

SJI Analyst Day Presentation

*Atlantic City
October 6, 2011*



For additional information, please contact:

Stephen H. Clark - Treasurer
South Jersey Industries, Inc.
(609) 561-9000 X4260
sclark@sjindustries.com

Ann T. Anthony - Director, Finance & Investor Relations
South Jersey Industries, Inc.
(609) 561-9000 X4143
aanthony@sjindustries.com

South Jersey Industries

“Improvise, Adapt, Overcome”



2006 Analyst Conference

Goals

- Average annual EPS growth of 6-7%
- 3-6% annual dividend improvements
- Execute from low-to-moderate risk platform



2011 Analyst Conference

Goals

- Average annual economic earnings per share growth of at least 6-7%
 - ✓ *2011 Guidance Target of 9-15%*
- Increase the annual dividend by at least 6-7%
 - ✓ *Target 50-60% payout ratio*
- Execute from low-to-moderate risk platform



2006 Analyst Conference

2006 - Environment at Our Utility

- The impact of significantly declining customer utilization rates due to:
 - ✓ *Energy efficient new homes and appliances*
 - ✓ *High commodity prices*
- In October 2006, SJG implemented decoupling through the CIP



2006 Analyst Conference

2006 - Environment At Our Non-Utility Businesses

- Development in Atlantic City was booming
 - ✓ *Multiple major casino projects were announced with SJI planning large-scale plants to serve those facilities*
- As the recession hit, SJI shifted to focus on renewable energy projects, particularly in landfills and solar



2006 Analyst Conference

2006 - Environment At Our Non-Utility Businesses

- Wholesale marketing was very lucrative:
 - ✓ *Gas supplies to the northeast came predominantly from the south*
 - ✓ *Summer /winter price differential was wide*
 - ✓ *Amaranth collapse expanded margins in the out years*

- As storage spreads thinned and the value of transportation assets became depressed, SJRG shifted focus to increasing capacity in, and to, the Northeast



South Jersey Industries

	Net Income 2006 (\$000's)	Net Income 2010 (\$000's)	Net Income 5 Year Growth Rate
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SJI Consolidated

Forecast*	\$54,380	\$69,322	7%
Actual	\$54,036	\$80,983	11%

* SJI Base 5 Year Plan - 2005



2011 Analyst Conference

2011 - Environment at our Utility Business

- Commodity prices are at the lowest point in the last decade/supply is at highest level ever
- Transmission and distribution system safety is highest priority of state and federal regulators
- Economy has dramatically reduced new housing development



2011 Analyst Conference

2011 - Environment at our Non-Utility Businesses

- Economic downturn has reduced demand for large scale thermal projects
- Gas marketing has undergone an evolutionary change



Key Drivers for SJI's Future

- Government focus on energy efficiency and infrastructure development
- Utility plant growth through routine and safety-related CAPEX
- Direction of NJ's Energy Master Plan and national energy policy
- Ramifications of the Marcellus



Utility Plant Growth

- Five-year average spend on non-revenue producing plant has been \$25-\$30 million
 - ✓ *Requires base rate case for recovery*
- Average annual CIRT expenditures have been \$50 million
 - ✓ *We plan to continue this level of CIRT expenditure*



NJ Energy Master Plan

- Updated by Governor Christie in 2011
- SJI was an active participant in setting plan priorities
- Renewable energy sources and efficiency initiatives retain an important role
- Natural gas is now a focus and the fuel of choice



Marcellus Shale

- Game Changer

- ✓ *PA is the "Saudi Arabia" of natural gas*
- ✓ *Latest estimates range from 43 TCF to 144.1 TCF of recoverable gas reserves*
- ✓ *Extraction technology is advancing rapidly*



SJG Agenda

- SJG Quick Facts
- Key Performance Drivers
- Regulatory Strategy
- Projected Financial Performance



SJG Service Area



SJG Service Area

- Serve the 7 Southern-most counties of New Jersey
- 350,000 customers
 - ✓ 93% Residential
 - ✓ 7% Commercial/Industrial
- 1.2% Customer Growth in 2010
- 65% Market Share
- System:
 - ✓ 122 Miles Transmission
 - ✓ 6,010 Miles Distribution



