

SOUTH JERSEY INDUSTRIES INC
Form 10-K
March 01, 2010

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

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
(State of incorporation)

22-1901645
(IRS employer identification no.)

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

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

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

Common Stock
(\$1.25 par value per share)
(Title of each class)

New York Stock Exchange
(Name of exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act: Yes No

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 No

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 No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. T

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 | <input checked="" type="checkbox"/> T | Accelerated filer | <input type="checkbox"/> £ |
| Non-accelerated filer | <input type="checkbox"/> £ (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> £ |

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2009 was \$1,034,720,588. As of February 22, 2010, there were 29,812,932 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference:

In Part I of Form 10-K: None

In Part II of Form 10-K: None

In Part III of Form 10-K: Portions of the registrant's proxy statement filed within 120 days of the close of the registrant's fiscal year in connection with the registrant's 2010 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

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Forward Looking Statements

Certain statements contained in this Annual Report on form 10-K 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 by the Company and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. When used in this Report, or any other of the Company’s documents or oral presentations, words such as “anticipate”, “believe”, “expect”, “estimate”, “forecast”, “goal”, “objective”, “plan”, “project”, “seek”, “strategy” and similar expressions are intended to identify forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. These risks and uncertainties include, but are not limited to the risks set forth under “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K and elsewhere throughout this Report. These cautionary statements should not be construed by you to be exhaustive and they are made only as of the date of this Report. While 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.

Available Information

The Company’s Internet address is www.sjindustries.com. We make available free of charge on or through our website SJI’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). The SEC maintains an Internet site that contains these reports at <http://www.sec.gov>. Also, copies of SJI’s annual report will be made available, free of charge, upon written request. The content on any web site referred to in this filing is not incorporated by reference into this filing unless expressly noted otherwise.

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Units of Measurement

| For Natural Gas: | |
|------------------|-------------------------------------|
| 1 Mcf | = One thousand cubic feet |
| 1 MMcf | = One million cubic feet |
| 1 Bcf | = One billion cubic feet |
| 1dt | = One decatherm |
| 1 MMdts | = One million decatherms |
| dts/d | = Decatherms per day |
| MDWQ | = Maximum daily withdrawal quantity |

PART I

Item 1. Business

Description of Business

The registrant, South Jersey Industries, Inc. a New Jersey corporation, was formed in 1969 for the purpose of owning and holding all of the outstanding common stock of South Jersey Gas Company, a public utility, and acquiring and developing non-utility lines of business.

SJI 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 and southern states.
 - Marina Energy, LLC (Marina) develops and operates on-site energy-related projects.

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- 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) provides residential and light commercial service and installation of HVAC systems, plumbing services and appliance repair and service/maintenance contracts.

Additional Information on the nature of our business can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under Item 7 of this report.

Financial Information About Reportable Segments

Information regarding Reportable Segments is incorporated by reference to Note 7 of the consolidated financial statements included under Item 8 of this report.

Sources and Availability of Raw Materials

South Jersey Gas Company

Transportation and Storage Agreements

SJG has direct connections to the interstate natural gas pipeline systems of both Transcontinental Gas Pipe Line Company, LLC (Transco) and Columbia Gas Transmission, LLC (Columbia). During 2009, SJG purchased and had delivered approximately 34.4 Million decatherms (MMdts) of natural gas for distribution to both on-system and off-system customers. Of this total, 22.5 MMdts were transported on the Transco pipeline system while 11.9 MMdts were transported on the Columbia pipeline system. SJG also secures firm transportation and other long term services from two additional pipelines upstream of the Transco and Columbia systems. They include Columbia Gulf Transmission Company, LLC (Columbia Gulf) and Dominion Transmission, Inc. (Dominion). Services provided by these upstream pipelines are utilized to deliver gas into either the Transco or Columbia systems for ultimate delivery to SJG. Services provided by all of the above-mentioned pipelines are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). Unless otherwise indicated, our intentions are to renew or extend these service agreements before they expire.

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Transco:

Transco is SJG's largest supplier of long-term gas transmission services which includes both year-round and seasonal firm transportation (FT) service arrangements. When combined, these FT services enable SJG to purchase gas from third parties and have delivered to its city gate stations by Transco a total of 280,525 dts per day (dts/d). Of this total, 133,917 dts/d is long-haul FT (where gas can be transported from the production areas of the Southwest to the market areas of the Northeast) while 146,608 dts/d is market area FT. The terms of SJG's year-round agreements extend for various periods through 2025. The terms of its seasonal agreements vary in length with the longest extending into 2013.

Of the 280,525 dts/d of Transco services mentioned above, SJG has released a total of 89,800 dts/d of its long-haul FT and 25,565 dts/d of its market area FT service. These releases were made in association with SJG's Conservation Incentive Program (CIP) discussed further under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

SJG currently has six long-term gas storage service agreements with Transco that, when combined, are capable of storing approximately 5.0 MMdts. Through these agreements, SJG can inject gas into market and production area storages during periods of low demand and extract gas at a Maximum Daily Withdrawal Quantity (MDWQ) of up to 107,407 dts during periods of high demand. The terms of these storage service agreements extend for various periods from 2009 to 2013. During 2008, SJG released 17,433 dts/d of Transco SS-1 storage demand and 1,353,159 dts of its SS-1 storage capacity (both represent 100 percent of this service) thereby reducing its Transco maximum daily storage withdrawal quantity to 107,407 dts/d, and its storage capacity to approximately 5.0 MMdts. Also released was 17,433 dts/d of winter season firm transportation service associated with SS-1 storage service.

Dominion:

SJG currently subscribes to a single firm transportation service from Dominion under Rate Schedule FTNN. This service facilitates the transportation of up to 5,545 dts/d from various Appalachian aggregation points to Transco's Leidy Line for ultimate delivery to SJG city gate stations during the winter season (November through March) each year. The initial primary term of this agreement extends through October 31, 2010.

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SJG also subscribes to a firm storage service from Dominion, under its Rate Schedule GSS. This storage has a MDWQ of 10,000 dts during the period between November 16 and March 31 of each winter season, with an associated total storage capacity of 423,000 dts. Gas withdrawn from Dominion GSS storage is delivered through both the Dominion and Transco (Leidy Line) pipeline systems for delivery to SJG service territory. The primary term of this agreement extends through March 31, 2015.

