

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007**

**OR**

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

**FOR THE TRANSITION PERIOD FROM                      TO  
Commission file number 1-8359**

**NEW JERSEY RESOURCES CORPORATION**  
(Exact name of registrant as specified in its charter)

**New Jersey**  
(State or other jurisdiction of  
incorporation or organization)

**22-2376465**  
(I.R.S. Employer  
Identification Number)

**1415 Wyckoff Road, Wall, New Jersey - 07719**  
(Address of principal  
executive offices)

**732-938-1489**  
(Registrant's telephone number,  
including area code)

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

**Common Stock - \$2.50 Par Value**  
(Title of each class)

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

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

**None**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

**YES: x                      No: o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12-b-2 of the Exchange Act. (Check one):

**Large accelerated filer: x                      Accelerated filer: o      Non-accelerated filer: o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**YES: o                      No: x**

The number of shares outstanding of \$2.50 par value Common Stock as of May 1, 2007 was 27,993,844

**FORWARD-LOOKING STATEMENTS**

Certain statements contained in this report, including, without limitation, statements as to management expectations and beliefs presented in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations," Part I, Item 3. "Quantitative and Qualitative Disclosures about Market Risk," Part II, Item I. "Legal Proceedings" and in the notes to the financial statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can also be identified by the use of forward-looking terminology such as "may," "intend," "expect," "believe" or "continue" or comparable terminology and are made based upon management's expectations and beliefs concerning future developments and their potential effect upon New Jersey Resources Corporation (NJR or the Company). There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Company will be those anticipated by management.

The Company cautions readers that the assumptions that form the basis for forward-looking statements regarding customer growth, customer usage, financial condition, results of operations, cash flows, capital requirements, market risk and other matters for fiscal 2007 and thereafter include many factors that are beyond the Company's ability to control or estimate precisely, such as estimates of future market conditions, the behavior of other market participants and changes in the debt and equity capital markets. The factors that could cause actual results to differ materially from NJR's expectations include, but are not limited to the following:

. weather and economic conditions;

- . demographic changes in the New Jersey Natural Gas (NJNG) service territory;
- . the rate of NJNG customer growth;
- . volatility of natural gas commodity prices and its impact on customer usage, NJR Energy Services' (NJRES) operations and on the Company's risk management efforts;
- . changes in rating agency requirements and/or credit ratings and their effect on availability and cost of capital to the Company;
- . commercial and wholesale credit risks, including creditworthiness of customers and counterparties;
- . the ability to obtain governmental approvals and/or financing for the construction, development and operation of certain non-regulated energy investments;
- . risks associated with the management of the Company's joint ventures and partnerships;
- . the impact of governmental regulation (including the regulation of rates);
- . fluctuations in energy-related commodity prices;
- . conversion activity and other marketing efforts;
- . actual energy usage of NJNG's customers;
- . the pace of deregulation of retail gas markets;
- . access to adequate supplies of natural gas;
- . the regulatory and pricing policies of federal and state regulatory agencies;
- . changes due to legislation at the federal and state level;
- . the availability of an adequate number of appropriate counterparties in the wholesale energy trading market;
- . sufficient liquidity in the wholesale energy trading market and continued access to the capital markets;
- . the disallowance of recovery of environmental-related expenditures and other regulatory changes;
- . environmental-related and other litigation and other uncertainties;
- . the effects and impacts of inflation on NJR and its subsidiaries operations;
- . change in accounting pronouncements issued by the appropriate standard setting bodies; and
- . terrorist attacks or threatened attacks on energy facilities or unrelated energy companies.

While the Company periodically reassesses material trends and uncertainties affecting the Company's results of operations and financial condition in connection with its preparation of management's discussion and analysis of results of operations and financial condition contained in its Quarterly and Annual Reports, the Company does not, by including this statement, assume any obligation to review or revise any particular forward-looking statement referenced herein in light of future events.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

|                                            | Three Months Ended<br>March 31, |              | Six Months Ended<br>March 31, |              |
|--------------------------------------------|---------------------------------|--------------|-------------------------------|--------------|
|                                            | 2007                            | 2006         | 2007                          | 2006         |
| <i>(Thousands, except per share data)</i>  |                                 |              |                               |              |
| <b>OPERATING REVENUES</b>                  | \$ 1,024,636                    | \$ 1,064,422 | \$ 1,766,101                  | \$ 2,228,998 |
| <b>OPERATING EXPENSES</b>                  |                                 |              |                               |              |
| Gas purchases                              | 795,469                         | 882,688      | 1,424,154                     | 1,921,163    |
| Operation and maintenance                  | 32,337                          | 31,026       | 60,653                        | 58,757       |
| Regulatory rider expenses                  | 18,135                          | 12,405       | 27,601                        | 21,863       |
| Depreciation and amortization              | 8,986                           | 8,612        | 17,888                        | 17,188       |
| Energy and other taxes                     | 30,268                          | 26,003       | 44,220                        | 44,670       |
| Total operating expenses                   | 885,195                         | 960,734      | 1,574,516                     | 2,063,641    |
| <b>OPERATING INCOME</b>                    | 139,441                         | 103,688      | 191,585                       | 165,357      |
| Other income and expense                   | 1,650                           | 1,874        | 3,639                         | 3,516        |
| Interest charges, net                      | 7,091                           | 6,173        | 14,966                        | 12,656       |
| <b>INCOME BEFORE INCOME TAXES</b>          | 134,000                         | 99,389       | 180,258                       | 156,217      |
| Income tax provision                       | 53,473                          | 39,188       | 71,607                        | 61,752       |
| <b>NET INCOME</b>                          | \$ 80,527                       | \$ 60,201    | \$ 108,651                    | \$ 94,465    |
| <b>EARNINGS PER COMMON SHARE</b>           |                                 |              |                               |              |
| <b>BASIC</b>                               | \$2.89                          | \$2.16       | \$3.91                        | \$3.41       |
| <b>DILUTED</b>                             | \$2.87                          | \$2.14       | \$3.89                        | \$3.37       |
| <b>DIVIDENDS PER COMMON SHARE</b>          | \$0.38                          | \$0.36       | \$0.76                        | \$0.72       |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING</b> |                                 |              |                               |              |
| <b>BASIC</b>                               | 27,893                          | 27,822       | 27,803                        | 27,686       |
| <b>DILUTED</b>                             | 28,047                          | 28,145       | 27,959                        | 28,000       |

See Notes to Condensed Unaudited Consolidated Financial Statements

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

|                                                                                | <b>Six Months Ended<br/>March 31,</b> |              |
|--------------------------------------------------------------------------------|---------------------------------------|--------------|
| <i>(Thousands)</i>                                                             | <b>2007</b>                           | <b>2006</b>  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                    |                                       |              |
| Net income                                                                     | \$ 108,651                            | \$ 94,465    |
| ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FLOWS<br>FROM OPERATING ACTIVITIES |                                       |              |
| Depreciation and amortization                                                  | 17,888                                | 17,188       |
| Unrealized gain on derivatives                                                 | (192)                                 | (5,206)      |
| Amortization of deferred charges                                               | 151                                   | 152          |
| Deferred income taxes                                                          | 15,231                                | (3,960)      |
| Manufactured gas plant remediation costs                                       | (8,814)                               | (16,457)     |
| Gain on asset sale                                                             | —                                     | (617)        |
| Cost of removal - asset retirement obligations                                 | (488)                                 | —            |
| Contribution to employee benefit plans                                         | (300)                                 | (300)        |
| Changes in:                                                                    |                                       |              |
| Working capital                                                                | 96,121                                | (8,833)      |
| Other noncurrent assets                                                        | 23,229                                | 25,509       |
| Other noncurrent liabilities                                                   | (9,854)                               | (3,823)      |
| Cash flows from operating activities                                           | 241,623                               | 98,118       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                    |                                       |              |
| Proceeds from common stock                                                     | 9,976                                 | 13,192       |
| Tax benefit from stock options exercised                                       | 2,138                                 | 4,250        |
| Proceeds from long-term debt                                                   | —                                     | 35,800       |
| Proceeds from sale-leaseback transaction                                       | 5,482                                 | 4,090        |
| Purchases of treasury stock                                                    | —                                     | (9,109)      |
| Payments of long-term debt                                                     | (1,950)                               | (22,483)     |
| Payments of common stock dividends                                             | (20,605)                              | (19,285)     |
| Payments of short-term debt, net of proceeds                                   | (153,700)                             | (85,600)     |
| Cash flows used in financing activities                                        | (158,659)                             | (79,145)     |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>                                 |                                       |              |
| Expenditures for:                                                              |                                       |              |
| Utility plant                                                                  | (24,540)                              | (21,913)     |
| Real estate properties and other                                               | (1,822)                               | (1,720)      |
| Cost of removal                                                                | (2,736)                               | (2,154)      |
| Equity investments                                                             | (52,500)                              | —            |
| Investment in restricted cash construction fund                                | —                                     | (12,500)     |
| Proceeds from asset sales                                                      | 1,792                                 | 3,006        |
| Cash flows used in investing activities                                        | (79,806)                              | (35,281)     |
| Change in cash and temporary investments                                       | 3,158                                 | (16,308)     |
| Cash and temporary investments at beginning of period                          | 4,991                                 | 25,008       |
| Cash and temporary investments at end of period                                | \$ 8,149                              | \$ 8,700     |
| <b>CHANGES IN COMPONENTS OF WORKING CAPITAL</b>                                |                                       |              |
| Receivables                                                                    | \$ (191,654)                          | \$ (134,008) |
| Inventories                                                                    | 204,313                               | 166          |
| Underrecovered gas costs                                                       | 13,330                                | 67,315       |
| Gas purchases payable                                                          | 90,970                                | (24,190)     |
| Prepaid and accrued taxes, net                                                 | 67,402                                | 52,850       |
| Accounts payable and other                                                     | 1,984                                 | (12,959)     |
| Restricted broker margin accounts                                              | (43,411)                              | 57,902       |
| Customers' credit balances and deposits                                        | (47,695)                              | (9,069)      |
| Other current assets                                                           | 882                                   | (7,781)      |
| Other current liabilities                                                      | —                                     | 941          |
| Total                                                                          | \$ 96,121                             | \$ (8,833)   |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>                      |                                       |              |
| Cash paid for                                                                  |                                       |              |
| Interest (net of amounts capitalized)                                          | \$ 13,954                             | \$ 11,341    |
| Income taxes                                                                   | \$ 28,319                             | \$ 33,487    |

See Notes to Condensed Unaudited Consolidated Financial Statements

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

**ASSETS**

| <i>(Thousands)</i>                        | <b>March 31,<br/>2007</b> | <b>September 30,<br/>2006</b> |
|-------------------------------------------|---------------------------|-------------------------------|
| <b>PROPERTY, PLANT AND EQUIPMENT</b>      |                           |                               |
| Utility plant, at cost                    | \$ 1,267,108              | \$ 1,243,586                  |
| Real estate properties and other, at cost | 27,702                    | 27,136                        |
|                                           | 1,294,810                 | 1,270,722                     |
| Accumulated depreciation and amortization | (348,283)                 | (335,783)                     |
| Property, plant and equipment, net        | 946,527                   | 934,939                       |
| <b>CURRENT ASSETS</b>                     |                           |                               |
| Cash and temporary investments            | 8,149                     | 4,991                         |
| Accounts receivable:                      |                           |                               |
| Billed                                    | 285,188                   | 133,615                       |
| Unbilled                                  | 53,915                    | 12,543                        |
| Allowance for doubtful accounts           | (3,970)                   | (2,679)                       |
| Regulatory assets                         | 8,105                     | 8,105                         |
| Gas in storage, at average cost           | 305,737                   | 512,942                       |
| Materials and supplies, at average cost   | 3,806                     | 3,599                         |
| Prepaid state taxes                       | —                         | 26,343                        |
| Derivatives, at fair value                | 75,430                    | 223,559                       |
| Broker margin account                     | 60,024                    | 30,833                        |
| Other                                     | 10,898                    | 11,665                        |
| Total current assets                      | 807,282                   | 965,516                       |
| <b>NONCURRENT ASSETS</b>                  |                           |                               |
| Equity investments                        | 82,709                    | 27,208                        |
| Regulatory assets                         | 311,061                   | 322,986                       |
| Derivatives, at fair value                | 40,731                    | 94,638                        |
| Prepaid pension                           | 19,483                    | 21,045                        |
| Restricted cash construction fund         | 8,500                     | 8,500                         |
| Deferred finance charges                  | 8,089                     | 8,876                         |
| Other                                     | 3,644                     | 15,220                        |
| Total noncurrent assets                   | 474,217                   | 498,473                       |
| <b>Total Assets</b>                       | <b>\$ 2,228,026</b>       | <b>\$ 2,398,928</b>           |

See Notes to Condensed Unaudited Consolidated Financial Statements

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)**  
**(Unaudited)**

**CAPITALIZATION AND LIABILITIES**

| <i>(Thousands)</i>                          | <b>March 31,<br/>2007</b> | <b>September 30,<br/>2006</b> |
|---------------------------------------------|---------------------------|-------------------------------|
| <b>CAPITALIZATION</b>                       |                           |                               |
| Common stock equity                         | \$ 652,805                | \$ 621,662                    |
| Long-term debt                              | 335,477                   | 332,332                       |
| Total capitalization                        | 988,282                   | 953,994                       |
| <b>CURRENT LIABILITIES</b>                  |                           |                               |
| Current maturities of long-term debt        | 4,126                     | 3,739                         |
| Short-term debt                             | 127,000                   | 280,700                       |
| Gas purchases payable                       | 388,849                   | 297,879                       |
| Accounts payable and other                  | 48,895                    | 46,823                        |
| Dividends payable                           | 10,615                    | 10,056                        |
| Accrued taxes                               | 64,559                    | 9,267                         |
| Regulatory liabilities                      | 15,040                    | 1,710                         |
| Clean energy program                        | 10,775                    | 8,244                         |
| Derivatives, at fair value                  | 106,955                   | 163,557                       |
| Broker margin account                       | —                         | 14,220                        |
| Customers' credit balances and deposits     | 13,265                    | 60,960                        |
| Total current liabilities                   | 790,079                   | 897,155                       |
| <b>NONCURRENT LIABILITIES</b>               |                           |                               |
| Deferred income taxes                       | 179,748                   | 227,100                       |
| Deferred investment tax credits             | 7,674                     | 7,835                         |
| Deferred revenue                            | 10,152                    | 10,206                        |
| Derivatives, at fair value                  | 45,545                    | 85,036                        |
| Manufactured gas plant remediation          | 105,400                   | 105,400                       |
| Regulatory liabilities                      | 60,488                    | 64,220                        |
| Clean energy program                        | 4,897                     | 11,335                        |
| Asset retirement obligation                 | 23,461                    | 23,293                        |
| Other                                       | 12,300                    | 13,354                        |
| Total noncurrent liabilities                | 449,665                   | 547,779                       |
| <b>Total Capitalization and Liabilities</b> | <b>\$ 2,228,026</b>       | <b>\$ 2,398,928</b>           |

See Notes to Condensed Unaudited Consolidated Financial Statements

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. GENERAL**

The condensed consolidated financial statements have been prepared without audit, as of March 31, 2007 and for the six months ended March 31, 2007 and 2006, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The September 30, 2006 balance sheet data is derived from the audited financial statements of New Jersey Resources Corporation (NJR or the Company). These condensed consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in NJR's 2006 Annual Report on Form 10-K.

The consolidated financial statements include the accounts of NJR and its subsidiaries, New Jersey Natural Gas (NJNG), NJR Energy Services (NJRES), NJR Retail Holdings (Retail Holdings), NJR Capital Services (Capital) and NJR Service Company (NJR Service). Significant intercompany transactions and accounts have been eliminated. Retail Holdings principal subsidiary is NJR Home Services (NJRHS). Capital's primary subsidiaries are NJNR Pipeline (Pipeline), which holds the Company's 5.53 percent ownership interest in Iroquois Gas and Transmission System, L.P. (Iroquois), and NJR Steckman Ridge Storage Company, which holds the Company's 50 percent combined interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a natural gas storage facility that is being developed with a partner in western Pennsylvania.

In the opinion of management, the information furnished reflects all adjustments necessary for a fair presentation of the results of the interim periods. Because of the seasonal nature of NJR's utility and wholesale energy services operations, in addition to other factors, the financial results for the interim periods presented are not indicative of the results to be expected for the fiscal year ending September 30, 2007.

***Recently Issued Accounting Standards***

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which alters the framework for recognizing income tax contingencies. Previously, under Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*, the focus was on the subsequent liability recognition for estimated losses from tax contingencies where such losses were probable and the related amounts could be reasonably estimated. Under this new interpretation, a contingent tax asset (i.e., an uncertain tax position) may only be recognized if it is more likely than not that it will ultimately be sustained upon audit. The Company will adopt FIN 48 by the commencement of fiscal 2008. The Company is evaluating its tax positions for all jurisdictions and all years for which the statute of limitations remains open, as well as evaluating the impact that the adoption will have on its financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value as the amount that would be exchanged to sell an asset or transfer a liability in an orderly transaction between market participants and establishes a fair value hierarchy of quotes and unobservable data that should be used to develop pricing assumptions. In addition, for assets and liabilities that are not actively traded, for example, certain kinds of derivatives, SFAS 157 requires that a fair value measurement include an adjustment for risks inherent in a valuation technique and/or inputs, such as those used in pricing models. SFAS 157 is effective for fiscal years beginning after November 15, 2007; however, early adoption is permitted. The Company will adopt the provisions of the statement prospectively and is evaluating the adoption date and its effect on its financial condition.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postemployment Plans* (SFAS 158). The statement requires an employer to recognize the funded status, measured as the difference between the fair value of plan assets and the projected benefit obligation, of its benefit plans. SFAS 158 does not change how pensions and other postemployment benefits are accounted for and reported in the income statement. Certain economic events, which previously required disclosure only in the notes to the financial statements, will be recognized as assets and liabilities and offset in Accumulated other comprehensive income, net of tax, or as part of Regulatory assets, for those amounts related to NJNG that would be recoverable through allowed rates charged to customers, to the extent such amounts are not recognized in earnings as part of net periodic benefit costs. Amounts recognized in Accumulated other comprehensive income, or in Regulatory assets as it may relate to NJNG, will be adjusted as they are subsequently recognized in earnings through net periodic benefit cost. The Company will adopt SFAS 158 on September 30, 2007 and will apply the provisions of the statement prospectively. The Company is currently evaluating the effect of adoption on its financial condition.

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to elect to measure eligible items at fair value as an alternative to hedge accounting and to mitigate volatility in earnings. The entity either elects the fair value option according to a preexisting policy, when the asset or liability is first recognized or when it enters into an eligible firm commitment. Changes in the fair value of assets and liabilities that the Company chooses to apply the fair value option to are reported in earnings at each reporting date. SFAS 159 also provides guidance on disclosures that are intended to provide comparability to other entity assets and liabilities that have different measurement attributes and to other entities with similar financial assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007; however, early adoption is permitted provided the Company also elects to apply the provisions of SFAS 157. The Company is evaluating SFAS 159 to determine its applicability to its current operations and effect, if any, on its financial condition.

## **2. REGULATION**

### ***Basic Gas Supply Service (BGSS)***

On October 25, 2006, NJNG filed supporting documentation with the Board of Public Utilities (BPU) for a self-implementing BGSS price reduction effective November 1, 2006, which lowered residential and small commercial customers' bills by approximately 4 percent. This decrease was due to reduced demand charges, lower wholesale cost of natural gas and lower than expected pipeline fuel costs.

On December 1, 2006, NJNG filed notification with the BPU and the representative of the Public Advocate Division of Rate Counsel (Rate Counsel) to refund, in the form of a bill credit, approximately \$51.5 million to residential and small commercial customers in December 2006. The refund was the result of a continued reduction in the wholesale cost of natural gas for NJNG relative to what it is allowed to charge in its rates to customers.

On March 1, 2007, NJNG filed notification with the BPU and the representatives of Rate Counsel to refund, in the form of a bill credit, approximately \$20 million to residential and small commercial customers in March 2007. The refund was the result of a continued reduction in the wholesale cost of natural gas.