SJG Historic Performance

	Net Income 2006 (\$000's)	Net Income 2010 (\$000's)	Net Income 5 Year Growth Rate
South Jersey Gas Company			
Forecast*	\$34,686	\$42,841	4%
Actual	\$35,838	\$43,924	5%

* SJI Base 5 Year Plan - 2005



Energy Master Plan

- Natural Gas is the centerpiece
 - ✓ Marcellus Shale will create a long term supply
- Plan creates opportunities for SJG
 - ✓ CHP and gas-fired generation
 - ✓ Conversions from other fuel sources
 - ✓ Infrastructure expansion/replacement
 - ✓ Energy Efficiency Investments
 - ✓ CNG infrastructure



Pipeline Safety

- Significant events over the past year have impacted the national focus on pipeline safety
- SJG is very involved in the discussion
- New Jersey's pipeline safety rules are more comprehensive than current Federal rules
- SJG is ahead of current requirements and we are in good position relative to expected changes in Federal rules



Capital Investment Recovery Tracker



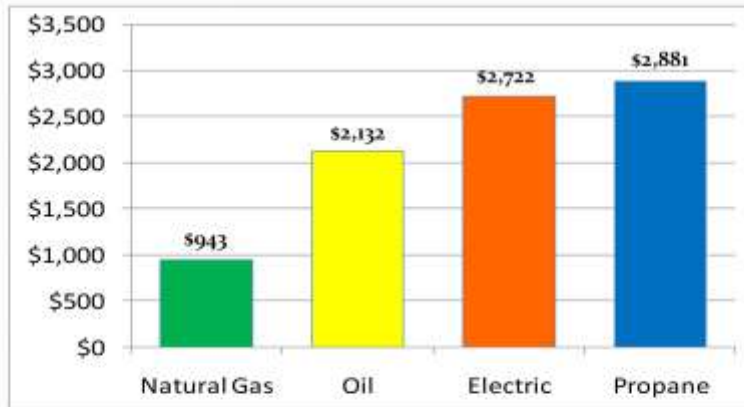
- More than \$150 million invested over past 3 years
- 120 miles of bare steel & cast iron main replaced
- Proposing to replace all remaining bare steel & cast iron main over 10 years
- Investment of \$50 million per year
- Will be seeking recovery in line with existing CIRT



Historical Customer Growth



Fuel Price Comparison



Annual commodity cost for a typical residential heating customer



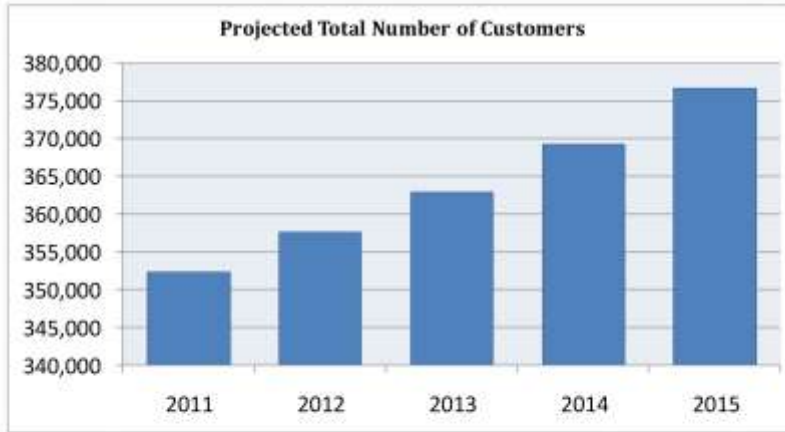
Conversion Opportunities



- 150,000 Conversion Opportunities
 - ✓ 40,000 on or near main
 - ✓ 110,000 canvassing
- Fuel Mix
 - ✓ 77% oil
 - ✓ 19% electric
 - ✓ 4% propane
- 20,000 conversions targeted over the next 5 years
- \$6 million incremental net income by 2015