Columbia:

SJG has two firm transportation agreements with Columbia which, when combined, provide for 45,022 dts/d of firm deliverability and extend through October 31, 2019. In 2009, SJG released 14,714 dts/d of this amount to SJRG in conjunction with its CIP thereby reducing the availability of firm transportation on the Columbia system to 30,308 dts/d.

SJG also subscribes to a firm storage service (FSS) with Columbia under three separate agreements, the longest of which extends through October 31, 2019. When combined, these three FSS storage agreements provide SJG with a winter season MDWQ of 52,891 dts with an associated 3,473,022 dts of storage capacity. During 2009, SJG released to SJRG 17,500 dts of its FSS MDWQ along with 1,249,485 dts of its Columbia FSS storage capacity. In addition, SJG also released to SJRG 17,500 dts of its Columbia SST MDWQ transportation service which is associated with FSS service. Both of these releases were made by SJG in connection with its CIP.

Columbia Gulf:

Entering 2009, SJG had one firm transportation agreement with Columbia Gulf which provided up to 45,985 dts/d of firm deliverability in the winter season and 43,137 dts/d during the summer season. This service facilitates the movement of gas from the production area in southern Louisiana to an interconnect with the Columbia pipeline system at Leach, KY. During 2009, SJG permanently released this capacity to SJRG.

Gas Supplies

SJG no longer has any long-term gas supply agreements with third party producer-suppliers. In recent years, due to increased liquidity in the market place, SJG has replaced its long-term gas supply agreements with short-term agreements and uses financial contracts secured through SJRG to hedge against forward price risk. Short-term agreements typically extend between one day and several months in duration. As such, its long-term contracts were allowed to expire under their terms.

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Supplemental Gas Supplies

During 2009, SJG entered into two seasonal Liquefied Natural Gas (LNG) sales agreements with two separate third party suppliers. The term of the first agreement which was used during the 2009 summer season to refill SJG's storage tank, extended through November 30, 2009, and had an associated contract quantity of 250,000 dts. The second agreement was acquired to replenish LNG in storage during the 2009-2010 winter season. This agreement extends through March 31, 2010 and provides SJG with up to 250,000 dts of LNG.

SJG operates peaking facilities which can store and vaporize LNG for injection into its distribution system. SJG's LNG facility has a storage capacity equivalent to 434,300 dts of natural gas and has an installed capacity to vaporize up to 96,750 dts of LNG per day for injection into its distribution system.

Entering 2009, SJG operated a high-pressure pipe storage field at its New Jersey LNG facility which was capable of storing 12,420 dts of gas and injecting up to 10,350 dts/d into SJG's distribution system. During 2009, SJG retired this high-pressure storage field as it was no longer required for peaking services.

Peak-Day Supply

SJG plans for a winter season peak-day demand on the basis of an average daily temperature of 2 degrees Fahrenheit (F). Gas demand on such a design day for the 2009-2010 winter season is estimated to be 459,139 dts. SJG projects that it has adequate supplies and interstate pipeline entitlements to meet its design requirements. SJG experienced its highest peak-day demand for calendar year 2009 of 429,281 dts on January 16th while experiencing an average temperature of 12.22 degrees F that day.

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Natural Gas Prices

SJG's average cost of natural gas purchased and delivered in 2009, 2008 and 2007, including demand charges, was \$8.38 per dt, \$9.90 per dt and \$9.07 per dt, respectively.

South Jersey Energy Company

Transportation and Storage Agreements

Access to gas suppliers and cost of gas are significant to the operations of SJE. No material part of the business of SJE is dependent upon a single customer or a few customers. SJE purchases delivered gas only, primarily from SJRG. Consequently, SJE maintains no transportation or storage agreements.

Electric Supply

Due to the liquidity in the market, SJE purchases delivered electric in the day-ahead market through regional transmission organizations and consequently does not own or operate any generation or transmission assets.

South Jersey Resources Group

Transportation and Storage Agreements

National Fuel Gas Supply Corporation:

SJRG has a long term storage service agreement with National Fuel Gas Supply Corporation (National Fuel) which extends through March 31, 2010, under which up to 4,746,000 Mcf of gas may be stored. SJRG has an additional contract for 224,576 Mcf of capacity that expires March 31, 2023. Both agreements carry evergreen continuation clauses on a year by year basis after expiration. Total injection rights under the combined agreements total 29,623 Mcf/d and firm withdrawal rights total 50,042 Mcf/d.

SJRG holds long term firm transportation agreements with National Fuel associated with the above-mentioned agreements. Under these agreements, National Fuel will provide SJRG with a maximum daily injection transportation quantity of 29,623 Mcf/d with primary receipt points from Tennessee Gas Pipeline for delivery into storage, and 50,042 of maximum daily withdrawal transportation quantity with a primary receipt point of storage and a primary delivery point of Transcontinental Gas Pipeline.

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Transcontinental Gas Pipeline:

SJRG has a storage agreement with Transco for storage service at Transco's WSS facility which expires in October 2017. Under this evergreen contract, up to 24,500 Mcf/d may be injected and up to 51,837 Mcf/d may be withdrawn. Total storage capacity on the agreement is 4,406,000 Mcf.

SJRG has a storage agreement with Transco for storage service at Transco's SS-1 facility which expires March 31, 2010. Under this evergreen contract, up to 17,433 Mcf/d may be withdrawn in the winter period and up to 7,617 Mcf/d may be injected during the summer period. Total storage capacity under the agreement is 1,353,159 Mcf. This service was released to SJRG by SJG as discussed above.

SJRG has a transportation agreement with Transco associated with the SS-1 storage agreement mentioned above. Under this evergreen agreement, Transco will provide SJRG with a maximum transportation quantity of 17,433 Mcf/d with receipts at Leidy, Pennsylvania and deliveries in Zone 6 New Jersey. This transportation agreement provides service only during the months of November to March each year. This service was released to SJRG by SJG in 2008.

SJRG also has a firm transportation agreement with Transco which expires September 30, 2010. Under this evergreen contract, Transco will provide SJRG with receipts at various production points in Texas and Louisiana and deliveries in New Jersey totaling 89,800 Mcf/d. This service was released to SJRG by SJG as discussed above.

Dominion Gas Transmission:

SJRG has a firm transportation agreement with Dominion which expires October 31, 2022. Under this agreement, Dominion will provide SJRG with 5,000 Mcf/d of deliveries to Leidy, Pennsylvania and receipts at Lebanon, Ohio.

