – Energy Related – Non-Current	7,319	7,318	11,556	8,641
Interest rate contracts:				
Derivatives - Other	—	10,513	—	5,539
Total derivatives not designated as hedging instruments under GAAP	36,891	50,401	51,069	56,477
Derivatives designated as hedging instruments under GAAP				
Interest rate contracts:				
Derivatives - Other	—	3,270	—	1,865
Total derivatives designated as hedging instruments under GAAP	—	3,270	—	1,865
Total Derivatives	$36,891	$53,671	$51,069	$58,342

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The effect of derivative instruments on the condensed consolidated statements of income for the three and nine months ended September 30, 2011 and 2010 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationships	2011	2010	2011	2010
Interest Rate Contracts:				
Losses recognized in OCI on effective portion	$(1,765)	$(391)	$(2,407)	$(705)
Losses reclassified from accumulated OCI into income (a)	$(385)	$(237)	$(1,122)	$(705)
Gains or (losses) recognized in income on ineffective portion (a)	—	—	—	—

(a) Included in Interest Charges

	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives Not Designated as Hedging Instruments under GAAP	2011	2010	2011	2010
Losses on energy related commodity contracts (a)	$(8,543)	$(1,173)	$(2,411)	$(19,090)
Losses on interest rate contracts (b)	(309)	(412)	(298)	(1,250)
Total	$(8,852)	$(1,585)	$(2,709)	$(20,340)

(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 $2.4 million and $5.5 million for the three months ended September 30, 2011 and 2010, respectively, and $9.5 million and $17.8 million for the nine months ended September 30, 2011 and 2010, respectively, are 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 September 30, 2011, is $11.2 million. If the credit-risk-related contingent features underlying these agreements were triggered on September 30, 2011, the Company would have been required to settle the instruments immediately or post collateral to its counterparties of approximately $8.1 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.

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

As of September 30, 2011	Total	Level 1	Level 2	Level 3
Assets				
Available-for-Sale Securities (A)	$6,297	$19	$6,278	$—
Derivatives – Energy Related Assets (B)	36,891	14,513	19,156	3,222
	$43,188	$14,532	$25,434	$3,222
Liabilities				
Derivatives – Energy Related Liabilities (B)	$39,888	$11,384	$24,868	$3,636
Derivatives – Other (C)	13,783	—	13,783	—
	$53,671	$11,384	$38,651	$3,636

As of December 31, 2010	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 include securities that are traded in active markets and securities that are not traded publicly. The securities traded in active markets are valued using the quoted principal market close prices that are provided by the trustees and are categorized in Level 1 in the fair value hierarchy. The remaining securities consist of funds that are not publicly traded. These funds, which consist of stocks and bonds that are traded individually in active markets, are valued using quoted prices for similar assets and are categorized in Level 2 in the fair value hierarchy.

(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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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 three and nine months ended September 30, 2011, 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 for the three and nine months ended September 30, 2011, using significant unobservable inputs (Level 3), are as follows (in thousands):

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Balance at beginning of period	$1,762	$(3,163)
Total gains and (losses) realized/unrealized included in earnings	(1,999)	(2,585)
Transfers in and/or out of Level 3, net	—	—
Settlements	(177)	5,334
Balance at September 30, 2011	$(414)	$(414)

Total losses for 2011 included in earnings that are attributable to the change in unrealized losses relating to those assets and liabilities still held as of September 30, 2011, is $2.6 million. These losses are included in Operating Revenues-Nonutility on the condensed consolidated statements of income.

14. LONG-TERM DEBT:

During the first nine months of 2010, SJG issued $60.0 million aggregate principal amount of its Medium Term Notes in private placements due 2026. In September 2011, SJG entered into an arrangement to issue Medium Term Notes under a private placement in an aggregate principal amount of $35.0 million. SJG expects to issue this debt in April 2012. In the third quarter 2011, SJG repaid $25.0 million of First Mortgage Bonds. As of September 30, 2011 the $150.0 million Medium Term Note program that was approved by the BPU in September 2009 expired. In September 2011, SJG filed a petition with the BPU to establish a new $200.0 million MTN program.