### ***Conservation Incentive Program (CIP)***

On December 12, 2006, the BPU issued its Decision and Order and approved the CIP stipulation, reached on September 30, 2006, without modification.

The CIP is a three-year pilot program, designed to decouple the link between customer usage and NJNG's utility gross margin to allow NJNG to encourage its customers to conserve energy. The initial term of the CIP is October 1, 2006 through September 30, 2009. Under certain conditions, the CIP may be extended one additional year beyond the initial term. For the term of the pilot, the Weather Normalization Clause has been suspended and replaced with the CIP tracking mechanism, which addresses utility gross margin variations related to both weather and customer usage in comparison to established benchmarks. Recovery of such utility gross margin variations (filed for annually and recovered one year following the end of the CIP usage year) is subject to additional conditions including an earnings test and an evaluation of BGSS-related savings. If NJNG does not file for a rate review with the BPU by October 1, 2008, the return on equity for the earnings test will decline from 10.50 percent to 10.25 percent. NJNG continues to evaluate its expected returns and general market conditions with regard to filing for a potential rate review.

To encourage energy efficiency, NJNG is obligated to initiate and fund programs to further customer conservation efforts over the term of the pilot. An annual filing reporting on NJNG's conservation efforts will be made in June of each year, commencing in June 2007, coincident with its annual BGSS filing. The minimum expected liability for funding these programs was recorded, at its present value of \$1.8 million, as of September 30, 2006. As a result of the accretion of interest and the payment of obligations for this program, the balance of this liability is approximately \$1.5 million as of March 31, 2007.

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The commencement of the CIP does not have any impact on the collection of previously accrued amounts for utility gross margin recovery under the Weather Normalization Clause.

***Societal Benefits Clause (SBC) and Weather Normalization Clause (WNC)***

On October 25, 2006, NJNG filed its SBC and WNC requests for a price adjustment for all applicable service customers, which was expected to result in an approximate aggregate 1.6 percent increase in those customers' prices. On November 10, 2006, NJNG filed a separate petition with the BPU for its annual review and revision of the WNC recovery component relying on the information provided in the October 25, 2006 filing. The SBC and WNC rate increases, currently pending before the BPU, were proposed to be effective on January 1, 2007. Pending review and approval by the BPU and Rate Counsel, the results of the SBC and WNC will be implemented upon receipt of a BPU order.

The SBC portion of the filed increase had accounted for approximately 0.3 percent of the expected price increase. The aggregate increase is comprised of an increase in rates for the Transportation Initiation Clause (TIC) and an increase in the recovery related to the New Jersey Clean Energy Program (NJCEP) from \$7.1 million to \$13.6 million for the calendar year 2007. This increase was partially offset by a decrease to the Remediation Adjustment Clause (RAC) recovery from \$19.2 million to \$15.9 million annually. The proposed RAC decrease reflected recovery of expenditures through June 30, 2006 related to NJNG's remediation of its former Manufactured Gas Plant (MGP) sites, except for those expenditures associated with the Mass Tort Litigation related to the Long Branch MGP sites (see *Note 12. Commitments and Contingent Liabilities*). There was no change in the Universal Service Fund (USF) rate.

The WNC portion of the filed rate increase, which had represented approximately 1.3 percent of the expected price increase, was proposed to increase the WNC recovery component in order to recover accrued utility gross margin of approximately \$8.1 million from October 2005 through May 2006.

NJNG signed a stipulation in March 2007 with the BPU and Rate Counsel regarding the resolution of the September 2005 and October 2006 SBC and WNC filings. The stipulation permits NJNG to include in its rates the current BPU approved after-tax SBC and WNC rates in effect until changed by the BPU. The stipulation will also allow the recovery of lost revenues, as a result of previous customer conservation efforts, through a reduction in the liability associated with the Market Development Fund. The stipulation also will increase the SBC and WNC rates for all applicable service customers' rates by an approximate aggregate 3.1 percent.

The increase in customer rates from an aggregate 1.6 percent in the original filing to an aggregate 3.1 percent in the March 2007 stipulation reflects the removal of the expenditures through June 30, 2006 related to NJNG's remediation of its former MGP sites, as noted above, and also excludes costs in excess of those received by NJNG from insurers stemming from the operation and remediation of the former MGP site in Long Branch, New Jersey as recovery of all such costs and expenditures is being resolved separately before the BPU (see *Note 12. Commitments and Contingent Liabilities—Legal Proceedings—Kemper Insurance Company Litigation*). The stipulation further provides that NJNG will file a BGSS notice to implement a price decrease to coincide with the effective date of any recommended SBC and WNC increase.

On April 4, 2007, NJNG sent notification to the BPU and Division of Rate Counsel of its intent to implement a decrease to its periodic BGSS factor for residential and small commercial sales customers effective coincident with the implementation the SBC and WNC rate increase proposed in the March 2007 stipulation. The SBC and WNC rate changes, which are applicable to sales and transportation customers, were included in the October 2006 filing noted above and require BPU approval in order to implement them. As of May 2, 2007, the BPU has taken no action with respect to the approval to implement the stipulated SBC and WNC rates.

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Other Incentive Programs***

NJNG is eligible to receive financial incentives for reducing BGSS costs through a series of utility gross margin-sharing programs that include off-system sales, capacity release, storage incentive and financial risk management programs. On December 15, 2006, NJNG filed a petition with the BPU requesting that it approve an extension of the existing incentive mechanisms to coincide with the end of the CIP. The extension would preserve the status quo of the incentive programs to coincide with the initial three-year term of the CIP pilot program, but would expire no later than October 1, 2011. NJNG is currently holding discussions with the BPU regarding the continuation of these incentive programs. There can be no assurance as to whether these incentive programs will be extended in their current form, for the proposed term, or whether they will be modified or terminated by the BPU.

***Regulatory Assets and Liabilities***

The Company had the following regulatory assets, all related to NJNG, on the Condensed Consolidated Balance Sheets:

| <i>(Thousands)</i>                    | <b>March 31,<br/>2007</b> | <b>September 30,<br/>2006</b> | Recovery Period        |
|---------------------------------------|---------------------------|-------------------------------|------------------------|
| Regulatory assets-current             |                           |                               |                        |
| WNC                                   | \$ 8,105                  | \$ 8,105                      | Less than one year (1) |
| <b>Total</b>                          | <b>\$ 8,105</b>           | <b>\$ 8,105</b>               |                        |
| Regulatory assets-noncurrent          |                           |                               |                        |
| Remediation costs (Notes 2 and 12)    |                           |                               |                        |
| Expended, net                         | \$ 82,158                 | \$ 83,746                     | (2)                    |
| Liability for future expenditures     | 105,400                   | 105,400                       | (3)                    |
| CIP                                   | 14,347                    | —                             | (4)                    |
| Deferred income and other taxes       | 13,554                    | 13,476                        | Various                |
| Postemployment benefit costs (Note 9) | 1,966                     | 2,117                         | Through Sept. 2014 (5) |
| Derivatives (Note 7)                  | 70,850                    | 82,451                        | Through Oct. 2011 (6)  |
| SBC                                   | 22,786                    | 35,796                        | Various (7)            |
| <b>Total</b>                          | <b>\$ 311,061</b>         | <b>\$ 322,986</b>             |                        |

- (1) Recoverable or refundable, subject to BPU approval, without interest. This balance relates to results from the winter 2005-2006 period. No new WNC activity is being recorded due to the existence of the CIP.
- (2) Recoverable, subject to BPU approval, with interest over rolling 7-year periods. As of March 31, 2007, this amount is net of actual insurance proceeds received of \$12.8 million, as the result of a settlement NJNG reached with certain parties for recovery of such amounts on January 24, 2007 (see *Note 12. Commitments and Contingent Liabilities - Legal Proceedings*). As of September 30, 2006 this amount is net of an estimated \$10 million in expected insurance proceeds.
- (3) Estimated future expenditures. Recovery will be requested when actual expenditures are incurred (see *Note 12. Commitments and Contingent Liabilities - Legal Proceedings*).
- (4) Recoverable or refundable, subject to BPU annual approval, without interest. Balance includes approximately \$8.4 million relating to the weather component of the calculation and approximately \$5.9 million relating to the customer usage component of the calculation. Recovery from customers is designed to be one year from date of rate approval by BPU.
- (5) Recoverable or refundable, subject to BPU approval, without interest.
- (6) Recoverable, subject to BPU approval, through BGSS, without interest.
- (7) Recoverable with interest, subject to BPU approval.

If there are any changes in regulatory positions that indicate the recovery of any of the regulatory assets are not probable, the related cost would be charged to income in the period of such determination.

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company had the following regulatory liabilities, all related to NJNG, on the Condensed Consolidated Balance Sheets:

| <i>(Thousands)</i>                | <b>March 31,<br/>2007</b> | <b>September 30,<br/>2006</b> |
|-----------------------------------|---------------------------|-------------------------------|
| Regulatory liabilities-current    |                           |                               |
| Overrecovered gas costs (1)       | \$ 15,040                 | \$ 1,710                      |
| <b>Total</b>                      | <b>\$ 15,040</b>          | <b>\$ 1,710</b>               |
| Regulatory liabilities-noncurrent |                           |                               |
| Cost of removal obligation (2)    | \$ 59,340                 | \$ 58,161                     |
| Market development fund (MDF) (3) | 1,148                     | 6,059                         |
| <b>Total</b>                      | <b>\$ 60,488</b>          | <b>\$ 64,220</b>              |

(1) Refundable, subject to BPU approval, through BGSS, with interest.

(2) NJNG accrues and collects for cost of removal in rates. This liability represents collections in excess of actual expenditures. Approximately \$18.4 million, including accretion of \$656,000 for the six-month period ended March 31, 2007, of regulatory assets relating to asset retirement obligations have been netted against the cost of removal obligation as of March 31, 2007 (see *Note 11. Asset Retirement Obligations*).

(3) The MDF, created with funds available as a result of the implementation of the Energy Tax Reform Act of 1997, provided financial incentives to encourage customers to switch to third party suppliers and has supported other unbundling related initiatives. Balance earns interest at prevailing SBC rate. The MDF funding obligations terminated as of October 31, 2006. \$4.9 million of this fund was credited to the NJCEP, as a result of the CIP Decision and Order of the BPU on December 12, 2006. The remaining balance is being held until final resolution of NJNG's fiscal 2005 SBC filing. A stipulation was signed in March 2007 between NJNG, the BPU and Rate Counsel, that will allow a recovery of lost revenues, through previous customer conservation initiatives, through a reduction in this liability if approved by the BPU.

### 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company and its subsidiaries are subject to market risk due to fluctuations in the price of natural gas. To hedge against such fluctuations, the Company and its subsidiaries enter into futures contracts, option agreements and swap agreements to hedge purchases and sales of natural gas.

Generally, all of the commodity contracts of NJRES meet the "normal purchase normal sale" scope exception of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities (as amended)* (SFAS 133) and are accounted for under accrual accounting, or are designated as a hedge for accounting purposes. If these commodity contracts do not meet the normal purchase normal sale scope exception, or if they do not qualify as a hedge, they are recorded at fair value as a component of Gas purchases.

The amounts included in Accumulated other comprehensive income related to natural gas instruments, which have been designated as cash flow hedges, will reduce or increase Gas purchases as the underlying physical transaction occurs and is settled. Based on the amount recorded in Accumulated other comprehensive income as of March 31, 2007, \$817,000 is expected to be recorded as an increase to Gas purchases during the remainder of fiscal 2007. For the three months ended March 31, 2007 and 2006, \$67.5 million and \$14.2 million, respectively, were charged to Gas purchases; and for the six months ended March 31, 2007 and 2006, \$91.8 million and \$34.8 million, respectively, were charged to Gas purchases.

The following table summarizes the ineffective portions of the Company's cash flow hedges that are included as a benefit as part of Gas purchases in the Condensed Consolidated Statements of Income for the three and six months ended March 31, 2007, and 2006, respectively.

| <i>(Thousands)</i>        | <b>Three Months Ended<br/>March 31,<br/>2007</b> | <b>2006</b>     | <b>Six Months Ended<br/>March 31,<br/>2007</b> | <b>2006</b>     |
|---------------------------|--------------------------------------------------|-----------------|------------------------------------------------|-----------------|
| NJRES                     | \$ 507                                           | \$ 5,173        | \$ 275                                         | \$ 8,767        |
| NJR Energy                | 21                                               | 20              | 50                                             | 35              |
| <b>Total Consolidated</b> | <b>\$ 528</b>                                    | <b>\$ 5,193</b> | <b>\$ 325</b>                                  | <b>\$ 8,802</b> |

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Generally, exchange-traded futures and swap contracts require a deposit of margin cash, the amount of which is subject to change based on market movements and in accordance with exchange rules. The Company maintains separate broker margin accounts for NJNG and NJRES. The balances as of March 31, 2007 and September 30, 2006 are as follows:

| <i>(Thousands)</i>                      | <b>March 31,<br/>2007</b> | <b>September 30,<br/>2006</b> |
|-----------------------------------------|---------------------------|-------------------------------|
| NJNG broker margin deposit              | \$ 23,187                 | \$ 30,833                     |
| NJRES broker margin deposit (liability) | \$ 36,837                 | \$ (14,220)                   |

#### **4. EQUITY INVESTMENTS**

On March 2, 2007, NJR, through NJR Steckman Ridge Storage Company, a wholly-owned subsidiary of NJR Energy Holdings, entered into a series of joint venture agreements with subsidiaries of Spectra Energy Corporation and formed the Steckman Ridge partnership. The purpose of the partnership is to develop and operate a natural gas storage facility in western Pennsylvania, which will serve the Northeastern and Mid-Atlantic regions of the United States. NJR and Spectra each own 50 percent of the equity interests in Steckman Ridge and are required to fund 50 percent of total acquisition and development costs up to a maximum of \$125 million each. As NJR has the ability to exert significant influence, but not control, it uses the equity method of accounting for its investment in Steckman Ridge.

NJR's equity investments at March 31, 2007 and September 30, 2006 include the following investments:

| <i>(Thousands)</i> | <b>March 31,<br/>2007</b> | <b>September 30,<br/>2006</b> |
|--------------------|---------------------------|-------------------------------|
| Steckman Ridge     | \$ 52,749                 | \$ —                          |
| Iroquois           | 21,349                    | 20,414                        |
| Other              | 8,611                     | 6,794                         |
| Total              | \$ 82,709                 | \$ 27,208                     |

#### **5. EARNINGS PER SHARE**

The following table presents the calculation of the Company's basic and diluted earnings per share:

| <i>(Thousands)</i>                                            | <b>Three Months Ended<br/>March 31,</b> |             | <b>Six Months Ended<br/>March 31,</b> |             |
|---------------------------------------------------------------|-----------------------------------------|-------------|---------------------------------------|-------------|
|                                                               | <b>2007</b>                             | <b>2006</b> | <b>2007</b>                           | <b>2006</b> |
| Net income, as reported                                       | \$ 80,527                               | \$ 60,201   | \$ 108,651                            | \$ 94,465   |
| Basic earnings per share:                                     |                                         |             |                                       |             |
| Weighted average shares of common stock outstanding - basic   | 27,893                                  | 27,822      | 27,803                                | 27,686      |
| Basic Earnings per Common Share                               | \$2.89                                  | \$2.16      | \$3.91                                | \$3.41      |
| Diluted earnings per share:                                   |                                         |             |                                       |             |
| Weighted average shares of common stock outstanding - basic   | 27,893                                  | 27,822      | 27,803                                | 27,686      |
| Incremental shares (1)                                        | 154                                     | 323         | 156                                   | 314         |
| Weighted average shares of common stock outstanding - diluted | 28,047                                  | 28,145      | 27,959                                | 28,000      |
| Diluted Earnings per Common Share                             | \$2.87                                  | \$2.14      | \$ 3.89                               | \$ 3.37     |

(1) Incremental shares consist of stock options, stock awards and performance units.

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. DEBT**

In October 2005, under the New Jersey Economic Development Authority (EDA) Act, NJNG used proceeds from EDA Series 2005A and 2005B bonds to refinance NJNG's \$10.3 million, 5.38 percent Series W First Mortgage Bonds and its \$10.5 million, 6.25 percent Series Y First Mortgage Bonds. Also in October 2005, the EDA issued its 4.9 percent (Series 2005C) Natural Gas Facilities Revenue Bonds. The net proceeds from the 2005C bonds were deposited into a construction fund. NJNG immediately drew down \$2.5 million from the construction fund and issued its \$15 million, 4.9 percent Series KK bonds to the EDA with a maturity date of October 1, 2040. NJNG drew down an additional \$4 million from the construction fund in the fourth quarter of fiscal 2006.

In October 2006, NJRES entered into a 3-year, \$30 million committed credit facility with a multinational financial institution. Borrowings under this facility are guaranteed by NJR.

NJNG has a \$44.5 million letter of credit outstanding, which will expire on June 30, 2007, supporting a long-term natural gas swap agreement. The long-term natural gas swap agreement was entered into as a hedge related to an offsetting physical purchase of natural gas for the same period and volume. This letter of credit reduces the amount available under NJNG's committed credit facility by the same amount. NJNG does not anticipate that this letter of credit will be drawn upon by the counterparty and it will be renewed as necessary. NJNG expects to renew this letter of credit agreement upon its expiration in June 2007.

As of March 31, 2007, NJR had a letter of credit outstanding for \$6.0 million, due to expire on June 30, 2007, related to margin requirements for NJRES' natural gas transactions. Including this letter of credit, as of March 31, 2007, NJR had letters of credit outstanding on behalf of NJRES and Commercial Realty and Resources (CR&R) totaling approximately \$11.0 million, which expire through various dates in fiscal 2007. These letters of credit reduce the amount available under NJR's committed credit facility by the same amount. NJR does not anticipate that these letters of credit will be drawn upon by the counterparties and they will be renewed as necessary.

In December 2006 and 2005, NJNG received \$5.5 million and \$4.1 million in connection with the sale-leaseback of its vintage 2006 and 2005 meters, respectively. NJNG plans to continue the sale-leaseback meter program on an annual basis.

There were no other new issuances or redemptions of long-term debt securities for NJR, NJNG or NJRES during the six months ended March 31, 2007.

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is a summary of debt and committed credit facilities outstanding as of March 31, 2007 and September 30, 2006:

| <i>(Thousands)</i>                              | <b>March 31,<br/>2007</b> | <b>September 30,<br/>2006</b> |
|-------------------------------------------------|---------------------------|-------------------------------|
| <b>NJR</b>                                      |                           |                               |
| Long - term debt (1)                            | \$ 25,000                 | \$ 25,000                     |
| Bank credit facilities                          | \$ 325,000                | \$ 325,000                    |
| Amount outstanding at end of period             |                           |                               |
| Notes payable to banks                          | \$ 60,900                 | \$ 129,200                    |
| Weighted average interest rate at end of period |                           |                               |
| Notes payable to banks                          | 5.6%                      | 6.0%                          |
| <b>NJNG</b>                                     |                           |                               |
| Long - term debt (1)                            | \$ 254,800                | \$ 254,800                    |
| Bank credit facilities                          | \$ 250,000                | \$ 250,000                    |
| Amount outstanding at end of period             |                           |                               |
| Commercial paper                                | \$ 66,100                 | \$ 151,500                    |
| Weighted average interest rate at end of period |                           |                               |
| Commercial paper                                | 5.3%                      | 4.7%                          |
| <b>NJRES</b>                                    |                           |                               |
| Bank credit facilities                          | \$ 30,000                 | \$ —                          |
| Amount outstanding at end of period             |                           |                               |
| Notes payable to banks                          | \$ —                      | \$ —                          |
| Weighted average interest rate at end of period |                           |                               |
| Notes payable to banks                          | —                         | —                             |

(1) Long - term debt excludes lease obligations of \$55.7 million and \$52.5 million at March 31, 2007 and September 30, 2006, respectively.