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SJRG also has a firm transportation agreement with Dominion related to SJRG's Transco SS-1 storage. Under this contract, Dominion will provide receipts at Leidy, Pennsylvania and deliveries to storage in the amount of 17,432 Mcf/d. This evergreen contract expires March 31, 2011. This service was released to SJRG by SJG in 2008.

Columbia Gas Transmission:

SJRG holds a firm transportation agreement with Columbia. Under this evergreened agreement, Columbia provides receipts at Leach, Kentucky and deliveries of 14,714 Mcf/d to New Jersey.

SJRG holds a storage agreement with Columbia for service under Columbia's FSS rate schedule. Under this evergreen agreement which expires October 31, 2010, Columbia will provide SJRG with storage capacity of 1,249,485 Mcf. Under this agreement, 17,500 Mcf/d may be withdrawn from storage and 9,996 Mcf/d may be injected.

SJRG holds firm transportation related to the above mentioned storage agreement which provides for receipts at storage and deliveries to New Jersey of 17,500 Mcf/d. This evergreen contract expires October 31, 2010. These services with Columbia were released to SJRG by SJG as discussed above.

Columbia Gulf Transmission:

SJRG holds a firm transportation agreement with Columbia Gulf which expires October 31, 2019. Under this evergreen agreement, Columbia provides receipts in Louisiana with deliveries at Leach, Kentucky in the amount of 15,000 Mcf/d. This service was released to SJRG by SJG as discussed above.

Patents and Franchises

South Jersey Gas Company

SJG holds nonexclusive franchises granted by municipalities in the seven-county area of southern New Jersey that it serves. No other natural gas public utility presently serves the territory covered by SJG's franchises. Otherwise, patents, trademarks, licenses, franchises and concessions are not material to the business of SJG.

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Seasonal Aspects

South Jersey Gas Company

SJG experiences seasonal fluctuations in sales when selling natural gas for heating purposes. SJG meets this seasonal fluctuation in demand from its firm customers by buying and storing gas during the summer months, and by drawing from storage and purchasing supplemental supplies during the heating season. As a result of this seasonality, SJG's revenues and net income are significantly higher during the first and fourth quarters than during the second and third quarters of the year.

Non-Utility Companies

Among SJI's non-utility activities, wholesale and retail gas marketing have seasonal patterns similar to SJG's. Activities such as energy services and energy project development do not follow seasonal patterns. Other activities such as retail electric marketing and appliance service can have seasonal earnings patterns that are different from the utility. While growth in the earnings contributions from nonutility operations has improved SJI's second and third quarter net income levels, the first and fourth quarters remain the periods where most of SJI's revenue and net income is produced.

Working Capital Practices

Reference is made to "Liquidity and Capital Resources" included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this report.

Customers

No material part of the Company's business is dependent upon a single customer or a few customers, the loss of which would have a material adverse effect on SJI performance on a consolidated basis. One of SJI's subsidiaries, Marina Energy, does currently receive the majority of its revenues and income from one customer. However, that customer is under a long-term contract through 2027.

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Backlog

Backlog is not material to an understanding of SJI's business or that of any of its subsidiaries.

Government Contracts

No material portion of the business of SJI or any of its subsidiaries is subject to renegotiation of profits or termination of contracts or subcontracts at the election of any government.

Competition

Information on competition for SJI and its subsidiaries can be found in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this report.

Research

During the last three fiscal years, neither SJI nor any of its subsidiaries engaged in research activities to any material extent.

Environmental Matters

Information on environmental matters for SJI and its subsidiaries can be found in Note 14 of the consolidated financial statements included under Item 8 of this report.

Employees

SJI and its subsidiaries had a total of 617 employees as of December 31, 2009. Of that total, 332 employees are unionized. SJG and SJESP employees represented by the International Brotherhood of Electrical Workers ("IBEW") operate under a new collective bargaining agreement that runs through February 2013. The remaining unionized employees are represented by the International Association of Machinists and Aerospace Workers ("IAM"). SJG and SJESP employees represented by the IAM recently agreed to a new collective bargaining agreement that expires in August 2014.

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Financial Information About Foreign and Domestic Operations and Export Sales

SJI has no foreign operations and export sales have not been a significant part of SJI's business.

Item 1A. Risk Factors

SJI and its subsidiaries operate in an environment that involves risks, many of which are beyond our control. SJI has identified the following risk factors that could cause SJI's operating results and financial condition to be materially adversely affected. Investors should carefully consider these risk factors and should also be aware that this list is not all inclusive of existing risks. In addition, new risks may emerge at any time, and SJI cannot predict those risks or the extent to which they may affect SJI's businesses or financial performance.

¶ SJI is a holding company and its assets consist primarily of investments in subsidiaries. Should SJI's subsidiaries be unable to pay dividends or make other payments to SJI for financial, regulatory, legal or other reasons, SJI's ability to pay dividends on its common stock could be limited. SJI's stock price could be adversely affected as a result.

¶ SJI's business activities are concentrated in southern New Jersey. Changes in the economies of southern New Jersey and surrounding regions could negatively impact the growth opportunities available to SJI and the financial condition of customers and prospects of SJI.

¶ Changes in the regulatory environment or unfavorable rate regulation at its utility may have an unfavorable impact on SJI's financial performance or condition. SJI's utility business is regulated by the New Jersey Board of Public Utilities which has authority over many of the activities of the business including, but not limited to, the rates it charges to its customers, the amount and type of securities it can issue, the nature of investments it can make, the nature and quality of services it provides, safety standards and other matters. The extent to which the actions of regulatory commissions restrict or delay SJI's ability to earn a reasonable rate of return on invested capital and/or fully recover operating costs may adversely affect its results of operations, financial condition and cash flows.

¶ SJI may not be able to respond effectively to competition, which may negatively impact SJI's financial performance or condition. Regulatory initiatives may provide or enhance opportunities for competitors that could reduce utility income obtained from existing or prospective customers. Also, competitors in all of SJI's business lines may be able to provide superior or less costly products or services based upon currently available or newly developed technologies.

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• Warm weather, high commodity costs, or customer conservation initiatives could result in reduced demand for some of SJI's energy products and services. While SJI's utility currently has a conservation incentive program clause that protects its revenues and gross margin against usage per customer that is lower than a set level, the clause is currently approved as a pilot program through 2013. Should this clause expire without replacement, lower customer energy utilization levels would likely reduce SJI's net income.