Projected Customer Growth



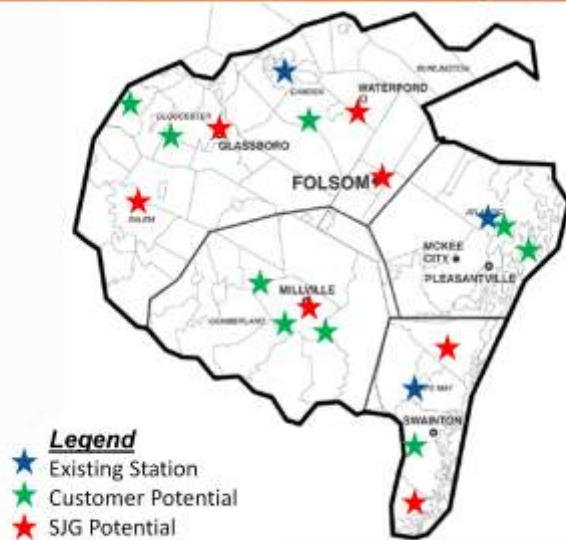
CNG as a Transportation Fuel



- The economics work
 - ✓ Fuel savings of \$1.50-2.00 per GGE
- Abundant supply should create stable pricing
- Reduces greenhouse gases
- Domestic supply supports national energy security
- Supports NJ Energy Master Plan objectives
- Increasing customer interest



CNG Infrastructure Expansion



CNG Financial Benefits - 2015



- SJG Fueling Stations - \$11M investment
 - ✓ \$600K annual net income
- Sales to third party vehicles/stations
 - ✓ \$200-300K annual net income
- SJG Fleet Conversion - \$400K fuel cost reduction by 2015
- Loan/incentive programs - TBD



Energy Efficiency

- Conservation Incentive Program (CIP)
 - ✓ *Saved customers \$219 million in energy costs*
- Energy Efficiency Tracker
 - ✓ *Investing \$17 million to promote customer energy efficiency improvements*
- Future investments will support Energy Master Plan objectives



Regulatory Strategy

- CIRT extension
- Rate case strategy
- Energy efficiency programs
 - ✓ *CIP/EET*
- New initiatives
 - ✓ *CNG*



Base Rate Case

- Completed last case in September 2010
- \$50-\$55M annual CAPEX could potentially produce a rate case every 4 years
- Generic value analysis
 - ✓ Gives no consideration to other potential regulatory issues (positive or negative)



Rate Case Valuation Methodology

	Rate Case
Minimum Capital Investment (non- CIRT)	\$200M
X Non-Revenue Plant	50.0%
X Equity/Cap Ratio	51.2%
X Current ROE	10.3%
Estimated Incremental Annual Net Income Benefit	<u>\$5.3M</u>

**Generic value analysis. Gives no consideration to other potential regulatory issues (positive or negative).*



SJG Financial Summary

- Annual net income growth 2006-2010 **5%**
- Targeted annual net income growth 2011-2015 **Up to 12%**
- Key Financial Drivers
 - ✓ *CIRT contributes \$2 - \$3 million annually*
 - ✓ *Customer Growth contributes \$2 - \$3 million annually*
 - ✓ *Future Base Rate Case contributes \$5 - \$7 million*

Note: 2011 includes incremental \$7.5 million from rate case impact



South Jersey Industries

Questions on
South Jersey Gas?



SJES Agenda

- SJES Highlights
- Historical Performance
- Key External Drivers
- Key Financial Drivers
- Projected Financial Performance



Non-Utility Highlights

- Consistent - Focus on energy
- Diverse - Multiple products and services
- Stable - Projects target annuity-like income streams
- Agile - Lean with cross-functional expertise
- Deep - Robust queue of future opportunities



South Jersey Energy Solutions

	Net Income 2006 (\$000's)	Net Income 2010 (\$000's)	Net Income 5 Year Growth Rate
Non-Utility			
Forecast*	\$19,694	\$26,481	13%
Actual	\$18,198	\$37,059	21%

