

FINAL TRANSCRIPT

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SJI - South Jersey Industries Inc Analyst Presentation

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Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

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PRESENTATION

Ed Graham - *South Jersey Industries Inc. - Chairman, President, CEO*

Good morning, everybody. I guess we're about ready to get started. First of all, it looks like we got most people back from last night, so that's a good sign. We didn't lose them at the gaming tables. I do want to welcome everyone, in particular those that I didn't get to talk to last night. Also welcome everyone on the web that's also participating or following the presentation as well.

The last time we had an investor conference was five years ago about this time. And looking back on the last five years, quite a bit's happened. Obviously more recently some real challenging economic times. But I think year-over-year today that although challenging, it presented itself with a number of opportunities for South Jersey Industries that we capitalized on.

In fact, I think as we look forward, we feel that in a tough economic time we've got more opportunities than we could imagine. And I think that bodes well because if you look forward, I think as the economy, and it will recover at some point in the future, that'll just be additive to what we think is a pretty bright growth story.

So, at this time -- oh, before I do, I think they only let me have one part of the speech and that's to do the Safe Harbor language. So, they've assigned me my role and then they tell me to sit down and stay out of the way. So, with that, we will make a number of forward-looking statements. I think you'll get a sense of where we are going directionally. We're focusing on at least the next

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

five years what we have planned. And of course these are just our expectations of what might happen, but we're not guaranteeing future results.

I also do want to highlight that we are today reiterating our guidance of growing 2011 by 9% to 15%. And we continue to have our long term target beyond 2011 of at least 6% to 7% growth rate. And Steve already cautioned me to make sure that people don't start adding up all the positive stories and turn us into a 15% growth rate for the next five years. Although we hope that may happen.

Kind of the agenda for today is Dave will come up, Kindlick, our CFO, talk a little bit about some of the things that we had thought might happen starting in 2006 over the last five years and actually how presented with different opportunities we capitalize on them over the last several years in particular. And that's led us to a 2011 that we'll talk about what we see in front of us now.

After Dave kind of highlights that a little bit, Mike Renna, our President of our non-regulated businesses, South Jersey Energy Solution and its subsidiaries, will come up with his team and talk about not only what's happening currently, but what they see as opportunities over the next five years.

Also, Jeff DuBois will come up, our COO of South Jersey Gas, and his team. And as you can see they're already ready. The engineers and Dave have been sitting there for several hours, waiting for this presentation to begin. So they will talk about what I think are some great growth opportunities for South Jersey Gas.

And then Steve will actually explain how we're going to finance all these great opportunities. And then ultimately I'll wrap up and answer any further questions. We really want this to be interactive. I think as each person highlights part of the opportunities and challenges we face, it'd be a great time then to start the -- ask questions on that topic. But clearly, as they come along, any time in the presentation I think I'd rather it be interactive. So and this group I really don't have to advise all that much to ask questions. You've never been shy. So, with that, let me turn it over to Dave Kindlick.

Dave Kindlick - South Jersey Industries Inc. - CFO

Thank you, Ed. I think probably the first thing I should do in the spirit of full disclosure, since Ed just did the Safe Harbor, is repeat something I was saying at a couple of the tables and that our goal today is to give you so much information that [Steve Strasberg] has to go out and buy more memory for his model. So that's where we're headed and we're just wanting to please Steve and make sure he's okay with everything. So, with that --

Unidentified Speaker

(inaudible - microphone inaccessible)

Dave Kindlick - South Jersey Industries Inc. - CFO

As Ed said, what I'm going to start with is a little bit of review of the history, where we were in 2006, what our tactical responses to what happened from 2006 through today were, and then a little bit of a review of our results. And then move on to what we think the environment is today, what some of the issues are that we believe are key drivers for our future. And then I will give you a quick overview of what our tactics are going forward, and then Mike and Jeff and their teams will come up and give you a lot of detail on what's going on.

This first slide, one of the things we wanted to do is really stress today, and Ed kind of touched on it, is talk about our adaptability. Now, I've got to tell you that this phrase, improvise, adapt, overcome is from a movie, a Clint Eastwood movie called Heartbreak Ridge.



Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

You all know what a great job Steve Clark does in IR. He's very enthusiastic. And sometimes he's a bit overenthusiastic. And that's where this came from, Gunny Highway. And Steve would really appreciate it going forward, and I just have to say this, that he would like to be called Gunny Steve from now on.

So, with that, we'll get down to some serious issues. In '06 our goals were to grow economic earnings 6% to 7%, to grow the dividend 3% to 6%, and to execute from a low to moderate risk platform. You've all kind of heard those things a lot of times before from us. And we think it's a real strength of ours that they basically haven't changed except that we've put the challenges on the numbers a bit higher.

As we stand here in '11, our goals are to execute the same way and get economic earnings growth of 6% to 7%. This year, as we've told you, as Ed just mentioned, we are in a position to put out guidance of 9% to 15%. The dividend issue that we had there has been upped, as you all know, for quite some time now. A dividend growth of 6% to 7%, with a payout ratio of 50% to 60%.

And as I always say, I think the most important part of this is to execute from a low to moderate risk platform. That being the utility being low, and moderate being the non-regulated side of the business. And as you can see, that goal has not changed over this five-year period.

At the analyst conference in '06, the -- we were in a position of declining customer utilization rates. That's when things had just started to happen. New homes, more efficient homes, and high gas prices had driven customer consumption down.

Our response to that was in October of '06 we filed for the decoupling clause and implemented it in October. And that has really kind of carried us through customer utilization rates dropping. It stabled off a little bit. They're not dropping as much as they had, but that's a key protection for South Jersey Gas Company.

On the non-regulated side of the business, Atlantic City was booming. We were talking to you about eight new casinos that were probably going to be coming on. The track at Bader Field was a big item going into the future. We were talking about two to three mega-casinos was going to happen at that point in time. And then as the recession hit, things had to change.

The way we adjusted to that was to move towards renewables, basically landfill and solar. So, again, we adapted to what we had to do to deal with the environment. On the wholesale side of the business, gas marketing was booming. Price differentials, summer/winter price differentials were as high as they had ever been. As you all know, they're basically as thin as they've ever been now.

The way we reacted to that was basically trying to make it up in volume. We went out and we picked up more capacity to the northeast, more storage capacity in the northeast, and that gave us ability to respond to that market and continue to grow that business. As you know, that's gotten even tougher. Kathleen?

Unidentified Audience Member

(inaudible - microphone inaccessible)

Dave Kindlick - *South Jersey Industries Inc. - CFO*

Well, that was back then, the capacity we had added back then. We've actually now given the situation decreased that a bit. Ken, do you remember how much we added back then?

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Unidentified Company Representative

(inaudible - microphone inaccessible)

Dave Kindlick - *South Jersey Industries Inc. - CFO*

Yes, we -- that's the big thing is we added it back then in '06 and we've reduced it now coming forward. So they were the big things that were going on and how the management team reacted to that situation. Now, let me go through a little bit of the results that we achieved. Our forecast was 7% growth. We achieved 11% growth. And again, this is all based on the tactical responses going forward. And I'll try to tie that in for you in a moment.

Earnings growth over the five-year period went from \$54 million to about \$80 million. EPS growth had about a 50% increase from \$1.85 to \$2.70. The dividend has stayed at the low end of that payout range. Again, we -- when we set the dividend we look at projections for earnings, the 6% to 7%. And as you all know, we've all outstripped that. So the dividend payout ratio has tended to lag at the bottom of that payout range that the Board has set. And finally, the annualized dividends also increased by about 50% from the \$0.98 to the \$1.46, which it currently stands.

Growth rate over the period of time, compounded annual growth rate through June of this year is about 17%. That's obviously as strong as we could possibly have been over that period of time. We beat the market considerably. You can see our investment of \$100 had gone up to almost \$500, while our peers and the S&P 500 was lagging at about -- that would be about \$130 roughly.

So we had a really strong five-year period. And I know that based on the way we do our models and everything else that nobody really cares about that anymore and we have to move forward to where we're going in the future. At this conference we've got a different set of circumstances. Commodity prices are about as low as they've ever been, at least certainly in recent memory. The focus of the Federal Government and New Jersey is on pipeline safety, pipeline integrity. Chuck's going to speak to that in a couple of moments.

And as you all know, the economy is really in bad shape on housing. The impact, the primary impact on the utility side of our business at least, is with lower housing starts. On the non-regulated side of the business, the economic downturn, as I mentioned a moment ago, has resulted in less call for large thermal projects that we were talking about at that point in time. Now, there are some. You all know about Revel, and there will be a tour of that later on. And we're starting to see some action where we think we'll be moving back towards that.

As many of you know when we've talked recently is that one of our goals is to get back to that annuity kind of earnings strength. And that's what we'll be working on going forward. Probably the biggest change, and I shouldn't have jumped at that point, the biggest change going forward is really the Marcellus and everything that comes from the Marcellus and how this company is going to respond to that.

Key drivers for the future, what do we really feel is going to come out of all this? Well, the first thing I think that's the most important and it's really helped us, Ed mentioned a moment ago we've done well in this environment, is that the government is trying to pull out of this. And at least two of the main ways they're trying to do it are energy efficiency and infrastructure development. And that is basically South Jersey Industries. So that's a real plus for us.

Utility plant growth is going to be a key going forward, both on the CIRT programs that we'll talk about later and future rate cases. That's going to be a real big issue for us in the utility. New Jersey energy's master -- New Jersey's energy master plan, which Governor Christie set forth earlier this year, is a real strong issue for us. Renewables are mentioned prominently in there. And finally, natural gas has moved from just a bridge fuel to a focus fuel. So, that's again going to be very strong for our business lines going forward.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

And finally, again, I'll mention the Marcellus. And that's going to change both our business lines, utility and non-utility. These are just a couple of quick summary details of the tactics. As I said, I'm going to let the two management teams speak to the real details of it.

But nonrevenue producing plant is what generates rate cases for us. We still believe we're going to be generating the same kind of numbers, at least \$50 million to \$55 million CapEx a year, of which about half of that is nonrevenue producing plant.

The CIRT is another big thing. I will go into a little more detail with you in a couple of moments about what's going on with the CIRT. But that infrastructure program to create jobs and help rebuild our system from a system integrity point of view, again, which Chuck and Bob are going to address, is also a real key to us going forward.

The energy master plan, both the -- as I said, the renewable piece is real big for South Jersey Industries. Mike and his team have a lot of plans going forward on how they're going to take advantage of that. The energy master plan in and of itself does not have teeth. But it drives a lot of the businesses. And in some places like [Solar Rex] and things like that, it does have a pretty significant impact.

So we're going to be -- we're still going to be working on those and moving back, not just on the renewables but also on the thermal plants and that as natural gas is also prominently -- a prominent focus. One of the things that we believe is key is distributed generation, or combined heat and power, CHP. In New Jersey it's almost impossible to put in a new energy plant and it's just about as difficult to put in electric transmission. The answer to that, we believe strongly, is distributed gen combined heat and power. And they're going to be speaking to that.

The last one, again, is Marcellus. And it's a game changer. I'm not going to go through some of the details there, what it's all about, because you're going to hear quite a bit about it from Ken DePriest and his group, through Mike's group, and also gas company. Because keeping gas prices low is going to be critical to our plans in gas company to keep that side of the bill.

The cost of service side of the bill is where we make our money, the gas cost side is where we think we can continue to drive down that price as the pricing from the Marcellus kicks in. So that's a summary of where we're going today. Hopefully we are going to give you a lot of information (technical difficulty) go through the rest of the presentation.

Jeff DuBois - South Jersey Industries Inc. - COO - South Jersey Gas

Thanks, Dave. For those on the webcast, we're on slide number 18. Good morning, everyone. Let me start by introducing the team that we have up here. First is Bob Fatzinger. He's the Vice President of Customer and Distribution Operations for South Jersey Gas. Under Bob is not only responsibility for the distribution system, but also our customer service center and sales and marketing as well.

We also have Chuck Dippo, Vice President of Engineering Services and System Integrity. Chuck is obviously in charge of engineering, but he's responsible for the major transmission system of the gas company, as well as our gas supply department.

And I think you all know Dave Kindlick. Everybody knows Dave as the CFO of South Jersey Industries. But Dave is also the Senior Vice President and CFO of South Jersey Gas. And in that role he's always been responsible for rates and regulatory affairs. So Dave will be helping us out on a regulatory strategy overview.

Today, for those of you that are unfamiliar with South Jersey Gas, we'll start out with some info about the Company. Then we'll review the things that are going on in New Jersey that are really driving our company going forward. And after we review the regulatory strategy we'll give you an idea of where we think South Jersey Gas is headed in the future.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

And again, as Ed said, please feel free to ask questions as we go along. This is just a map of our territory and it highlights the major transmission lines in our system that move gas from the Philadelphia region east to Atlantic City and south all the way down to Cape May.

As the map showed, we serve about 350,000 customers in the seven southern most counties of New Jersey, of which over 90% of those customers are residential. Our customer growth at 1.2% is still well above the national average. And probably most important, the 65% market share indicates that there is a huge upside potential on conversions within our territory. The map also highlighted our 122 miles of transmission lines, but it did not show that we have over 6,000 miles of distribution mains.

Just to give a little perspective on our historical performance, back in 2006 we projected we'd have earnings growth of about 4%. In 2010 we achieved net income of \$43.9 million, which is a five-year growth rate of 5%. Keep in mind that this was accomplished with only two years of CIRT, which is our Capital Investment Recovery Tracker mechanism. Two years of the CIRT impact in that period and only a small rate case benefit. It was -- the rate case was only effective for the last three months of 2010.

Let's turn now to a little bit about what's driving us going into the future. Dave mentioned the energy master plan. And the plan really could not have been more pro-gas if we had written it ourselves. The state recognizes the impact that the Marcellus shale is going to have and they've really made it the centerpiece of the plan.