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. CAPITALIZED AND DEFERRED INTEREST**

Included in Utility plant, Real estate properties and other and Equity investments on the Condensed Consolidated Balance Sheets, and reflected in the Condensed Consolidated Statements of Income as a reduction to interest charges, net, are the following amounts recorded for capitalized interest:

| (\$ in Thousands)                                       | Three Months Ended<br>March 31, |        | Six Months Ended<br>March 31, |        |
|---------------------------------------------------------|---------------------------------|--------|-------------------------------|--------|
|                                                         | 2007                            | 2006   | 2007                          | 2006   |
| Capitalized interest - Utility plant                    | \$ 358                          | \$ 299 | \$ 737                        | \$ 560 |
| Weighted average interest rates                         | 5.36%                           | 4.54%  | 5.36%                         | 4.22%  |
| Capitalized interest - Real estate properties and other | \$ 86                           | \$ —   | \$ 129                        | \$ —   |
| Weighted average interest rates                         | 5.37%                           | —%     | 5.46%                         | —%     |
| Capitalized interest - Equity investments               | \$ 211                          | \$ —   | \$ 211                        | \$ —   |
| Weighted average interest rates                         | 5.40%                           | —%     | 5.40%                         | —%     |

NJNG does not capitalize a cost of equity for its utility plant construction activities.

Pursuant to a BPU order, NJNG is permitted to recover carrying costs on uncollected balances related to SBC program costs, which include NJCEP, RAC and USF expenditures (see *Note 2. Regulation*). Accordingly, Other income includes \$780,000 and \$617,000 of interest related to these SBC program costs for the three months ended March 31, 2007 and 2006, respectively, and \$1.6 million and \$1.2 million for the six months ended March 31, 2007 and 2006, respectively.

NJR, through its subsidiary CR&R, capitalizes interest associated with the development and construction of its commercial buildings. Interest is also capitalized associated with the acquisition, development and construction of certain natural gas storage facilities through NJR's equity investment in Steckman Ridge (see *Note 4. Equity Investments*).

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. STOCK BASED COMPENSATION**

Effective January 24, 2007, the shareholders of NJR approved the NJR 2007 Stock Award and Incentive Plan (2007 Plan) which replaced the 2002 Employee and Outside Director Long-Term Incentive Plan (Long-Term Plan). The Long-Term Plan had 591,471 and 87,280 shares, respectively, reserved for employees and directors, which were rolled into the 2007 Plan. In addition to those shares, the 2007 Plan reserved an additional 750,000 shares for issuance to employees for a total reserve of 1,341,471 and 87,280 respectively for employees and directors and provides for a broader range of equity awards.

On January 24, 2007, the Company issued 36,687 shares of Restricted Stock under the 2007 Plan, which vest in equal annual installments over three years, subject to certain conditions, and 17,741 restricted shares that vested immediately. In addition, 8,053 shares were issued to directors during the second quarter of fiscal 2007. As of March 31, 2007, 1,287,043 and 79,227 shares, respectively, remain available for future awards to employees and directors.

During the first six months of fiscal 2007, included in Operations and maintenance expense is \$506,000 related to stock based compensation. As of March 31, 2007 there remains \$2.6 million of deferred compensation related to unvested shares and options, which is expected to be recognized over the next 2 years.

**9. BUSINESS SEGMENT DATA**

Information related to the Company's various business segments, is detailed below. The Natural Gas Distribution segment consists of regulated natural gas delivery, as well as off-system, capacity and storage management operations related to NJNG. The Energy Services segment consists of the unregulated wholesale energy operations of NJRES. The Retail and Other segment consists of appliance and installation services, commercial real estate development, investments and other corporate activities.

| (Thousands)                          | Three Months Ended<br>March 31, |              | Six Months Ended<br>March 31, |              |
|--------------------------------------|---------------------------------|--------------|-------------------------------|--------------|
|                                      | 2007                            | 2006         | 2007                          | 2006         |
| Operating Revenues                   |                                 |              |                               |              |
| Natural Gas Distribution             | \$ 450,811                      | \$ 471,406   | \$ 690,218                    | \$ 865,752   |
| Energy Services                      | 568,388                         | 587,525      | 1,064,175                     | 1,350,720    |
| Retail and Other                     | 5,508                           | 5,560        | 11,848                        | 12,663       |
| Subtotal                             | 1,024,707                       | 1,064,491    | 1,766,241                     | 2,229,135    |
| Intersegment revenues <sup>(1)</sup> | (71)                            | (69)         | (140)                         | (137)        |
| Total                                | \$ 1,024,636                    | \$ 1,064,422 | \$ 1,766,101                  | \$ 2,228,998 |
| Operating Income                     |                                 |              |                               |              |
| Natural Gas Distribution             | \$ 58,736                       | \$ 57,514    | \$ 95,452                     | \$ 90,961    |
| Energy Services                      | 81,410                          | 46,863       | 96,256                        | 73,964       |
| Retail and Other                     | (705)                           | (689)        | (123)                         | 432          |
| Total                                | \$ 139,441                      | \$ 103,688   | \$ 191,585                    | \$ 165,357   |
| Net Income                           |                                 |              |                               |              |
| Natural Gas Distribution             | \$ 33,226                       | \$ 33,509    | \$ 53,134                     | \$ 52,192    |
| Energy Services                      | 47,180                          | 26,999       | 54,999                        | 41,896       |
| Retail and Other                     | 121                             | (307)        | 518                           | 377          |
| Total                                | \$ 80,527                       | \$ 60,201    | \$ 108,651                    | \$ 94,465    |

(1) Consists of transactions between subsidiaries that are eliminated and reclassified in consolidation

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company's assets for the various business segments are detailed below:

| <i>(Thousands)</i>                 | <b>March 31,<br/>2007</b> | <b>September 30,<br/>2006</b> |
|------------------------------------|---------------------------|-------------------------------|
| Assets at end of period            |                           |                               |
| Natural Gas Distribution           | \$ 1,520,716              | \$ 1,586,934                  |
| Energy Services                    | 554,709                   | 714,867                       |
| Retail and Other                   | 167,621                   | 107,213                       |
| Intersegment Assets <sup>(1)</sup> | (15,020)                  | (10,086)                      |
| Total                              | \$ 2,228,026              | \$ 2,398,928                  |

(1) Consists of transactions between subsidiaries that are eliminated and reclassified in consolidation.

## 10. EMPLOYEE BENEFIT PLANS

### *Pension and Other Postemployment Benefit Plans (OPEB)*

The components of the net periodic cost for pension benefits and OPEB costs (principally health care and life insurance) for employees and covered dependents were as follows:

| <i>(Thousands)</i>                 | <b>Pension</b>                          |             |                                       |             | <b>OPEB</b>                             |             |                                       |             |
|------------------------------------|-----------------------------------------|-------------|---------------------------------------|-------------|-----------------------------------------|-------------|---------------------------------------|-------------|
|                                    | <b>Three Months Ended<br/>March 31,</b> |             | <b>Six Months Ended<br/>March 31,</b> |             | <b>Three Months Ended<br/>March 31,</b> |             | <b>Six Months Ended<br/>March 31,</b> |             |
|                                    | <b>2007</b>                             | <b>2006</b> | <b>2007</b>                           | <b>2006</b> | <b>2007</b>                             | <b>2006</b> | <b>2007</b>                           | <b>2006</b> |
| Service cost                       | \$ 713                                  | \$ 751      | \$ 1,426                              | \$ 1,502    | \$ 454                                  | \$ 380      | \$ 909                                | \$ 760      |
| Interest cost                      | 1,525                                   | 1,408       | 3,050                                 | 2,816       | 757                                     | 615         | 1,514                                 | 1,230       |
| Expected return on plan assets     | (2,052)                                 | (1,782)     | (4,104)                               | (3,564)     | (541)                                   | (458)       | (1,081)                               | (916)       |
| Prior service cost amortization    | 21                                      | 21          | 42                                    | 42          | 20                                      | 19          | 39                                    | —           |
| Transition obligation amortization | —                                       | —           | —                                     | —           | 89                                      | 89          | 179                                   | 38          |
| Recognized actuarial loss          | 399                                     | 433         | 798                                   | 866         | 266                                     | 206         | 531                                   | 178         |
| Net initial obligation             | —                                       | (3)         | —                                     | (6)         | —                                       | —           | —                                     | 412         |
| Recognized net periodic cost       | \$ 606                                  | \$ 828      | \$ 1,212                              | \$ 1,656    | \$ 1,045                                | \$ 851      | \$ 2,091                              | \$ 1,702    |

In fiscal 2007, the Company has no minimum pension funding requirements. The Company's funding level to its OPEB plans is expected to be approximately \$600,000 annually over the next five years. Additional contributions may be made based on market conditions and various assumptions.

## 11. ASSET RETIREMENT OBLIGATIONS (ARO)

Effective September 30, 2006, NJR adopted FASB Interpretation Number 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), which requires NJR to recognize a reasonably estimated liability for the fair value of an ARO. NJR has AROs related to the costs associated with cutting and capping its main and service gas distribution pipelines of NJNG, which is required by New Jersey law when taking such gas distribution pipeline out of service.

The following is an analysis of the change in the ARO liability for the six months ended March 31, 2007, in thousands:

|                            |          |
|----------------------------|----------|
| Balance at October 1, 2006 | \$23,293 |
| Accretion                  | 656      |
| Additions                  | —        |
| Retirements                | (488)    |
| Balance at March 31, 2007  | \$23,461 |

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Accretion amounts are not reflected as an expense on NJR's Condensed Consolidated Statements of Income, but rather are deferred as a regulatory asset and netted against NJNG's regulatory liabilities, for presentation purposes, on the Condensed Consolidated Balance Sheet.

**12. COMMITMENTS AND CONTINGENT LIABILITIES**

***Cash Commitments***

NJNG has entered into long-term contracts, expiring at various dates through 2022, for the supply, storage and delivery of natural gas. These contracts include current annual fixed "demand" charges of approximately \$81 million at current contract rates and volumes, which are recovered through the BGSS.

For the purpose of securing adequate storage and pipeline capacity, NJRES enters into storage and pipeline capacity contracts, which require the payment of certain demand charges by NJRES, in order to maintain the ability to access such natural gas storage or pipeline capacity, during a fixed time period which generally range from one to five years. Demand charges are based on established rates as regulated by the Federal Energy Regulatory Commission (FERC). These demand charges represent commitments to pay storage providers or pipeline companies for the right to store and transport natural gas utilizing their respective assets. As of March 31, 2007, NJRES had contractual payments for demand charges related to storage contracts and pipeline capacity contracts of \$26.6 million and \$45.0 million, respectively, for the next 12 month period.

Demand charges are recognized in the Consolidated Statements of Income as incurred over the fiscal year as part of Gas purchases as follows:

| (Millions) | Three Months Ended<br>March 31, |         | Six Months Ended<br>March 31, |         |
|------------|---------------------------------|---------|-------------------------------|---------|
|            | 2007                            | 2006    | 2007                          | 2006    |
| NJRES      | \$ 38.8                         | \$ 16.9 | \$ 74.1                       | \$ 34.1 |
| NJNG       | 19.0                            | 21.4    | 38.2                          | 42.5    |
| Total      | \$ 57.8                         | \$ 38.3 | \$ 112.3                      | \$ 76.6 |

As of March 31, 2007, there were NJR guarantees covering approximately \$270 million of natural gas purchases, demand fee commitments and swap agreements of NJRES, NJNG and NJR Energy, not yet reflected in Accounts payable on the Condensed Consolidated Balance Sheet. These NJR guarantees are related to transactions with various expiration dates through October 2016. NJR would have to provide for payment in the event of default by NJRES, NJNG and NJR Energy.

NJNG's capital expenditures are estimated at \$39.0 million for the remainder of fiscal 2007 and \$63.3 million in fiscal 2008, consisting primarily of its construction program to support customer growth, maintenance of its distribution system and replacement needed under proposed pipeline safety rulemaking.

The Company's future minimum lease payments under various operating leases are approximately \$3.4 million annually for the next five years and \$589,000 in the aggregate for all years thereafter.

***Legal Proceedings***

**Manufactured Gas Plant Remediation**

NJNG has identified eleven former MGP sites, dating back to the late 1800s and early 1900s, which contain contaminated residues from the former gas manufacturing operations. Ten of the eleven sites in question were acquired by NJNG in 1952. Gas manufacturing operations ceased at these sites at least by the mid-1950s and, in some cases, had been discontinued many years earlier. Since October 1989, NJNG has been operating under Administrative Consent Orders or Memoranda of Agreement with the New Jersey Department of Environmental Protection (NJDEP) covering all eleven sites. These orders and agreements establish the procedures to be followed in developing

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

a final remedial cleanup plan for each site. NJNG is currently involved in administrative proceedings with the NJDEP with respect to the MGP sites in question, as well as participating in various studies and investigations by outside consultants to determine the nature and extent of any such contaminated residues and to develop appropriate programs of remedial action, where warranted. Until September 2000, most of the cost of such studies and investigations had been shared under an agreement with the former owner and operator of ten of the MGP sites, Jersey Central Power & Light Company (JCP&L), a subsidiary of FirstEnergy Corporation (FirstEnergy).

In September 2000, a revised agreement was executed pursuant to which NJNG is responsible for two of the sites— Long Branch and Toms River, New Jersey— while JCP&L is responsible for the remaining eight sites. On September 14, 2004, the BPU approved a simultaneous transfer of properties whereby, upon closing of the transfer, NJNG will take ownership of two sites and JCP&L will take ownership of eight sites. NJNG continues to participate in the investigation and remedial action and bears the cost related to the one MGP site that was not subject to the original cost-sharing agreement.

In June 1992, the BPU approved the RAC through which NJNG may, subject to BPU approval, recover its remediation expenditures, including carrying costs, over rolling 7-year periods. Currently, NJNG is recovering \$19.2 million annually for MGP remediation expenditures incurred through June 30, 2004. The remediation expenditures for the 24-month period ended June 30, 2006, including expenditures related to the Mass Tort Litigation as discussed below in the *Kemper Insurance Company Litigation* section, are pending BPU approval and are part of an on-going discussion with the BPU (See *Note 2. Regulation*). As of March 31, 2007, \$82.2 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in Regulatory assets on the Condensed Consolidated Balance Sheet.

In September 2006, with the assistance of an outside consulting firm, NJNG updated an environmental review of the MGP sites, including a review of potential liability for investigation and remedial action. Based on this review, NJNG estimated at the time of the review that, exclusive of any insurance recoveries, total future expenditures to remediate and monitor the three MGP sites for which it is responsible, will range from \$105.4 million to \$174.6 million. NJNG's estimate of these liabilities is based upon known facts, existing technology and enacted laws and regulations in place when the review was completed. However, actual costs are expected to differ from these estimates. Where available information is sufficient to estimate the amount of the liability, it is NJNG's policy to accrue the full amount of such estimate. Where the information is sufficient only to establish a range of probable liability, and no point within the range is more likely than any other, it is NJNG's policy to accrue the lower end of the range. Accordingly, NJNG has recorded an MGP remediation liability and a corresponding Regulatory asset of \$105.4 million on the Condensed Consolidated Balance Sheet. The actual costs to be incurred by NJNG are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay and any insurance recoveries.

NJNG will continue to seek recovery of such costs through the RAC. If any future regulatory position indicates that the recovery of such costs is not probable, the related cost would be charged to income in the period of such determination. However, because recovery of such costs is subject to BPU approval, there can be no assurance as to the ultimate recovery through the RAC or the impact on the Company's results of operations, financial position or cash flows, which could be material.

NJNG is presently investigating the potential settlement of alleged Natural Resource Damage (NRD) claims that might be brought by the NJDEP concerning the three MGP sites. NJDEP has not made any specific demands for compensation for alleged injury to groundwater or other natural resources. NJNG's evaluation of these potential claims is in the early stages, and it is not yet possible to quantify the amount of compensation, if any, that NJDEP might seek to recover. NJNG anticipates any costs associated with this matter would be recoverable through the RAC.

**Kemper Insurance Company Litigation**

In September 2000, NJNG purchased two insurance policies from Kemper Insurance Company: (i) a 20-year Clean-Up Cost-Containment insurance policy (Cost-Cap) and (ii) an Environmental Response Compensation and Liability Insurance Policy (ERCLIP). The policies were intended to limit NJNG's liability for remediation and third-party claims arising from environmental contamination at the former MGP sites in Long Branch and Toms River.

**NEW JERSEY RESOURCES CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Beginning in July 2003, a series of complaints were filed in the New Jersey Superior Court against NJNG, NJR, JCP&L and FirstEnergy alleging, among other things, personal injuries, wrongful death, survivorship actions, property damage and claims for medical monitoring stemming from the operation and remediation of the former MGP site in Long Branch, New Jersey (the Mass Tort Litigation). The relief sought included compensatory damages, the establishment of a medical monitoring fund, disgorgement of alleged profits, cost of cleanup and remediation, natural resource damages and punitive damages.

In December 2005, a confidential settlement between NJNG and the plaintiffs in the Mass Tort Litigation was finalized and approved by the New Jersey Superior Court in Bergen County. Subsequent to the settlement, JCP&L and FirstEnergy made a demand upon NJNG and NJR for indemnification pursuant to the September 2000 agreement among these entities and NJNG, whereby NJNG assumed responsibility for the Long Branch site. NJNG agreed to honor the indemnification terms of the agreement.

On January 24, 2007, NJNG entered into a written Settlement Agreement and Mutual Release (the "Settlement Agreement") with Lumbermens Mutual Casualty Company and its subsidiaries and affiliates, including but not limited to, American Motorists Insurance Company, American Manufacturers Mutual Company and Kemper Indemnity Insurance Company (collectively, "Kemper") pursuant to which the parties settled a lawsuit pending in the Superior Court of New Jersey, Law Division, Ocean County arising out of Cost Cap and the ERCLIP (the "Lawsuit").

Pursuant to the terms of the Settlement Agreement, NJNG received a payment in the amount of \$12.8 million (the "Settlement Payment"). The Settlement Agreement provided for a mutual and global release of all claims, against the Company or Kemper that were or could have been made in the litigation, including all claims NJNG could have made under the ERCLIP and Cost-Cap. The Settlement Payment was made in exchange for a general release of all such claims asserted in the litigation; no portion of the Settlement Payment was allocated to any particular claim.

The RAC does not permit NJNG to recover costs, expenses or other liabilities incurred in connection with personal injury claims. Pursuant to the RAC, NJNG will seek recovery of costs in excess of those recovered from Kemper and other insurers. Management believes that, subject to BPU approval, these costs, net of all insurance proceeds, are recoverable pursuant to the RAC. However, because recovery of such costs is subject to BPU approval, there can be no assurance as to the ultimate recovery of outstanding costs through the RAC or the impact of these matters on the Company's financial condition, results of operations or cash flows, which could be material.

**General**

The Company is a party to various other claims, legal actions, complaints and investigations arising in the ordinary course of business. In the Company's opinion, the ultimate disposition of these matters will not have a material adverse effect on its financial condition, results of operations or cash flows.

**13. OTHER**

At March 31, 2007, there were 27,940,080 shares of common stock outstanding and the book value per share was \$23.36.

**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2007**

***Management’s Overview***

New Jersey Resources Corporation (NJRC or the Company) is an energy services holding company providing retail natural gas service in New Jersey and wholesale natural gas and related energy services to customers from states in the Gulf Coast and Mid-Continent to New England and Canada through its two principal subsidiaries, New Jersey Natural Gas (NJNG) and NJRC Energy Services (NJRES).

NJNG is a natural gas utility which provides regulated retail natural gas service in central and northern New Jersey and also participates in the off-system sales and capacity release markets, and comprises the Natural Gas Distribution segment. NJNG is regulated by the New Jersey Board of Public Utilities (BPU).

NJRES maintains and trades around a portfolio of physical assets consisting of natural gas storage and natural gas pipeline transportation contracts. NJRES also provides wholesale energy services to non-affiliated utility and energy companies. NJRES comprises the Energy Services segment.