• High natural gas prices could cause more of SJI's receivables to be uncollectible. Higher levels of uncollectibles from either residential or commercial customers would negatively impact SJI's income and could result in higher working capital requirements.

• SJI's net income could decrease if it is required to incur additional costs to comply with new governmental safety, health or environmental legislation. SJI is subject to extensive and changing federal and state laws and regulations that impact many aspects of its business; including the storage, transportation and distribution of natural gas, as well as the remediation of environmental contamination at former manufactured gas plant facilities.

• Proposed climate change legislation could impact SJI's financial performance and condition. Climate change is receiving ever increasing attention from scientists and legislators alike. The debate is ongoing as to the extent to which our climate is changing, the potential causes of this change and its potential impacts. Some attribute global warming to increased levels of greenhouse gases, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. The outcome of proposed federal and state actions to address global climate change could result in a variety of regulatory programs including additional charges to fund energy efficiency activities or other regulatory actions. These actions could affect the demand for natural gas and electricity, result in increased costs to our business and impact the prices we charge our customers. Because natural gas is a fossil fuel with low carbon content, it is possible that future carbon constraints could create additional demands for natural gas, both for production of electricity and direct use in homes and businesses. Any adoption by federal or state governments mandating a substantial reduction in greenhouse gas emissions could have far-reaching and significant impacts on the energy industry. We cannot predict the potential impact of such laws or regulations on our future consolidated financial condition, results of operations or cash flows.

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SJI's wholesale commodity marketing business is exposed to the risk that counterparties that owe money or energy to SJI will not be able to meet their obligations for operational or financial reasons. SJI could be forced to buy or sell commodity at a loss as a result of such failure. Such a failure, if large enough, could also impact SJI's liquidity.

Increasing interest rates will negatively impact the net income of SJI. Several of SJI's subsidiaries are capital intensive, resulting in the incurrence of significant amounts of debt financing. SJI has issued almost all of its existing long-term debt at fixed rates or has utilized interest rate swaps to mitigate changes in variable rates. However, new issues of long-term debt and all variable rate short-term debt are exposed to the impact of rising interest rates.

SJI has guaranteed certain obligations of unconsolidated affiliates and is exposed to the risk that these affiliates will not be able to meet performance and financial commitments. SJI's unconsolidated affiliates develop and operate on-site energy related projects. SJI has guaranteed certain obligations of these affiliates in connection with the development and operation of the facilities. In the event that these projects do not meet specified levels of operating performance or are unable to meet certain financial obligations as they become due, SJI could be required to make payments related to these obligations.

The inability to obtain capital, particularly short-term capital from commercial banks, could negatively impact the daily operations and financial performance of SJI. SJI uses short-term borrowings under committed and uncommitted credit facilities provided by commercial banks to supplement cash provided by operations, to support working capital needs, and to finance capital expenditures, as incurred. If the customary sources of short-term capital were no longer available due to market conditions, SJI may not be able to meet its working capital and capital expenditure requirements and borrowing costs could increase.

A downgrade in SJG's credit rating could negatively affect its ability to access adequate and cost effective capital. SJG's ability to obtain adequate and cost effective capital depends largely on its credit ratings, which are greatly influenced by financial condition and results of operations. If the rating agencies downgrade SJG's credit ratings, particularly below investment grade, SJG's borrowing costs would increase. In addition, SJG would likely be required to pay higher interest rates in future financings and potential funding sources would likely decrease. To the extent that a decline in SJG's credit rating has a negative effect on SJI, SJI could be required to provide additional support to certain counterparties of the wholesale gas operations.

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Hedging activities of the company designed to protect against commodity price or interest rate risk may cause fluctuations in reported financial results and SJI's stock price could be adversely affected as a result. Although SJI enters into various contracts to hedge the value of energy assets, liabilities, firm commitments or forecasted transactions, the timing of the recognition of gains or losses on these economic hedges in accordance with accounting principles generally accepted in the United States of America does not always match up with the gains or losses on the items being hedged. The difference in accounting can result in volatility in reported results, even though the expected profit margin is essentially unchanged from the dates the transactions were consummated.

The inability to obtain natural gas would negatively impact the financial performance of SJI. Several of SJI's subsidiaries have businesses based upon the ability to deliver natural gas to customers. Disruption in the production of natural gas or transportation of that gas to SJI from its suppliers, could prevent SJI from completing sales to its customers.

Transporting and storing natural gas involves numerous risks that may result in accidents and other operating risks and costs. SJI's gas distribution activities involve a variety of inherent hazards and operating risks, such as leaks, accidents, mechanical problems, natural disasters or terrorist activities which could cause substantial financial losses. In addition, these risks could result in loss of human life, significant damage to property, environmental pollution and impairment of operations, which in turn could lead to substantial losses. In accordance with customary industry practice, SJI maintains insurance against some, but not all, of these risks and losses. The occurrence of any of these events not fully covered by insurance could adversely affect SJI's financial position, results of operations and cash flows.

- Adverse results in legal proceedings could be detrimental to the financial condition of SJI. The outcomes of legal proceedings can be unpredictable and can result in adverse judgments.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The principal property of SJI consists of SJG's gas transmission and distribution systems that include mains, service connections and meters. The transmission facilities carry the gas from the connections with Transco and Columbia to SJG's distribution systems for delivery to customers. As of December 31, 2009, there were approximately 107.3 miles of mains in the transmission systems and 5,867 miles of mains in the distribution systems.

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SJG owns approximately 154 acres of land in Folsom, New Jersey which is the site of SJI's corporate headquarters. Approximately 140 acres of this property is deed restricted. SJG also has office and service buildings at six other locations in the territory. There is a liquefied natural gas storage and vaporization facility at one of these locations.

As of December 31, 2009, SJG's utility plant had a gross book value of \$1.3 billion and a net book value, after accumulated depreciation, of \$961.2 million. In 2009, \$98.7 million was spent on additions to utility plant and there were retirements of property having an aggregate gross book cost of \$7.2 million.

Virtually all of SJG's transmission pipeline, distribution mains and service connections are in streets or highways or on the property of others. The transmission and distribution systems are maintained under franchises or permits or rights-of-way, many of which are perpetual. SJG's properties (other than property specifically excluded) are subject to a lien of mortgage under which its first mortgage bonds are outstanding. We believe these properties are well maintained and in good operating condition.