There's a number of opportunities for not only South Jersey Gas, but for the non-regulated side of our business. The plan calls for 1,500 MW of combined heat and power plants to be built in the state. Combined heat and power are great customers for the utility. And of course our non-reg side builds those type of plants, so that's a good thing for us.

For the first time, the plan actually singles out oil for conversions. The state's never gone that far as to pick a particular fuel. But it basically says we need to get rid of oil and replace it with natural gas. Obviously good for our company. It also goes on to require or to at least recommend that there's an expansion of the natural gas transmission system within the state to be able to serve natural gas fired electric generation. Also good for us.

It's a strong supporter of energy efficiency. And we have what we refer to as our EET, our Energy Efficiency Tracker, where we can incent people to convert to higher efficiency equipment and we get to earn on those incentives. This is a huge boost to that and we're hopeful that we'll be able to continue that program due to the energy master plan.

And last, it is a strong proponent also of natural gas as a transportation fuel. You'll hear in a few minutes from Bob we have some plans going forward on natural gas vehicles. And hopefully with the backing of the energy master plan we'll be able to offer incentives for people to be able to convert their vehicles to natural gas. The issues of aging infrastructure and pipeline safety obviously have been in the news a lot lately. I'd like to turn it over to Chuck Dippo and he'll talk a little bit about that.

Chuck Dippo - South Jersey Industries Inc. - VP - Engineering Services

Thank you, Jeff, and good morning, everyone. As I'm sure most of you are aware, numerous incidents over the past 12 to 15 months have impacted the national focus on pipeline safety, particularly in the area of pipeline safety reauthorization, which is the process by which Congress directs the DOT to issue or revise the federal regulations pertaining to pipeline safety.

As the 2011 Chair of the AGAs operating section, I've had the unique opportunity and privilege this year to testify before the National Transportation Safety Board, the House Energy and Power Subcommittee, and as a speaker at the Secretary of Transportation's Pipeline Safety Forum, where he was calling a stakeholder call to action on pipeline safety.

The federal pipeline safety regulations are the minimum standards with which operators must comply. And each state is able to layer in additional regulations and safety rules as they deem necessary within their particular jurisdiction. New Jersey's

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

regulations are more stringent than the current federal regulations. And as a result, I'm pleased to say that South Jersey Gas is well positioned relative to the anticipated changes that are proposed in the legislative bills currently circulating.

Overall, our system is in good shape and we have opportunities in front of us to improve it even further through our accelerated infrastructure replacement program. The capital investment recovery tracker is the mechanism which allows the Company contemporaneous recovery on capital investments, which are incremental, nonrevenue producing projects that have been accelerated from a future time period. In April of 2009 the New Jersey Board of Public Utilities approved our initial two-year CIRT filing in the amount of \$103 million. Earlier this year the Board approved the Company's CIRT II filing, which will run through next October in an incremental amount of just over \$60 million.

We've invested more than \$150 million in these programs over the past three years, eliminating more than 120 miles of bare steel and cast iron main. We've just recently filed for an additional \$40 million modification to our CIRT II program, with a proposed extension of \$50 million into 2013 for qualified capital investment, focused on accelerated bare steel and cast iron main replacement.

And we're presently in discussions about a potential five or ten-year program beyond that. The result is that we've been able to tremendously improve our infrastructure delivery system, creating jobs to help stimulate the local economy while simultaneously having a negligible rate impact on our customer.

As you've heard, the proximity of the Marcellus shale supply, located so close to the northeast market area, changes the game by creating opportunities for long term low cost natural gas supplies to our region. Producers and end users such as utilities can each benefit from agreements which provide long term supplies at significant discounts, resulting in lower costs to our customers.

Interstate pipelines and shippers are teaming up to build a delivery network required to get this gas to market. These realized savings can then be utilized to support the upgrade and replacement of infrastructure, as previously mentioned in the discussion of the Company's ongoing CIRT program.

For example, we recently negotiated a receipt point change for the pipeline that allowed us to enter into a new long term supply agreement with a producer in West Virginia who was able to avoid paying backhaul charges to that pipeline in order to get his gas to market. This agreement will save the Company and hence its customers in excess of \$7 million over the course of the eight-year term.

One of the key drivers for South Jersey Gas Company's success over the years has always been our ability to grow through the continued addition of new customers. Unless there are any questions, I will turn the presentation over to Bob Fatzinger, Vice President of Customer and Distribution Operations, to further discuss our opportunities in this area. Dan?

Unidentified Audience Member

Thanks. I was just wondering if you could give us maybe a little bit -- on the previous slide you talked about pipeline safety program. So if you could give us maybe a little bit more detail where you stand with -- you said you're in discussions now for a five or ten-year program, longer term pipeline safety program. Can you just give us some scale how big a program that could be and when you think you might have more specificity on it?

Chuck Dippo - South Jersey Industries Inc. - VP - Engineering Services

Well, we're taking it one step at a time. We're -- we've just completed our first CIRT I program. We're well into our second one, which runs through next October. We've made a filing earlier this week to add \$40 million to that initiative for 2012. And included in that filing was an extension of that through 2013.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

There are also some discussions going on at the board relative to a potential rulemaking. Something is happening on the water side as well relative to a distribution infrastructure (inaudible). They're going to handle it, I guess, through regulation potentially. But we've been upfront in trying to move the ball forward relative to replacing the infrastructure in our system.

We have an inventory of mileage to address. We have been one of the more aggressive companies in terms of getting the filings in and acting on them and completing -- and doing what it is we're going to say we're going to do. So it's just what the appetite is at the regulatory level relative to how much they can -- how far out they want to extend us.

But we continue to be there with presenting them opportunities that they can approve relative to what it is we can replace. And I think our track record bodes very well for us. There are some that have asked for these funding mechanisms that haven't followed through with the required construction that goes with it. So we're doing what it is we say we're doing and we're hoping that that will carry us into the future.

Unidentified Audience Member

They've been supportive in the past of the CIRT programs. Is it your belief, I guess, at this very early stage that that support would continue into a longer term pipeline safety program?

Chuck Dippo - South Jersey Industries Inc. - VP - Engineering Services

Absolutely. I just don't see any regulator in this environment of pipeline safety not being behind this in one shape or form or the other. We have the infrastructure that needs to be replaced. We have the plans. We have the contractors. We have the personnel lined up and ready to go. And that's part of our argument is that we've created jobs. We want to keep those jobs going. We want to keep those contractors mobilized. And we want to keep those -- keep replacing that infrastructure in a prioritized fashion.

Unidentified Audience Member

Thank you. Just to frame the -- that a little bit further, when you think about the \$50 million programs that you've done in the past several years and the amount of bare steel and cast iron replacement, how many years inventory replacement further would you have on that schedule right now (inaudible - microphone inaccessible)?

Chuck Dippo - South Jersey Industries Inc. - VP - Engineering Services

Approximately ten.

Unidentified Audience Member

Would there be any changes to the nonrevenue producing capital expenditure plan? And can we assume that if you get the extension of \$50 million that you'd be in the \$75 million to \$80 million CapEx range per year?

Dave Kindlick - South Jersey Industries Inc. - CFO

There will be no changes to really either the nonrevenue producing plant over and above CIRT or the revenue producing plant -- revenue producing plant is just going to be driven by customer additions. And as you've heard, we're just expecting as the economy comes back that will grow. That will be just what it is to serve the new customers.



Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

The nonrevenue producing plant, one of the tenets of what we've agreed to in the past with the Board of Public Utilities is that they will allow us to bring projects forward under the CIRT. But one of the key points is that you've got to continue to spend what you had spent before on the nonrevenue producing plant. And if you don't do that, you're basically circumventing the traditional process. And it just won't happen that way. So we're prepared to do both.

All in, we typically spend on new business and nonrevenue producing about \$50 million to \$55 million a year. If we get this continuation of the CIRT, that would tack on another \$50 million on top of that, we'd be around \$100 million, \$105 million or so per year.

Unidentified Audience Member

Two questions. First of all, how's the record keeping on the pipeline? I know that pressure testing and all this kind of thing is something that people are looking at now (technical difficulty) quality of your record keeping is.

Secondly, could you talk a little bit more about what kind of contracts you're getting in the Marcellus, what kind of pricing, whether they're fixed price, what's the typical term when you're buying gas directly from (technical difficulty) what kind of (technical difficulty).

Chuck Dippo - South Jersey Industries Inc. - VP - Engineering Services

First, on the infrastructure question, I am very happy to say that even though South Jersey has transmission infrastructure that preceded the federal pipeline safety regulations coming into effect in 1970, all of our pipelines have been hydrostatically tested post-construction, which was an issue out in California. We have detailed records on all of our facilities, so we are compliant in every respect with not only the existing regulations, which they're talking about modifying and removing the grandfather clause, which does not apply to us, but also relative to the proposed changes and where they're going.

And part of that is because New Jersey's state regulations have been ahead of the federal regulations. Being the most densely populated state, there are rules and regulations that we comply with in New Jersey that other operators around the country don't have to deal with. So to that end, South Jersey and all of New Jersey is ahead of the federal requirements.

Relative to the deals in the Marcellus, the one I referenced was -- actually, it's not a huge deal. I mean it does save us \$7 million over the course of eight years. So that term is an eight-year term. It builds over time. It became effective -- or gas started flowing October 1 on that deal. And it ramps up over time as the producer is able to bring more capacity on line.

Pricing-wise, in that particular deal the producer was trying to get his gas into the interstate system and was actually being assessed a backhaul charge to move it from where it was available in West Virginia to a liquid receipt point down in -- just -- in Kentucky, the Kentucky-Ohio border, [Leach, Kentucky]. And so what we were able to avoid there was something on the magnitude of \$0.12 to \$0.14 of backhaul charge because we were able to negotiate a change with our supplier, our pipeline supplier. And it actually worked out as a win for all three parties.

So it's these discussions that we are able to have with these folks out there, our relationships that exist out there. We became aware of potential deal through some of our affiliates in terms of how this guy was looking to get some gas to market, are you able to do anything.

Bob Fatzinger - South Jersey Industries Inc. - VP - Customer & Distribution Operators, South Jersey Gas

Good morning. As Chuck mentioned, I'm going to spend the next few minutes talking about customer growth, both within the traditional gas business and then some other offers that we're looking to provide to customers in the future.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

When we look historically at customer growth, over the past five years we've added about 22,000 customers, which represents a growth rate of about 1.4%. During this time, customer growth from new construction has actually gone down by about 68%, while growth from conversions has increased by about 84%.

And it's interesting to note that during the last three years we've actually added more customers through conversions than we have through new construction, which I think is probably the first time in our company's history that that's happened. The significant reduction in new construction I think is pretty easy to understand. It's the impact of the recession. The weak economic conditions we've seen in South Jersey has really taken a toll on new construction.

But on the conversion side, there's really a number of factors that have caused us to grow as significantly as we have in conversions. One of the key drivers of our growth has been the price differential between natural gas and other fuel sources in this part of the country. Historically, oil and natural gas prices have tracked each other pretty closely, which made the economics of conversions a little more difficult.

However, when you look at the price of oil in recent years, along with the pretty stable price of natural gas that's a result of the Marcellus and some of the other finds around the country, we see that there's now a pretty significant gap between natural gas and other fuel sources in our territory. If you look at this chart, what you can see is that our price advantage ranges from about 55% to oil to about 70% relative to propane. And we've actually had a couple of situations in our territory where particularly propane customers have actually seen savings greater than this.

So, when you look at the price differential, along with our energy efficiency programs and the no interest financing program that we have, conversions to natural gas is a pretty attractive option for customers right now. And we see that this price advantage will continue into the future and allow us to be extremely aggressive in growing conversions over the next five years.

We have an estimated 150,000 homes and businesses in South Jersey that are still not served by natural gas. About 40,000 of these are what we call on or near main, which means we have to run either a service or a short main extension, a service, to get to these customers. The remaining prospects, the 110,000, what we call canvassing prospects, typically require a little longer main extension to get to them. And in order to make the economics work, we usually need multiple customers to sign up in order to run an extension like that. So we see that as the area where we want to grow over the next five years.

So one of the things we've done to continue growth is to enhance our marketing program. And we're already seeing some pretty good results in the efforts that we have underway. The new approach incorporates some of the more traditional things like direct mail and TV advertising, radio advertising. But it also includes things like door-to-door canvassing, community involvement, and interfacing more directly with government officials than we have in the past.

One example I wanted to point out of success we've had with this approach is down in [the Villas] in Cape May County. Over the past two years we've added about 1,500 customers through conversions in that town. In order to achieve this result, we actually started working directly with the mayor on getting the mayor's support for what we wanted to do. And we actually had the mayor of the town speaking out publicly in support of us bringing gas into this area.

We also did a lot of door-to-door canvassing. We ramped up the number of employees we have to do door-to-door canvassing. And we've participated in a number of community events in the Villas, ranging from things like the Villas Community Day down to a pancake breakfast at the local firehouse. And what we found and learned is that getting into the community like that makes it much easier to build support to educate the customers and then ultimately to get conversions out of it.

So over the next five years we're targeting 20,000 conversions. It's a pretty strong number, we believe. But with our price advantage and with the marketing capabilities we have, we think that's actually achievable. We're currently pursuing a queue of about 100 projects that represent somewhere around 8,000 customers. So, we already have a good start towards this 20,000 over the next five years. And we expect that by 2015 we'll be adding about \$6 million in incremental net income from our conversion activities.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Looking overall at customer growth for the next five years, we expect growth will average somewhere between 1.5% and 2% per year, driven primarily, again, by our growth in conversions. To the extent that the economy improves and we can increase new construction, we think we may actually be able to do a little better than these numbers.