The Retail and Other segment includes NJRC Home Services (NJRHS), which provides service, sales and installation of appliances; NJRC Energy (NJRE), an investor in energy-related ventures, most significantly, through NJNR Pipeline which holds the Company’s 5.53 percent interest in Iroquois Gas and Transmission System, LP (Iroquois), which is a 412-mile natural gas pipeline from the New York-Canadian border to Long Island, New York and NJRC Steckman Ridge Storage Company, which, in March 2007, acquired a 50 percent equity ownership interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a natural gas storage facility that will be constructed in western Pennsylvania; Commercial Realty and Resources (CR&R), which holds and develops commercial real estate; and NJRC Investment, which makes energy-related equity investments.

Net income by business segment is as follows:

| (\$ in Thousands)        | Six Months Ended<br>March 31, |      |           |      |
|--------------------------|-------------------------------|------|-----------|------|
|                          | 2007                          |      | 2006      |      |
| Net Income               |                               |      |           |      |
| Natural Gas Distribution | \$ 53,134                     | 49%  | \$ 52,192 | 55%  |
| Energy Services          | 54,999                        | 50   | 41,896    | 44   |
| Retail and Other         | 518                           | 1    | 377       | 1    |
| Total                    | \$ 108,651                    | 100% | \$ 94,465 | 100% |

***Natural Gas Distribution Segment***

Natural Gas Distribution operations have focused on the following to provide for growth:

- Working with the BPU and New Jersey Department of the Public Advocate, Division of Rate Counsel (Rate Counsel), for the development of the decoupling of the impact of customer usage on utility gross margin, which has allowed for the implementation of the Customer Incentive Program (CIP). The CIP allows NJNG to promote conservation programs to its customers while maintaining protection of its utility gross margin associated with reduced customer usage. CIP usage differences are calculated annually and are recovered one year following the end of the CIP usage year;
- Managing its customer growth, which is expected to total about 2.0 percent annually;
- Generating earnings from various BPU-authorized gross margin-sharing incentive programs, which are currently approved through October 31, 2007. An extension has been requested to link the expiration of these programs with the end of the initial three-year pilot program of the CIP. The initial term of the CIP is October 1, 2006 through September 30, 2009. Under certain conditions the CIP may be extended one additional year beyond the initial term;

- . Managing the volatility of wholesale natural gas prices through a hedging program designed to keep customers' prices as stable as possible; and
- . Improving its cost structure through various productivity initiatives.

In conducting NJNG's business, management focuses on factors it believes may have significant influence on its future financial results. NJNG's policy is to work with all stakeholders, including customers, regulators and policymakers, to achieve favorable results. These factors include the rate of NJNG's customer growth in its service territory, which can be influenced by general economic conditions as well as political and regulatory policies that may impact the new housing market. A portion of NJNG's customer growth comes from the conversion market, which is influenced by the delivered cost of natural gas compared with competing fuels, interest rates and other economic conditions.

For the reporting period through September 30, 2006, which includes the three and six month periods ending March 31, 2006, the impact on weather was mitigated by a Weather Normalization Clause (WNC). The WNC did not, however, capture lower customer usage per degree day. To mitigate this, NJNG obtained approval of the CIP effective as of October 1, 2006. Therefore, for the three and six months periods ended March 31, 2007, the impact of weather and usage on NJNG's utility gross margin was significantly mitigated due to the CIP.

The CIP is a three-year pilot program, expiring October 1, 2009, designed to decouple the link between customer usage and NJNG's utility gross margin to allow NJNG to encourage its customers to conserve energy. For the term of the pilot the existing WNC has been suspended and replaced with the CIP tracking mechanism, which addresses utility gross margin variations related to both weather and customer usage in comparison to established benchmarks. Under certain conditions the CIP may be extended one additional year beyond the initial term. Recovery of such utility gross margin variations, which are recovered in the year subsequent to the CIP usage year, is subject to additional conditions including an earnings test and an evaluation of Basic Gas Supply Service (BGSS)-related savings achieved. Under the CIP agreement, if NJNG does not file for a rate review with the BPU by October 1, 2008, the return on equity for the earnings test will decline from 10.50 percent to 10.25 percent. NJNG continues to evaluate its expected returns and general market conditions with regard to filing for a potential rate review.

To encourage energy efficiency, NJNG is also required to initiate programs to further customer conservation efforts over the term of the pilot. NJNG is required to provide a minimum of \$2 million in funding for such programs and will continue to fund programs throughout the term of the pilot. As of September 30, 2006, NJNG accrued \$1.8 million for this obligation, representing its present value at that date, in the Condensed Consolidated Balance Sheets. As of March 31, 2007, the obligation to fund these conservation programs has a present value of \$1.5 million, including accrued interest costs and amounts expended on such conservation programs. An annual filing of the CIP results will be made in June of each year, commencing in June 2007, coincident with NJNG's annual BGSS filing.

NJNG's operating expenses are heavily influenced by labor costs, large components of which are covered by a negotiated collective bargaining agreement that expires in 2008. Labor-related fringe benefit costs may also influence NJNG's results.

As a regulated company, NJNG is required to recognize the impact of regulatory decisions on its financial statements. As a result, significant costs are deferred and treated as regulatory assets, pending BPU decisions regarding their ultimate recovery from customers. The most significant costs incurred that are subject to this accounting treatment include manufactured gas plant (MGP) remediation costs and wholesale natural gas costs. Actual remediation costs may vary from management's estimates due to the developing nature of remediation requirements, regulatory decisions by the New Jersey Department of Environmental Protection (NJDEP) and related litigation. If there are changes in the regulatory position on the recovery of these costs, such costs would be charged to income.

Due to the capital-intensive nature of NJNG's operations and the seasonal nature of its working capital requirements, significant changes in interest rates can also impact NJNG's results.

## ***Energy Services Segment***

NJRES provides unregulated wholesale energy services, including base load natural gas, peaking and balancing services, utilizing physical assets it controls, as well as providing asset management services to customers in states from the Gulf Coast and Mid-continent regions to the Appalachian and Northeast regions and Canada.

NJRES' incorporates the following elements to provide for growth, while focusing on maintaining a low-risk operating and counterparty credit profile:

- . Providing natural gas portfolio management services to nonaffiliated utilities and electric generation facilities;
- . Identifying and benefiting from variations in pricing of natural gas transportation and storage assets due to location or timing differences of natural gas prices to generate gross margin; and
- . Managing hedging programs that are designed to mitigate adverse market price fluctuations in natural gas transportation and storage commitments utilized to generate gross margin through the use of a cash-flow hedging strategy.

NJRES has built a portfolio of customers including local distribution companies, industrial companies, electric generators and retail aggregators. Sales to these customers have allowed NJRES to leverage its transportation and storage capacity and manage sales to these customers in an aggregate fashion. This strategy allows NJRES to extract more value from its portfolio of natural gas storage and pipeline transportation capacity.

NJRES also focuses on creating value from underutilized natural gas assets, which are typically amassed through contractual rights to natural gas transportation and storage capacity. NJRES has developed a portfolio of natural gas storage and transportation capacity in states in the Northeast, Gulf Coast, Mid-continent and Appalachian regions and eastern Canada. These assets become more valuable when prices change between these areas and across time periods. NJRES seeks to optimize this process on a daily basis as market conditions change by evaluating all the natural gas supplies, transportation and opportunities to which it has access, to find the most profitable alternative to serve its various commitments. This enables NJRES to capture geographic pricing differences across these various regions as delivered natural gas prices change. NJRES' focuses on earning a gross margin, which is defined as natural gas revenues and management fees less natural gas costs and fixed demand costs, on a single original transaction and then utilizing that transaction, and the changes in prices across the regions or across time periods, as the basis to further improve the initial gross margin result.

In a similar manner, NJRES participates in natural gas storage transactions where it seeks to identify pricing differences that occur over time, as prices for future delivery periods at many locations are readily available. For example, NJRES generates gross margin by locking in the differential between purchasing natural gas at a low current or future price and, in a related transaction, selling that natural gas at a high current or future price, all within the constraints of its credit and contracts policies. Through the use of transportation and storage services, NJRES is able to generate gross margin through pricing differences that occur over the duration of time the assets are held.

NJRES' portfolio management customers include nonaffiliated utilities and electric generation plants. Services provided by NJRES include optimization of underutilized natural gas assets and basic gas supply functions. Revenue is customarily derived by a combination of a base service fee and incentive-based arrangements.

In conducting its business, NJRES mitigates risk by following formal risk management guidelines, including trading limits, approval processes, segregation of duties, and formal contract and credit review and approval procedures. NJRES continuously monitors and seeks to reduce the risk associated with various counterparties credit exposure. The Risk Management Committee (RMC) of NJR, which consists of senior officers from several business units of NJR, oversees compliance with these established guidelines.

## **Critical Accounting Policies**

A summary of NJR's critical accounting policies is included in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the period ended September 30, 2006. NJR's critical accounting policies have not changed materially from those reported in the 2006 Annual Report on Form 10-K.

## **Recently Issued Accounting Standards**

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which alters the framework for recognizing income tax contingencies. Previously, under Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies," the focus was on the subsequent liability recognition for estimated losses from tax contingencies where such losses were probable and the related amounts could be reasonably estimated. Under this new interpretation, a contingent tax asset (i.e., an uncertain tax position) may only be recognized if it is more likely than not that it will ultimately be sustained upon audit. The Company will adopt FIN 48 by the commencement of fiscal 2008. The Company is evaluating its tax positions for all jurisdictions and all years for which the statute of limitations remains open, as well as evaluating the impact that the adoption will have on its financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value as the amount that would be exchanged to sell an asset or transfer a liability in an orderly transaction between market participants and establishes a fair value hierarchy of quotes and unobservable data that should be used to develop pricing assumptions. In addition, for assets and liabilities that are not actively traded, for example, certain kinds of derivatives, SFAS 157 requires that a fair value measurement include an adjustment for risks inherent in a valuation technique and/or inputs, such as those used in pricing models. SFAS 157 is effective for fiscal years beginning after November 15, 2007, however, early adoption is permitted. The Company will adopt the provisions of the statement prospectively and is evaluating the adoption date and its effect on its financial condition.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postemployment Plans" (SFAS 158). The statement requires an employer to recognize the funded status, measured as the difference between the fair value of plan assets and the projected benefit obligation, of its benefit plans. SFAS 158 does not change how pensions and other postemployment benefits are accounted for and reported in the income statement. Certain economic events, which previously required disclosure only in the notes to the financial statements, will be recognized as assets and liabilities and offset in Accumulated other comprehensive income, net of tax, or to regulatory assets, for those amounts related to NJNG that would be recoverable through allowed rates charged to customers, to the extent such amounts are not recognized in earnings as part of net periodic benefit costs. Amounts recognized in Accumulated other comprehensive income, or as a regulatory asset as it may relate to NJNG, will be adjusted as they are subsequently recognized in earnings through net periodic benefit cost. The Company will adopt SFAS 158 on September 30, 2007 and will apply the provisions of the statement prospectively. The Company is currently evaluating the effect of adoption on its financial condition.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 permits entities to elect to measure eligible items at fair value as an alternative to hedge accounting and to mitigate volatility in earnings. The entity either elects the fair value option according to a preexisting policy, when the asset or liability is first recognized or when it enters into an eligible firm commitment. Changes in the fair value of assets and liabilities that the Company chooses to apply the fair value option to are reported in earnings at each reporting date. SFAS 159 also provides guidance on disclosures that are intended to provide comparability to other entity assets and liabilities that have different measurement attributes and to other entities with similar financial assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007; however, early adoption is permitted provided the entity also elects to apply the provisions of SFAS 157. The Company is evaluating SFAS 159 to determine its applicability to its current operations and effect, if any, on its financial condition.

## Results of Operations

Net income for the quarter ended March 31, 2007 increased by 33.8 percent to \$80.5 million, compared with \$60.2 million for the same period last fiscal year. Basic earnings per share (EPS) increased by 33.8 percent to \$2.89, compared with \$2.16 for the same period last fiscal year and diluted EPS increased 34.1 percent to \$2.87, compared with \$2.14 for the same period last fiscal year.

Net income for the six months ended March 31, 2007 increased 15 percent to \$108.7 million, compared with \$94.5 million for the same period last fiscal year. Basic EPS increased 14.7 percent to \$3.91, compared with \$3.41 for the same period last fiscal year and diluted EPS increased 15.4 percent to \$3.89 compared with \$3.37 for the same period last fiscal year.

The increase in earnings for the three and six months ended March 31, 2007, as compared with the same periods in the prior fiscal year, was due primarily to higher gross margin at NJRES due to strategic natural gas storage withdrawals that captured favorable market pricing conditions during the quarter ended March 31, 2007 and increased storage and intra-month natural gas trading positions, primarily driven by the impact of colder weather in NJRES' market (delivery) areas allowing for favorable market pricing movements during the three-month period. Increased earnings at NJNG were due primarily to the impact of the CIP tariff and continued customer growth, partially offset by higher interest expense, which was due primarily to an increase in short-term borrowings and higher rates over the same period in the prior fiscal year.

The Company's Operating revenues and Gas purchases are as follows:

|                    | Three Months Ended<br>March 31, |              |        | Six Months Ended<br>March 31, |              |         |
|--------------------|---------------------------------|--------------|--------|-------------------------------|--------------|---------|
|                    |                                 |              | %      |                               |              | %       |
| (\$ in Thousands)  | 2007                            | 2006         | Change | 2007                          | 2006         | Change  |
| Operating revenues | \$ 1,024,636                    | \$ 1,064,422 | (3.7)% | \$ 1,766,101                  | \$ 2,228,998 | (20.8)% |
| Gas purchases      | \$ 795,469                      | \$ 882,688   | (9.9)% | \$ 1,424,154                  | \$ 1,921,163 | (25.9)% |

Operating revenues decreased \$39.8 million for the three months ended March 31, 2007 compared to the same period of the prior fiscal year due primarily to:

- . Increased refunds to NJNG customers in fiscal 2007; and
- . Reduced off-system sales

The decrease in operating revenues was partially offset by:

- . Increased revenues at NJRES due to greater market pricing volatility as a result of the impact of weather in relation to the cost to acquire gas and contracts to sell gas in NJRES' market area; and
- . The impact of 12.4 percent colder weather than prior fiscal year on NJNG's revenues

Operating revenues decreased \$462.9 million for the six months ended March 31, 2007 compared to the same period of the prior fiscal year due primarily to:

- . Refunds to NJNG residential and small commercial customers; and
- . Less favorable market pricing conditions affecting NJRES' revenues as a result of volatility in the markets due to severe weather conditions in fiscal 2006 that did not recur in fiscal 2007.

These same factors resulted in a decrease in Gas purchases of \$87.2 million for the three months ended March 31, 2007 and \$497.0 million for the six months ended March 31, 2007, as compared to the same periods in the prior fiscal year.

## Natural Gas Distribution Operations

NJNG is a local natural gas distribution company that provides regulated retail energy services to approximately 477,000 residential and commercial customers in central and northern New Jersey and participates in the off-system sales and capacity release markets.

NJNG's business is seasonal by nature, as weather conditions directly influence the volume of natural gas delivered. Specifically, customer demand substantially increases during the winter months when natural gas is used for heating purposes. As a result, NJNG receives most of its gas distribution revenues during the first and second fiscal quarters and is subject to variations in earnings and working capital during the year.

In February 1999, the Electric Discount and Energy Competition Act (EDECA), which provides the framework for the restructuring of New Jersey's energy markets, became law. In March 2001, the BPU issued an order to fully open NJNG's residential markets to competition, restructure its rates to segregate its BGSS and delivery (i.e., transportation) service prices as required by EDECA and expand an incentive for residential and small commercial customers to switch to transportation service. NJNG earns no utility gross margin on the commodity portion of its natural gas sales. NJNG earns utility gross margin through the delivery of natural gas to its customers. In January 2002, the BPU ordered that BGSS could be provided by suppliers other than the state's natural gas utilities, but BGSS should be provided by the state's natural gas utilities until further BPU action. No additional action has been taken by the BPU subsequent to its initial order in January 2002.

NJNG's financial results are summarized as follows:

| (Thousands)                                       | Three Months Ended<br>March 31, |            | Six Months Ended<br>March 31, |            |
|---------------------------------------------------|---------------------------------|------------|-------------------------------|------------|
|                                                   | 2007                            | 2006       | 2007                          | 2006       |
| Utility Gross Margin                              |                                 |            |                               |            |
| Operating revenues                                | \$ 450,811                      | \$ 471,406 | \$ 690,218                    | \$ 865,752 |
| Less:                                             |                                 |            |                               |            |
| Gas purchases                                     | 312,863                         | 346,650    | 463,856                       | 651,782    |
| Energy and other taxes                            | 28,778                          | 24,481     | 41,298                        | 41,766     |
| Regulatory rider expense                          | 18,135                          | 12,405     | 27,601                        | 21,863     |
| Total Utility Gross Margin                        | \$ 91,035                       | \$ 87,870  | \$ 157,463                    | \$ 150,341 |
| Utility Gross Margin                              |                                 |            |                               |            |
| Residential and commercial                        | \$ 80,154                       | \$ 78,237  | \$ 134,664                    | \$ 130,906 |
| Transportation                                    | 9,884                           | 6,479      | 18,321                        | 12,861     |
| Total Utility Firm Gross Margin                   | 90,038                          | 84,716     | 152,985                       | 143,767    |
| Incentive programs                                | 906                             | 2,932      | 4,184                         | 6,046      |
| Interruptible                                     | 91                              | 222        | 294                           | 528        |
| Total Utility Gross Margin                        | 91,035                          | 87,870     | 157,463                       | 150,341    |
| Operation and maintenance expense                 | 22,692                          | 21,083     | 42,947                        | 40,950     |
| Depreciation and amortization                     | 8,848                           | 8,477      | 17,586                        | 16,900     |
| Other taxes not reflected in utility gross margin | 759                             | 796        | 1,478                         | 1,530      |
| Operating income                                  | \$ 58,736                       | \$ 57,514  | \$ 95,452                     | \$ 90,961  |
| Other income                                      | 838                             | 715        | 1,885                         | 1,540      |
| Interest charges, net                             | 5,244                           | 3,990      | 10,637                        | 7,774      |
| Income tax provision                              | 21,104                          | 20,730     | 33,566                        | 32,535     |
| Net income                                        | \$ 33,226                       | \$ 33,509  | \$ 53,134                     | \$ 52,192  |

## Utility Gross Margin

NJNG's utility gross margin is defined as natural gas revenues less natural gas purchases, sales tax, a Transitional Energy Facilities Assessment (TEFA) and regulatory rider expenses. Management believes that utility gross margin provides a more meaningful basis than revenue for evaluating utility operations since natural gas costs, sales tax, TEFA and regulatory rider expenses are included in operating revenue and passed through to customers and, therefore, have no effect on utility gross margin. This definition of utility gross margin may not be comparable to the definition of gross margin used by others in the natural gas distribution business and other industries.

Natural gas costs are charged to operating expenses on the basis of therm sales at the prices in NJNG's BGSS tariff, approved by the BPU. The BGSS tariff includes projected natural gas costs, net of supplier refunds, the impact of hedging activities and credits from non-firm sales and transportation activities. Any underrecoveries or overrecoveries from the projected amounts are deferred and reflected in the BGSS tariff in subsequent periods.

Sales tax was calculated at 6 percent of revenue during the first and second quarters of fiscal 2006, and at 7 percent, during the first and second quarters of fiscal 2007. The sales tax calculation excludes sales to cogeneration facilities, other utilities, off-system sales and federal accounts.

TEFA, which is included in Energy and other taxes on the Condensed Consolidated Statements of Income, is calculated on a per-therm basis and excludes sales to cogeneration facilities, other utilities and off-system sales. TEFA represents a regulatory allowed assessment imposed on all energy providers in the state of New Jersey, as TEFA has replaced the previously used utility gross receipts tax formula.

Regulatory rider expenses consist of recovery of state-mandated programs and the remediation adjustment clause costs. These expenses are offset by corresponding revenues and are calculated on a per-therm basis.