The estimated fair values of SJI's long-term debt, including current maturities, as of September 30, 2011 and December 31, 2010, were $530.9 million and $517.0 million, respectively. The carrying amounts of SJI's long-term debt, including current maturities, as of September 30, 2011 and December 31, 2010, were $426.4 million and 451.4 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, 2011 and December 31, 2010.

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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 are 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, 2010 and in other filings made by us with the Securities and Exchange Commission (SEC). 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 South Jersey Industries, Inc. (SJI or the Company) 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, 2010.

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, 2010. See detailed discussion concerning Regulatory Actions in Note 10 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2010.

Environmental Remediation —There have been no significant changes to the status of the Company's environmental remediation efforts since December 31, 2010. See detailed discussion concerning Environmental Remediation in Note 15 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K as of December 31, 2010.

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 the activities of South Jersey Resources Group, LLC (SJRG). South Jersey Energy Company (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 South Jersey Energy Service Plus, LLC (SJESP's) servicing of appliances under warranty via a subcontractor arrangement 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.

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Net Income attributable to SJI for the three months ended September 30, 2011 decreased $6.4 million to a net loss of $5.1 million compared to the three months ended September 30, 2010 primarily as a result of the following:

- The income contribution from SJRG for the three months ended September 30, 2011 decreased $8.1 million to a net loss of $5.2 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 under Operating Revenues – Nonutility below.
- The income contribution from Marina for the three months ended September 30, 2011 decreased $4.3 million to net income of $0.6 million due primarily to the timing of the investment tax credit available on renewable energy facilities as compared to the prior year.
- The income contribution from SJE for the three months ended September 30, 2011 increased $4.1 million to a net loss of $0.6 million due primarily to the change in unrealized gains and losses on forward financial contracts used to mitigate price risk on electric as discussed under Operating Revenues – Nonutility below.
- The income contribution from SJG for the three months ended September 30, 2011 increased $1.6 million to a net loss of $0.3 million due primarily to the settlement of the base rate case in September 2010.

Net Income attributable to SJI for the nine months ended September 30, 2011 increased $11.1 million, or 26.9% to $52.4 million compared to the nine months ended September 30, 2010 primarily as a result of the following:

- The income contribution from SJE for the nine months ended September 30, 2011 increased $6.8 million to $4.2 million due primarily to the change in unrealized gains and losses on forward financial contracts used to mitigate price risk on electric as discussed under Operating Revenues – Nonutility below.
- The income contribution from SJG for the nine months ended September 30, 2011 increased $6.5 million to $33.6 million due primarily to the settlement of the base rate case in September 2010.
- The income contribution from Marina for the nine months ended September 30, 2011 increased $3.2 million to $10.2 million due primarily to the impact of the investment tax credit available on renewable energy facilities.
- The income contribution from SJESP for the nine months ended September 30, 2011 increased $2.4 million to $2.6 million due to proceeds received from a provider of homeowner assistance services, in accordance with an agreement with the Company that gives them the exclusive right to renew the home appliance repair contracts at SJESP.
- The income contribution from SJRG for the nine months ended September 30, 2011 decreased $7.4 million to $2.0 million due mainly to tighter spreads attained on our storage and transportation assets as discussed in Gross Margin - Nonutility 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.

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- SJE uses forward contracts to mitigate commodity price risk on fixed price electric contracts with customers. In accordance with accounting principles generally accepted in the United States of America (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 electric 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, Economic Earnings per share, Non-Utility Economic Earnings, Wholesale Energy Economic Earnings and Retail Energy Economic Earnings when evaluating the results of operations for its nonutility 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 the three months ended September 30, 2011 decreased $2.6 million, or 85.9%, to $0.4 million compared with the same period in 2010, primarily as a result of the following:

- The income contribution from Marina for the three months ended September 30, 2011 decreased $4.5 million to $1.2 million due primarily to the timing of the investment tax credit available on renewable energy facilities as compared to the prior year.

- The income contribution from SJG for the three months ended September 30, 2011 increased $1.6 million to a net loss of $0.3 million due primarily to the settlement of the base rate case in September 2010.

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Economic Earnings for the nine months ended September 30, 2011 increased $0.4 million, or 0.7%, to $55.2 million compared with the same period in 2010, primarily as a result of the following:

- The income contribution from SJG for the nine months ended September 30, 2011 increased $6.5 million to $33.6 million due primarily to the settlement of the base rate case in September.