Another area of customer growth that we're pretty excited about that I want to talk about is the use of natural gas as a transportation fuel. Compressed natural gas, or CNG, vehicles is really not a new concept. You may have heard of it previously. South Jersey Gas actually had one compressed natural gas vehicle, I think about ten years ago. And Jeff was telling me that 20 years or so ago when he was back in the sales department, he was working on CNG vehicles.

So something that's been around for a long time, but the fact is that back then there were a number of hurdles to overcome, probably most significantly an economic model that really didn't work all that well. Today it's a different story. There's more than 140,000 CNG vehicles in this country, about 1,000 fueling stations. We're looking at customers like AT&T, UPS, Verizon, waste management, all converting significant portions of their fleet to CNG.

Worldwide there's about 11 million CNG vehicles and about 10,000 fueling stations. So looking at this growth, the reason for the growth is pretty simple. And it's really that the economics of CNG vehicles work today. Advancements in CNG engine technology, increasing environmental constraints that fleets are dealing with, and a stable supply of low cost natural gas, primarily from the Marcellus in this area of the country, are all combining to make CNG vehicles a very attractive choice, particularly for commercial fleets right now.

On the environmental side, CNG vehicles reduce greenhouse gases by about 30% as compared to gasoline and diesel vehicles. CNG vehicles also support the national objective of reducing the approximately \$1 billion a day we give to foreign countries for oil. And it's also a big piece of the state's energy master plan. I had an opportunity recently to participate on the Energy Master Plan Working Group that was dealing with alternate fuel vehicles. One of the conclusions we reached was that CNG is really the most attractive alternate fuel option for commercial fleets in the state right now.

So, together, when you look at all these factors, we've created a significant level of interest in CNG vehicles among our customer base, especially commercial fleets and municipalities around the state. We've also looked internally at these factors. And what we've concluded is that we should start to convert our fleet of vehicles to CNG. So we made that commitment. We've got about 180 construction and service related vehicles that we want to replace over the next ten years. We've placed our first order this year for 16 vehicles, which should be here later this year.

When we look at infrastructure, I think what we've been suffering from is what I call the chicken and the egg problem. First, fleet owners have been reluctant to convert their vehicles to CNG because there weren't enough fueling stations. But infrastructure providers have been reluctant to build fueling stations because there's no vehicles to actually fuel at them. And that's a problem that's existed for years. But it's beginning to change in a number of states around the country, including New Jersey.

In South Jersey, for example, we've had public access fast-fill stations opened in Camden, Atlantic and Cape May Counties, and fleets like the Atlantic County Utility Authority and the Atlantic City jitneys have already converted to compressed natural gas. And hopefully if you stay around for the tour today, you'll all get a chance to take a ride in a CNG jitney that runs in Atlantic City, typically day to day. These two customers alone are going to be using about 1 million equivalent gallons of CNG per year.

In order to support the conversion of our fleet of vehicles to CNG, we'll also be constructing about five to seven fueling stations over the next three years. These stations are all going to be public access, which is going to significantly increase the fueling capability in South Jersey. Our first station, which is going to be located in Glassboro, near our Glassboro division office, just received approval for construction. And we expect that station's going to be open in 2012 in January, just about the time that we receive our first CNG vehicles.



Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Although the pace of CNG growth in South Jersey is hard to predict, we do believe, based on customer interest, that that growth is actually going to occur. When it does, as the number of vehicles and the infrastructure grows, we see income from this new service being provided from several sources.

First, the construction of the five to seven fueling stations I spoke about will contribute about \$600,000 annually to net income by 2015. Second, sales of compressed natural gas to third party vehicles and stations will contribute about \$200,000 to \$300,000 incremental to that.

Third, the conversion of our fleet will result in fuel savings by 2015 of about \$400,000 per year. And the thing to keep in mind there is we'll only be about 50% through our conversion by 2015. So when we're fully done, we expect to see fuel savings of around \$800,000 a year for our fleet.

And finally, there's an additional potential source of income from CNG vehicles, which is the provision of rebates or interest-free loans to support the growth of infrastructure and the conversion of CNG vehicles. These incentives could work the same way, for example, as our energy efficiency programs do, where South Jersey Gas gets to earn a return on our investments as they're made. This is something we're evaluating and we need to coordinate it closely with the energy master plan and the state and what their intentions are in this regard. Switching over -- I'm sorry, go ahead.

Unidentified Audience Member

I have a question on these fueling stations. First of all, to get the permits, is it any more difficult to get one of these -- to build one of these things as opposed to a regular gas station? And I assume the cost differential is substantial, or is it?

Bob Fatzinger - *South Jersey Industries Inc. - VP - Customer & Distribution Operators, South Jersey Gas*

Just relative to the permits, we really have -- we've only pursued one station right now in Glassboro. Glassboro was very supportive of us building a station in their territory. As a matter of fact, we actually had talked with them at one point about using a piece of property they owned to build the station. But it ended up they had other plans for that property and that sort of fell through.

But their business administrator, their mayor, were very supportive of it. We actually when we went to the zoning board a few weeks ago got preliminary and final approval at the same meeting, which really doesn't happen all that often. As far as pricing goes, I don't know if you're talking about the pricing of building a station or --

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Bob Fatzinger - *South Jersey Industries Inc. - VP - Customer & Distribution Operators, South Jersey Gas*

-- the pricing of actually building a station is -- for the station we're building at Glassboro, it's about \$1.5 million, \$1.6 million to build a station. We want the stations to be done right. If we go back to -- if you can see that, that's actually a rendering of what we think the station will look like when it's built. But it looks very similar to a traditional gas station. It's got the canopy, it's got the pumps. And we want it to look like something that's attractive and customers will use. But that's approximately the price.

Unidentified Audience Member

Are these going to be in rate base in the utility or are these going to be in the nonutility?

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Bob Fatzinger - *South Jersey Industries Inc. - VP - Customer & Distribution Operators, South Jersey Gas*

The intent is that -- the five to seven stations we're going to build, we plan to put in rate base. The intent of building those stations is primarily to allow our fleet to fuel around South Jersey. We're also going to be providing public access so that as the public fleet grows, there'll be a place for them to fuel. But the intent is to put them in rate base, yes.

Unidentified Audience Member

I just have one other question. Are you going to put a convenience store in and will that be in or out of rate --

Bob Fatzinger - *South Jersey Industries Inc. - VP - Customer & Distribution Operators, South Jersey Gas*

Well, all I can say is one of our Directors actually is the CEO of Gulf Oil in Cumberland Farms. So you never know. Okay, so, switching over, then, to talk about energy efficiency for a few minutes. Over the past few years we've committed to becoming the energy experts for our customers. The Conversation Incentive Program, or CIP, as we've called it, which decoupled our net income from the amount of gas we sell to residential and commercial customers, is really the primary initiative that made this happen. The CIPs help our customers to reduce their energy usage and it's also helped them to save about \$219 million in energy costs since the inception of that program.

Our energy efficiency tracker, or EET, as we've called it, was approved back in 2009. And that's further allowed us to incent energy efficiency initiatives by our customers. We provide rebates and no interest loans to customers who take steps to first understand their energy usage, and then to actually reduce that usage. And as we make those investments, South Jersey Gas earns a return on the money that we put into the programs.

This EET is set to expire in April of next year. We're currently evaluating the best way to continue that program, what kind of programs we want to offer customers and how that's going to work. And we're evaluating the possibility of making a filing in that regard prior to the end of this year. To the extent possible, these programs will link closely with the state's Clean Energy programs and whatever comes out of the final results of the energy master plan.

In summary, I'm really optimistic about the continued growth prospects for the Company, our customer base, as well as the more nontraditional sources, the energy efficiency tracker and CNG vehicles and infrastructure. Together these sources are going to provide a pretty significant net income impact to the Company over the next five years. So I'd like to turn the meeting now back over to Dave, who's going to talk about how our regulatory initiatives will support our growth plans. Any further questions for me? Thank you.

Dave Kindlick - *South Jersey Industries Inc. - CFO*

Thanks, Bob. As you know, we're regulated. And consequently, most of the gas companies are regulated and most of the programs that Chuck and Bob have just been talking about will require regulatory approval. Some are already in place, but they're all going through the regulatory process. And given that, probably the most important thing there is our relationship with the Board of Public Utilities and the ratepayer advocate.

We have worked very hard over the last ten years or so to improve that relationship, and I think we're in very good shape as we speak. One of the things we do there is we always look for win-win situations. We don't try to upstage the Board of Public Utilities in any way, shape or form. But more importantly, give them the cover they need to work with us on giving us the kind of relief we need without them having a major pushback in the community in New Jersey.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

So those relationships are key. We try to work off issues that are already there that they've put in place. And one of the most important ones now is the energy master plan. Much of what these guys have just talked about is in the energy master plan. If you look at this slide, the last two items, the CIP and the EET are driven off the master plan. We had them in before that, but it ties right into energy efficiency, again, focus of state and federal government and decoupling, keeping customers' bills down.

So these programs are all built around that. We don't make filings on any topic without first running them by the Board of Public Utilities staff and the ratepayer advocate. I'll go into a little bit more in a moment about the CIRT filing in that regard. But working with them, not surprising them, doing things that work for everybody is the key tenet. And we have worked extremely hard to that end over the last couple of years.

As I said, the CIP and the EET are kind of -- they're already in place and we're just working to make those better. And the CNG vehicles that Bob was talking about a moment ago, in our last rate case we put a tariff in place that allows us to make those sales. So we were kind of looking forward when we did that. And given the fact that there's such a stress for natural gas in the master plan, we feel really good about anything we have to do in that regard.

Back to Ed's question about putting those -- the stations in rate base, as we said, they will be. But remember there's also a revenue stream coming in, which would be reflected on the income statements. So it's really -- although it's very new, it's a new -- it's a new sales product for us, it will get -- we believe can get traditional rate making treatment as we go forward.

The CIRT, as you all know, has been in place for a couple of years. This slide gives you the basics of how to value that. And I'll go over it in a second. But I want to talk a little bit about the process, and Chuck kind of alluded to it a bit. As many of you know, the water utilities have undergone a rulemaking regarding their [DSEK] program. They decided after probably at least ten years of trying to deal with it on a company by company basis that they were best served by coming together and putting -- working the rulemaking route.

Now, what that does, you can make a filing in New Jersey. Any company can make any kind of a filing they want. You deal with it on your own. A rulemaking is a statewide process. So that first thing you do is either you just request it from the Board of Public Utilities or, as in this case, all the water companies got together and worked with the Board of Public Utilities and the Ratepayer Advocates Office to come up with what they thought would be a reasonable rule to publish in the New Jersey Register.

Once that gets published, and it has not gotten published, they've got to go the Board of Public Utilities and they're the one that will publish the rulemaking. That, we're hearing, is maybe going to be November for the water companies. Once that's done, it goes out for public comment. That's a 60 to 90-day process in and of itself to have those comments come in. Once you do that, you open it up to not just the typical players in a regulatory proceeding, but the world. It gets published publicly. And so you've got to go through that process.

Once you compete that and the board publishes a final rule, which also takes some time, you then have to make your company by company filings under that rule. So that company by company methodology that I said you could start out with that choice, it kind of lays the groundwork for that. But as you can tell, it takes a very long time to get through that. And there's a lot of hurdles to get through.

So I give you all that explanation because on the gas side we have been working closely with the other gas companies in the state and we really don't think a rulemaking will be to the best advantage of the four gas companies we've got. Although we very frequently have a common mindset about the right way to go about doing things, our underlying facts of our company are a little bit different, and probably a rulemaking is not the best way for us to go.

I personally don't like them because in my experience there's only been a couple that have ever gone the full course and gotten approved in New Jersey, FAS106 expenses being one of them. And that was obviously a long time ago. So it's a tough road to hoe. Given that, we worked with the other companies, decided that probably wasn't the best thing to do. And we decided to make our own filing, as Chuck mentioned.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

So earlier this week we filed for an extension of our '12 program under the CIRT to the end of the year and also raising the number in '12 from \$10 million, which was left over from CIRT II, by \$40 million, up to \$50 million, which kind of puts it in synch with all the other CIRT programs we've done, and also asked for an extension through '13 with another \$50 million.

Now, the reason we did that is, as I said a moment ago, we like to work with staff and the advocate before we make decisions, before we go public with filings. And we did that. And I can't even tell you that that was 100% everybody was in full compliance or full agreement with the right way to handle the process. There were some people at staff who thought maybe a rulemaking would make sense.

Given what we heard from our peers, the other gas companies, we just knew that really wasn't going to work. We talked to the ratepayer advocate and, quite frankly, they weren't even totally enamored with the way the rulemaking was going with the water companies. So we worked very closely with both parties and decided the best thing to do was to get the ball rolling by making our own filing.

As was mentioned a couple of moments ago, we would really like to get a ten-year program, at the very least a five-year program. But we also are realistic about what it takes for the advocate and the commission to make longer term decisions like that. It's pretty tough. The advocate sees this as a program that has a limited life. Even if you look at our full ten years, they're saying, okay, there's a limit to what needs to be done here.

That's different than the water utilities because the water utilities are looking at a full change in the way they do business going forward. And that's what they're trying to do with DSEK and the rulemaking. That's why it's so complicated. We didn't want to go down that path. We don't think it's necessary. And even though ten years is a long period of time, it is -- it does have a limited life to it.

So we made the filing. Based on discussions, we went in for the two-year extension that I'm talking about. As Chuck mentioned, we're talking about spending to replace all that cast iron and bare steel about \$500 million incremental to what we would normally be spending. If we left it alone and kept going the way we are right now, that would take close to 50 years to make those expenditures and it's simply too long. As Chuck said, the system is safe.

But in another -- by 2050 or whatever, it's going to be a long time out. So we want to get the pipe in. We want to get it in sooner than -- rather than later. One of the things that's going to help us, I mentioned a win-win situation. We like to look at the situation with gas costs as giving us headroom. We're going to go into this winter with our rates set at the same level they were at in 2003, total bill to the customer.