Nonutility property and equipment with a net book value of \$111.9 million consists primarily of Marina's energy projects, in particular the thermal energy plant in Atlantic City, N.J.

Energy and Minerals Inc. (EMI) owns 235 acres of land in Vineland, New Jersey.

South Jersey Fuel, Inc., an inactive subsidiary, owns land and a building in Deptford Township and owns real estate in Upper Township, New Jersey.

R&T Castellini, Inc., an inactive subsidiary, owns land and buildings in Vineland, New Jersey.

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Item 3. Legal Proceedings

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

Item 4. Submission Of Matters To A Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of the 2009 fiscal year.

Item 4A. Executive Officers of the Registrant

Set forth below are the names, ages and positions of our executive officers along with their business experience during the past five years. All executive officers of SJI are elected annually and serve at the discretion of the Board of Directors. All information is as of the date of the filing of this report.

| Name, age and position with the Company | Period Served |
|---|---------------|
|---|---------------|

| | |
|--------------------------|--|
| Edward J. Graham, Age 52 | |
|--------------------------|--|

| | |
|----------|----------------------|
| Chairman | April 2005 - Present |
|----------|----------------------|

| | |
|-------------------------|-------------------------|
| Chief Executive Officer | February 2004 - Present |
|-------------------------|-------------------------|

| | |
|-----------|------------------------|
| President | January 2003 - Present |
|-----------|------------------------|

| | |
|---------------------------|--|
| David A. Kindlick, Age 55 | |
|---------------------------|--|

| | |
|-------------------------|------------------------|
| Chief Financial Officer | January 2002 - Present |
|-------------------------|------------------------|

| | |
|----------------|---------------------|
| Vice President | June 1997 - Present |
|----------------|---------------------|

| | |
|---------------------------|--|
| Jeffery E. DuBois, Age 51 | |
|---------------------------|--|

| | |
|----------------|------------------------|
| Vice President | January 2004 - Present |
|----------------|------------------------|

| | |
|--------------------------|--|
| Michael J. Renna, Age 42 | |
|--------------------------|--|

| | |
|----------------|------------------------|
| Vice President | January 2004 - Present |
|----------------|------------------------|

| | |
|--------------------------|--|
| Kevin D. Patrick, Age 49 | |
|--------------------------|--|

| | |
|----------------|---------------------|
| Vice President | June 2007 - Present |
|----------------|---------------------|

| | |
|-----------------------|--|
| Albertsons/Super Valu | |
|-----------------------|--|

| | |
|-------------------------------|----------------------------|
| Division CFO – Eastern Region | September 2004 – June 2006 |
|-------------------------------|----------------------------|

| | |
|------------------------------|--|
| Sharon M. Pennington, Age 47 | |
|------------------------------|--|

| | |
|----------------|------------------------|
| Vice President | January 2008 - Present |
|----------------|------------------------|

| | |
|-----------------------------------|------------------------------|
| Vice President (SJI Services LLC) | January 2006 – December 2007 |
|-----------------------------------|------------------------------|

| | |
|--------------------------------|----------------------------|
| Assistant Vice President (SJG) | April 2004 – December 2005 |
|--------------------------------|----------------------------|

| | |
|------------------------------|--|
| Gina M. Merritt-Epps, Age 42 | |
|------------------------------|--|

| | |
|---------------------------------|--------------------|
| Corporate Counsel and Secretary | May 2009 - Present |
|---------------------------------|--------------------|

| | |
|---|----------------------------|
| Assistant General Counsel and Assistant Secretary | December 2007 - April 2009 |
|---|----------------------------|

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Director, Legal Affairs (SJI Services LLC) June 2006 – November 2007

Atlantic County Department of Law

Assistant County Counsel October 2002 – May 2006

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PART II

Item 5. Market for the Registrant's Common Equity,
Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Price of Common Stock and Related Information

| Quarter Ended 2009 | Market Price Per Share | | Dividends Declared Per Share | Quarter Ended 2008 | Market Price Per Share | | Dividends Declared Per Share |
|-----------------------|------------------------|----------|------------------------------------|--------------------------|------------------------|----------|------------------------------------|
| | High | Low | | | High | Low | |
| March 31 | \$ 40.78 | \$ 31.98 | \$ 0.2975 | March 31 | \$ 38.41 | \$ 31.90 | \$ 0.2700 |
| June 30 | \$ 36.20 | \$ 33.04 | \$ 0.2975 | June 30 | \$ 39.36 | \$ 35.31 | \$ 0.2700 |
| September 30 | \$ 37.53 | \$ 33.12 | \$ 0.2975 | September 30 | \$ 38.99 | \$ 33.10 | \$ 0.2700 |
| December 31 | \$ 40.24 | \$ 34.07 | \$ 0.3300 | December 31 | \$ 40.58 | \$ 25.19 | \$ 0.2975 |

These quotations are based on the list of composite transactions of the New York Stock Exchange. Our stock is traded on the New York Stock Exchange under the symbol SJI. We have declared and expect to continue to declare regular quarterly cash dividends. As of December 31, 2009, the latest available date, our records indicate that there were 7,324 shareholders of record.

Stock Performance Graph

The performance graph below illustrates a five year comparison of cumulative total returns based on an initial investment of \$100 in South Jersey Industries, Inc. common stock, as compared with the S&P 500 Stock Index and the S&P Utility Index for the period 2005 through 2009.

This performance chart assumes:

- \$100 invested on December 31, 2004 in South Jersey Industries, Inc. common stock, in the S&P 500 Stock Index and in the S&P Utility Index; and

-

All dividends are reinvested.

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Information required by this item is also found in Note 5 of the consolidated financial statements included under Item 8 of this report.

SJI has a stated goal of increasing its dividend by at least 6% to 7% annually.

In January 2009, non-employee members of SJI's Board of Directors received an aggregate of 9,559 shares of unregistered stock, valued at that time at \$384,893, as part of their compensation for serving on the Board.