* SJI Base 5 Year Plan - 2005



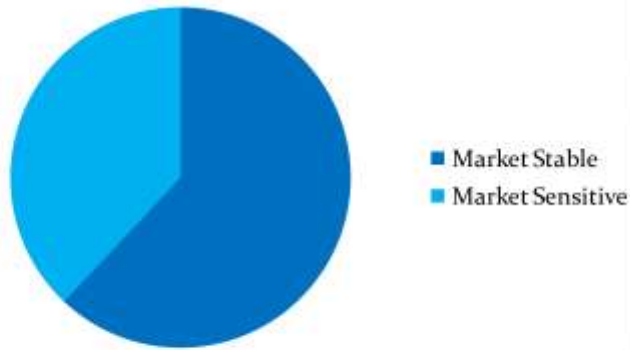
South Jersey Energy Solutions

	Net Income 2006 (\$000's)	Net Income 2010 (\$000's)	Net Income 5 Year Growth Rate
Non-Utility - Actual			
Wholesale	\$12,607	\$21,218	13%
Retail	\$5,591	\$15,841	25%
Total	\$18,198	\$37,059	21%



SJES Business Structure

Targeted 2015 Earnings Contribution



SJE/SJESP Strategy

Focus on:

- Markets and segments where our 'Brand' can be competitive
- Target underserved markets- e.g. small commercial, food processing, etc
- Diligently manage risk
- Maximizing operational efficiency
- Leveraging strategic partnerships
- Remaining agile
 - ✓ Consider all actions necessary to better compete (*HomeServe deal*)
- Targeted growth of 10% per year



SJE/SJESP Strategy

HomeServe Partnership:

- Stabilize and reposition business in a struggling industry
- Benefits:
 - ✓ Provides scale to grow customer base
 - ✓ Commission on new and renewing contracts
 - ✓ Fixed job rate covering direct and indirect expenses
 - ✓ Right-sizing workforce and improved productivity



SJE/SJESP Strategy

Targeting 10 % Annual Growth from:

- Repositioning of SJESP
- Growth in base retail markets of NJ and PA
- Geographic expansion



Marina/Energenic Strategy

Energy project business is focused on:

- End-user solutions producing cost savings and operating efficiencies
- Producing equity returns in 18-30% range
- Annuity-like returns over a long term



Marina/Energenic Strategy

- Leverage opportunities in CHP
 - ✓ *Cogen and district energy poised for growth due to growing supply and emphasis on natural gas based solutions*
- Bullish on solar despite pull back of SREC prices



Marina/Energenic – Solar Projects

- Key business drivers:
 - ✓ *ITC*
 - ✓ *Accelerated depreciation*
 - ✓ *SREC's*
- Narrowed target market:
 - ✓ *1-6 MW*
 - ✓ *Low cost interconnect*
 - ✓ *Cost per KW at or below \$4200/KW*



Solar Project Income Statement

ABC Energy Partners
 Solar Pro Forma Analysis
 Income Statement
 (All Amounts in \$000 Unless
 Noted)

Project Year Fiscal Year	1 2012	2 2013	3 2014	4 2015	5 2016	Average 2017 - 2026
Total Revenue	\$ 1,478	\$ 1,485	\$ 1,492	\$ 1,498	\$ 1,505	1,547
less: Cost of Goods Sold	\$ -	\$ -	\$ -	\$ -	\$ -	-
Gross Profit	\$1,478	\$1,485	\$1,492	\$1,498	\$1,505	\$1,547
less: Expenses	\$35	\$34	\$34	\$35	\$36	40
EBITDA	\$1,445	\$1,451	\$1,457	\$1,463	\$1,470	\$1,507
less: Interest	\$375	\$361	\$345	\$329	\$318	178
less: Book D&A	\$667	\$667	\$667	\$667	\$667	667
Pre-Tax Earnings	\$404	\$424	\$445	\$468	\$492	\$663
less: Taxes	\$165	\$173	\$182	\$191	\$201	271
plus: Investment Tax Credit	\$3,000	\$0	\$0	\$0	\$0	-
Net Book Income	\$3,239	\$251	\$263	\$277	\$291	\$392



Solar Project Cash Flow

ABC Energy Partners
 Solar Pro Forma Analysis
 Cash Flow Statement
 (All Amounts in \$000 Unless Noted)