Base rates where we earn have gone up. However, gas costs have gone down given what's going on in the Marcellus. And as the Marcellus grows and we get more gas coming in from the Marcellus, we think that'll give us more headroom. The impact on the first year for a ratepayer, for the program we filed is 1%. We just reduced our rates by 3.5%. And we see more coming given what's going on in the Marcellus.

So, again, that's kind of a summary of what we think is a real win-win situation. The way the advocate is looking at this, and they have not agreed yet, but I feel very strongly that we're going to get this. We're going to have to go through the steps and maybe we're looking at the first quarter of next year. But I think we're going to get this.

They're looking at it as a jobs issue because of the recession. They're looking at it as a safety issue. They're looking at it as projects that are just being brought forward. They're going to be done. These are not incremental projects to our long term planning. So the way they look at it is we're just doing them sooner rather than later and that process is something that I think builds a model that they can live with.

So we feel really good about the -- our ability to get this done. The details of it are a little sketchy right now. We're not exactly sure how it's going to be done. But the one thing we've made very clear to them is contemporaneous recovery of our earnings

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

on this plant is extremely important to us. We can't -- we can't go out and just say we're going to spend an incremental \$50 million a year and that'll be just fine with everybody. Clearly we've got to get that -- we've got to get that money.

So, whether it's a program that recovers the cash from ratepayers immediately, whether it's a twice a year roll-in, with AFUDC before you get to the roll-in, something like that, there will be components that we have yet to deal with. But we feel very strongly that we're going to get this. The way you ought to be looking at it on a modeling basis is we're going to be spending an incremental \$50 million a year. The equity component is 51.2% in our current rate structure. And the ROE on that is 10.3.

So without any other adjustments for any other items which we may not be thinking of yet, the impact of the CIRT is \$2.6 million per year. We got it for the full ten- years. You can just kind of run the numbers out and we're somewhere around \$25 million over a ten-year period. Moving now to a base rate case -- I'm sorry, was there a question? Yes, Dan?

Unidentified Audience Member

(inaudible - microphone inaccessible) in terms of timing is all. When would you expect, I guess, the timing for the CIRT extension that you just asked for, a decision to come back? And then I think you had just mentioned maybe Q1 of next year for pipeline -- longer term pipeline safety tracker. But I'm --

Dave Kindlick - South Jersey Industries Inc. - CFO

It's kind of the same right now, Q1 of next year, just an idea. One of the things that's very important to the advocate is that they get to go through their process. And part of that means they have to hire outside consultants. That might take a month or so, and then they'll bring them on, then they'll do their discovery.

So as we've kind of, as I call it, slogging through the trenches, that process will take place over probably the balance of this year. Then we'll get in full-blown negotiations and I expect that we can get at least what we filed for in place by the first quarter of next year.

As to the longer term component, what I'd like to say is some kind of an agreement with the advocate and staff that there's an open door to come back in, and this process would create that open door so we could, on an annual basis, then say, okay, what about another year? What about another year? I'd rather have it be a long term initially. We've talked to them about a five-year process and come back at the end.

I know Jeff would very much like a 10-year process right off the bat. And we'll try to please him, but I'm not sure we'll get there. But I think first quarter of next year is where it's going to be driven.

Unidentified Audience Member

Great. Thank you.

Unidentified Audience Member

Who would be opposed to this program? I mean the safety aspect of it alone after that thing in California, you would think that just flashing that picture on the screen would be enough to get them to go along with a program that changes all the mains over time without a lot of nonsense.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Dave Kindlick - South Jersey Industries Inc. - CFO

Nobody in their right mind would be opposed to this. We can't -- no, I think you're absolutely right. And one of the things we were very careful about is -- I mean your intuition there is exactly right, how do you -- how can you be opposed to this? How can you be in a position where utility files for a safety tracker to recover those costs and you then turn it down?

I mean one of the obvious answers they could give you is, okay, fine, replace that plant and file base rate cases to return it. But that's a very -- it's a much more difficult process. We didn't want to make these filings in such a way that we boxed in the advocate or the board. That's why we went and talked to them about it, because that exact point is just sitting there glaring, that how do you do this. And we wanted to make sure they were both at least comfortable that it was something that they were willing to deal with.

I know [President Solomon] has really focused on this. And again, puts in that quote of headroom. When our rates are low, we're in a position to have small increases. And maybe our goal is to offset those increases with reductions in gas costs from the Marcellus. The advocate, she always has to do her due diligence and she will do it. But in our discussions she understands that issue. So that's why I feel so good about it. I think that exact point is going to carry the day.

Okay, no other questions, we'll move on to base rates.

These two slides are set up, this one and the next one, are set up to give you an idea of how we think about putting together a base rate case. There's a big difference between what you can expect to get out of a base rate case and what you file for. And that's the game that everybody in the world in this industry knows about.

But when we think about what we need out of a base rate case, the next slide's going to kind of get you there, I want to stress that this is what we're going to be talking about here is what we would consider the minimum necessary to get out of a base rate case to make it sense, to take the risks that are inherent in a base rate case. So that's critical.

Typically you end up in New Jersey, and I think a lot of the other states, you end up getting about half of what you filed for. So we always look at all those components and we're never going to put in something in a base rate that we don't think we deserve. However, not everybody thinks the way we do. So clearly, the commission and the ratepayer advocate will have different thoughts.

But just to give you an idea of what we're thinking about -- remember I said that we're spending about \$50 million to \$55 million a year in CapEx, the revenue producing plant is being supported by the ratepayers who we hook up. So you can say that if rates are set at least close to properly, that's carrying itself and it's not creating any rate pressure. It's the nonrevenue producing plant that's not generating revenue. When Chuck has to put in a major pipeline, that's not generating any new customers or anything. So that's what's going to drive a base rate case.

Yes, there are increases in O&M. We try to push those off as much as we can and control costs. So that's always there. The cost of money, as you all know, right now it's very, very low. We've got a nice ROE from the New Jersey Commission of 10.3%. If that starts to creep up, if we start coming out of this, we see some inflation, that would be another reason that we could put in for a base rate case. We're in good shape with our O&M at this point.

We had a discussion last night about a -- the impact of pension costs. And we were lucky that when we completed our last case, if you can call it lucky, that pension costs were about as high as they've been in a long time. Well, we were lucky because we were in for base rate. So the cost of our pension in base rates is properly reflected.

Bad debt, we're very lucky here. We don't have any major cities. So given that fact, we have pretty low bad debt expense. We're at about four-tenths of 1% in the gas company. So, again, that's in good shape. So, again, please think of this whole process here as the minimum required to file a base rate case.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

And if you take that \$50 million a year times about four years of typical plant growth, the revenue producing plant and nonrevenue producing is about 50/50. So we take out the revenue producing plant part of it because that's not going to generate the need for rate relief, and then we take that balance and have a debt equity financing of it of 51%, again, at 10.3%. So what we're seeing as the minimum to come out of a base rate case is about \$200 million of annual plant additions could generate close to \$5 million.

Now, our last case was about double that. We had about \$400 million in incremental nonrevenue producing plant between our cases. But this is just to give you an idea of what it would take at a minimum for us to say, okay, it's worth going through what you have to go through in a base rate case. If we continue to spend at this level it's about every four years or something like that. So just trying to give you an idea of what it would take.

Any questions? Yes?

Unidentified Audience Member

(inaudible - microphone inaccessible)

Dave Kindlick - *South Jersey Industries Inc. - CFO*

Bonus depreciation?

Unidentified Audience Member

Yes, that's right.

Dave Kindlick - *South Jersey Industries Inc. - CFO*

Yes, except -- well, to be blunt, from a regulatory point of view I'd rather not have it. All it really is doing is reducing your rate base. So it's got to be reflected in anything we do. It does give us another source of cash. And because it's not ratepayer supplied funds, it's a deduct from rate base. So we get it. It would be in anything we file. It's much more valuable to SJI than the non-reg side than it is on the regulated side.

Unidentified Audience Member

Did you guys at any point disclose what that would be for this year?

Dave Kindlick - *South Jersey Industries Inc. - CFO*

There's no plans we have to disclose it. But if you just simply take the -- our typical depreciation rates, you can just calculate that pretty easily off -- with 100% bonus.

Any other questions? Okay, I guess I'll turn it back to Jeff.

Jeff DuBois - *South Jersey Industries Inc. - COO - South Jersey Gas*

Can you just flip it one more slide for me, Dave?

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Okay, let's warp up by highlighting some of the key financial measurements looking forward, and real quick review, though. Annual net income from 2006 to 2010, we grew at an average of 5%. And again, just to remind you, this was achieved with only two years of our capital investment recovery tracker included and only three months of a rate case to be able to achieve 5% growth.

Looking forward, we think from the period 2011 to 2015 we can grow South Jersey Gas up to 12% on an average annual basis. The key drivers behind that, again, the CIRT is going to contribute \$2 million to \$3 million annually. Our customer growth will contribute \$2 million to \$3 million annually. And the way we view this internally is our customer growth is what will offset any increases to O&M that we may have during that time period.

So the CIRT becomes incremental and a future base rate case in the range of \$5 million to \$7 million will be incremental. I do want to make a note that 2011 does include \$7.5 million of net income from the rate case that we did complete in 2010.

With that, we're going to take about a 15-minute break. But we obviously will open it up to questions before we do that.

Seeing none, thank you very much. We'll take 15 minutes and then start with the non-regulated companies.

(BREAK)

All right, well, welcome back. I'm Mike Renna, president of South Jersey energy solutions. With me today to help lead our discussion on our nonutility activities are three of our key leaders and the folks who do all the heavy lifting.

Dave Robbins, who is vice president of accounting and finance for South Jersey Energy Solutions, as well as being Chief Financial Officer for Energenic. Steve Poniatowicz, who's Senior Vice President of Marina and also an Executive Vice President of Energenic. And Ken DePriest, who's president of South Jersey Resources Group.

Our nonutility businesses have been consistently and increasingly profitable over the last decade. And I think it's due in large part to a commitment to the strategies that are on this slide. This is really important because I think it effectively defines who we are and why we've been successful.

If I were to look at a couple of things on here that matter the most, we've never really strayed from what we are and what we know, which is energy. We are a very agile and opportunistic workforce. And I think that's done a lot to help to grow that business development queue, which in turn has produced a lot of -- or will continue to produce an increasing amount of earnings that come from stable and annuity-like income streams.

This slide looks at our actual performance over the last five years. And as you can see, our actual earnings have outstripped projections by nearly 40%. Breaking this down further, at the end of 2010 wholesale remains our largest contributor, or nonutility contributor, but retail is our fastest growing contributor. And we expect retail to become our largest and fastest growing contributor going forward.

I think more important than the relative contribution of each of our business lines is the stability of our non-regulated earnings going forward. Over the long term, as we layer in capacity payments from our Marina investments, the margins realized on our long term producer contracts, and eventually the royalties earned on our Marcellus holdings, our earnings will continue to shift towards a more predictable and annuity-like income stream.

Yes?

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Unidentified Audience Member

Like on that last slide, you have what looks like, I don't know, it's around 40% (inaudible - microphone inaccessible). But when you really take a look at the earnings volatility from market sensitivity, one would assume it's much less given how things are structured. When you say (inaudible - microphone inaccessible) you really just mean that those earning streams are sensitive to market, not that it's --

Mike Renna - *South Jersey Industries Inc. - President - South Jersey Energy Solutions*

Yes, they're more sensitive to traditional kind of macroeconomic environmental conditions. And when you think about it, our retail commodity business, as an example, a lot of it is driven by disposable income, disposable consumer income. There is some level of earnings, I don't want to call it volatility, but there is some earnings variability in some of the Marina projects. But as we layer in more and more of those capacity payments for projects like Marina thermal and Revel, that will become an increasingly bigger piece of the pie.

Unidentified Audience Member

But just simply when other people give slides like that and they'll say market sensitivity, a lot of times what they'll mean is that earnings could, in a real economic disaster situation or a commodity pullback, those earnings could basically fluctuate from 0% to 100% of the projection where really your sensitivity that's not saying that.

Mike Renna - *South Jersey Industries Inc. - President - South Jersey Energy Solutions*

Yes, I think for us it's not really saying that. It's just saying that there's a portion of our earnings that's much more predictable, much more annuity-like, and that piece is growing. And there's a smaller -- consequently there's a smaller piece that is, to some degree, variable, depending on economic conditions.

Unidentified Audience Member

Thanks.

Mike Renna - *South Jersey Industries Inc. - President - South Jersey Energy Solutions*

Looking first at our retail business, South Jersey Energy Company and South Jersey energy Service Plus, well, they're essentially the same business that they've been for the last decade. Strategically we spend a lot of time on the frontend. What we look for are markets where we can compete, where our approach, which is a relationship-based sales approach, resonates with the customers, and where competition is fairly and openly encouraged.

We targeted niche markets, those that are underserved, such as food processing in South Jersey, which has been a great market for us, and large commercial light industrial markets across the mid Atlantic. We aggressively manage the inherent risks that can cripple a retail business, most namely credit risk and the variability in winter with weather. So we try to shy away from market where there's a lot of sensitivity and load due to the customer type and really focus on process load markets.

And probably most important, we're willing to make the changes that will improve a business long term, that will stabilize it, improve it, and keep it moving forward. And I think the HomeServe transaction is a great example of that. It was executed earlier this year. And again, it exemplifies our willingness to make tough choices that are to the betterment of the business.



Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

When you look at the HomeServe transaction, by selling those contracts while retaining the exclusive right to do the work, we did three things. The first thing we did is we stabilized the business. It provided an influx of capital. We created a more consistent revenue stream, where it's now driven -- we're getting paid for the work that we perform, as well as getting a commission on all the contracts that are -- the new contracts as well as the renewing contracts. And we made a business that's now less sensitive to economic downturns.