Issuer Purchases of Equity Securities

The following table presents information about purchases by SJI of its own common stock during the three months ended December 31, 2009:

| Period | Total Number of Shares Purchased ¹ | Average Price Paid Per Share ¹ | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ² | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs ² |
|---------------|--|---|---|---|
| October 2009 | 29,153 | \$ 35.3972 | - | - |
| November 2009 | 4,740 | \$ 35.6414 | - | - |
| December 2009 | 23,695 | \$ 39.9126 | - | - |
| Total | 57,588 | | - | - |

¹The total number of shares purchased and the average price paid per share represent shares purchased in open market transactions under the South Jersey Industries Dividend Reinvestment Plan (the "DRP") by the administrator of the DRP.

²On September 22, 2008, SJI publicly announced a share repurchase program under which the Company can purchase up to 5% of its currently outstanding common stock over the next four years. As of December 31, 2009, no shares have been purchased under this program.

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Item 6. Selected Financial Data

2009 HIGHLIGHTS

Five-Year Summary of Selected
Financial Data
(In Thousands Where Applicable)

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

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|-------------|-------------|-------------|-------------|-------------|
| Operating Results: | | | | | |
| Operating Revenues | \$845,444 | \$961,977 | \$956,371 | \$931,428 | \$906,016 |
| Operating Income | \$111,110 | \$153,509 | \$129,623 | \$145,802 | \$86,818 |
| Income Attributable to South Jersey Industries, Inc. Shareholders | | | | | |
| Continuing Operations | \$58,532 | \$77,178 | \$62,659 | \$72,250 | \$39,770 |
| Discontinued Operations - Net (1) | (427) | (247) | (391) | (818) | (669) |
| Net Income Applicable to Common Stock | | | | | |
| | \$58,105 | \$76,931 | \$62,268 | \$71,432 | \$39,101 |
| Total Assets | \$1,782,008 | \$1,793,427 | \$1,529,441 | \$1,573,032 | \$1,441,712 |
| Capitalization: | | | | | |
| Equity | \$544,564 | \$516,448 | \$481,520 | \$443,497 | \$394,039 |
| Long-Term Debt | 312,793 | 332,784 | 357,896 | 358,022 | 319,066 |
| Total Capitalization | \$857,357 | \$849,232 | \$839,416 | \$801,519 | \$713,105 |
| Ratio of Operating Income to Fixed Charges (2) | | | | | |
| | 5.9 | x 6.0 | x 4.8 | x 5.3 | x 4.1 |
| Diluted Earnings Per Common Share Attributable to South Jersey Industries, Inc. Shareholders: | | | | | |
| (Based on Average Diluted Shares Outstanding): | | | | | |
| Continuing Operations | \$1.96 | \$2.59 | \$2.12 | \$2.47 | \$1.40 |
| Discontinued Operations - Net (1) | (0.02) | (0.01) | (0.02) | (0.03) | (0.02) |
| Diluted Earnings Per Common Share | \$1.94 | \$2.58 | \$2.10 | \$2.44 | \$1.38 |
| Return on Average Equity (3) | 11.0 % | 15.5 % | 13.3 % | 16.9 % | 12.5 % |
| Share Data: | | | | | |
| Number of Shareholders of Record | 7.3 | 7.5 | 7.7 | 7.9 | 8.1 |
| Average Common Shares | 29,785 | 29,707 | 29,480 | 29,175 | 28,175 |
| | 29,796 | 29,729 | 29,607 | 29,326 | 28,982 |

| Common Shares Outstanding at Year End | | | | | | | | | | |
|---------------------------------------|---------|---|---------|---|---------|---|---------|---|---------|---|
| Dividend Reinvestment Plan: | | | | | | | | | | |
| Number of Shareholders | 5.1 | | 5.1 | | 5.3 | | 5.3 | | 5.3 | |
| Number of Participating Shares | 2,072 | | 2,102 | | 2,179 | | 2,194 | | 2,722 | |
| Book Value at Year End | \$18.28 | | \$17.33 | | \$16.26 | | \$15.12 | | \$13.60 | |
| Dividends Declared per Common Share | \$1.22 | | \$1.11 | | \$1.01 | | \$0.92 | | \$0.86 | |
| Market Price at Year End | \$38.18 | | \$39.85 | | \$36.09 | | \$33.41 | | \$29.14 | |
| Dividend Payout: | | | | | | | | | | |
| From Continuing Operations | 62.2 | % | 42.6 | % | 47.3 | % | 37.2 | % | 60.9 | % |
| From Total Net Income | 62.7 | % | 42.8 | % | 47.6 | % | 37.6 | % | 62.0 | % |
| Market-to-Book Ratio | 2.1 | x | 2.3 | x | 2.2 | x | 2.2 | x | 2.1 | x |
| Price Earnings Ratio (3) | 19.5 | x | 15.4 | x | 17.0 | x | 13.5 | x | 20.8 | x |

(1) Represents discontinued business segments: sand mining and distribution operations sold in 1996 and fuel oil operations with related environmental liabilities in 1986 (See Note 2 to Consolidated Financial Statements).

(2) Calculated as Operating Income divided by Interest Charges.

(3) Calculated based on Income from Continuing Operations.

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Item 7. Management's Discussion and Analysis of Financial Condition and
Results of Operations

OVERVIEW — SJI is an energy services holding company that provides a variety of products and services through the following wholly owned subsidiaries:

South Jersey Gas Company (SJG)

SJG, a New Jersey corporation, is an operating public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also sells natural gas and pipeline transportation capacity (off-system sales) on a wholesale basis to various customers on the interstate pipeline system and transports natural gas purchased directly from producers or suppliers to their customers. SJG contributed approximately 67.5% of SJI's net income on a consolidated basis in 2009.

SJG's service territory covers approximately 2,500 square miles in the southern part of New Jersey. It includes 112 municipalities throughout Atlantic, Cape May, Cumberland and Salem Counties and portions of Burlington, Camden and Gloucester Counties, with an estimated permanent population of 1.2 million. SJG benefits from its proximity to Philadelphia, PA and Wilmington, DE on the western side of its service territory and Atlantic City, NJ and the popular shore communities on the eastern side. Economic development and housing growth have long been driven by the development of the Philadelphia metropolitan area. In recent years, housing growth in the eastern portion of the service territory increased substantially and currently accounts for approximately half of SJG's annual customer growth. Economic growth in Atlantic City and the surrounding region has been primarily driven by new gaming and non-gaming investments that emphasize destination style attractions. While many of these new projects have been suspended or postponed due to the current economic environment, the casino industry is expected to remain a significant source of regional economic development going forward. The ripple effect from Atlantic City typically produces new housing, commercial and industrial construction. Combining with the gaming industry catalyst has been the ongoing conversion of southern New Jersey's oceanfront communities from seasonal resorts to year round economies. New and expanded hospitals, schools, and large scale retail developments throughout the service territory have contributed to SJG's growth. Presently, SJG serves approximately 65% of households within its territory with natural gas. SJG also serves southern New Jersey's diversified industrial base that includes processors of petroleum and agricultural products; chemical, glass and consumer goods manufacturers; and high technology industrial parks.