NJNG's Operating revenues decreased by \$175.5 million, or 20.3 percent, and gas purchases decreased by \$187.9 million, or 28.8 percent, respectively, for the six months ended March 31, 2007, compared with the same period in the prior fiscal year. These decreases were primarily the result of refunds of \$51.5 million and \$20 million in December 2006 and March 2007, respectively, to residential and small commercial customers and a decrease in off-system sales of \$84.7 million, partially offset by customer growth.

NJNG's Operating revenues and Gas purchases for the three months ended March 31, 2007 decreased \$20.6 million, and \$33.8 million, respectively, compared with same period in the prior fiscal year as a result of the \$20 million refund to customers in March 2007, partially offset by customer growth.

Sales tax and TEFA, which are presented as both components of Revenues and Operating Expenses in the Condensed Consolidated Statements of Income, totaled \$41.3 million and \$41.8 million for the six months ended and \$28.8 million and \$24.5 million for the three months ended March 31, 2007 and 2006, respectively. The change in the sales tax rate from 6 percent to 7 percent, as applied to NJNG's operating revenue, drove the increase for the three month period ended March 31, 2007 as compared to the same period in the prior fiscal year. For the six month period ended March 31, 2007, as compared to the same period in the prior year, the sales tax increase was partially offset by reduced revenues, as a result of customer refunds, and TEFA expense as total therm usage, as a result of weather being 1 percent warmer than the same period in the prior fiscal year, was lower.

Regulation rider expenses totaled \$27.6 million and \$21.9 million for the six months ended March 31, 2007 and 2006, respectively, and \$18.1 million and \$12.4 million for the three months ended March 31, 2007 and 2006, respectively. The increase in regulatory rider expenses is due primarily to an increase in firm throughput sales as a result of customer growth.

Utility gross margin is comprised of three major categories:

- . Utility Firm Gross Margin, which is derived from residential and commercial customers who receive natural gas service from NJNG through either sales or transportation tariffs;
- . Incentive programs, where margins generated or savings achieved from BPU-approved off-system sales, capacity release, Financial Risk Management (defined in Incentive Programs, below) or storage incentive programs are shared between customers and NJNG; and
- . Utility gross margin from interruptible customers, which is generated from large commercial and industrial customers who receive non-firm natural gas service at lower rates, and is subject to BPU-approved incentives.

## **Utility Firm Gross Margin**

Effective October 1, 2006, the BPU approved the CIP to encourage energy savings while allowing NJNG to recover the necessary costs of operations. The three-year pilot program eliminates the disincentive to promote conservation and energy efficiency, since utility gross margin is no longer directly linked to customer usage. The CIP tariff normalizes NJNG's utility gross margin recoveries for variances not only in weather but also other factors affecting usage, including customer conservation. Recovery of utility gross margin through the CIP is limited to the amount of certain gas supply cost savings achieved.

For the three and six months ended March 31, 2006, utility gross margin from residential and commercial customers was impacted by the WNC, which provided for a revenue adjustment if the weather varied by more than one-half percent from normal weather (i.e., 20-year average). The accumulated adjustment from one heating season (i.e., October through May) was billed or credited to customers in subsequent periods. This mechanism reduced the variability of both customers' bills and NJNG's earnings due to weather fluctuations. The existing WNC has been suspended as of October 1, 2006 due to the implementation of the CIP pilot program.

Customers switching between sales service and transportation service affect the components of utility gross margin from firm customers. NJNG's total utility gross margin is not negatively affected by customers who use its transportation service and purchase natural gas from another supplier because its tariff is designed so that no profit is earned on the natural gas commodity portion of sales to firm customers. All customers who purchase natural gas from another supplier continue to use NJNG for transportation service.

Total utility firm gross margin increased \$5.3 million, or 6.3 percent, for the three months and \$9.2 million, or 6.4 percent, for the six months ended March 31, 2007, respectively, compared with the same periods of the prior fiscal year. The changes were due primarily to:

- . The effect of the CIP in the current fiscal year, which captures the impact from both weather and customer usage, when compared to the same periods in the prior fiscal year when the WNC, which did not capture the impact of lower usage per degree day, was in effect; and
- . An increase in fixed revenue as a result of customer growth.

Utility gross margin from residential and commercial customers is impacted by the CIP, which provides for a revenue adjustment if the weather and usage varies from the established baseline weather and usage factors. The accumulated adjustment from one year is billed or credited to customers in subsequent periods. This mechanism protects NJNG's utility gross margin due to weather and customer usage fluctuations while allowing NJNG to promote conservation. The weather for the six months ended March 31, 2007 was 6.6 percent warmer than normal, which resulted in an accrual of utility gross margin under the CIP of \$8.4 million. In addition, customer usage was lower than the established benchmark, which resulted in an additional accrual of utility gross margin under the CIP of \$5.9 million.

Utility firm gross margin from transportation service increased \$5.5 million, or 42.5 percent, for the six months ended March 31, 2007, and \$3.4 million or 52.6 percent for the three months ended March 31, 2007, respectively, compared with the same periods in the prior fiscal year. NJNG transported 6.3 Bcf and 4.9 Bcf for the six months ended March 31, 2007 and March 31, 2006, respectively, and 3.8 Bcf and 2.3 Bcf for the three months ended March 31, 2007 and March 31, 2006, respectively. The increase in utility firm gross margin was due primarily to an increase in the number of commercial customers switching from firm to transportation services, combined with the impact of the CIP program.

NJNG had 8,665 and 9,129 residential customers and 4,494 and 3,602 commercial customers using its transportation service at March 31, 2007 and 2006, respectively. The decrease in residential transportation customers was due primarily to a change in marketing efforts by third-party natural gas service providers in NJNG's service territory to focus on the commercial sector.

During the six months ended March 31, 2007, NJNG added 4,333 new customers, 35.8 percent of which converted from other fuels. In addition, 230 existing customers added natural gas heat to their existing service. In fiscal 2007, NJNG currently expects to add approximately 9,150 new customers and convert 700 existing customers to natural gas heat. Achieving these expectations would represent an estimated annual customer growth rate of approximately 2.0 percent.

These growth expectations are based upon management's review of local planning board data, recent market research performed by third parties, builder surveys and studies of population growth rates in NJNG's service territory. However, future sales will be affected by the weather, actual energy usage patterns of NJNG's customers, economic conditions in NJNG's service territory, conversion and conservation activity, the impact of changing from a regulated to a competitive environment, changes in state regulation and other marketing efforts, as has been the case in prior years.

### **Incentive Programs**

To reduce the overall cost of its natural gas supply commitments, NJNG has entered into contracts to sell natural gas to wholesale customers outside its franchise territory when the natural gas is not needed for system requirements. These off-system sales enable NJNG to spread its fixed demand costs, which are charged by pipelines to access their supplies year round, over a larger and more diverse customer base. NJNG also participates in the capacity release market on the interstate pipeline network when the capacity is not needed for its firm system requirements. NJNG retains 15 percent of the utility gross margin from these sales, with 85 percent credited to firm customers through the BGSS.

The Financial Risk Management (FRM) program is designed to provide price stability to NJNG's natural gas supply portfolio. The FRM program includes an incentive mechanism designed to encourage the use of financial instruments to hedge NJNG's natural gas costs, enabling NJNG customers to retain 80 percent, and NJNG shareowners to retain 20 percent, of these costs and results.

The storage incentive program shares gains and losses on an 80 percent to 20 percent basis between customers and shareowners, respectively. This program measures the difference between the actual cost of natural gas in storage and a benchmark applicable to the April-through-October injection season.

NJNG's incentive programs totaled 9.8 Bcf and generated \$906,000 of utility gross margin for the three months ended March 31, 2007, compared with 11.5 Bcf and \$2.9 million of utility gross margin in the same period in the prior fiscal year. NJNG's incentive programs totaled 20.3 Bcf and generated \$4.2 million of utility gross margin for the six months ended March 31, 2007, compared with 21.7 Bcf and \$6.0 million of utility gross margin, for the same period in the prior fiscal year. For both the three and six month periods ended March 31, 2007, the decrease in utility gross margin was due primarily to a decrease in the market prices for natural gas as compared to the same periods in the prior fiscal year.

New York Mercantile Exchange (NYMEX) settlement prices for natural gas are a general indication of the monthly market movements. NYMEX prices have decreased from an average of \$10.977/dth for the six months ending March 31, 2006 to \$6.662/dth for the six months ended March 31, 2007, which represents a 39 percent decrease, while the average off-system price was lower by 31 percent from an average of \$11.038/dth for the six months ended March 31, 2006 to \$7.623 /dth for the six months ended March 31, 2007.

### **Interruptible**

NJNG serves 49 customers through interruptible sales and/or transportation tariffs. Sales made under the interruptible sales tariff are priced on market-sensitive energy parity rates. Although therms sold and transported to interruptible customers represented approximately 2.8 percent and 4 percent of total throughput for the six months ended March 31, 2007 and 2006, respectively, they accounted for less than 1 percent of the total utility gross margin in both periods due to the sharing formulas that govern these sales. Under these formulas, NJNG retains 10 percent of the utility gross margin from interruptible sales and 5 percent of the utility gross margin from transportation sales, with 90 percent and 95 percent, respectively, credited to firm sales customers through the BGSS. Interruptible sales were .03 and .2 Bcf for the six months ended March 31, 2007, and 2006, respectively. In addition, NJNG transported 1.87 Bcf and 2.6 Bcf for the six months ended March 31, 2007 and 2006, respectively, for its interruptible customers.

### **Operation and Maintenance Expense**

Operation and maintenance (O&M) expense increased \$1.6 million, or 7.6 percent, and \$2.0 million, or 4.9 percent, for the three months and six months ended March 31, 2007, respectively, compared with the same periods in the prior fiscal year. The increase was due primarily to higher labor costs of \$1.1 million, a reserve for an anticipated BPU settlement relating to BGSS costs of \$500,000, partially offset by lower bad debt expense of \$393,000 during the first half of fiscal year 2007. Higher labor costs are due primarily to an increase in the number of employees as well as annual wage increases, while lower bad debt expense is a direct result of decreased revenue, through customer refunds and lower sales, as noted above. The reserve for an anticipated BPU settlement charge is related to a proposed stipulation that includes settlement of a prior gas supply audit with the BPU related to natural gas purchased and used for the Company's own operational purposes.

### **Operating Income**

Operating income increased \$1.2 million, or 2.1 percent, and \$4.5 million, or 4.9 percent, for the three months and six months ended March 31, 2007, respectively, compared with the same periods in the prior fiscal year. The increase was due primarily to the implementation of the CIP tariff which became effective beginning in fiscal 2007. The implementation of the CIP allowed for the recovery of lower utility gross margin, as a result of the decrease in natural gas used due to the warmer than normal weather, as well as the reduction in customer usage per degree day, as noted in the discussion above. During the six months ended March 31, 2006, the WNC did not capture reductions in customer usage, but only the variability experienced by NJNG's utility gross margin as a result of weather fluctuations.

### **Interest Charges**

Interest charges increased \$1.3 million and \$2.9 million for the three months and six months ended March 31, 2007, respectively, as compared to the same periods in the prior fiscal year, due primarily to an increase in short-term borrowings and higher interest rates, as well as greater costs associated with overrecovered gas costs.

### **Net Income**

Net income decreased \$283,000, or 0.8 percent, and increased \$942,000 or 1.8 percent in the three and six months ended March 31, 2007, respectively, as compared to the same periods in the prior fiscal year, due primarily to higher operating income as a result of the implementation of the CIP and a reduction in bad debt expense, partially offset by higher labor expense and the reserve for the anticipated BPU settlement charge, as well as higher interest expense.

### **Energy Services Operations**

Management believes that NJRES' gross margin, which is defined as natural gas revenues and management fees less natural gas costs and fixed demand costs, is a better indicator of results, as revenues from the sale of natural gas to its customers, on a wholesale basis, is highly correlated to the wholesale price of natural gas. NJRES utilizes contractual assets that it controls for natural gas storage and pipeline transportation to meet its various sale and delivery commitments to its customers.

NJRES purchases gas predominantly in the eastern United States and Canada, and transports that gas, through the use of pipeline contracts to which it has reserved capacity through the payment of a fixed demand charge, to either storage facilities that it has reserved, primarily in the Appalachian, Mid-Continent and Gulf regions of the United States and Canada or directly to customers in various market areas including the Northeastern region of the United States and eastern Canada. Through the use of these contracts for natural gas storage and pipeline capacity, NJRES is able to take advantage of pricing differences between geographic locations, commonly referred to as "locational spreads," as well as over different time periods, for the delivery of natural gas to its customers. NJRES utilizes financial futures, forwards and swap contracts to fix and protect the cash flows surrounding these transactions.

Predominantly all of NJRES' sales to customers result in the delivery of natural gas, and therefore, NJRES accounts for its sales using the accrual method of accounting by employing the "normal purchase normal sale" scope exception of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133). NJRES' use of financial futures, forwards and swap contracts are designed to qualify as cash flow hedges under SFAS 133, whereby the underlying change in the fair value of these derivative instruments is deferred on the balance sheet and recognized in earnings, as a component of Gas purchases, when the underlying transaction is settled through the delivery of natural gas.

Demand charges of NJRES, which represent the right to use natural gas pipeline and storage capacity assets of a third-party for a fixed period of time, are expensed ratably over the term of the related natural gas pipeline or storage contract. Due to the seasonality of NJRES' revenue stream, and the fixed nature of the demand charges, NJRES normally incurs losses during the non-peak summer operating period.

NJRES' financial results are summarized as follows:

| (Thousands)                                    | Three Months Ended<br>March 31, |            | Six Months Ended<br>March 31, |              |
|------------------------------------------------|---------------------------------|------------|-------------------------------|--------------|
|                                                | 2007                            | 2006       | 2007                          | 2006         |
| Operating revenues                             | \$ 568,388                      | \$ 587,525 | \$ 1,064,175                  | \$ 1,350,720 |
| Gas purchases (including fixed demand charges) | 482,606                         | 536,038    | 960,298                       | 1,269,381    |
| Gross margin                                   | 85,782                          | 51,487     | 103,877                       | 81,339       |
| Operation and maintenance expense              | 4,150                           | 4,423      | 7,153                         | 6,941        |
| Depreciation and amortization                  | 54                              | 51         | 108                           | 103          |
| Other taxes                                    | 168                             | 150        | 360                           | 331          |
| Operating income                               | \$ 81,410                       | \$ 46,863  | \$ 96,256                     | \$ 73,964    |
| Net income                                     | \$ 47,180                       | \$ 26,999  | \$ 54,999                     | \$ 41,896    |

NJRES' gross margin increased by \$34.3 million for the three months ended March 31, 2007, compared with the same period last fiscal year as a result of favorable pricing differentials for natural gas storage positions between the cost to acquire the storage position and the market price for natural gas. The pricing differentials were the result of weather impacts. In the prior fiscal year, as a result of the disruptive effects of hurricanes Rita and Katrina the pricing differentials were greater in the first quarter of fiscal year 2006, and then became more normalized during the three months ended March 31, 2006. As part of its operational strategy, NJRES had secured natural gas storage and sales positions that resulted in a gross margin amount that was greater on a quarter over quarter basis, which was the result of both larger volumes and different market prices for natural gas. The weather impacts on market prices for the three months ended March 31, 2007 further increased the gross margin of NJRES on a comparative basis to the same period in the prior fiscal year.

NJRES' gross margin increased by \$22.5 million, for the six months ended March 31, 2007, compared with the same period last fiscal year due to the impact of weather on prices during the three months ended March 31, 2007 as described above, larger gas volumes being sold and a change in market prices between the cost to acquire and transport natural gas, partially offset by the absence of benefits from certain natural gas basis swaps that were deemed ineffective cash flow hedges upon adoption of SFAS 133, which were concluded and settled in October 2006.

NJRES' operations and maintenance expense decreased by \$273,000 and increased \$212,000 for the three and six months ended March 31, 2007, respectively, compared with the same periods last fiscal year. The decrease for the three months ended March 31, 2007, as compared to the same period in the prior fiscal year, is due primarily to charitable contributions made in fiscal 2006 that did not recur in the current fiscal year, partially offset by higher labor and incentive costs. The increase for the six months ended March 31, 2007, as compared to the same period in the prior fiscal year, was due to increased labor and incentive costs associated with operational growth.

Operating income increased by \$34.5 million and \$22.3 million and net income increased by \$20.2 million and \$13.1 million for the three and six months ended March 31, 2007, respectively, compared with the same periods in the prior fiscal year due primarily to the increases in gross margin and variance in operations and maintenance expense described above.

Future results are subject to NJRES' ability to maintain and expand its wholesale marketing activities and are contingent upon many other factors, including an adequate number of appropriate counterparties, sufficient liquidity in the energy trading market and continued access to the capital markets. In addition, NJRES' gross margin from its portfolio of capacity assets is generally greater in the winter months, while the fixed costs of these assets are spread throughout the year. Accordingly, the results for the three and six months ended March 31, 2007 are not expected to be an indication of the results for the fiscal year.

## ***Retail and Other Operations***

The financial results of Retail and Other consists primarily of NJRHS, which provides service, sales and installation of appliances to over 144,000 customers; CR&R, which holds and develops commercial real estate; NJR Energy, an investor in energy-related ventures through its operating subsidiaries; NJNR Pipeline, which consists of the Company's equity investment in Iroquois; NJR Steckman Ridge Storage Company, which holds the Company's equity investment in Steckman Ridge; and NJR Investment, which makes certain energy-related equity investments.

The Consolidated financial results of Retail and Other are summarized as follows:

| <i>(Thousands)</i> | <b>Three Months Ended<br/>March 31,</b> |             | <b>Six Months Ended<br/>March 31,</b> |             |
|--------------------|-----------------------------------------|-------------|---------------------------------------|-------------|
|                    | <b>2007</b>                             | <b>2006</b> | <b>2007</b>                           | <b>2006</b> |
| Operating revenues | \$ 5,508                                | \$ 5,560    | \$ 11,848                             | \$ 12,663   |
| Other income       | \$ 832                                  | \$ 788      | \$ 1,639                              | \$ 1,442    |
| Net income         | \$ 121                                  | \$ (307)    | \$ 518                                | \$ 377      |

Retail and Other Operating revenue decreased by \$52,000, or 1 percent, and \$815,000, or 6.4 percent, for the three and six months ended March 31, 2007, respectively, compared with the same periods last year. The decreases were due primarily to a gain of \$617,000 in the first half of fiscal 2006 on the completion of land and building sales contracts by CR&R that did not recur in fiscal 2007.

The increase in Other income is attributed to improved earnings from NJNR Pipeline's equity investment in Iroquois. Through March 31, 2007, NJR has invested \$52.5 million for the right to acquire, develop, construct and finance Steckman Ridge. It is currently under development and operational start-up is expected in fiscal 2009.

## ***Liquidity and Capital Resources***

### **Consolidated**

NJR's objective is to maintain a consolidated capital structure that reflects the different characteristics of each business segment and provides adequate financial flexibility for accessing capital markets as required.

NJR's consolidated capital structure was as follows:

|                     | <b>March 31,<br/>2007</b> | <b>September 30,<br/>2006</b> |
|---------------------|---------------------------|-------------------------------|
| Common stock equity | 58%                       | 50%                           |
| Long-term debt      | 30                        | 27                            |
| Short-term debt     | 12                        | 23                            |
| Total               | 100%                      | 100%                          |

NJR did not repurchase any shares of its common stock during the six month period ending March 31, 2007.

NJR and its unregulated subsidiaries rely on utilizing committed credit facilities to provide liquidity to meet working capital and external debt-financing requirements.

NJNG satisfies its debt needs by issuing short- and long-term debt based upon its own financial profile. NJNG does not guarantee or otherwise directly support the debt of NJR. The seasonal nature of NJNG's operations creates large short-term cash requirements, primarily to finance natural gas purchases and customer accounts receivable. NJNG obtains working capital for these requirements, and for the temporary financing of construction and MGP remediation expenditures and energy tax payments, through the issuance of commercial paper and short-term bank loans.

As of March 31, 2007, NJR, NJRES and NJNG had committed credit facilities of \$605 million with approximately \$423 million available under these facilities (see Note 6. *Debt*).