Project Year	1	2	3	4	5	Average
Fiscal Year	2012	2013	2014	2015	2016	2017 - 2026
EBITDA	\$1,445	\$1,451	\$1,457	\$1,463	\$1,470	\$1,504
DEBT						
Interest	\$175	\$261	\$345	\$329	\$301	\$178
Principal	\$891	\$206	\$221	\$128	\$156	\$189
Total Debt Payment	\$966	\$966	\$966	\$966	\$966	\$966
PRE TAX CASH	\$879	\$885	\$891	\$897	\$903	\$937
EBITDA	\$1,445	\$1,451	\$1,457	\$1,463	\$1,470	\$1,504
Less Interest	\$175	\$261	\$345	\$329	\$301	\$178
Less Tax D&A	\$5,100	\$1,360	\$816	\$490	\$490	\$24
Taxable Cash	(\$4,090)	(\$269)	\$296	\$645	\$669	\$1,302
Tax on Cash	(\$1,646)	(\$100)	\$121	\$264	\$273	\$532
Investment Tax Credit	\$ 3,000	\$ -	\$ -	\$ -	\$ -	\$ -
AFTER TAX CASH	\$5,525	\$995	\$770	\$633	\$630	\$406
CUMULATIVE CASH	\$5,525	\$6,520	\$7,290	\$7,923	\$8,553	



Marina/Energenic – CHP/Thermal

- Key business drivers –
 - ✓ *ITC/Accelerated depreciation*
 - ✓ *Long-term capacity payments*
 - ✓ *Low cost fuel source*
 - ✓ *Pass through of variable expenses e.g. O&M, fuel*

- Project economics work without subsidies



District Energy Income Statement

XYZ Energy Partners
 CUP With Cogen Pro Forma Analysis
 Income Statement
 (All Amounts in 000 Unless Noted)

Project Year	1	2	3	4	5	Average
Fiscal Year	2012	2013	2014	2015	2016	2017 - 2026
Total Revenue	\$33,148	\$33,882	\$34,634	\$35,405	\$36,195	\$41,001
less: Cost of Goods Sold	\$14,629	\$14,995	\$15,370	\$15,754	\$16,148	\$18,544
Gross Profit	\$18,519	\$18,887	\$19,264	\$19,650	\$20,047	\$22,458
less: Expenses	\$11,775	\$12,038	\$12,306	\$12,582	\$12,864	\$14,582
EBITDA	\$6,743	\$6,849	\$6,957	\$7,068	\$7,182	\$7,875
less: Interest	\$2,633	\$2,571	\$2,505	\$2,433	\$2,356	\$1,777
less: Book D&A	\$2,572	\$2,572	\$2,572	\$2,572	\$2,572	\$2,572
Pre-Tax Earnings	\$1,539	\$1,706	\$1,881	\$2,063	\$2,254	\$3,527
less: Taxes	\$614	\$680	\$750	\$823	\$899	\$1,406
plus: Investment Tax Credit	\$2,528	\$0	\$0	\$0	\$0	\$0
Net Book Income	\$3,454	\$1,026	\$1,131	\$1,241	\$1,355	\$2,121



District Energy Cashflow

Cash Flow Statement
(All Amounts in \$000 Unless Noted)

Project Year Fiscal Year	1 2012	2 2013	3 2014	4 2015	5 2016	Average 2017 - 2026
EBITDA	\$6,743	\$6,849	\$6,957	\$7,068	\$7,182	\$7,875
DEBT						
Interest	\$2,633	\$2,571	\$2,505	\$2,433	\$2,356	\$1,777
Principal	\$798	\$860	\$926	\$998	\$1,075	\$1,554
Total Debt Payment	\$3,431	\$3,431	\$3,431	\$3,431	\$3,431	\$3,431
PRE TAX CASH	\$3,312	\$3,418	\$3,526	\$3,637	\$3,751	\$4,444
EBITDA	\$6,743	\$6,849	\$6,957	\$7,068	\$7,182	\$7,875
Less Interest	\$2,633	\$2,571	\$2,505	\$2,433	\$2,356	\$1,777
Less Tax D&A	\$5,795	\$9,555	\$6,343	\$4,255	\$4,145	\$1,320
Taxable Cash	(\$1,085)	(\$5,277)	(\$1,891)	\$380	\$681	\$4,778
Tax on Cash	(\$672)	(\$2,104)	(\$754)	\$152	\$271	\$1,906
Investment Tax Credit	\$2,528	\$0	\$0	\$0	\$0	\$0
AFTER TAX CASH	\$6,512	\$5,522	\$4,280	\$3,486	\$4,355	\$2,539
CUMULATIVE CASH	\$6,512	\$12,035	\$16,315	\$19,801	\$21,156	