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As of December 31, 2009, SJG served a total of 343,566 residential, commercial and industrial customers in southern New Jersey, compared with 340,136 customers at December 31, 2008. No material part of SJG's business is dependent upon a single customer or a few customers. Gas sales, transportation and capacity release for 2009 amounted to 98.7 MMdts (million decatherms), of which 51.7 MMdts were firm sales and transportation, 2.3 MMdts were interruptible sales and transportation and 44.7 MMdts were off-system sales and capacity release. The breakdown of firm sales and transportation includes 47.9% residential, 23.2% commercial, 23.9% industrial, and 5.0% cogeneration and electric generation. At year-end 2009, SJG served 320,290 residential customers, 22,802 commercial customers and 474 industrial customers. This includes 2009 net additions of 3,264 residential customers and 166 commercial customers.

SJG makes wholesale gas sales to gas marketers for resale and ultimate delivery to end users. These "off-system" sales are made possible through the issuance of the Federal Energy Regulatory Commission (FERC) Orders No. 547 and 636. Order No. 547 issued a blanket certificate of public convenience and necessity authorizing all parties, which are not interstate pipelines, to make FERC jurisdictional gas sales for resale at negotiated rates, while Order No. 636 allowed SJG to deliver gas at delivery points on the interstate pipeline system other than its own city gate stations and release excess pipeline capacity to third parties. During 2009, off-system sales amounted to 6.3 MMdts and capacity release amounted to 38.4 MMdts.

Supplies of natural gas available to SJG that are in excess of the quantity required by those customers who use gas as their sole source of fuel (firm customers) make possible the sale and transportation of gas on an interruptible basis to commercial and industrial customers whose equipment is capable of using natural gas or other fuels, such as fuel oil and propane. The term "interruptible" is used in the sense that deliveries of natural gas may be terminated by SJG at any time if this action is necessary to meet the needs of higher priority customers as described in SJG's tariffs. In 2009, usage by interruptible customers, excluding off-system customers amounted to 2.3 MMdts, approximately 2.4% of the total throughput.

South Jersey Energy Solutions, LLC

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

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South Jersey Resources Group, LLC (SJRG)

SJRG markets natural gas storage, commodity and transportation assets on a wholesale basis. Customers include energy marketers, electric and gas utilities and natural gas producers. SJRG's marketing activities occur mainly in the mid-Atlantic and southern regions of the country. SJRG also conducts price risk management activities by entering into a variety of physical and financial transactions including forward contracts, swap agreements, option contracts and futures contracts. In 2009, SJRG transacted 193.3 Bcf of natural gas. SJRG contributed approximately 30.7% of SJI's net income on a consolidated basis.

Marina Energy, LLC (Marina)

Marina develops and operates energy-related projects. Marina's largest operating project provides cooling, heating and emergency power to the Borgata Hotel Casino & Spa in Atlantic City, NJ. Marina added service to Borgata's expanded facilities in July 2006 and service to a new hotel tower in June of 2008. Marina also has a 50% equity interest in LVE Energy Partners, LLC which has entered into a contract to design, build, own and operate a district energy system and central energy center for a planned resort in Las Vegas, Nevada.

Marina's other recent projects include 51% equity interests in AC Landfill Energy, LLC (ACLE) and WC Landfill Energy, LLC (WCLE), which operate a total of 9,200 kilowatts of landfill gas-fired electric production facilities, and 50% equity interests in various partnerships that primarily operate landfill gas-fired electric production facilities and solar projects. Marina contributed approximately 7.8% of SJI's net income on a consolidated basis.

South Jersey Energy Company (SJE)

SJE provides services for the acquisition and transportation of natural gas and electricity for retail end users and markets total energy management services. As of December 31, 2009, SJE marketed natural gas and electricity to approximately 13,600 customers, which consist of approximately 65% residential customers and 35% commercial/industrial customers. Most customers served by SJE are located within southern New Jersey, northwestern Pennsylvania and New England. In 2009, SJE incurred a loss which was approximately (7.4%) of SJI's net income on a consolidated basis.

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South Jersey Energy Service Plus, LLC (SJESP)

SJESP installs and services residential and light commercial HVAC systems, provides plumbing services, and services appliances via the sale of appliance service programs as well as on a time and materials basis. SJESP serves southern New Jersey where it is the largest local HVAC service company with nearly 50 experienced, NATE certified technicians and installers. As of December 31, 2009, SJESP had approximately 67,000 service contract customers, representing approximately 157,000 service contracts for the repair and maintenance of major appliances, such as house heaters, water heaters, gas ranges, and electric central air conditioning units. SJESP contributed approximately 1.6% of SJI's net income on a consolidated basis.

Other

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

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

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

Primary Factors Affecting SJI's Business

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

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

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

Customer Growth — Southern New Jersey, our primary area of operations, has not been immune to the issues impacting the new housing market nationally. However, net customers for SJG still grew 1.0% for 2009 as we increased our focus on customer conversions. In 2009, the 3,053 consumers converting their homes and businesses from other heating fuels, such as electric, propane or oil represented over 50% of the total new customer acquisitions for the year. In comparison, conversions over the past five years averaged 2,274 annually. Customers in our service territory typically base their decisions to convert on comparisons of fuel costs, environmental considerations and efficiencies. As such, SJG began a comprehensive partnership with the State's Office of Clean Energy to educate consumers on energy efficiency and to promote the rebates and incentives available to natural gas users.

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

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

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

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

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

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Labor and Benefit Costs — Labor and benefit costs have a significant impact on SJI’s profitability. Benefit costs, especially those related to pension and health care, have risen in recent years. We sought to manage these costs by revising health care plans offered to existing employees, capping postretirement health care benefits, and changing health care and pension packages offered to new hires. We expect savings from these changes to gradually increase as new hires replace retiring employees. Our workforce totaled 617 employees at the end of 2009, of which 53.8% of that total are under collective bargaining agreements.