Equally as important is we created a platform for growth that we were not going to be able to achieve on our own. We outsource marketing to HomeServe, which is the largest of its kind in this space. And they have a marketing infrastructure that far eclipses ours and a spend and it's equally greater than ours could ever be. And we expect us to -- we expect the business to grow much greater than we would have been able to do on our own.

And then last, what it allowed us to do was to focus on what our core competencies should be in that business, which is worker productivity and, again, rightsizing our workforce. I think to some degree we had some unnecessary redundancies in the workforce. And again, this gave us the platform to eliminate some of those redundancies and position the business well going forward.

So, in summary, for those two retail businesses, the foundation is strong. And it's made even stronger by the HomeServe transaction. And when combined with South Jersey Energy Company's realistic geographic expansion goals, we are very confident in our ability to grow these two businesses by 10% per year.

Moving over to our development business -- oops.

Unidentified Audience Member

How many customers do you have in that HomeServe operation? And what is sort of the customer growth that you're looking at from the HomeServe people signing up new people?

Mike Renna - South Jersey Industries Inc. - President - South Jersey Energy Solutions

We look at contracts as opposed to customers. I think we have 140,000 contracts.

Unidentified Audience Member

That's about a third of your customer base? Is that how you look at it?

Mike Renna - South Jersey Industries Inc. - President - South Jersey Energy Solutions

It's probably a little less in terms of absolute customer than a third of our customer base. But again, they own -- most of our customers own multiple contracts. They'll have a contract on their heater, on their air conditioning, on their pipes, in some cases on their washer or their dryer.

But I think right now, given this -- given the economy and given our ability to market and our willingness to spend on marketing, we were looking to kind of break even, just to have our new customers offset our churn. And I think with HomeServe, we are very confident, if you look at their history and the success that they've had in marketing, that we'll be able to grow that customer base by 5% to 10% a year.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Unidentified Audience Member

Do you service just the customers or the contracts in your service area, defined service area by the Public Service commission or do you --

Mike Renna - *South Jersey Industries Inc. - President - South Jersey Energy Solutions*

No, we're not restricted to doing that. I mean that's been our target market. We've really looked at the same -- we overlap the utility, but I think we probably have a handful of customers that kind of are in some of the border towns.

Any other questions on the energy company or Service Plus?

Moving over to our development business, again, here our core objectives are the same. We looked at design and developed solutions that will help a customer manage their operations more efficiently, in a more environmentally friendly manner, and most importantly, our projects have a direct and tangible benefit to their bottom line.

And we do this while producing results that for SJI are consistent with our risk profile and with returns that are in excess of the utility returns.

Strategically, our primary focus is on combined heat and power, which we really defined as two things. One is cogeneration and the second is district energy systems. And we see enormous potential for a lot of the reasons that were outlined earlier, most notably the Marcellus and the need for -- a need to find a home for this new gas.

As previously stated, the Marcellus is a game changer and we believe it's going to drive cogeneration development, or CHP development, not only in New Jersey but across the mid Atlantic region.

We also remain bullish on solar, particularly in New Jersey. We expect the government to act quickly, state government to act pretty quickly to help stabilize this market. As many know, the SRECs have -- they've decreased pretty significantly over the last year and we expect that the government's going to do some things to try to prop up and stabilize those -- stabilize those prices going long term. So we're very -- our forecast has the SRECs trading somewhere in the \$300 to \$350 range over the long term.

As a result, we have repositioned our business accordingly and are now targeting a much narrower target market for solar.

I'm going to ask Dave Robbins to discuss our solar strategy in greater detail and to walk us through the economics of our proposed projects.

Dave Robbins - *South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic*

Thanks, Mike.

The key drivers behind solar remain the rich tax incentives that feature the 30% investment tax credit along with bonus depreciation as long as -- as well as the SREC prices. As Mike mentioned, there has been a decrease in the SREC prices, but we believe that that decrease is temporary and that through a more transparent and stable energy policy that includes mandates under their renewable portfolio standards that these prices will rebound.

As you can see, our target market is in the 1 to 6 MW range. Typically these are ground mounts and we look for an all-in construction price of about \$4,000 per KW.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

What I'd like to do in the next few slides is walk through the economics of a typical deal. This example, we have a 2.5 KW project. You'll see total CapEx of about \$10 million, typically capitalized 50/50 debt/equity. There are very little operating costs with these projects and hence there's very little operating risk. You can see that the returns, particularly after cash, on these type of projects are very attractive, well in excess of utility hurdle rates.

The next slide, which is number 52, is the related income statement to this project. As Mike mentioned, the revenue assumptions are based on an average SREC price of \$3.50. However, I want to note in our existing portfolio of solar assets we have hedged 50% of the 2012 solar year output at an average SREC price of \$4.37. And for the existing portfolio, the solar year 2013, 15% is hedged at an average SREC price of \$5.92.

I'll also point out on this slide that in net income you can see the year one impact of the ITC to first year's earnings and that earnings do increase each year as the debt is repaid.

Next slide is the related cash flow statement. And the important takeaway here is you can see the impact of the ITC and bonus depreciation that you recapture your equity in year one.

The last slide shows the required megawatts versus installed. This information was taken from the RPFs. And what this tells us, and this is why we remain bullish on solar, as Mike mentioned, that over the next 10 years New Jersey is mandated to install 10 times the production than what we see today. So we believe that with that mandate under the current RPF structure that SREC prices will rebound and that solar investment will remain robust over the next 10 years.

With that, that's all I had. If there's any questions?

Unidentified Audience Member

Yes, I missed the first part. You said that for 2012 you've had what percent of SRECs at what price?

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

59% of the current portfolio at an average SREC \$4.37.

Unidentified Audience Member

Okay. And then do you sell -- when you do these projects, do you sell it under a PPA back to somebody or does --

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

That is correct. There are two revenue streams here. One is the SREC, and one we seek a very credit worthy counterparty, we execute a power purchase agreement, typically in the neighborhood \$0.08 to \$0.10. And that's also -- they run about 15%, 20% of the revenue stream is PPA. And the remainder of it is SREC. So the revenue number is made up of both.

Unidentified Audience Member

And then you have a fixed dollar amount you expect to spend on solar over the next several years?



Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

Well, I think we're looking at somewhere between 10 and 15 MW in '13. However, we evaluate this on a project by project basis. And I think we are agile, we are flexible, so as market conditions change, we have other investment opportunities. We're going to weigh where to invest our dollars.

Unidentified Audience Member

Okay, so, if you have a megawatt target, then, and then the price per watt -- or kilowatt comes down, then the amount that you have to spend would be less each year or would you be, then, raising the total number of megawatts over the --

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

Depends on what other opportunities we have. But if we wanted to stay the same level, yes, the CapEx, because prices are going down, would go up. Mathematically that's correct.

Unidentified Audience Member

So then you need to find more and more projects in order to spend that money.

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

Or other projects with more attractive returns. I mean we're still bullish on solar and we're going to -- our target is 10 and 15 next year. And then we're going to have to wait and see what happens because things are developing all the time.

Unidentified Audience Member

That's a huge target, 4,000 MW, even though it's out quite a ways. What percentage did you think ideally could be done in -- the 4,000 could be done in your service area, assuming you had unlimited funds to actually do it?

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

We think there's a lot of space available. I don't think there's any problem of reaching those goals. I mean that's the mandate and there's plenty of space. So I think it's very achievable.

Unidentified Audience Member

Do you have a lot of commercial customers? And I was thinking more warehouses that you can actually put all of this stuff on top of. It seems to make a lot of sense for those --

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

Yes, we do -- we do have some roof mounts and we're actually looking at more. Storage is very popular place to put them. And with the technology and the prices coming down, we're seeing prices actually below 4 for installed cost.

Any other questions?

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Unidentified Audience Member

Just one question. You mentioned some of the positive regulatory or legislative support for solar in state. Could you talk a little bit about what are some of the things that you're seeing that might happen?

Dave Robbins - *South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic*

Well, I think this last chart is very important, that they're mandating this much installed capacity. So, I think that's very encouraging for the future growth of solar. I mean we're in front of the policymakers and I think everybody understands that this supply and demand kind of went upside down. There was way more production than was anticipated. But I think there's going to be some proactive changes to that to right that ship and stabilize the prices.

Mike Renna - *South Jersey Industries Inc. - President - South Jersey Energy Solutions*

I think, just to add to Dave a little bit, you know New Jersey and the policymakers are well aware of the success that we've had in solar. And they do want to see it continue. And I wouldn't underestimate the impact that the jobs has on it because this has created a lot of jobs. And until the demand curve and supply curve get back in balance, there's a threat that the jobs could disappear.

So what I think you may see is one of two things, and it's what they're kicking around. One is either a floor on the SREC prices to make sure there's still that incentive to develop. Or, and possibly more likely, would be an acceleration of this curve so that some of this 4,000 in year -- in the incremental, whatever that is, of 500 in year 2026 gets brought forward. So that the earlier years get lifted in terms of what the requirement is. And that would obviously stimulate new development.

Unidentified Audience Member

Thanks.

Unidentified Audience Member

Isn't there the opposite pressure, though, to the pricing of it starting to get into people's consciousness and a pushback on some of the enthusiasm?

Dave Robbins - *South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic*

Yes. Well, clearly, there was concern when the prices were trading around \$600. And I think what's ended up happening is that the offset to that is when the prices started to dip into the \$200 range and the development stopped and there was the threat of existing projects being challenged. That's why the state's kind of trying to figure out where that right price point is.

And everything we're hearing is somewhere in that \$300 to \$3560 range, very consistent with what's happening in Massachusetts. We believe that that's enough of an incentive for development to continue without having a real detrimental impact to consumer energy prices.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Unidentified Audience Member

As dynamic pricing meters become more widely available in the state, I'm not current as to what the program is, but as those smart meters become available, then pricing will start to appear where they've been absent before, marginal cost of supply, peak load, the fact that solar is cranking away, maxing out at the time of max stress on the grid.

This could be a real game changer in the pricing and the design of the grid going forward. Seems to me that the -- almost to the extent that smart meters are in and being used, then those price signals create more opportunity on the solar side, or at least begin to bring the relative costs down. Could you comment on that?

Dave Robbins - *South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic*

Well, I think there's a couple of issues. First, with respect to the future of smart meters, obviously there's a lot of people that are -- or a lot of companies that are proponents of it, not the least of which is Atlantic Electric and Pepco. I believe that they've been a big proponent of smart meters.

I just don't know how quickly it's going to take hold in New Jersey. It's not a big part of the energy master plan. What are big parts of the energy master plan, which really guides things for us and really steers where investment is going is natural gas and renewables. And those renewables being solar and wind.

So I don't mean to punt on the question, but I think it's not going to be until you see those incentives and that kind of support from government get put in place and you're going to see a real shift in a dynamic way to smart meters that, as you're right, could seriously stimulate demand. Dave, you guys are probably closer to it than I am.

Unidentified Company Representative

Mike's right. Pepco and Atlantic have made a big push for this. The staff of New Jersey board is not real big on smart metering. They look at the results that came out of California, and I'm not real up to speed other than knowing that it was borderline debacle. It just didn't go well.

Atlantic's filing for smart metering and New Jersey had to be at least three years ago and it might very well be dead in the water. So I think all the theoretical, the conceptual things are right, except this commission has not been real receptive to can the extreme costs of smart metering play a benefit that outweighs that cost. So it's a little bit up in the air right now in New Jersey.

Unidentified Audience Member

Just wanted to ask you on the incentives, you get a federal tax incentive and the state had one in New Jersey, which I think was really causing people, at least on the individual basis, to step up. They took that away.

Dave Robbins - *South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic*

They did. They replaced the subsidy with the SREC market. They wanted to create an incentive that was more market driven than just a pure subsidy. So it was really just a substitution.

Unidentified Audience Member

So you think A substitutes for B because a lot of people I know were sort of turned off when the state stopped giving the credit.



Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

Well, I think the reason behind the acceleration in solar development had less to do with the SRECs and more to do with the ITCs. And so again, I think that what you're going to see is a leveling off of the market, particularly in 2016 when the ITCs go away or are phased out. Because again, you know, I think you're going to see an adjustment this year as well because now the option or grant in lieu of the ITC expires at the end of this year. And as of right now, nothing has been proposed to extend that.

So companies that don't have a capacity for ITC are going to pull out of the market, or at least pull back. So but -- don't underestimate how important the SREC piece of it is, too. I mean that's the basis of your earnings stream going forward, that along with the PPA contract and the electricity you're selling to the customer.

Unidentified Audience Member

I just want to ask you on the solar projects, do you take ownership of them and split some sort of savings with the people that you --

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

No, we --

Unidentified Audience Member

-- talking on the commercial side.

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

No, we take the ownership. We pass the savings on to the customer via reduced rate. We get the SREC, we get the ITC. So it's very similar to any other Marina project where we are the owner/operator of the system. And the risk bearer.

Any other questions on solar?

I'm going to turn it over to Steve now to walk us through why we're so excited about combined heat and power as well as some examples in that space as well.

Steve Poniatowicz - South Jersey Industries Inc. - SVP - Marina Energy, EVP, Energenic

Combined heat and power has a lot of the same characteristics as the solar generation market, specifically with the ITC and accelerated depreciation benefits. And we also consistent and predictable cash flows from these projects. And our deal structures for both commodity and O&M are passed on to direct user through our (inaudible) with them.

Shown here is a summary of -- summary page of a typical district energy project with combined heat and power. This project will produce both electricity, steam and chilled water. The left side of the page is a lot of our project inputs. So at the top we have our total CapEx, which is about \$50 million. About 5% of this cost is our soft costs, costs that we incur in the development and front engineering of the project.

The balance of the costs are the hard costs, are the actual costs to construct and implement the project. To help mitigate the risks associated with these hard costs, the vast majority of these costs, probably about 85% to 90%, are assigned to an EPC

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

contractor. By laying these risks to an EPC contractor, we therefore mitigate our potential for cost overruns and help ensure a successful project investment.