Operating Retail Energy Facilities As Of 9/30/2011

Project	Operator	Project Type	Total Investment	SJI Investment	Ownership	Ops Date	Contract Term
Stockton	SJI	Solar (1.2MW)	\$9.9M	\$9.9M	100%	2009	20 Years
McKee City Phase 1	SJI	Solar (0.7MW)	\$4.0M	\$4.0M	100%	2009	15 Years
Pleasantville Phase 1	SJI	Solar (2.3MW)	\$13.2M	\$2.3M	100%	2010	15 Years
Pleasantville Phase 2	SJI	Solar (1.7MW)	\$9.5M	\$2.2M	100%	2011	15 Years
Seabrook Phase 1	Energenic	Solar (3.2MW)	\$18.7M	\$3.8M	50%	2010	15 Years
New Brunswick	Energenic	Solar (2.2MW)	\$18.0M	\$1.0M	50%	2010	15 Years
MUA Phase 1	SJI	Solar (.75MW)	\$4.3M	\$0.9M	100%	2011	15 Years
MUA Phase 2	SJI	Solar (.53MW)	\$2.8M	\$0.6M	100%	2011	15 Years

**SJI has 50% interest in all Energenic projects*



Announced Retail Energy Projects As Of 9/30/2011

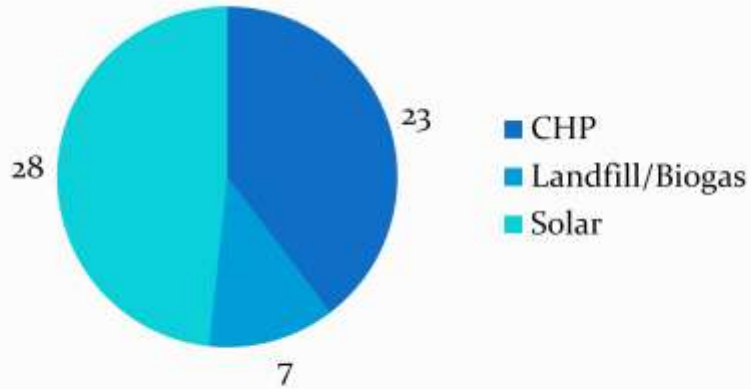
Project	Operator	Project Type	Total Investment	Net Equity Investment	Debt/RGGI Loans	ITC/Grants/Other*	Operational Date
McKee City Phase 2	SJI	Solar (2.5MW)	\$15.7M	\$1.6M	\$9.4M	\$4.7M	2011/2012
APEX/CCLE	Energenic	Landfill Gas (11MW)	\$31.7M	\$7.9M	\$14.3M	\$9.5M	2011
ACR District Energy Facility	Energenic	Thermal	\$157.3M	\$39.3M	\$118.0M	\$0.0M	2012