NJR, NJNG and NJRES currently anticipate that their financing requirements in fiscal 2007 will be met through internally generated cash, the issuance of short-term debt and proceeds from the Company's Automatic Dividend Reinvestment Plan.

The following table is a summary of NJR's, NJNG's and NJRES's contractual cash obligations and their applicable payment due dates as of March 31, 2007:

| <i>(Thousands)</i>                                     | <b>Total</b> | <b>Up to<br/>1 Year</b> | <b>2-3<br/>Years</b> | <b>4-5<br/>Years</b> | <b>After<br/>5 Years</b> |
|--------------------------------------------------------|--------------|-------------------------|----------------------|----------------------|--------------------------|
| Long-term debt *                                       | \$ 448,822   | \$ 12,835               | \$ 22,110            | \$ 72,973            | \$ 340,904               |
| Capital lease obligations *                            | 87,399       | 7,994                   | 15,988               | 19,178               | 44,239                   |
| Operating leases *                                     | 7,897        | 2,652                   | 3,401                | 1,254                | 590                      |
| Short-term debt                                        | 127,000      | 127,000                 | —                    | —                    | —                        |
| Clean energy program *                                 | 15,672       | 10,775                  | 4,897                | —                    | —                        |
| Construction obligations                               | 5,826        | 5,826                   | —                    | —                    | —                        |
| Natural gas supply purchase obligations - NJNG         | 155,550      | 150,306                 | 548                  | 4,696                | —                        |
| Demand fee commitments - NJNG                          | 429,831      | 80,848                  | 148,479              | 110,956              | 89,548                   |
| Natural gas supply purchase obligations - NJRES        | 1,043,587    | 534,858                 | 508,729              | —                    | —                        |
| Demand fee commitments - NJRES                         | 207,855      | 71,576                  | 86,624               | 34,968               | 14,687                   |
| Total NJR, NJNG and NJRES contractual cash Obligations | \$ 2,529,439 | \$ 1,004,670            | \$ 790,776           | \$ 244,025           | \$ 489,968               |

\*These obligations include an interest component.

As of March 31, 2007, there were NJR guarantees covering approximately \$270 million of natural gas purchases, demand fee commitments and swap agreements of NJRES, NJNG and NJR Energy, not yet reflected in Accounts payable on the Condensed Consolidated Balance Sheet. These NJR guarantees are related to transactions with various expiration dates through October 2016. NJR would have to provide for payment in the event of default by NJRES, NJNG or NJR Energy.

Not included in the table above is NJR's obligation to fund up to \$125 million for the development and construction of the natural gas storage facility to be owned and operated by Steckman Ridge.

The Company is not currently required to make minimum pension funding contributions during fiscal 2007. The Company's funding level to its OPEB plans is expected to be approximately \$600,000 annually over the next five years.

#### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet financing arrangements.

#### ***Cash Flows***

##### **Operating Activities**

As presented in the Condensed Consolidated Statements of Cash Flows, net cash provided by operating activities was \$241.6 million for the six months ended March 31, 2007, compared with \$98.1 million provided by operating activities in the same period in the prior fiscal year. The increase in operating cash flow during the first half of fiscal 2007 primarily reflects higher net income, lower MGP expenditures and the following changes in the components of working capital:

- . A decrease in the change in accounts receivable of \$57.6 million and an increase in customer credit balances of \$56.7 million, primarily as a result of a \$71.5 million credit issued to retail customers and warmer weather and reduced customer usage at NJNG.

- . A decrease in gas inventory at NJNG due to lower volumes held in inventory, as well as lower wholesale natural gas prices.
- . An increase in gas purchases payable at NJNG and NJRES as a result of increased customer demand.
- . An increase in broker margin balances resulting from settlements during the six month period and lower market prices on natural gas futures contracts.

NJNG's MGP expenditures, exclusive of insurance recoveries, are currently expected to total \$26.8 million in fiscal 2007 (see *Note 12. Commitments and Contingent Liabilities*). Operating cash flows for the six months ended March 31, 2007 include the receipt of \$12.8 million in January, 2007 related to the settlement of certain claims against NJNG's insurance company (see *Note 12. Commitments and Contingent Liabilities - Legal Proceedings - Kemper Insurance Company Litigation*).

### **Financing Activities**

Cash flow used in financing activities totaled \$158.7 million for the six months ended March 31, 2007, compared with \$79.1 million used in the same period in the prior fiscal year. The change was due primarily to a decrease in short-and long-term borrowings, compared with the same period in the prior fiscal year.

NJNG's short-term debt primarily supports Gas inventory build-up during the summer months and Gas purchases. NJNG's short-term debt decreased due primarily to seasonal cash flows during the winter heating season.

NJR's short-term borrowings decreased during the six months ended March 31, 2007 due primarily to an increase in cash attributed to the reduction in NJRES' natural gas storage inventory, which was offset by acquisition costs relating to NJR's investment in the Steckman Ridge gas storage facility.

NJRES' use of high-injection, high-withdrawal storage facilities and anticipated pipeline park-and-lease arrangements, combined with related hedging activities in the volatile wholesale natural gas market, create significant short-term cash requirements, which are funded by NJR or its committed credit facility guaranteed by NJR.

In October 2005, under the New Jersey Economic Development Authority (EDA) Act, NJNG used proceeds from EDA Series 2005A and 2005B bonds to refinance NJNG's \$10.3 million, 5.38 percent Series W First Mortgage Bonds and its \$10.5 million, 6.25 percent Series Y First Mortgage Bonds. Also in October 2005, the EDA issued its 4.9 percent (Series 2005C) Natural Gas Facilities Revenue Bonds. The net proceeds from the 2005C bonds were deposited into a construction fund. NJNG immediately drew down \$2.5 million from the construction fund and issued its \$15 million, 4.9 percent Series KK bonds to the EDA with a maturity date of October 1, 2040. NJNG drew down an additional \$4 million from the construction fund in the fourth quarter of fiscal 2006.

In December 2006 and 2005, NJNG received \$5.5 million and \$4.1 million in connection with the sale-leaseback of its vintage 2006 and 2005 meters, respectively. NJNG plans to continue the sale-leaseback meter program on an annual basis.

### **Investing Activities**

Cash flow used in investing activities totaled \$79.8 million for the six months ended March 31, 2007, compared with \$35.3 million for the same period in the prior fiscal year. The increase in cash used during the first half of fiscal 2007, as compared with the same period in the prior fiscal year, was due to NJR's investment of \$52.5 million in the Steckman Ridge partnership assets along with increased capital expenditures for utility plant additions, partially offset by the absence of the net \$12.5 million deposit into a construction fund created under the EDA financing arrangement in fiscal 2006 described above.

NJNG's capital expenditures result primarily from the need for services, mains and meters to support its continued customer growth, pipeline safety rulemaking and general system improvements. NJNG's capital expenditures are expected to increase in fiscal 2007 and 2008, compared with fiscal 2006, as a result of increased system integrity projects and expected replacement required under pipeline safety rulemaking.

NJRES does not currently anticipate any significant capital expenditures in fiscal 2007 and 2008.

Retail and Other capital expenditures each year have been primarily made in connection with investments made to preserve the value of real estate holdings. During the second quarter of fiscal 2007, NJR and Spectra Energy Corporation, through their respective subsidiaries, formed a partnership to develop and operate the Steckman Ridge gas storage facility. NJR will share 50 percent of the acquisition and development costs of the storage facility, up to a maximum of \$125 million, of which \$52.5 million was expended through March 2007, as noted above.

### **Credit Ratings**

The table below summarizes NJNG's credit ratings issued by two rating entities, Standard and Poor's (S&P), and Moody's Investors Service, Inc. (Moody's).

|                  | Standard & Poor's | Moody's |
|------------------|-------------------|---------|
| Corporate Rating | A+                | N/A     |
| Commercial Paper | A-1               | P-1     |
| Senior Secured   | AA-               | Aa3     |
| Ratings Outlook  | Negative          | Stable  |

NJNG's S&P and Moody's Senior Secured ratings are investment grade ratings and represent the sixth highest rating within the investment grade category. Moody's and S&P give NJNG's commercial paper the highest rating within the Commercial Paper investment grade category. Investment grade ratings are generally divided into three groups: high, upper medium and medium. NJNG's senior secured ratings and the commercial paper ratings fall into the high group. NJR is not a rated entity.

NJNG is not party to any lending agreements that would accelerate the maturity date of any obligation caused by a failure to maintain any specific credit rating. A rating set forth above is not a recommendation to buy, sell or hold the Company's or NJNG's securities and may be subject to revision or withdrawal at any time. Each rating set forth above should be evaluated independently of any other rating.

The timing and mix of any external financings will target a common equity ratio that is consistent with maintaining the Company's current short- and long-term credit ratings.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Financial Risk Management

##### Commodity Market Risks

Natural gas is a nationally traded commodity, and its prices are determined effectively by the New York Mercantile Exchange (NYMEX) and over-the-counter markets. The prices on the NYMEX and over-the-counter markets generally reflect the notional balance of natural gas supply and demand, but are also influenced significantly from time to time by other events.

The regulated and unregulated natural gas businesses of the Company and its subsidiaries are subject to market risk due to fluctuations in the price of natural gas. To hedge against such fluctuations, the Company and its subsidiaries have entered into futures contracts, options agreements and swap agreements. To manage these instruments, the Company has well-defined risk management policies and procedures that include daily monitoring of volumetric limits and monetary guidelines. The Company's natural gas businesses are conducted through three of its operating subsidiaries. First, NJNG is a regulated utility that uses futures, options and swaps to hedge against price fluctuations and its recovery of natural gas costs is governed by the BPU. Second, NJRES uses futures, options and swaps to hedge purchases and sales of natural gas. Finally, NJR Energy has entered into two swap transactions to hedge an 18-year fixed-price contract to sell remaining volumes of approximately 8.5 Bcf of natural gas (Gas Sales Contract) to an energy marketing company which expire on October 31, 2010. NJR Energy has hedged both the price and physical delivery risks associated with the Gas Sales Contract.

The following table reflects the changes in the fair market value of commodity derivatives from September 30, 2006 to March 31, 2007:

| <i>(Thousands)</i> | <b>Balance<br/>September 30,<br/>2006</b> | <b>Increase<br/>(Decrease)<br/>in Fair<br/>Market Value</b> | <b>Amounts<br/>Settled</b> | <b>Balance<br/>March 31,<br/>2007</b> |
|--------------------|-------------------------------------------|-------------------------------------------------------------|----------------------------|---------------------------------------|
| NJNG               | \$ (82,451)                               | \$ 10,399                                                   | \$ (1,202)                 | \$ (70,850)                           |
| NJRES              | 116,547                                   | (26,373)                                                    | 91,495                     | (1,321)                               |
| NJR Energy         | 35,423                                    | 754                                                         | 360                        | 35,817                                |
| Total              | \$ 69,519                                 | \$ (15,220)                                                 | \$ 90,653                  | \$ (36,354)                           |

There were no changes in methods of valuations during the three months ended March 31, 2007.

The following is a summary of fair market value of commodity derivatives at March 31, 2007, by method of valuation and by maturity for each fiscal year period:

| <i>(Thousands)</i>              | <b>Remaining<br/>2007</b> | <b>2008</b> | <b>2009 - 2011</b> | <b>After<br/>2011</b> | <b>Total<br/>Fair Value</b> |
|---------------------------------|---------------------------|-------------|--------------------|-----------------------|-----------------------------|
| Price based on NYMEX            | \$ (29,616)               | \$ (1,761)  | \$ (3,071)         | \$ —                  | \$ (34,448)                 |
| Price based on over-the-counter | —                         | —           | —                  | —                     | —                           |
| Published quotations            | (1,128)                   | (840)       | 62                 | —                     | \$ (1,906)                  |
| Total                           | \$ (30,744)               | \$ (2,601)  | \$ (3,009)         | \$ —                  | \$ (36,354)                 |

The following is a summary of commodity derivatives by type as of March 31, 2007:

|              | Volume<br>(Bcf) | Price per<br>Mmbtu | Amounts Included<br>in<br>Derivatives<br>(Thousands) |
|--------------|-----------------|--------------------|------------------------------------------------------|
| <b>NJNG</b>  |                 |                    |                                                      |
| Futures      | (18.3)          | \$ 6.45 - \$ 9.39  | \$ (18,296)                                          |
| Options      | 5.0             | \$ 7.50 - \$ 11.00 | 2,934                                                |
| Swaps        | 6.1             | \$ 3.99 - \$ 8.74  | (55,488)                                             |
| <b>NJRES</b> |                 |                    |                                                      |
| Futures      | (16.9)          | \$ 6.32 - \$ 11.59 | (9,596)                                              |
| Swaps        | (42.5)          | \$ 6.30 - \$ 11.98 | 8,275                                                |
| <b>NJRE</b>  |                 |                    |                                                      |
| Swaps        | 39.0            | \$ 3.07 - \$ 4.41  | 35,817                                               |
| <b>Total</b> |                 |                    | <b>\$ (36,354)</b>                                   |

The Company uses a value-at-risk (VaR) model to assess the market risk of its net futures, options and swap positions. VaR represents the potential loss in value of NJRES' trading portfolio due to adverse market movements over a defined time horizon (NJRES utilizes holding periods of 1 day and 10 days) with a specified confidence level (NJRES utilizes either a 95 percent or 99 percent confidence level). As an example, utilizing a 1 day holding period with a 95 percent confidence level would indicate that there is a 5 percent chance that the liquidation value of the NJRES portfolio would fall below the expected trading value by an amount at least as large as the calculated VaR.

The VaR as of March 31, 2007, using the variance-covariance method with a 95 percent confidence level and a 1-day holding period, was \$2.4 million. The VaR with a 99 percent confidence level and a 10-day holding period was \$10.7 million. These estimates may not be indicative of actual results because actual market fluctuations may differ from forecasted fluctuations.

#### **Wholesale Credit Risk**

NJNG, NJRES and NJR Energy engage in wholesale marketing activities. NJR monitors and manages the credit risk of its wholesale marketing operations through credit policies and procedures that management believes reduce overall credit risk. These policies include a review and evaluation of prospective counterparties' financial statements and/or credit ratings, daily monitoring of counterparties' credit limits, daily communication with traders regarding credit status and the use of credit mitigation measures, such as minimum margin requirements, collateral requirements and netting agreements. Examples of collateral include letters of credit and cash received for either prepayment or margin deposit.

The Company's Risk Management Committee (RMC) continuously monitors NJR's credit risk management policies and procedures. The RMC is a group of senior officers from NJR-affiliated companies that meets twice a month and, among other things, evaluates the effectiveness of existing credit policies and procedures, reviews material transactions and discusses emerging issues.

Following is a summary of gross and net credit exposures, grouped by investment and noninvestment grade counterparties, as of March 31, 2007. Gross credit exposure is defined as the unrealized fair value of derivative and energy trading contracts plus any outstanding receivable for the value of natural gas delivered for which payment has not yet been received. Net credit exposure is defined as gross credit exposure reduced by collateral received from counterparties and/or payables, where netting agreements exist. The amounts presented below exclude accounts receivable for retail natural gas sales and services.

Unregulated counterparty credit exposure as of March 31, 2007, is as follows:

| <i>(Thousands)</i>                   | <b>Gross Credit Exposure</b> | <b>Net Credit Exposure</b> |
|--------------------------------------|------------------------------|----------------------------|
| Investment grade                     | \$ 216,864                   | \$ 182,915                 |
| Noninvestment grade                  | 1,148                        | -                          |
| Internally rated investment grade    | 15,005                       | 7,275                      |
| Internally rated noninvestment grade | 7,666                        | -                          |
| <b>Total</b>                         | <b>\$ 240,683</b>            | <b>\$ 190,190</b>          |

NJNG's counterparty credit exposure as of March 31, 2007, is as follows:

| <i>(Thousands)</i>                   | <b>Gross Credit Exposure</b> | <b>Net Credit Exposure</b> |
|--------------------------------------|------------------------------|----------------------------|
| Investment grade                     | \$ 29,196                    | \$ 24,794                  |
| Noninvestment grade                  | 60                           | -                          |
| Internally rated investment grade    | 2,189                        | 997                        |
| Internally rated noninvestment grade | 290                          | -                          |
| <b>Total</b>                         | <b>\$ 31,735</b>             | <b>\$ 25,791</b>           |

Due to the inherent volatility in the prices of natural gas commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If a counterparty failed to perform the obligations under its contract (for example, failed to deliver or pay for natural gas), then the Company could sustain a loss. This loss would comprise the loss on natural gas delivered but not paid for and/or the cost of replacing natural gas not delivered at a price higher than the price in the original contract. Any such loss could have a material impact on the Company's financial condition, results of operations or cash flows.

#### **Interest Rate Risk-Long-Term Debt**

At March 31, 2007, the Company (excluding NJNG) had no variable-rate long-term debt.

At March 31, 2007, NJNG had total variable-rate, tax-exempt long-term debt of \$97 million, which is hedged by interest rate caps expiring in July 2009 that limit NJNG's variable-rate debt exposure from the tax-exempt EDA bonds at 4.5 percent.

#### **ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period reported on in this report, NJR has undertaken an evaluation under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures, pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that NJR's disclosure controls and procedures were effective with regard to the recording, processing, summarizing and reporting, within the time periods specified in the SEC's rules and forms, of information required to be disclosed by NJR in the reports that it files or submits under the Exchange Act.

NJR continually reviews its disclosure controls and procedures and makes changes, as necessary, to ensure the quality of its financial reporting. There have been no changes in internal control over financial reporting that occurred during the second quarter of 2007 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Information regarding reportable legal proceedings is contained in Part I, "Item 3. Legal Proceedings" in our Annual Report on Form 10-K for the year ended September 30, 2006, as updated in our subsequent Quarterly Report on Form 10-Q for the quarter ended December 31, 2006 and is set forth in Part I, Item 1, Note 12, *Commitment and Contingent Liabilities—Legal Proceedings*. The following describes legal proceedings, if any, that became reportable during the quarter ended March 31, 2007 and amends and restates descriptions of previously reported legal proceedings in which there have been material developments during such quarter or which are otherwise updated in this report.

No legal proceedings became reportable during the quarter ended March 31, 2007 and there have been no material developments during such quarter regarding any previously reported legal proceedings, which have not been previously disclosed.

### ITEM 1A. RISK FACTORS

Part I, Item 1A, "Risk Factors," of our 2006 Annual Report on Form 10-K includes a detailed discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our 2006 Form 10-K.

*Investing through partnerships or joint ventures decreases NJR's ability to manage risk.*

NJR and its subsidiaries have utilized joint ventures for certain non-regulated energy investments, including Steckman Ridge and Iroquois, and although they currently have no specific plans to do so, NJR and its subsidiaries may acquire interests in other joint ventures in the future. In these joint ventures, NJR and its subsidiaries may not have the right or power to direct the management and policies of the joint ventures and other participants may take action contrary to their instructions or requests and against their policies and objectives. In addition, the other participants may become bankrupt or have economic or other business interests or goals that are inconsistent with those of NJR and its subsidiaries. If a joint venture participant acts contrary to the interests of NJR or its subsidiaries, it could harm NJR's financial condition, results of operations or cash flows.

*NJR and its subsidiaries may be unable to obtain governmental approvals, property rights and/or financing for the construction, development and operation of its non-regulated energy investments.*

Construction, development and operation of energy investments, such as natural gas storage facilities and pipeline transportation systems, is subject to federal and state regulatory oversight and requires certain property rights and approvals, including permits and licenses for such facilities and systems. NJR, its subsidiaries, or its joint venture partnerships may be unable to obtain, in a cost-efficient or timely manner, all such needed property rights, permits and licenses in order to successfully construct and develop its non-regulated energy facilities and systems. Successful financing of NJR's energy investments will require participation by willing financial institutions and lenders, as well as acquisition of capital at favorable interest rates. If NJR and its subsidiaries do not obtain the necessary regulatory approvals and financing, their equity investments could become impaired and such impairment could have a materially adverse effect on NJR's financial condition, results of operations or cash flows.

## ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

In 1996, the NJR Board of Directors authorized the repurchase of up to 1 million of the Company's common shares. Since 1996, the repurchase plan has been expanded several times, most recently in January 2006, to permit the repurchase of up to 3.5 million shares. As of March 31, 2007, the Company has repurchased 3.15 million shares of its common stock.

The following table sets forth NJR's repurchase activity for the quarter ended March 31, 2007:

| Period             | Total Number of Shares<br>(or Units) Purchased | Average Price<br>Paid per Share<br>(or Unit) | Total Number of Shares<br>(or Units) Purchased as<br>Part of Publicly<br>Announced Plans or<br>Programs | Maximum Number (or<br>Approximate Dollar Value) of<br>Shares (or Units) That May<br>Yet Be Purchased Under the<br>Plans or Programs |
|--------------------|------------------------------------------------|----------------------------------------------|---------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| 01/1/07 - 01/31/07 | —                                              | —                                            | —                                                                                                       | 348,147                                                                                                                             |
| 02/1/07 - 02/28/07 | —                                              | —                                            | —                                                                                                       | 348,147                                                                                                                             |
| 03/1/07 - 03/31/07 | —                                              | —                                            | —                                                                                                       | 348,147                                                                                                                             |
| Total              | —                                              | —                                            | —                                                                                                       | 348,147                                                                                                                             |

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) An annual meeting of shareholders was held on January 24, 2007 and information regarding such meeting was included in the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2006,

## ITEM 6. EXHIBITS

- (a) Exhibits
- 10.1 Limited Liability Company Agreement of Steckman Ridge GP, LLC dated as of March 2, 2007
  - 10.2 Limited Partnership Agreement of Steckman Ridge, LP dated as of March 2, 2007
  - 31.1 Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act
  - 31.2 Certification of the Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act
  - 32.1 Certification of the Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act\*
  - 32.2 Certification of the Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act\*

\*This certificate accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by NJR for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 2, 2007

**NEW JERSEY RESOURCES**

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/s/Glenn C. Lockwood

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Glenn C. Lockwood

Senior Vice President and Chief Financial Officer

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# **LIMITED LIABILITY COMPANY AGREEMENT**

**OF**

## **STECKMAN RIDGE GP, LLC**

**A Delaware Limited Liability Company**

**March 2, 2007**

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**EXHIBITS:**

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- B - Form of Partnership Agreement
- C - Non-Competition Area
- D - Initial Facilities Plan

**LIMITED LIABILITY COMPANY AGREEMENT**  
**OF**  
**STECKMAN RIDGE GP, LLC**  
A Delaware Limited Liability Company

This LIMITED LIABILITY COMPANY AGREEMENT OF STECKMAN RIDGE GP, LLC (this “Agreement”), dated as of March 2, 2007 (the “Effective Date”), is adopted, executed and agreed to, for good and valuable consideration, by SPECTRA ENERGY TRANSMISSION SERVICES, LLC, a Delaware limited liability company (“Spectra”), and NJR STECKMAN RIDGE STORAGE COMPANY, a Delaware corporation (“NJR”). Capitalized terms used in this Agreement and not defined elsewhere have the meanings given to them in Article 1 below.

**RECITALS**

The Persons executing this Agreement as of the date of this Agreement are becoming members of the Company and desire to enter into a written agreement pursuant to the Act governing the affairs of the Company and the conduct of its business. This Agreement is intended to bind all Members from time to time and the Company.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Members agree as follows:

**ARTICLE 1**  
**DEFINITIONS**

1.01        ***Definitions.***

(a)        ***Certain Definitions.*** As used in this Agreement, the following terms have the respective meanings set forth below or set forth in the Sections referred to below:

***AAA*** - Section 10.02(c).

***Act*** - the Delaware Limited Liability Company Act.

***Additional Contribution*** - Section 4.06(a)(ii).

***Additional Contribution Member*** - Section 4.06(a)(ii).

***Adjusted Capital Account Deficit*** - with respect to any Member, the deficit balance, if any, in such Member’s Capital Account as of the end of the relevant Fiscal Year after giving effect to the following adjustments: (a) credit to such Capital Account any amounts that such Member is obligated to restore pursuant to the penultimate sentences of Treasury Regulation Sections 1.704-2(g)(1) and 1.704-2(i)(5) and (b) debit to such Capital Account such Member’s share of the items described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6). This definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

***Affiliate*** - with respect to any Person, (a) each entity that such Person Controls; (b) each Person that Controls such Person, including, in the case of a Member, the Member’s Parent; and (c) each entity that is under common Control with the Person, including, in the case of a Member, each entity that is Controlled by the Member’s Parent; provided, with respect to any Member, an Affiliate shall include (y) a limited partnership or a Person Controlled by a limited partnership if a general partner of the limited partnership is Controlled by the Member’s Parent, or (z) a limited liability company or a Person controlled by a limited liability company if the managing member of the limited liability company is Controlled by the Member’s Parent; provided further, for purposes of this Agreement the Company, the Partnership and their subsidiaries (if any) shall not be an Affiliate of any Member.

**Affiliate's Outside Activities** - Section 6.04(b).

**Agreement** - introductory paragraph.

**Alternate Representative** - Section 6.02(a)(i).

**Arbitration Notice** - Section 10.02(c).

**Arbitrator** - Section 10.03(b).

**Assignee** - any Person that acquires a Membership Interest or any portion of a Membership Interest through a Disposition; provided, however, that an Assignee shall have no right to be admitted to the Company as a Member except in accordance with Section 3.03(b)(ii). The Assignee of a liquidated or wound up Member is the shareholder, partner, member or other equity owner or owners of the liquidated or wound up Member to which that Member's Membership Interest is assigned by the Person conducting the liquidation or winding up of such Member. The Assignee of a Bankrupt Member is (a) the Person or Persons (if any) to whom such Bankrupt Member's Membership Interest is assigned by order of the bankruptcy court or other Governmental Authority having jurisdiction over such Bankruptcy, or (b) in the event of a general assignment for the benefit of creditors, the creditor to which such Membership Interest is assigned.

**Authorizations** - licenses, certificates, permits, orders, approvals, determinations and authorizations from Governmental Authorities having valid jurisdiction.

**Available Cash** - with respect to any Quarter ending prior to the liquidation and winding up of the Company, the excess, if any and without duplication, of:

(a) the sum of all cash and cash equivalents of the Company on hand at the end of that Quarter, over

(b) the amount of any cash reserves that are necessary or appropriate in the Sole Discretion of the Management Committee to (i) provide for the proper conduct of the business of the Company (including reserves for future maintenance capital expenditures and for anticipated future credit needs of the Company) subsequent to that Quarter or (ii) comply with applicable Law or any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which the Company is a party or by which it is bound or its assets are subject; provided, however, that distributions made by the Company or cash reserves established, increased or reduced after the end of that Quarter but on or before the date of determination of Available Cash with respect to that Quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, within that Quarter if the Management Committee so determines.

Notwithstanding the foregoing, "Available Cash" with respect to the Quarter in which a liquidation or winding up of the Company occurs and any subsequent Quarter shall be deemed to equal zero.

**Bankruptcy or Bankrupt** - as defined in the Partnership Agreement.

**Breaching Member** - a Member (a) that (i) has committed a failure or breach of the type described in the definition of "Default," (ii) has received a notice of the type described in the definition of "Default," and (iii) has not cured the failure or breach, but as to which the applicable cure period set forth in the definition of "Default" has not yet expired or (b) that is, or any Affiliate of which is, a "Breaching Partner" as defined in the Partnership Agreement.

**Business Day** - as defined in the Partnership Agreement.

**Buy-out Right** - Section 3.03(b)(iv)(A).

**Capital Account** - the account maintained by the Company for each Member in accordance with this Agreement and to be maintained by the Company for each Member from and after the Effective Date in accordance with Section 4.05.

**Capital Budget** - the annual capital budget for the Partnership that is approved (or deemed approved) pursuant to Section 6.02(h)(ii)(C).

**Capital Call** - Section 4.01(a).

**Capital Contribution** - with respect to any Member, the amount of money and the net agreed value of any property (other than money) contributed to the Company by the Member. Any reference in this Agreement to the Capital Contribution of a Member shall include a Capital Contribution of its predecessors in interest.

**Certificate** - Section 2.01.

**Change Exercise Notice** - Section 3.03(b)(iv)(A).

**Change of Member Control** - with respect to any Member, an event (such as a Disposition of voting securities or other equity interests) that causes such Member to cease to be Controlled by such Member's then Parent or an event that causes an Affiliate of a Member that holds an LP Interest to be Controlled by another Person that is not an Affiliate of that Member; provided, however, that the term "Change of Member Control" shall not include any of the following events:

(a) an event that causes that Member's then Parent to be Controlled by another Person;

(b) an event that involves the Disposition of voting securities or other equity interests of that Member but also involves the Disposition of other assets having a greater value than the larger of (i) the fair market value of such Member's Membership Interest and (ii) the product of the Sharing Ratio of that Member times \$1 billion;

(c) an event that involves the Disposition of voting securities or other equity interests of a Person that Controls that Member if that Person also owns assets (other than the voting securities or other equity interests of such Member) that have a greater value than the larger of (i) the fair market value of that Member's Membership Interest and (ii) the product of the Sharing Ratio of that Member times \$1 billion; or

(d) in the case of a Member that is a publicly traded partnership or is Controlled by a publicly traded partnership, any Disposition of or issuance of new units representing limited partner interests by such publicly traded partnership, whether to an Affiliate or an unrelated party and whether or not such units or interests are listed on a national securities exchange or quotation service.

**Change Purchasing Member** - Section 3.03(b)(iv)(A).

**Change Unexercised Portion** - Section 3.03(b)(iv)(A).

**Changing Member** - Section 3.03(b)(iv)(A).

**Claim** - any and all judgments, claims, causes of action, demands, lawsuits, suits, proceedings, Governmental investigations or audits, losses, assessments, fines, penalties, administrative orders, obligations, costs, expenses, liabilities and damages (whether actual, consequential or punitive), including interest, penalties, reasonable attorney's fees, disbursements and costs of investigations, deficiencies, levies, duties, imposts, remediation and cleanup costs, and natural resources damages.

**Code** - as defined in the Partnership Agreement.

**Company** - Steckman Ridge GP, LLC, a Delaware limited liability company.

**Company Minimum Gain** - "partnership minimum gain" set forth in Treasury Regulation Sections 1.704-2(b)(2) and 1.704-2(d).

**Confidential Information** - information and data (including all copies) that is furnished or submitted by any of the Members, their Affiliates, or the Operator, whether oral, written, or electronic, to the other Members, their Affiliates, or the Operator in connection with the Facilities and the resulting information and data obtained from those studies, including market evaluations, market proposals, service designs and pricing, pipeline system design and routing, cost estimating, rate studies, identification of permits, strategic plans, legal documents, environmental studies and requirements, public and governmental relations planning, identification of regulatory issues and development of related strategies, legal analysis and documentation, financial planning, gas reserves and deliverability data, studies of the natural gas supplies for the Facilities, and other studies and activities to determine the potential viability of the Facilities and their design characteristics, and identification of key issues. Notwithstanding the foregoing, the term “Confidential Information” shall not include any information that:

(a) is in the public domain at the time of its disclosure or thereafter, other than as a result of a disclosure directly or indirectly by a Member or its Affiliates or the Operator in contravention of this Agreement;

(b) as to any Member or its Affiliates or the Operator, was in the possession of such Member or its Affiliates or the Operator prior to the execution of any confidentiality agreements related to the Facilities or this Agreement; or

(c) has been independently acquired or developed by a Member or its Affiliates or the Operator without violating any of the obligations of that Member or its Affiliates or the Operator under any applicable agreement.

**Contributing Member** - Section 4.06(a).

**Control** - as defined in the Partnership Agreement.

**Control Notice** - Section 3.03(b)(iv)(A).

**Customer** - the Person (other than the Company) that has entered into a Storage Agreement.

**Day** - a calendar day; provided, however, that, if any period of Days referred to in this Agreement shall end on a Day that is not a Business Day, then the expiration of that period shall be automatically extended until the end of the first succeeding Business Day.

**Default** - with respect to any Member,

(a) the failure of that Member to contribute, on or before the 10th Day after the date required, all or any portion of a Capital Contribution that Member is required to make as provided in this Agreement, or

(b) the failure of a Member to comply in any material respect with any of its other agreements, covenants or obligations under this Agreement, or the failure of any representation or warranty made by a Member in this Agreement to have been true and correct in all material respects at the time it was made, in each case if the breach is not cured by the applicable Member on or before the 30th Day after its receiving notice of such breach from any other Member (or, if such breach is not capable of being cured within such 30-Day period, if such Member fails to promptly commence substantial efforts to cure such breach or to prosecute such curative efforts to completion with continuity and diligence). The Management Committee may, but shall have no obligation to, extend the foregoing 10-Day and 30-Day periods.

**Default Rate** - a rate per annum equal to the lesser of (a) a varying rate per annum equal to the sum of (i) the prime rate as published in The Wall Street Journal, with adjustments in that varying rate to be made on the same date as any change in that rate is so published, plus (ii) 2% per annum, and (b) the maximum rate permitted by Law.

**Dispose, Disposing or Disposition** - with respect to any asset (including a Membership Interest, an LP Interest or any portion of a Membership Interest or LP Interest), a sale, assignment, transfer, conveyance, gift, exchange or other disposition of such asset, whether such disposition be voluntary, involuntary or by operation of Law, including the following: (a) in the case of an asset owned by a natural person, a transfer of such asset upon the death of its owner, whether by will, intestate succession or otherwise; (b) in the case of an asset owned by an entity, (i) a merger or consolidation of such entity (other than where such entity is the survivor thereof), (ii) a conversion of such entity into another type of entity, or (iii) a distribution of such asset, including in connection with the dissolution, liquidation, winding up or termination of such entity (unless, in the case of dissolution, such entity's business is continued without the commencement of liquidation or winding up); and (c) a disposition in connection with, or in lieu of, a foreclosure of an Encumbrance; but such terms shall not include the creation of an Encumbrance.

**Disposing Member** - Section 3.03(a).

**Dispute** - Section 10.01.

**Dispute Notice** - Section 10.02.

**Disputing Member** - Section 10.01.

**Dissolution Event** - Section 11.01.

**Effective Date** - introductory paragraph.

**Encumber, Encumbering, or Encumbrance** - the creation of a security interest, lien, pledge, mortgage or other encumbrance, whether such encumbrance be voluntary, involuntary or by operation of Law.

**Facilities** - as defined in the Partnership Agreement.

**FERC** - as defined in the Partnership Agreement.

**Governmental Authority** (or **Governmental**) - as defined in the Partnership Agreement.

**including** - including, without limitation.

**Initial Facilities** - as defined in the Partnership Agreement.

**Initial Facilities Plan** - Section 6.07(a).

**Law** - as defined in the Partnership Agreement.

**Limited Partner** - as defined in the Partnership Agreement.

**LP Interest** - as defined in the Partnership Agreement.

**Majority Interest** - Section 6.02(e)(i).

**Management Committee** - Section 6.01.

**Member** - any Person executing this Agreement as of the date of this Agreement as a member or subsequently admitted to the Company as a member as provided in this Agreement, but such term does not include any Person that has ceased to be a member in the Company.

**Membership Interest** - with respect to any Member, (a) that Member's status as a Member; (b) that Member's share of the income, gain, loss, deduction and credits of, and the right to receive distributions from, the Company; (c) any Priority Interest to which that Member is entitled pursuant to Section 4.06(b); (d) all other rights, benefits and privileges enjoyed by that Member (under the Act, this Agreement or otherwise) in its capacity as a Member, including that Member's rights to vote, consent and approve and otherwise to participate in the management of the Company, including through the Management Committee; and (e) all obligations, duties and liabilities imposed on that Member (under the Act, this Agreement or otherwise) in its capacity as a Member, including any obligations to make Capital Contributions.

**Member Minimum Gain** - "partner nonrecourse debt minimum gain" as determined under Treasury Regulation Section 1.704-2(i)(2).

**Member Nonrecourse Debt** - "partner nonrecourse debt" as set forth in Treasury Regulation Section 1.704-2(b)(4).

**Member Nonrecourse Deductions** - "partner nonrecourse deductions," and the amount thereof shall be, as set forth in Treasury Regulation Section 1.704-2(i).

**NJR** - introductory paragraph.

**Non-Contributing Member** - Section 4.06(a).

**Nonrecourse Debt** - the meaning set forth in Treasury Regulation Section 1.704-2(b)(3).

**Nonrecourse Deductions** - the meaning, and the amount thereof shall be, as set forth in Treasury Regulation Sections 1.704-2(b) and 1.704-2(c).

**O&M Agreement** - as defined in the Partnership Agreement.

**Officer** - any Person designated as an officer of the Company as provided in Section 6.02(j), but that term does not include any Person who has ceased to be an officer of the Company.

**Operating Budget** - the annual operating budget for the Partnership that is approved (or deemed approved) pursuant to Section 6.02(h)(ii)(C).

**Operator** - as defined in the Partnership Agreement.

**Parent** - any Person that Controls a Member and that is not itself Controlled by any other Person.

**Partnership** - as defined in the Partnership Agreement.

**Partnership Agreement** - Section 2.06.

**Person** - the meaning assigned that term in Section 18-101(11) of the Act and also includes a Governmental Authority and any other entity.

**Priority Interest** - the special distribution rights under Section 4.06(b) received by each Additional Contribution Member, which rights include the right to receive the return described in Section 4.06(b)(i) and which form part of the Additional Contribution Member's Membership Interest.

**Priority Interest Sharing Ratio** - Section 4.06(b)(i).

**PSA** - as defined in the Partnership Agreement.

**Quarter** - unless the context requires otherwise, a fiscal quarter of the Company.

**Regulatory Allocations** - Section 5.06.

**Representative** - Section 6.02(a)(i).

**Securities Act** - the Securities Act of 1933.

**Sharing Ratio** - subject in each case to adjustments in accordance with this Agreement or in connection with Dispositions of Membership Interests, (a) in the case of a Member executing this Agreement as of the date of this Agreement or a Person acquiring that Member's Membership Interest, the percentage specified for that Member as its Sharing Ratio on Exhibit A, and (b) in the case of Membership Interests issued under Section 3.04, the Sharing Ratio established in Section 3.04; provided, however, that the total of all Sharing Ratios shall always equal 100%.

**Sole Discretion** - (a) in the applicable Person's sole and absolute discretion, (b) with or without cause, (c) subject to such conditions as it may deem appropriate, and (d) without taking into account the interests of, and without incurring liability to, the Company, the Partnership, any Limited Partner, any other Member or Representative, or any Officer or employee of the Company, the Partnership or any Limited Partner.

**Spectra** - introductory paragraph.

**Storage Agreement** - as defined in the Partnership Agreement.

**Tax Matters Member** - Section 7.03(a).

**Term** - Section 2.07.

**Treasury Regulations** - as defined in the Partnership Agreement.

**Withdraw, Withdrawing or Withdrawal** - the withdrawal, resignation or retirement of a Member from the Company as a member. Such terms shall not include any Dispositions of Membership Interests (which are governed by Sections 3.03(a) and (b)), even though the Member making a Disposition may cease to be a Member as a result of the Disposition.

**Withdrawn Member** - Section 9.03.

(b) **Other Terms.** Terms defined elsewhere in this Agreement have the meanings so given them.

1.02 **Interpretation.** Unless the context requires otherwise: (a) the gender (or lack of gender) of all words used in this Agreement includes the masculine, feminine and neuter; (b) references to Articles and Sections refer to Articles and Sections of this Agreement; (c) references to Exhibits refer to the Exhibits attached to this Agreement, each of which is made a part hereof for all purposes; (d) references to Laws refer to such Laws as they may be amended from time to time, and references to particular provisions of a Law include any corresponding provisions of any succeeding Law; and (e) references to money refer to legal currency of the United States of America.

## ARTICLE 2 ORGANIZATION

2.01 **Formation.** The Company has been formed as a Delaware limited liability company by the filing of a Certificate of Formation (the "Certificate") on February 7, 2007.