Also on this page on the left side you'll see that we an equity contribution of about 30%. Equity contributions are driven by several factors, one of which with the intention of maximizing the value of our equity as we invest them in these projects. Clearly, debt coverage ratios and the amount of working capital that we need to keep the project up and running in one of the influential pieces of determining equity.

Also, the status of financial markets, specifically interest rates and how much debt a project can support, will also help determine what this debt to equity ratio is for one of our projects.

Unidentified Audience Member

Can you tell us what size this example is?

Steve Poniatowicz - South Jersey Industries Inc. - SVP - Marina Energy, EVP, Energenic

This particular project, cogen is about a 10 MW, 10 to 11 MW cogen. And just this is a manufactured project that we put as an example. It's actually kind of a culmination of several projects that are both in development and we have on line. So there's no specific project around this.

Last two areas on the left side represent an estimate of our normalized or operating costs as well as the amount of debt rate and term associated with the project. Right side of the page here lists the results that we expect from our financial models. In this case, return on equity based on both pretax and after-tax cash flows are 24.45 and 24.08 respectively.

Year one net book income is approximately \$325 million, and this is supported by the 10% investment tax credit that's associated with the CHP portion of this project. The average net book income for this project would be approximately \$2 million a year.

Drilling down further into the pro forma income statement, the revenues of these type of projects are driven by three factors. Typically with a customer we have a demand or a capacity payment. And this demand and capacity payment is typically structured so that it mirrors the amount of debt and principal and interest that we earn on the project.

The second piece, the O&M payment, basically is a fee that's adjusted annually by CPI or some other negotiated index. And this rate is meant to reflect our operating and maintenance costs for the project.

And finally, the third piece of revenue is the energy usage fees. And these energy usage fees are typically tied to an index that's attached to the underlying cost of service, specifically electricity or fuel, i.e. natural gas. Pro formaing these projects this way and if you look at the EBITDA line, you'll notice that the returns are very annuity-like, very stable over the course of the project.

One other item of note on the project of course is we get a little boost in the first year due to the 10% investment tax credit. And although it's not as attractive as the solar 30% that you get for a solar project, clearly it does help boost the returns of our project.

The cash equity in these projects represents an investment on the part of the owners. And portions of the district energy system get accelerated depreciation for tax purposes. Also, the CHP itself gets a five-year (inaudible) for cash. Coupled with the 10% ITC, this project can generate significant cash flow in the early years.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Looking at this slide, one can see that the \$15.2 million of equity that was invested into this project is fully recovered by the end of year three. These strong cash flows throughout our portfolio of Marina and Energenic projects help create a strong balance sheet and allows Marina and Energenic to continue to invest in new projects in our project queue.

Before discussing our project queue, I just want to take a moment to look at what we have operating so far. This list is our current operating projects, is a mix of thermal plants, combined heat and power technology, and landfill gas to energy. These 11 projects provide a nice chronological timeline of our development for Marina and Energenic over the past 10 years, starting in 2002, and our most recent project coming on line in June of 2011 in Sussex County.

In 2008 the economy started to falter a bit, and development of thermal plants in support of the robust casino market at the time began to step back. But as this economy slowed, an opportunity in solar energy manifested itself. These eight solar projects, the first one going on line in 2009 and the last one being completed this year, range from 0.7 MW to approximately 4 MW per site, represent our ability to be agile and to be able to take our core competencies of developing energy projects and apply them to a fee renewable project (inaudible) in the state of New Jersey and to continue to develop annuity-like income streams for our company.

So what do we have coming next? These are the projects that are currently -- that have been announced and are in construction. And it's a nice mix of projects. The first project is solar project, which we expect to have on line end of this year or early next year. The second project is a landfill gas to energy project, which is ready to go into startup and we're certain that it'll be on line by the end of this year.

And of course ACR District Energy, or the Revel project as we've come to know it, many people will see this this afternoon as we tour this in Atlantic City. This project will also come on line in conjunction with the new Revel hotel and casino in Atlantic City.

When you look at our pipeline of projects that are still to come, many of which are in the advanced stages of development, you can easily understand our optimism. What's most important is that the queue is well balanced and can offer immediate impact of solar along with the long term stability and growth of CHP. In developing new projects, we're also exploring the acquisition of exciting CHP assets, as these projects in many circumstances are operational and financially proven and immediately accretive to earnings.

Drilling down further into the CHP project queue, currently we have three projects in the advanced stages of development. This means that contracts are being drafted, negotiations are in the final stages. We're confident that these projects will close soon, be announced and be operational by the end of 2012.

What we classify as medium projects are those projects that have been quantified and the client has expressed interest in completing these projects. There is a lot of positive momentum in these projects as customers look to take advantage of low and predictable natural gas prices going forward and explore ways to conserve their own internal capital. As the information is vetted and refined, we're optimistic that these projects will move into the advanced stages over the next couple of months.

You may have taken note at the table that the CapEx for a medium project is lower than the advanced project. Our current medium project is a lot of smaller CHP only projects, whereas a lot of our advanced projects are broader, more district energy type projects that we see.

As to the preliminary numbers that you see on this project, preliminary projects represent potential projects that have not been fully quantified or embraced by the prospect. The value of this number, they kind of ebb and flow as people kind of get interested or uninterested in these projects or they're evaluated as not being viable at this time.

Moving on to the snapshot of our pipeline for solar projects, our solar queue is very robust at this time. It remains high interest in performing projects with Marina energy. By us maintaining a long term view of the solar market and positioning SRECs in

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

the long term contracts, this has enhanced our viability to do many of these projects. As in CHP, the advanced stage projects represents those that are in final negotiations and we anticipate many of these projects will be on line during the course of 2012.

The CapEx of the medium project here seems to be a little bit out of kilter with the advanced stage projects. And the reason for this is that one of these projects in the medium stages has five separate electrical interconnections and uses a lot of [parking canopies]. Electrical interconnections and parking canopies are probably the most expensive type of solar projects to build because you have a lot of steel and interconnections can be very, very expensive because of the [wildness] of the electric utility. Again, the prospects still remain interested in the project. We'll see how this one develops over time.

A slide that I have not prepared is one for the landfill gas energy projects. There are seven of those. (inaudible) none of these projects are in the advanced stages. Typically these projects as they come out of landfills are sponsored by government authorities that own these landfills. And because the government authority process tends to be very open and transparent, it's also very slow. So although we're very confident that we're going to still be developing landfill gas energy projects, we're not quite sure how many we're going to be able to get into the queue in the advanced stages over the coming year.

At this point I'm going to turn the presentation back over to Mike, who can do a wrap-up of the retail section and introduce the wholesale.

Mike Renna - South Jersey Industries Inc. - President - South Jersey Energy Solutions

Thanks.

Again, we are extremely encouraged by the quality and the depth of our project pipeline in Marina and Energenic. And we're very optimistic about our ability to achieve those goals that are outlined on this slide. Which is one to two mid to large scale CHP projects per year over the next five years, four to five solar projects, again, within that target market that Dave talked about earlier in his slide presentation through 2016.

And one area that we didn't really touch on -- well, Steve touched on a little bit, was the landfill gas to electric, which we'll look at on a case by case basis. But we also think that there's going to be growing opportunity in the traditional energy services sector because, again, that's another we didn't even talk about is another big part of the energy master plan. That's the traditional energy services such as [EGAC] efficiency projects, lighting retrofits, et cetera.

There's a lot of incentives built into the energy master plan which we think will really generate some increased demand in this business and it's something we've had a lot of success in the past. When you wrap all these things together and you look at what we have on the retail side with respect to our ability to generate 10% growth in Service Plus and energy company and you look at the strength of our queue and the success of our business development efforts, we are very optimistic about our ability to grow the retail business by 8% to 12% over the next five years.

Unidentified Audience Member

Ask you a question on the Revel. Why did you need a partner for that in your CHP project? I could understand the other projects that you have, landfill gas and whatnot, obviously they probably know more about that. But why did you need a partner there when it's kind of -- you can see it's kind of down the block from what you have now?

Unidentified Company Representative

I guess the easy answer is we really like our partners.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

There's a couple of reasons. One, I mean it's a -- for us, for projects of that scale, we really do look towards having a partner. It sheds the risk -- or it shares the risk. But most importantly, the partner gives us the opportunity to take advantage of project financing and keep that project -- that financing off balance sheet. That's the real reason for it.

Unidentified Audience Member

I had another question. You mentioned at the beginning of your presentation that you like to shed as much risk as possible in these projects so you have someone outside doing the engineering construction. But don't you have a company that does that and don't you do that for your projects or is -- how does that work?

Unidentified Company Representative

We have engineers in-house. In fact, what 's role within Energenic is he is -- he and his team are onsite in all of our large scale projects. And they're there from the time we get to advanced stage negotiation on the ESA all the way through the first two years of operation. We consider that one of our core competencies internally within Marina.

Our other core competency and where we really add value to Energenic is on the business development front. Our salespeople have the relationships, they're the rain makers. Our partner has expertise in construction, in engineering, in operations. So we think it's really a great fit between complementary expertise. So, quite frankly, because the partnership always successful and because it's worked so well, I don't think there's a desire on either side to go out and create redundant competencies.

Unidentified Audience Member

Yes, reference was made to potentially acquiring existing operating CHP properties. Could you put some parameters around that? Would it be similarly sized, smaller, larger, older, newer, geographically inside New Jersey, outside New Jersey? Some --

Unidentified Company Representative

All the above. Hold on one second. I think the point, Steve, was that the existing assets are every bit as attractive if not more attractive in some cases than to build something new. And so we -- as Dave said earlier and we've said all along, we're opportunistic. So we look at -- we look at things. To sit there and say that there's anything beyond that, there really isn't.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

No, I don't think so. I think we've been -- we believe that we can secure one to two CHP projects a year and I'm indifferent as to whether they're new construction or whether they're acquired.

Unidentified Audience Member

Dave, those thousands of projects around the world that you were referencing, are they in -- or will they or are any acquisitions included in the pipeline? Is that all --

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

Well, no. Again, I mean -- I sound like a broken record. But no. I think what it is, we look at it a little differently. We look at what's the universe of projects out there, which ones fit within our decision criteria, which ones are attractive to us for whatever reasons, and whether or not we develop those projects or homegrown and they're developed or whether or not we get brought an opportunity to take a look at an existing asset, that's not really something that -- we don't have a bucket that says, okay, these are new and these are acquired.

We look at the universe and sit there and say that we're very confident that we can develop one to two a year. And we look at actually acquiring the same as developing. So, yes, it should be built into the queue but it's not like specifically built in the queue that okay, it's the thermal loop in Detroit or something like that. Now, before anybody goes and writes that down, I don't even know if a thermal loop exists in Detroit. I'm just making it all up.

Unidentified Audience Member

So whenever we look at the pipeline we can assume that that might include acquisitions.

Dave Robbins - South Jersey Industries Inc. - VP -- Accounting & Finance, CFO, Energenic

Yes, absolutely.

Unidentified Audience Member

Question from an accounting standpoint. Do you have the choice of whether or not you amortize the ITCs for solar and thermal projects or whether you book them all in year one? I guess just for my own knowledge base. I'm sure --

Unidentified Company Representative

(inaudible - microphone inaccessible)

Unidentified Company Representative

All right, I'm going to turn it over to an accountant.

Unidentified Company Representative

We absolutely do have the choice. We have the choice between selecting a grant or the ITC. If you select the ITC for tax purposes it follows that way for book. So we have elected to take the ITC in a flow-through process so it comes to earnings because we believe, well, number one, it's acceptable under GAAP. And number two, it matches cash.

Unidentified Audience Member

Does that change at all in terms of an acceleration and number of projects that you're doing? Does anything change in your thinking as these -- as the number of projects increase?

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Unidentified Company Representative

Well, I think we're looking at a consistent number of solars. And then you have to look at what the CHP project's going to add incrementally. And of course they're only on the qualifying piece 10% ITC.

Unidentified Company Representative

And the other thing, the prevailing wisdom right now is that when you select one you have to stay (inaudible - microphone inaccessible).

Unidentified Audience Member

Okay.

Unidentified Company Representative

Yes, there's a consistency.

Unidentified Audience Member

All right, thank you.

Unidentified Company Representative

Any other questions before we move on to wholesale?

Mike Renna - *South Jersey Industries Inc. - President - South Jersey Energy Solutions*

Moving over to our wholesale business, we are in the middle of a significant strategic shift, one in which we are becoming less reliant on storage and transportation spreads and increasingly more focused on a broader Marcellus based strategy.

It's important to note that at our core we are marketer. It is our area of expertise. It's also where we add value. And while we remain opportunistic and seek to carve out niches along the Marcellus, we do so with the goal of leveraging our assets and our expertise and to do so to further grow our marketing book.

As you can see, we repositioned resources group to take advantage of the growing opportunities in the Marcellus. This will allow our business to continue to be an important contributor to SJI, even as traditional storage and transportation have compressed. It is important to note that we still hold and expect to hold going forward valuable storage and transportation assets which supports our marketing strategies and allows us to capitalize on future opportunities when spread widen.

I'd like to now ask Ken DePriest, president of South Jersey resources group, to provide a little color on our Marcellus activities.

Ken DePriest - *South Jersey Industries Inc. - President - South Jersey Resources Group*

Thank you, Mike.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

As everyone's mentioned, the Marcellus is really changing the way we do business and has had effect on all phases of the market. Storage spreads have compressed, volatility has dropped, and regional basis markets have moved dramatically. As you can see on this slide, the value of the storage and long haul -- traditional long haul transportation we held has dropped significantly and we don't expect to earn as much from that market segment going forward as we have in the past.