*SJI has 50% interest in all Energenic projects



Marina/Energenic Project Pipeline

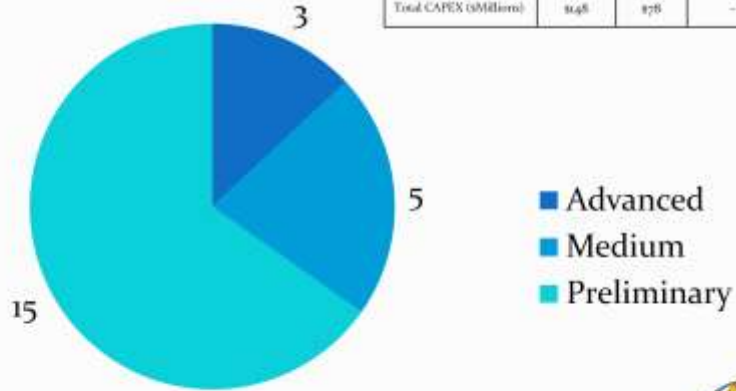
Total Project Pipeline



Marina/Energenic Project Pipeline

- Project Pipeline: CHP

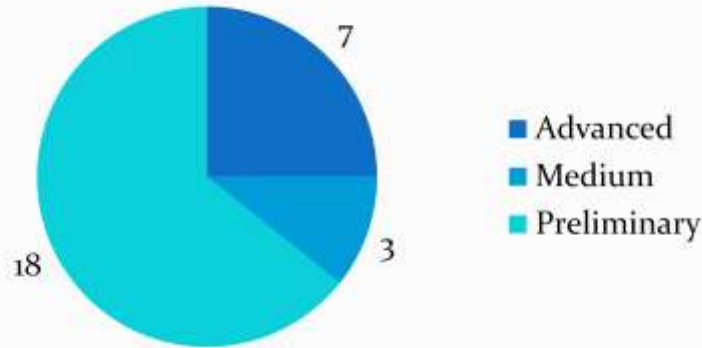
	Advanced	Medium	Preliminary
#Projects	3	5	15
Capacity (MW)	24.5	21.5	-
Total CAPEX (\$Million)	848	878	-



Marina/Energenic Project Pipeline

- Project Pipeline: Solar

	Advanced	Medium	Preliminary
#Projects	7	3	18
Capacity (MW)	5.9	8.4	-
Total CAPEX (\$Million)	427.6	562.6	-



Marina/Energenic Strategy

- Annual growth goals:
 - ✓ 1-2 mid/large scale CHP projects through 2015
 - ✓ 4-5 solar projects, through 2016, within defined target market
 - ✓ Energy services and landfill-gas-to-electric



SJRG Strategy

- Wholesale business is focused on:
 - ✓ *Continuing to extract max value from traditional storage and transportation assets*
- Aggressively seek new marketing partners in Marcellus
 - ✓ *Portfolio approach of short and long-term deals*
 - ✓ *Diversity of revenue streams and risk*
- Redeploy capital from Potato Creek lease and sale to acquire additional acreage throughout Marcellus
- Leverage expertise to create new relationships and investment opportunities across continuum



SJRG Strategy

Targeted Earnings Contribution Shift

	<u>2010</u>	<u>2015</u>
Marketing	16%	50%
Storage/Transportation	75%	20%
Generation Sales	5%	13%
Royalty Program - SJX	4%	17%



Marcellus Shale Opportunities

Producer marketing:

- Mix of long and short-term deals
 - ✓ *700,000 dt's/day under long-term contract*
- Mix of assets, expertise and reputation
- Relationships with major producers



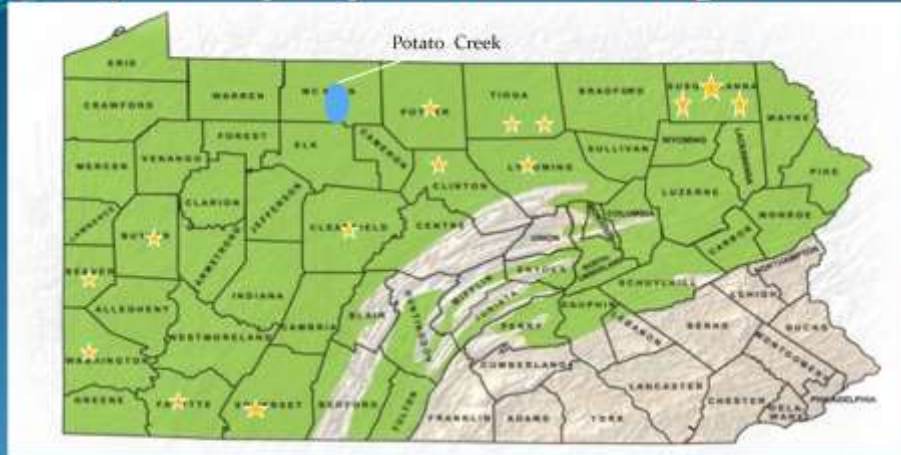
Marcellus Shale Opportunities

Royalty Purchase Program:

- Used Potato Creek proceeds to purchase royalty rights
- Future revenue associated with production without risk and capital associated with drilling
- Diversify acreage across more counties
- New marketing opportunities



SJES Royalty Purchase Program



■ Marcellus Shale Formation

★ SJES Investment in surface and mineral rights



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Marcellus Royalty Investment

Proceeds

Lease Bonus	\$ 7.5MM
Sale of Working Interest	<u>\$10.0MM</u>
Total Proceeds	\$17.5MM

Investments

	<u>Acres</u>	<u>Total Cost</u>	<u>Royalty %</u>
Potato Creek	21,500	\$ 2.6 MM	3.0%
Phase I Royalty Purchase	2,100	\$ 5.4 MM	14.5%
Phase II Royalty Purchase*	4,200	<u>\$10.0 MM</u>	14.5%
Total Cost		\$18.0 MM	

* Proposed



Marcellus Royalty Investment

	Potato Creek	Acquired Acreage	Projected Acreage to be Acquired
Acres	21,500	2,100	4,200
Royalty Percentage	3%	14.5%	14.5%
Net Acres	630	305	609
MCF per Acre	37,500	37,500	37,500
Forecasted Production (BCF)	23.6	9.8	20.5
Unit Revenue	\$4.50	\$4.50	\$4.50
Gross Income (in millions)	\$106.2	\$44.1	\$92.3
SJI Investment (in millions)	\$2.6	\$5.4	\$10.0

SJI's net cash deployed = \$500K!



Marcellus Shale Opportunities

Merchant Generation

- Provides outlet for growing Marcellus production
- Off-take for generation is critical to financing generation projects
- Opportunity for marketers like SJRG to match producers with generators
 - ✓ *Commodity is a pass-through*



SJES Summary

Annual Growth Goal - Up to 10%

- SJES/SJESP- HomeServe transaction and geographic expansion
- Marina- Increased opportunity for solar and CHP development, annuity like earnings, strong project queue
- SJRG- Diversified Marcellus strategy, long-term producer contracts, royalty purchase program



South Jersey Industries

Questions on
South Jersey Energy Solutions?



SJI – Financial Capability

Ready access to debt capital

- Revolver refreshed in 2011
 - ✓ SJI - \$300M
 - ✓ SJG- \$200M
 - ✓ Both are for 4 years
- SJG established Commercial Paper program
- SJG renewing Medium Term Note Program
 - ✓ Ability to issue public and private debt
- Project financing used for larger non-utility energy projects



Current Debt Maturities

	Amount Outstanding	2012	2013	2014	2015	2016 & Beyond
South Jersey Gas Company **	\$400.0	\$2.2	\$27.2	\$23.2	\$12.1	\$335.3
South Jersey Industries	\$ 61.4	\$ -	\$ -	\$ -	\$ -	\$ 61.4
Total SJI Consolidated	\$461.4	\$2.2	\$27.2	\$23.2	\$12.1	\$396.7

** Includes \$35M private placement to be drawn April 2012



SJI – Financial Capability

Ready access to equity capital

- Utilize the Dividend Reinvestment Plan (DRiP)
 - ✓ Reopened optional cash investment feature as new issue
 - ✓ Historically used to balance equity/capitalization ratio
 - ✓ On average, plan expected to raise \$8-\$10 million per year via DRiP
- SJI target remains to average 50% equity/cap ratio



What should this mean for SJI?

- The Marcellus and the Energy Master Plan creates demand that aligns with our products and expertise
- Infrastructure investments driven by pipeline safety and utility plant
- Increased demand should equal growing profits



What should this mean for SJI?

- More demand for utility to expand its capacity to deliver gas
- More demand for the energy projects we specialize in building
- More demand to purchase natural gas
- More need for an energy consultant



South Jersey Industries

SJI Earnings Growth Targets

	Net Income 2010 (\$000's)	Net Income 5 Year Growth Rate
Utility	\$43,926	Up to 12%
Non-Utility	\$37,059	Up to 10%
SJI Consolidated	\$80,983	6 - 7%

SJG remains the primary contributor to SJI's earnings