Balance Sheet Strength — Our goal is to maintain a strong balance sheet with an average annual equity-to-capitalization ratio of 50%. Our equity-to-capitalization ratio, inclusive of short-term debt, was 50.0% and 47.5% at the end of 2009 and 2008, respectively. A strong balance sheet permits us to maintain the financial flexibility necessary to take advantage of growth opportunities and to address volatile economic and commodity markets while maintaining a low-to-moderate risk platform.

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

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

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

In addition to the BGSS and the CIP, other regulatory assets consist primarily of remediation costs associated with manufactured gas plant sites (discussed below under Environmental Remediation Costs), deferred pension and other postretirement benefit cost, and several other assets as detailed in Note 10 to the consolidated financial statements. If there are changes in future regulatory positions that indicate the recovery of such regulatory assets is not probable, SJG would charge the related cost to earnings. Currently there are no such anticipated changes at the BPU.

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Derivatives — SJI recognizes assets or liabilities for contracts that qualify as derivatives that are entered into by its subsidiaries when contracts are executed. We record contracts at their fair value in accordance with FASB ASC Topic 815 – “Derivatives and Hedging.” We record changes in the fair value of the effective portion of derivatives qualifying as cash flow hedges, net of tax, in Accumulated Other Comprehensive Loss and recognize such changes in the income statement when the hedged item affects earnings. Changes in the fair value of derivatives not designated as hedges are recorded in earnings in the current period. In 2007, we changed our policy to no longer designate energy-related derivative instruments as cash flow hedges. Certain derivatives that result in the physical delivery of the commodity may meet the criteria to be accounted for as normal purchases and normal sales if so designated, in which case the contract is not marked-to-market, but rather is accounted for when the commodity is delivered. Due to the application of regulatory accounting principles under GAAP, derivatives related to SJG’s gas purchases that are marked-to-market, are recorded through the BGSS. SJG occasionally enters into financial derivatives to hedge against forward price risk. These derivatives are recorded at fair value with an offset to regulatory assets and liabilities through SJG’s BGSS, subject to BPU approval (See Notes 9 and 10 to the consolidated financial statements). We adjust the fair value of the contracts each reporting period for changes in the market. As discussed in Note 15 of the consolidated financial statements, energy-related derivative instruments are traded in both exchange-based and non-exchange-based markets. Exchange-based contracts are valued using unadjusted quoted market sources in active markets and are categorized in Level 1 in the fair value hierarchy established by FASB ASC Topic 820 – “Fair Value Measurements and Disclosures.” Certain non-exchange-based contracts are valued using indicative non-binding price quotations available through brokers or from over-the-counter, on-line exchanges and are categorized in Level 2. These price quotations reflect the average of the bid-ask mid-point prices and are obtained from sources that management believes provide the most liquid market. Management reviews and corroborates the price quotations with at least one additional source to ensure the prices are observable market information, which includes consideration of actual transaction volumes, market delivery points, bid-ask spreads and contract duration. Derivative instruments that are used to limit our exposure to changes in interest rates on variable-rate, long-term debt are valued using quoted prices on commonly quoted intervals, which are interpolated for periods different than the quoted intervals, as inputs to a market valuation model. Market inputs can generally be verified and model selection does not involve significant management judgment, as a result, these instruments are categorized in Level 2 in the fair value hierarchy. For non-exchange-based derivatives that trade in less liquid markets with limited pricing information, model inputs generally would include both observable and unobservable inputs. In instances where observable data is unavailable, management considers the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 in the fair value hierarchy as the model inputs generally are not observable. Counterparty credit risk, and the credit risk of SJI, is incorporated and considered in the valuation of all derivative instruments as appropriate. The effect of counterparty credit risk and the credit risk of SJI on the derivative valuations is not significant.

Environmental Remediation Costs —We estimate a range of future costs based on projected investigation and work plans using existing technologies. In preparing consolidated financial statements, SJI records liabilities for future costs using the lower end of the range of future costs because a single reliable estimation point is not feasible due to the amount of uncertainty involved in the nature of projected remediation efforts and the long period over which remediation efforts will continue. We update estimates each year to take into account past efforts, changes in work plans, remediation technologies, government regulations and site specific requirements (See Note 14 to the consolidated financial statements).

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Pension and Other Postretirement Benefit Costs — The costs of providing pension and other postretirement employee benefits are impacted by actual plan experience as well as assumptions of future experience. Employee demographics, plan contributions, investment performance, and assumptions concerning mortality, return on plan assets, discount rates and health care cost trends all have a significant impact on determining our projected benefit obligations. We evaluate these assumptions annually and adjust them accordingly. These adjustments could result in significant changes to the net periodic benefit costs of providing such benefits and the related liabilities recognized by SJI. In 2008, a 32 basis point increase in the discount rate, higher than expected returns on plan assets during 2007, and a pension contribution in the first quarter of 2008 reduced such benefit costs in 2008. While the discount rate and expected return on plan assets both decreased slightly in the determination of the 2009 benefit costs, the primary cost driver in 2009 was the erosion of plan assets during 2008. As evidenced by the tables in Note 11, “Pension and Other Postretirement Benefits”, the declines in the equity markets during 2008 resulted in significant unrealized losses in the assets of the plans. Such losses caused the 2009 cost of providing such benefits to more than double.

The recognition of the unrealized losses originating in 2008 over the average remaining service period of active plan participants will continue to cause the cost of providing such plans to remain relatively high in 2010. While additional pension contributions and improvements in equity markets during 2009 should partially offset this increase, a 50 basis point decrease in the expected return on plan assets in 2010 will mitigate that benefit.

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

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

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

The BPU allows SJG to recover gas costs in rates through the Basic Gas Supply Service (BGSS) price structure. SJG defers over/under recoveries of gas costs and includes them in subsequent adjustments to the BGSS rate. These adjustments result in over/under recoveries of gas costs being included in rates during future periods. As a result of these deferrals, utility revenue recognition does not directly translate to profitability. While SJG realizes profits on gas sales during the month of providing the utility service, significant shifts in revenue recognition may result from the various recovery clauses approved by the BPU. This revenue recognition process does not shift earnings between periods, as these clauses only provide for cost recovery on a dollar-for-dollar basis (See Notes 9 and 10 to the consolidated financial statements).

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

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

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

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

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

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

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