As flowing gas increases throughout the country, driven by the shale plays, the value of storage drops. The main driver of storage value is that you need to inject gas in the summer because you have more demand in the winter and you need the storage gas to meet that demand. As more gas is flowing, that cuts down on the amount of storage needed in the winter. And as you fill it, even though we're expanding the storage, people still inject in the summer, as that's the only market for it, and that compresses the spread between the winter and summer.

As a result of that, we've turned back from storage. We held at one time 12.8 Bcf of storage and we've dropped that down to 8.4 Bcf of storage. And we are continually evaluate our storage, whether we need to hold it or turn it back. So we believe the Marcellus is here to stay and we are repositioning ourselves to take advantage of this new opportunity.

As Mike mentioned, producer marketing is our core focus and consistent with our asset mix and expertise. Our opportunities come from relationships we have formed through marketing, including our investment in Potato Creek. We have developed a diversified mix of short and long term contracts in the Marcellus around which to build our marketing business. One of these contracts led to the supply arrangement that Chuck mentioned earlier.

In that arrangement, resources group approached the producer, talked to them about their needs, their development plans, their marketing plans, and saw an opportunity. Put some of that contract with the utility, take some of that contract ourselves and keep some of the gas to sell to other utilities and purchasers.

One area we are really excited about in the Marcellus is our royalty purchase program. We obtained our Potato Creek rights, as I mentioned, through a relationship we developed when we purchased Open Flow, a regional marketer located in DuBois, Pennsylvania.

At Potato Creek we've decided to not exercise our right to participate as a drilling partner in future development, but instead redeploy proceeds earned from the pending sale of the working interest rights into additional royalty purchases. Simply put, we saw an opportunity to monetize future royalty streams for owners looking to cash out, and in return we receive the mineral rights and full potential of the royalty rights.

As seen on this map, the blue circle is Potato Creek. That's where we originally held our only mineral rights in the Marcellus. Since then we have taken proceeds from Potato Creek and purchased royalty rights throughout the Marcellus. We have interests in the liquids rich south and east portions of the Marcellus as well as interests in the prolific northeast dry portion of the Marcellus. Lease operators on our acreage include such companies as [Range], Chevron, Chesapeake, Anadarko and Shell, which we believe will increase our likelihood of success.

Let's go over a recap of our investments to date. It is important to note that we have funded our acreage purchase through the proceeds earned on our Potato Creek investment. Originally we invested \$2 million in Potato Creek and we expect to have earned, when our sale to Endeavor is finalized, \$17.5 million. We intend to reinvest the \$17.5 million in acquiring roughly 6,300 additional acres across the Marcellus.

And our very conservative production and price assumptions of potential contribution from royalty income is significant. If you look at this slide, what the numbers are based on is an 80-acre spaced well producing -- or estimated ultimate recoveries of 3 Bcf. That's what gives you the 37,500 Mcf [breaker]. If you look at investor presentations from any of the major players in the Marcellus, all of them tout recoveries in the 4 to 7 Bcf range, so we believe our numbers are conservative.



Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

It is difficult to predict when wells will come on line and what levels they will be producing and for how long. But as you can see, even in a very conservative model, these investments could add more than \$240 million of revenue without the need to invest additional capital. Obviously better than expected production, and our prices will only add to the returns of this investment.

In addition, if production is delayed or the lease is not drilled and the term expires, which is one of the risks of this program, we will earn additional lease bonus revenue since we are the lease owner. So if the lease expires or is extended, that revenue comes to us and mitigates the time value risk that we hold.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Ken DePriest - *South Jersey Industries Inc. - President - South Jersey Resources Group*

Yes?

Unidentified Audience Member

Are the royalty rights in any way affected similar to Range is facing now in terms of the litigation over who owns the minerals?

Ken DePriest - *South Jersey Industries Inc. - President - South Jersey Resources Group*

Some of ours would be, yes. In many of the acreage that we purchased, we purchased all the minerals and oil and gas. Some of what we hold we bought the oil and gas right. So if there was a ruling that gas does not come -- that it is somehow separate, that shale is a mineral, that even though it holds gas, was never -- has never been mined as a mineral, never intended to be a mineral, if it is somehow designated a mineral, it would affect a portion of our property.

Unidentified Audience Member

Can you talk about what portion of the royalty rights that you have are -- and that you're purchasing, if it's two different things, that are actually producing?

Ken DePriest - *South Jersey Industries Inc. - President - South Jersey Resources Group*

The only thing we have producing right now is Potato Creek. There's three wells on Potato Creek that are currently producing. We expect the Endeavor purchase of the working interest rights to close later this month. They have a fairly aggressive drilling program scheduled for that.

We have received notification on two of our leases that you're sent a letter to test your water when you are being placed in a unit for permitting purposes. We've received notification on two of our properties that they are permitting them. They're all in active drilling areas, but none are producing right now, which actually at today's prices we're not disappointed with. Soon see it spread out a little bit. And know that they will be drilled over time because they're in good areas.

Unidentified Audience Member

Just in follow-up, so your strategy is to produce -- is to purchase nonproducing royalty interests to -- and make a bet that they will be producing or that you'll get a re-up on the bonus payments. And secondly, why is -- why is the approach to just invest

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

-- just invest the proceeds from Potato Creek? Is it hard to -- so hard to find these properties that you can't invest more money than that?

Ken DePriest - South Jersey Industries Inc. - President - South Jersey Resources Group

We could invest more money -- first question, yes, that is our strategy. If a well's already drilling -- been drilled and producing, then it's just a matter of the person taking his current cash payment and running a discount against it to see what you're going to buy him out at. And that's very transparent. Most people don't have any idea or even care what a well is producing or can produce if they haven't been drilled.

So when someone gets a \$3,000 an acre lease bonus and he doesn't see any drilling rigs around his area, if he can get another \$3,000, just like a lottery ticket we look at it, that how many people, even though they're going to get \$1 million in payments for the next 20 years, and their cash-out option is \$200,000, 90% take the \$200,000 or even higher. Most people like money today and don't know how to run the economics and don't really want to. They just would prefer money today. So that's our target market, people that want money today in a good area and we'll do the valuation.

Unidentified Audience Member

One more follow-up. What is your basic criteria for selecting these properties and what's the opportunity that you have that some of the -- some of the -- some competitors, including the operators, would not be buying those royalties from themselves. How are you getting them?

Ken DePriest - South Jersey Industries Inc. - President - South Jersey Resources Group

Well, the operators don't want to buy the royalties normally. They've already got enough money tied up in acreage. One of the things we look for, in fact, one of the big negotiations when an operator leases in an area is he'd rather put as little money into that acreage as possible and pay a very high royalty percentage so that if his wells aren't good, not exposed for all the money in that area.

We do a lot of -- since we buy a lot of gas in the Marcellus and we look to see where wells are successful, our criteria is to go with good leases that have been already leased by good operators because we know that they've already taken a look at it, believe the area is prospective. We've seen other wells in the area. We see other production in the area. And to look for higher royalties and look for an area that has within that section that has not been drilled yet, but a lot of people are anxious to get cash.

There's a lot of people, again, they don't want to wait around for the drilling to occur, would rather take cash. That's our target. We talk to the producers. We know where they're sending rigs. We know where -- they're very open with what kind of success they're having in wells so you can scan their investor presentations, see the counties and the production rates they're talking about, reserves, and then we take a very conservative case on that, model our stuff on 3 Bcf versus the 4 to 8 that the producers are touting, and based on even our conservative numbers, we would earn a very good rate of return.

Because we don't control the timing on all this, it is a program that -- I don't know how much we want to spend, we wanted to at least spend what we already had at Potato Creek. We'll take a look at potential further investments as we go.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Unidentified Audience Member

I was wondering. Do you have competition from those royalty trusts who have raised a lot of money from investors to do exactly what you do? And is there competition not only for the properties, but on price that you would pay the people for these royalty interests?

Ken DePriest - *South Jersey Industries Inc. - President - South Jersey Resources Group*

Most of the royalty trusts only buy existing producing properties. They're big money, lot of money that they've raised and want to invest a lot in it. So they'll go and try to buy and whole field from an operator or find out all the royalty owners and try to get all of them together and buy their interest in that entire field, something that they can easily model and finance.

Again, since we're just reinvesting our proceeds, we have a little different approach. We are not competing with those folks. We do not try to buy anything that's already producing. And because we don't, there are a few other people that do this, but they're small. And frankly, there are a lot of people that want to cash out. We probably have more acreage showed to us than we really want to buy right now.

Another opportunity we have in the Marcellus is for resources group to develop new relationships which will lead to new marketing opportunities. In some case, opportunities to passively invest in projects similar to our Potato Creek venture. An area of particular interest with outstanding growth prospects is gas fired generation.

We firmly believe that as the Marcellus develops, gas fired generation will be built as both an outlet for the growing production and as a vehicle to retire existing coal fired plants. Currently we have signed confidentiality agreements with three developers on four different projects who have asked us to try to match producers with their project in an attempt to get gas sold to the project on power related pricing. If so, they can get their projects financed.

There's still a big mismatch. One of the challenges of matching producers and generators is the producers need to sell their gas every day, while plants run only when the economics dictate. So we want to provide a service to balance the gas with the power burns and where we fit in is on a service fee basis (inaudible) between the gas and power prices is pass-through between the producer and the power developer. When the plant doesn't run, we'll take the gas and sell it. When the power plant needs more gas, we'll provide that at a market price.

Now, getting producers and power generators to match up when you talk to both, everyone is very excited about this. Producers know they need to get these plants built. Price of gas is dropping every day. Everyone talks about that market. Yet producers are still worried about, well, what if power goes to \$2 and they get \$1 for their gas? And the power producer is worried, well, what if gas goes to \$10 and I can't (inaudible)?

So the hurdle is to get some floors and caps built into those formulas, even though when you look at it the power and gas are tied very closely today and because all marginal power is driven by gas. So the economics are there. We do have several producers looking at these deals right now. These plants are two and a half years away for the earliest. We do have one that already has all their permits and would be ready to go if we get a matchup and. Again, have two producers looking at that.

But again, these are long lead items, but it's going to happen. And without this, you know that gas is really going to stay in the \$3 range if we don't get these built. So they are going to happen. And it is an area we're very excited about.

Mike Renna - *South Jersey Industries Inc. - President - South Jersey Energy Solutions*

Any other questions for Ken?

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Unidentified Audience Member

What is the size of the megawatts of these projects that you're talking about? I mean --

Ken DePriest - *South Jersey Industries Inc. - President - South Jersey Resources Group*

The smallest one's 200. The largest ones 1,300.

Unidentified Audience Member

These are pretty big projects and they're --

Ken DePriest - *South Jersey Industries Inc. - President - South Jersey Resources Group*

Big projects.

Unidentified Audience Member

-- 50 MW type things.

Ken DePriest - *South Jersey Industries Inc. - President - South Jersey Resources Group*

No, no --

Unidentified Audience Member

And so what sort of gas would they require in terms of volume on a daily basis?

Ken DePriest - *South Jersey Industries Inc. - President - South Jersey Resources Group*

The largest one would use 160,000 (inaudible) a day. The smallest ones in the 30,000 a day range.

Unidentified Audience Member

And are they talking about putting the plants in the middle of the gas field or are they talking about putting them somewhere else and piping the gas over or is it --

Ken DePriest - *South Jersey Industries Inc. - President - South Jersey Resources Group*

Two of them are out in the field. One's in southwest Pennsylvania, one's in the middle of the state, near Penn State. The other one is -- well, there's two of them near our service territory that we're talking to.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Unidentified Audience Member

The biggest problem they seem to have is transmission. Is transmission not considered a problem in these -- I realize it's out of your --

Ken DePriest - *South Jersey Industries Inc. - President - South Jersey Resources Group*

Not in any of these. Two of them -- or three of the projects are actually currently cold that want to convert and already have their connection to transmission. One of them would be a greenfield project, already has its permits and has its interconnection and they're already in the queue (inaudible - microphone inaccessible) connection.

Unidentified Audience Member

Your function would be just middleman between the producer and the power plant operator. You wouldn't have any equity interest in any of the projects itself?

Ken DePriest - *South Jersey Industries Inc. - President - South Jersey Resources Group*

Not at this time. That may be offered to us. And if we elected to look at it, it would probably be through a Marina type project. They would perhaps take a look at that. We don't -- that may be an option that we would look at, not currently contemplated. However, we do have an electric group that we do sell retail electricity. They would like to have rights to purchase power. We've talked about that so that we can purchase in blocks of fixed price to add to our retail group. So the projects would also be complementary to our other business.

Unidentified Audience Member

Thanks.

Mike Renna - *South Jersey Industries Inc. - President - South Jersey Energy Solutions*

Any other questions for Ken?

Okay. Just in summary, our growth goal for South Jersey Energy Solutions is to grow by 7% to 10% over the next five years. That's really a result of two things. One is the repositioning of South Jersey resources group that Ken just outlined and the potential from both our marketing efforts, producer marketing efforts as well as our royalty purchase program and then longer term hopefully being able to be involved in some of these new large scale merchant plans that get built along the Marcellus continuum.

But the real driver of our growth is on the retail side and that is directly related to the successes that we've had in Marina Energy and the promise of the business development queue that we have in place right now.

And with that, I believe I'm going to open it up to any questions left for the group.

I think we're going to take another 15-minute break and come back and Steve, Dave and Ed, I believe, will wrap up the presentations.

(Break)



Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Steve Clark - *South Jersey Industries Inc. - Treasurer*

Okay, just to wrap up, you've heard a lot from everybody in the room today about all the opportunities that are in front of us and all the projects we have and frankly all the opportunities we have to invest capital in this business. And I just wanted to come up here for a few moments. I'm Steve Clark. I'm treasurer of South Jersey Industries. Talk about really how we're planning to finance it and the way we look at the financing activity that we need to do.

When we think about debt to capital, we believe we have very, very ready access to debt capital. We primarily looked at our working capital needs and our bridge financing needs to longer term capital. We've used our revolving credits. Back in the end of April, beginning of May, we put into place two new revolving credits to replace our previous revolving credits.