- The income contribution from SJESP for the nine months ended September 30, 2011 increased $2.4 million to $2.6 million due to proceeds received from a provider of homeowner assistance services, in accordance with an agreement with the Company that gives them the exclusive right to renew the home appliance repair contracts at SJESP.

- The income contribution from Marina for the nine months ended September 30, 2011 increased $1.3 million to $11.0 million due primarily to the timing of the investment tax credit available on renewable energy facilities as compared to the prior year.

- The income contribution from SJRG for the nine months ended September 30, 2011 decreased $9.8 million to $4.9 million due mainly to tighter spreads attained on our storage and transportation assets as discussed in Gross Margin - Nonutility below.

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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 for the three and nine months ended September 30 (in thousands except per share data):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Income (Loss) from Continuing Operations	$(5,203)	$1,441	$52,873	$41,550
Minus/Plus:				
Unrealized Mark-to-Market (Gains)/Losses on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges	5,627	1,571	2,330	13,283
Economic Earnings	$424	$3,012	$55,203	$54,833
Earnings per Share from Continuing Operations	$(0.17)	$0.05	$1.76	$1.39
Minus/Plus:				
Unrealized Mark-to-Market (Gains)/Losses on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges	$0.18	0.05	0.08	0.44
Economic Earnings per Share	$0.01	$0.10	$1.84	$1.83
Non-Utility Income (Loss) from Continuing Operations	$(4,873)	$3,413	$19,287	$14,524
Minus/Plus:				
Unrealized Mark-to-Market (Gains)/Losses on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges	5,627	1,571	2,330	13,283
Non-Utility Economic Earnings	$754	$4,984	$21,617	$27,807
Wholesale Energy Income (Loss) from Continuing Operations	$(5,233)	$2,862	$2,036	$9,464
Minus/Plus:				
Unrealized Mark-to-Market (Gains)/Losses on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges	3,370	(4,368)	2,816	5,212
Wholesale Energy Economic Earnings	$(1,863)	$(1,506)	$4,852	$14,676
Retail Energy Income from Continuing Operations	$360	$551	$17,251	$5,060
Minus/Plus:				
Unrealized Mark-to-Market (Gains)/Losses on Derivatives and Realized (Gains)/Losses on Inventory Injection Hedges	2,257	5,940	(486)	8,071
Retail Energy Economic Earnings	$2,617	$6,491	$16,765	$13,131

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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,	
	2011	2010	2011	2010
Utility Throughput – dt:				
Firm Sales -				
Residential	1,226	1,506	14,981	15,246
Commercial	516	627	3,950	3,955
Industrial	24	28	206	200
Cogeneration & Electric Generation	1,014	701	1,568	1,101
Firm Transportation -				
Residential	162	136	1,732	1,325
Commercial	538	617	4,174	4,067
Industrial	2,976	3,036	9,612	9,379
Cogeneration & Electric Generation	1,584	1,638	5,110	4,634
Total Firm Throughput	8,040	8,289	41,333	39,907
Interruptible Sales	1	8	13	51
Interruptible Transportation	307	402	1,371	1,256
Off-System	1,455	969	4,910	4,006
Capacity Release	18,220	12,337	45,879	31,729
Total Throughput - Utility	28,023	22,005	93,506	76,949

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Utility Operating Revenues:				
Firm Sales -				
Residential	$25,906	$28,745	$174,794	$198,105
Commercial	8,153	8,743	42,694	45,228
Industrial	582	435	2,876	2,436
Cogeneration & Electric Generation	5,450	4,480	8,951	7,164
Firm Transportation -				
Residential	1,862	1,212	10,725	7,168
Commercial	2,804	2,662	15,991	14,505
Industrial	4,710	4,155	13,375	12,806
Cogeneration & Electric Generation	379	1,098	2,866	3,816
Total Firm Revenues	49,846	51,530	272,272	291,228

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interruptible Sales	14	118	229	756
Interruptible Transportation	282	410	1,244	1,308
Off-System	6,727	4,525	24,175	20,071
Capacity Release	1,345	358	5,244	1,088
Other	268	199	828	749
	58,482	57,140	303,992	315,200
Less: Intercompany Sales	(274)	(301)	(6,425)	(1,119)
Total Utili				