So we took our total revolving credit availability from about \$300 million up to \$500 million, \$300 million at the nonutility level and \$200 million at South Jersey Gas Company. We're in the process also of wrapping up another facility that will give us another \$60 million of availability at the South Jersey Industries level. Both are for four years.

We're very happy that the timing that we used on these. Obviously they're not priced quite the same way that the previous revolvers were because we had done the previous ones back in August of 2006 when the -- when the market was at its most aggressive from a banking standpoint and what they were providing in the terms for those deals. But they'd come down dramatically by the time we did these from where they were right after the fourth quarter of 2008 when all the turmoil in the financial markets started.

But one of the steps that we've taken to also address pricing in the bank markets as we started off the commercial paper program at South Jersey Gas Company that went on line back in the middle of July. Very attractive from our standpoint. It's really taking our day to day borrowing rate from about 140 basis points on the revolving credits down to right around the 40 basis point level for our commercial paper.

We'll also continue to look at the opportunity to expand that into South Jersey Industries and get that -- get that rolling there. Realistically, I don't see that happening this year. Potentially a 2012 event.

We're also in the process, when we look at South Jersey Gas Company, we utilized the revolver at South Jersey Gas Company to not only provide for our working capital needs, but also to bridge finance any of the capital that we're doing (inaudible - microphone inaccessible) critical mass where we can go out and do a long term financing for it. And we've historically done that under a medium term note program that is really a broad based program that permits us to issue long term debt up to 40 years. And it's tied to our first mortgage bond, so they are secured.

But it's gotten us very attractive rates in the marketplace and it's made availability very easy for us to come by in the marketplace. We're just wrapping up our last program right now. We circled an issue for \$35 million back in the middle of September for 15-year debt -- 15-year average life, 20-year final maturity at a 3.72% rate. And we don't intend to take it down until April 1st of next year.

Interestingly enough, it coincides with an opportunity that we have. We have some debt outstanding that we can potentially call if it's appropriate at that point in time. It's approximately 4% higher than that, so very attractive opportunity for our utility to cut interest expense in that regard.

The new facility we're going to file for to replace the one we're wrapping up with is a \$200 million facility. And we'd expect to have that in place sometime during the fourth quarter so that we have the ability -- and when I'm saying file for it, it's filed with the Board of Public Utilities to get it approved so that then we have the flexibility to go out and raise the debt to take advantage of opportunistic conditions in the marketplace.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

On the nonutility side, we typically used a lot of cash within our business to do the financings that we needed to do. However, when we look at a project, particularly the larger projects that you heard Mike's group and Steve and Dave talk about, and when I'm saying larger projects it's typically the projects that are above \$20 million in total capital costs, we'll typically look to do those in a project financing mode wherein what our exposure is in those transactions is the equity portion of the deal.

That doesn't mean we're not committed to the transactions. It doesn't mean that these aren't important strategic parts of our business and important parts of our portfolio. But I think what you got the flavor of through most of today was that we spend a lot of time thinking about risk. And we really want to manage it very carefully to that low to moderate level approach and target that we talked about in our goals. And the project financing really lets us do that.

So as we look at project financings, our real focus there is that when we do them with our partner, we enter into a project financing, and our exposure at the end of the day is just the equity component of that. Doesn't mean that we couldn't decide to do something later on, but it would be on an analyzed case by case basis.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Steve Clark - *South Jersey Industries Inc. - Treasurer*

Sure.

Unidentified Audience Member

What will your embedded debt costs be when you get this financing done? Are you looking at a lower embedded cost going forward than we've seen for the last two years?

Steve Clark - *South Jersey Industries Inc. - Treasurer*

You talking about the gas company financing I was just talking about?

Unidentified Audience Member

Yes.

Steve Clark - *South Jersey Industries Inc. - Treasurer*

Yes, absolutely. Our average is low to mid 5s right now and we're -- so obviously 3.72 drops us lower.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Steve Clark - South Jersey Industries Inc. - Treasurer

You know, it's -- the opportunities that we see coming up, can't do the math off the top of my head, should knock that number down from where we are right now. But we don't see over the next year or so anything driving long term rates noticeably upwards from where they are. And as we're looking to finance not only our regular capital spend at the utility, but also this additional CIRT capital spend at the utility, you're going to see opportunities. We're going to be a regular participant in the market.

And if Steve Clark's guess or opinion meant anything to the markets, I would think that you're probably in that 3.5% to 4% range on the debt that we'd be issuing going forward.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Steve Clark - South Jersey Industries Inc. - Treasurer

Depends on how long treasuries stay where they are. But, yes, over time you can certainly see that.

I just wanted to put this slide up because it talks about where our current debt maturities are, both in the utility and the nonutility level. And I think it's very important because it points out what our strategy is for how we deal with debt. And as you can see, in '12, '13, '14 and '15, the highest amount that South Jersey Gas has to pay back in any given year (inaudible) is just under \$30 million. Most of the years it's well below that.

Our focus has always been to try to avoid having years where we have more than \$30 million coming due at any one point in time. And the logic behind that is because obviously markets can fluctuate wildly, availability can become constrained. And we certainly saw that at the end of 2008. There were a lot of players in the marketplace who needed to do refinancing and got stuck.

Fortunately for us, and I think for most of the utility sector, particularly the gas utility sector, capital wasn't an issue at that point in time. We did -- we were able to get through that without any kind of a hiccup in availability in the marketplace. Seemed like this was the place, if you were going to loan as a bank, this was probably the most likely place where you were going to get your money back. So it didn't really impact us.

But our view has always been you never know what disruption can happen in the market. So by keeping it at a very manageable level, it makes sure that availability never becomes an issue for us, but it also makes sure that we're not going to have a dramatic change in interest rates as a result of having to do a major refunding in one particular given year.

Unidentified Audience Member

How much of the combined debt that matures after 2014, so I'm putting you on the spot, how much of it is callable proportionally?

Steve Clark - South Jersey Industries Inc. - Treasurer

Very little. Actually, let me -- it is all callable, but at may-call provisions. So there's no logic to call that. And our view on that has been really through most of the 2000s that given where rates have been, it's very unlikely that we would find ourselves in a position where the economics would really dramatically demand a call. When you're issuing debt at -- in the low 5s, in the 4s and even down to the 3s, there's only so much lower you can go, arguably, in those debt issues going forward. Higher rate debt environment you'd probably look to be more aggressive at having call provisions in that.



Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

That pretty much takes care of the current maturities. And last item is equity capital. We also believe we have very ready access to equity capital. I'll make the investor bankers listening in very unhappy from the standpoint that our company has never had a secondary offering. And frankly we don't really see a reason to have a second offering. We've always used our dividend reinvestment plan and the option of cash provision under our dividend reinvestment plan as a means to raising equity when we needed to raise equity.

Back in the early 2000s we had a more aggressive capital structure than we have right now. What we did at that point in time is made a determination that we didn't like where that capital structure was and we wanted to boost the equity component of it. So we opened up our dividend reinvestment plan at that point in time and I think at our peak we probably raised \$35 million a year just through the dividend reinvestment plan.

In opening up -- we've had (inaudible - microphone inaccessible) years and reopening it earlier this year, I think it opened at the end of May, in opening it again this year we're not looking to waive the caps that we have on the optional cash investment that can come in. And that's how you would raise the really large money. But our expectation is maintaining our cap in place, which is \$100,000 for any particular investor, we're still probably looking at a total equity raise on an annual basis of \$8 million to \$10 million as a result of that. And the only reason that we're doing that is that, frankly, we have a lot of projects out there. We'll have a lot of opportunity.

And it's really our focus to maintain an equity to capitalization ratio right around that 50% range. We're not going to run out if we're a little bit below that number and just issue equity to get us back there quickly if it's just a matter of timing with regard to how earnings streams start layering in relative to the debt capital that we have out there. But we are very focused on it. We spend a lot of time looking at it and we are committed to that 50/50 equity to capitalization ratio.

And with that, I think it's time to turn it back over Ed and he can do a wrap-up and take any other questions.

Ed Graham - South Jersey Industries Inc. - Chairman, President, CEO

Thanks, Steve, and it's good to see that Steve was learning from his predecessor as treasurer. When his predecessor was asked what interest rates were likely to do in the future, he, with great certainty, said he thought they were either going to go up or go down or stay the same. And I think Steve gave a like answer to his view on interest rates.

Before I just have some summary comments, any questions that you haven't had a chance to ask of the management team that you'd like to ask of me? And some I actually might answer.

Kathleen?

Unidentified Audience Member

I wondered what is your thinking about the relative portion of the business that's in the unregulated side versus the regulated. And you know the regulated is going to grow at a very quick rate, even apparently faster than the unregulated. How flexible should that balance between the two be from a strategic overall point of view?

Ed Graham - South Jersey Industries Inc. - Chairman, President, CEO

Well, I think we're -- we certainly don't decide what projects to get in solely based upon how it affects that mix. And having said that, we're right now, I guess at the end of 2010, 54% earnings contribution from the utility South Jersey Gas and the balance from the non-regulated. If you follow through with the programs that are driven just on the regulatory component of the utility, I would expect it to become a larger and larger portion of the total pie.



Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

Despite a nice growth story for the non-regs, I believe the gas company's going to grow faster. So we're moving -- we'll be moving above that 54%. In fact, we'll be doing that in 2011. And I think we're moving -- we'll be tracking more towards 60% than towards 50%.

Any other questions?

With that, then, I'll just summarize what you've heard today. And I think consistently we're in the right place at the right time. Obviously being located near the Marcellus has been a great benefit to us. And the energy master plan, as they now translate a plan or a goal into actable items, I think -- actionable items, I think we'll benefit through the businesses we're in.

Clearly, because of unfortunate incidents that have happened around the country in terms of explosions in gas pipelines, the sensitivity and the concern about safety really supports our accelerated infrastructure plan in the gas company. Dave could have been a little bit more assertive about his confidence. I'm very confident that we'll over the next 10 years have this plan in place. But as he gets older, he gets a little bit more wishy-washy.

In terms of capital investment opportunity on the nonutility side, and again with our partners working alongside, developing projects consistently, we see a lot of opportunity in CHP and the thermal facilities in particular. And so, again, we'll have a lot of opportunity to invest in infrastructure on that side of the business.

And I think finally, besides the direct opportunities we have in the Marcellus in terms of mineral rights and our optimism about our royalty program, I think, again, as a marketer for producers as well as connecting to some of these larger generating projects at the gas fired, I think we have a great opportunity to be -- to earn in a more passive way profits from putting producers together with larger developers of energy electricity projects.

In terms of demand, I guess again it repeats the same story. We've got a great queue in Marina for projects that we did some actually vetting before we narrowed it down to the list you saw. If I turn to our partners, Joe and Michael, I think Joe is probably wondering where's the rest of the projects he's been developing on that list. But we are cautious to not put them into a [queue as to more likely] until we feel like they've been vetted properly.

And if anyone knows -- in fact, I do -- if I could ask Michael and [Joe Jingoles], our partners, just to stand up for those that haven't seen them. And they've been great partners and we thank them for being with us today. And we more than like them. We think it's a great relationship that we'll succeed in the future with them as well.

So with that, I think I'll summarize. And this is the ultimate of hedge slides because being an accountant, normally you add the numbers above or you average them and then that equals the sum of industries. And you'll notice that there's great optimism in each of the subsidiaries on their growth potential. But we're not changing our long term target of growing at least 6% to 7%.

And I can tell you as I look at the gas company number, with what we have laid out I feel incredibly confident of our ability to do that. And on the non-regulated side, I think one thing is certain. We're probably going to grow at a very strong pace as we're targeting, but it probably will look different than we've conceived today, just like it does today when we conceived it five years ago. But I think -- I hope you have confidence that we recognize and adapt to what's out there to take advantage of it.

So, overall, I'm not changing guidance for 2011, although I feel very confident about our ability to grow earnings this year from 9% to 15%. And the ability to target average growth beyond 2011 at 6% to 7% or more is likewise something myself and the management team feel very confident about.

And quite frankly, this is -- these are things that we're planning on in a weak economy that at some point or another it will probably get better. But we're assuming very weak housing. We're assuming some of the traditional things that have benefited us not in the plan right now. So they would be additive and only grow our opportunities as the economy starts to recover.

Oct. 06. 2011 / 12:30PM, SJI - South Jersey Industries Inc Analyst Presentation

So, with that, hopefully most people had success at the tables last night. I still am recovering from the loss of the Phillies, although [Dan Fidel] feels very confident. And I again thank you this year for coming to be with us and I look forward to perhaps next year being at Revel. And Chris Ellinghaus, one last question. I guess he was out till 3 o'clock last evening, so he's just woken up.

Chris Ellinghaus - *Williams Capital - Analyst*

Can you illuminate a little bit Hard Rock, and is that any -- can you tell us is that in the pipeline at all?

Ed Graham - *South Jersey Industries Inc. - Chairman, President, CEO*

Well, certainly the first threshold, Hard Rock Casino has been proposed in Atlantic City. A boutique, a smaller casino. That would be more in the south end of the city. There was a requirement, and I forgot the cutoff date, but it's since past, that if you were serious about developing a small boutique casino you had to at least put up a nonrefundable deposit of \$1 million. They've done that.

We've certainly seen their detailed plans. We work closely with the architecture -- the architects. We know where the plant would be located and we know pretty much all the components of what it would look like. So it's still early in the discussion, but it's getting a bit more traction. I think maybe a loss on the national level, but a gain for us is the governor choosing to stay in New Jersey for four more years because he's a great attraction to investment in the state but in the city. His commitment to Atlantic City has gotten a lot of people interested in investing in it that might not otherwise. So him staying is important to us.

Any other questions?

With that, thank you all and have a safe trip home. And those that are going to the tour, wear a hardhat. Thank you.

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