2.02 **Name.** The name of the Company is "Steckman Ridge GP, LLC" and all Company business must be conducted in that name or such other names that comply with Law as the Management Committee may select.

2.03 **Registered Office; Registered Agent; Principal Office in the United States; Other Offices.** The registered office of the Company required by the Act to be maintained in the State of Delaware shall be the office of the initial registered agent named in the Certificate or such other office (which need not be a place of business of the Company) as the Management Committee may designate in the manner provided by Law. The registered agent of the Company in the State of Delaware shall be the initial registered agent named in the Certificate or such other Person or Persons as the Management Committee may designate in the manner provided by Law. The principal office of the Company in the United States shall be at such place as the Management Committee may designate, which need not be in the State of Delaware, and the Company shall maintain records there or such other place as the Management Committee shall designate and shall keep the street address of such principal office at the registered office of the Company in the State of Delaware. The Company may have such other offices as the Management Committee may designate.

2.04 **Purposes.** The purpose of the Company is to act as the general partner of the Partnership, to hold the general partner interests in the Partnership and to engage in any activities directly or indirectly relating to the foregoing.

2.05 **Foreign Qualification.** Prior to the Company's conducting business in any jurisdiction other than Delaware, the Management Committee shall cause the Company to comply, to the extent procedures are available and those matters are reasonably within the control of the Management Committee, with all requirements necessary to qualify the Company as a foreign limited liability company in that jurisdiction. At the request of the Management Committee, each Member shall execute, acknowledge, swear to and deliver all certificates and other instruments conforming with this Agreement that are necessary or appropriate to qualify, continue and terminate the Company as a foreign limited liability company in all such jurisdictions in which the Company may conduct business.

2.06 **Formation of Partnership.** Promptly after the execution and delivery of this Agreement, the Company as general partner and each Member signing this Agreement (or its Affiliate) shall enter into the Limited Partnership Agreement of Steckman Ridge, LP, in the form of Exhibit B to this Agreement (the "Partnership Agreement," as amended from time to time).

2.07 **Term.** The period of existence of the Company (the "Term") commenced with the acceptance for filing of the Certificate by the Secretary of State of the State of Delaware and shall end at such time as a certificate of cancellation is filed with the Secretary of State of the State of Delaware in accordance with Section 11.04.

### ARTICLE 3 MEMBERSHIP; DISPOSITIONS OF INTERESTS

3.01 **Current Members.** As of the Effective Date, Spectra and NJR are the only Members of the Company, each of which is admitted to the Company as a member.

3.02 **Representations, Warranties and Covenants.** Each Member hereby represents, warrants and covenants to the Company and each other Member that the following statements are true and correct as of the Effective Date and shall be true and correct at all times that such Member is a Member:

(a) that Member is duly incorporated, organized or formed (as applicable), validly existing, and (if applicable) in good standing under the Law of the jurisdiction of its incorporation, organization or formation; if required by applicable Law, that Member is duly qualified and in good standing in the jurisdiction of its principal place of business, if different from its jurisdiction of incorporation, organization or formation; and that Member has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder, and all necessary actions by the board of directors, shareholders, managers, members, partners, trustees, beneficiaries, or other applicable Persons necessary for the due authorization, execution, delivery and performance of this Agreement by that Member have been duly taken;

(b) that Member has duly executed and delivered this Agreement and the other documents contemplated herein, and they constitute the legal, valid and binding obligation of that Member enforceable against it in accordance with their terms (except as may be limited by bankruptcy, insolvency or similar Laws of general application and by the effect of general principles of equity, regardless of whether considered at law or in equity);

(c) that Member's authorization, execution, delivery, and performance of this Agreement does not and will not (i) conflict with, or result in a breach, default or violation of, (A) the organizational documents of that Member, (B) any contract or agreement to which that Member is a party or is otherwise subject, or (C) any Law, order, judgment, decree, writ, injunction or arbitral award to which that Member is subject; or (ii) require any consent, approval or authorization from, filing or registration with, or notice to, any Governmental Authority or other Person, unless such requirement has already been satisfied;

(d) that Member's Parent is the Person identified as such on Exhibit A;

(e) that Member is acquiring its Membership Interest solely for investment for its own account and not for distribution or sale to others in connection with any distribution or public offering;

(f) that Member understands that there will not be any public market for the Membership Interests and that it must bear the economic risk of an investment in the Company for an indefinite period of time because (i) its Membership Interest has not been registered under the Securities Act or any applicable state securities laws and (ii) it may Dispose or Encumber, in whole or in part, its Membership Interest only in accordance with this Agreement and then only if its Membership Interest is subsequently registered in accordance with the provisions of the Securities Act and applicable state securities laws, unless registration is not required;

(g) that Member understands that the Company is not obligated to register the Membership Interests for resale under the Securities Act or any applicable state securities laws;

(h) that Member is a "qualified institutional buyer" within the meaning of rule 144A of the Securities and Exchange Commission or an "accredited investor" within the meaning of Regulation D of the Securities and Exchange Commission and is able to bear the economic risk of such an investment in the Company for an indefinite period of time, and it has no need for liquidity of this investment and it could bear a complete loss of this investment; if it is either a "qualified purchaser" within the meaning of the Investment Company Act of 1940 or is an entity formed and is being utilized primarily for the purpose of making an investment in the Company, each of the shareholders, partners, members or other holders of equity or beneficial interests in that Member is such a qualified purchaser; and

(i) that Member has the knowledge and sophistication to evaluate the risks of investing in the Company; it has conducted its own investigation and due diligence into the Company and is satisfied that its investment in the Company is appropriate; it understands and agrees that none of the other Members or their Affiliates, or the Company, has made nor will make any representation or warranty with respect to the worthiness, terms, value, or any other aspect of the Company or the Membership Interests, and it explicitly disclaims any warranty, express or implied, with respect to such matters; and it specifically acknowledges, represents, and warrants that it is not relying on any other Member or its Affiliates (i) for its investigation or due diligence concerning, or evaluation of, the Company or any related transaction or (ii) with respect to tax and other economic considerations involved in an investment in the Company.

### 3.03 *Dispositions and Encumbrances of Membership Interests and LP Interests.*

(a) **General Restriction.** A Member (the "Disposing Member") may not Dispose of or Encumber all or any portion of its Membership Interest or LP Interest (or permit any of its Affiliates to Dispose of or Encumber all or any portion of its LP Interest) except in strict accordance with this Section 3.03. References in this Section 3.03 to Dispositions or Encumbrances of a "Membership Interest" or of an "LP Interest" shall also refer to Dispositions or Encumbrances of a portion of a Membership Interest or of an LP Interest, respectively. Any attempted Disposition or Encumbrance of a Membership Interest or an LP Interest, other than in strict accordance with this Section 3.03, shall be, and is hereby declared, null and void ab initio. The rights and obligations constituting a Membership Interest or an LP Interest may not be separated, divided or split from the other attributes of a Membership Interest or an LP Interest except as contemplated by the express provisions of this Agreement. The Members agree that a breach of the provisions of this Section 3.03 may cause irreparable injury to the Company and to the other Members for which monetary damages (or other remedy at law) are inadequate in view of (i) the complexities and

uncertainties in measuring the actual damages that would be sustained by reason of the failure of a Member to comply with such provision and (ii) the uniqueness of the Company and Partnership business and the relationship among the Members. Accordingly, the Members agree that the provisions of this Section 3.03 may be enforced by specific performance in accordance with Section 10.04(b).

(b) ***Dispositions of Membership Interests and LP Interests.***

(i) ***General Restriction.*** A Member may Dispose of its Membership Interest or LP Interest (and will permit any of its Affiliates to Dispose of its LP Interest) only (A) to an Affiliate of the Member making, or whose Affiliate is making, the Disposition or (B) with the written consent of all other Members, which consent may be granted or withheld in the Sole Discretion of each Member. Any such Disposition must comply with the requirements of Section 3.03(b)(iii) and, if the Assignee is to be admitted as a Member, Section 3.03(b)(ii) and with the applicable provisions of the Partnership Agreement. If the Member is Disposing of all or any portion of its Membership Interest, it must also transfer a pro rata portion of its and its Affiliates' LP Interest and vice versa.

(ii) ***Admission of Assignee as a Member.*** If, but only if, a Disposition is effected in strict compliance with Sections 3.03(a) and (b), the Assignee of a Membership Interest shall be admitted to the Company as a Member, with the Membership Interest (and attendant Sharing Ratio) so transferred to such Assignee and the Company shall consent to the Disposition of an LP Interest and the admission of the Assignee as a Limited Partner of the Partnership.

(iii) ***Requirements Applicable to All Dispositions and Admissions.*** In addition to the requirements set forth in Sections 3.03(b)(i), any Disposition of a Membership Interest and LP Interest and any admission of an Assignee as a Member shall also be subject to the following requirements, and such Disposition (and admission, if applicable) shall not be effective unless such requirements are complied with; provided, however, that the Management Committee, in its Sole Discretion, may waive any of the following requirements:

(A) ***Disposition Documents.*** The following documents must be delivered to the Management Committee and must be satisfactory, in form and substance, to the Management Committee:

(I) ***Disposition Instrument.*** A copy of the instrument pursuant to which the Disposition is effected.

(II) ***Ratification of this Agreement.*** An instrument, executed by the Disposing Member and its Assignee, containing the following information and agreements, to the extent they are not contained in the instrument described in Section 3.03(b)(iii)(A)(I): (aa) the notice address of the Assignee; (bb) the Parent of the Assignee or a statement that it has no Parent; (cc) the Sharing Ratios after the Disposition of the Disposing Member and its Assignee (which together must total the Sharing Ratio of the Disposing Member before the Disposition); (dd) the Assignee's ratification of this Agreement and agreement to be bound by it, and its confirmation that the representations and warranties in Section 3.02 are true and correct with respect to it; and (ee) representations and warranties by the Disposing Member and its Assignee (AA) that the Disposition and admission is being made in accordance with all applicable Laws, (BB) that the matters set forth in Section 3.03(b)(iii)(A)(III) are true and correct, and (CC) that the Disposition and admission do not violate any agreement to which the Company or the Partnership is a party; together with a similar instrument executed by the Disposing Member and/or its Affiliate owning the LP Interest and the Assignee (as defined in the Partnership Agreement) of the LP Interest.

(III) ***Securities Law Opinion.*** Unless the Membership Interest subject to the Disposition is registered under the Securities Act and any applicable state securities Law, a favorable opinion of the Company's legal counsel, or of other legal counsel acceptable to the Management Committee, to the effect that the Disposition and admission is being made pursuant to a valid exemption from registration under those Laws and in accordance with those Laws; provided, however, that no such opinion shall be required in the case of a Disposition by a Member to an Affiliate.

(B) **Payment of Expenses.** The Disposing Member and its Assignee shall pay, or reimburse the Company for, all reasonable costs and expenses incurred by the Company in connection with the Disposition and admission, including the legal fees incurred in connection with the legal opinion referred to in Section 3.03(b)(iii)(A)(III), on or before the 10th Day after the receipt by that Person of the Company's invoice for the amount due. The Company will provide an invoice as soon as practicable after the amount due is determined but in no event later than the 90th Day thereafter. If payment is not made by the date due, the Person owing that amount shall pay interest on the unpaid amount from the date due until paid at a rate per annum equal to the Default Rate.

(C) **No Release.** No Disposition of a Membership Interest shall effect a release of the Disposing Member from any liabilities to the Company or the other Members arising from events occurring prior to the Disposition.

(D) **Indebtedness of Company.** Any Disposition of a Membership Interest or LP Interest shall also include all of the indebtedness owed by the Company or the Partnership to the Disposing Member or its Affiliates (or, if only a portion of a Membership Interest or LP Interest is being Disposed, a proportionate share of that indebtedness). As long as this Agreement shall remain in effect, all evidence of indebtedness of the Company or the Partnership owed to any of the Members or its Affiliates shall bear an appropriate legend to indicate that it is held subject to, and may be Disposed of only in accordance with, the terms and conditions of this Agreement, and that such Disposition may be made only in conjunction with the Disposition of a proportionate part of such Member's Membership Interest.

(iv) **Change of Member Control.**

(A) **Procedure.** In the event of a Change of Member Control, then the Member with respect to which the Change of Member Control has occurred (the "Changing Member") shall promptly (and in all events within five Business Days after the Change in Member Control) notify (the "Control Notice") the Company and the other Members. If the Control Notice is not given by the Changing Member as provided above and any other Member becomes aware of that Change of Member Control, the other Member shall have the right to give the Control Notice to the Changing Member, the Company and the other Members. The other Members shall have the right (the "Buy-out Right") to acquire the Membership Interest of the Changing Member and its and its Affiliates' LP Interest for the sum of (x) the positive balance of the Changing Member's Capital Account and (y) the positive balance(s) of the Changing Member and/or its Affiliates' capital accounts under the Partnership Agreement. Each Member (excluding the Changing Member) shall have the right (but not the obligation) to acquire a portion of the applicable Membership Interest and its and its Affiliates' LP Interest that is equal to (I) the Sharing Ratio represented by the Membership Interest times (II) a fraction, the numerator of which is the Member's Sharing Ratio and the denominator of which is the total Sharing Ratios of all Members other than the Changing Member. Each Member (other than the Changing Member) shall have through the 30th Day following the determination of the value of such Membership Interest and its and its Affiliates' LP Interest in which to notify the other Members (including the Changing Member) whether the Member desires to exercise its Buy-out Right. A notice in which a Member exercises the Buy-out Right is referred to as a "Change Exercise Notice," and a Member that delivers a Change Exercise Notice is referred to as a "Change Purchasing Member." If the Change Purchasing Members constitute fewer than all of the Members (other than the Changing Member) and, consequently, there is a portion of the Membership Interest and LP Interest for which the Buy-out Right has not been exercised (a "Change Unexercised Portion"), then each Change Purchasing Member shall have through the 20th Day following the end of that period in which to notify the other Change Purchasing Members and the Changing Member whether it desires to acquire the portion of the Change Unexercised Portion that is equal to (aa) the Sharing Ratio represented by the Change Unexercised Portion times (bb) a fraction, the numerator of which is the Change Purchasing Member's Sharing Ratio and the denominator of which is the total Sharing Ratios of all Change Purchasing Members. If, at the end of this 20-Day period, there remains a Change Unexercised Portion, then the Change Purchasing Members shall have an additional 10-Day period in which to negotiate among themselves for a mutually agreeable method of sharing the acquisition of the remaining Change Unexercised Portion. If the Change Purchasing Members reach such agreement during this 10-Day period, then the Buy-out Right shall be deemed exercised, and the Changing Member and, if applicable, its Affiliates and the Change Purchasing Members shall close the acquisition of the Membership Interest and LP Interest in accordance with Section 3.03(b)(iv)(B). If, however, the Change Purchasing Members do not reach such agreement during this 10-Day period, then the Buy-out Right shall be deemed to have been waived. A Member that fails to exercise a right during any applicable period set forth in this Section 3.03(b)(iv)(A) shall be deemed to have waived such right for the subject Change of Member Control, but not any right for future Changes of Member Control.

(B) **Closing.** If the Buy-out Right is deemed exercised in accordance with Section 3.03(b)(iv)(A), the closing of the purchase of the Membership Interest and LP Interest shall occur at the principal place of business of the Company no later than the 60th Day after the expiration of the last applicable period referred to in such Section 3.03(b)(iv)(A) (or, if later, the fifth Business Day after the receipt of all applicable Authorizations to the purchase), unless the Changing Member and, if applicable, its Affiliate and the Change Purchasing Members agree upon a different place or date. A Change Purchasing Member may assign its right to receive any Membership Interest or LP Interest to one or more Affiliates. At the closing, (I) the Changing Member shall execute and deliver to the Change Purchasing Members and/or their Affiliates, as applicable, (aa) an assignment of the Membership Interest and LP Interest, in form and substance reasonably acceptable to the Change Purchasing Members, containing a general warranty of title as to the Membership Interest and the LP Interest (including that the Membership Interest and the LP Interest are free and clear of all Encumbrances, other than those permitted under Section 3.03(c)(ii)) and (bb) any other instruments reasonably requested by the Change Purchasing Members to give effect to the purchase; and (II) the Change Purchasing Members shall deliver to the Changing Member and, if applicable, its Affiliate(s) in immediately available funds the purchase price provided for in Section 3.03(b)(iv)(A). The Sharing Ratios and Capital Accounts of the Members shall be deemed adjusted to reflect the effect of the purchase and Exhibit A shall be amended accordingly and to reflect any new Parent.

(v) **Tax Termination.** Notwithstanding anything to the contrary in this Agreement, a direct or indirect Disposition of a Membership Interest shall be made only with the consent of all Members if the Disposition would (a) cause a termination of the Company under Section 708 of the Code or (b) adversely affect the tax consequences of the Company or any Member.

(c) **Encumbrances of Membership Interest or LP Interest.** A Member may Encumber its Membership Interest or any LP Interest, or permit any of its Affiliates to Encumber any LP Interest, only if (i) the Member receives the consent of a Majority Interest of the non-Encumbering Members (calculated without reference to the Sharing Ratio of the Encumbering Member), which consent (as contemplated by Section 6.02(e)(ii)) may be granted or withheld in the Sole Discretion of each such other Member; and (ii) the instrument creating the Encumbrance must provide that any foreclosure of such Encumbrance (or Disposition in lieu of such foreclosure) must comply with the requirements of Section 3.03(a) and (b).

3.04 **Creation of Additional Membership Interests.** Additional Membership Interests may be created and issued to existing Members or to other Persons, and such other Persons may be admitted to the Company as Members, with the consent of a Majority Interest, on such terms and conditions as a Majority Interest may determine at the time of admission. The terms of admission or issuance must specify the applicable Sharing Ratios and may provide for the creation of different classes or groups of Members having different rights, powers and duties. Any such admission is effective only after the new Member has executed and delivered to the Members an instrument containing the notice address of the new Member, the Assignee's ratification of this Agreement and agreement to be bound by it, and its confirmation that the representations and warranties in Section 3.02 are true and correct with respect to it. The provisions of this Section 3.04 shall not apply to Dispositions of Membership Interests and LP Interests or admissions of Assignees in connection therewith, such matters being governed by Section 3.03(a) and (b).

3.05 **Access to Information.** Each Member shall be entitled to receive any information that it may request concerning the Company and the Partnership; provided, however, that this Section 3.05 shall not obligate the Company, the Management Committee, or the Operator to create any information that does not already exist at the time of such request (other than to convert existing information from one medium to another, such as providing a printout of information that is stored in a computer database). Each Member shall also have the right, upon reasonable notice, and at all reasonable times during usual business hours to inspect the properties of the Company and the Partnership and to audit, examine and make copies of the books of account and other records of the Company and the Partnership. This right may be exercised through any agent or employee of a Member designated in writing by it or by an independent public accountant, engineer, attorney or other consultant so designated. The Member making the request shall bear all costs and expenses incurred in any inspection, examination or audit made on that Member's behalf. The Members agree to cooperate reasonably, and to cause their respective independent public accountants, engineers, attorneys or other consultants to cooperate reasonably, in connection with any such request. Confidential Information obtained under this Section 3.05 shall be subject to the provisions of Section 3.06.

(a) Except as permitted by Section 3.06(b), (i) each Member shall, and shall cause its Affiliates to, keep confidential all Confidential Information and shall not disclose any Confidential Information to any Person, including any of its Affiliates, and (ii) each Member shall use the Confidential Information only in connection with the Facilities, the Company and the Partnership.

(b) Notwithstanding Section 3.06(a), but subject to the other provisions of this Section 3.06, a Member or, where applicable, its Affiliates, may make the following disclosures and uses of Confidential Information:

(i) disclosures to another Member, the Operator or any other Person retained by the Company or the Partnership in connection with the Company or the Partnership;

(ii) disclosures and uses that are approved by the Management Committee;

(iii) disclosures that may be required from time to time to obtain requisite Authorizations or financing for the Facilities, if the disclosures are approved by the Management Committee;

(iv) disclosures to an Affiliate of that Member, including the directors, officers, employees, agents and advisors of that Affiliate, provided the Member shall cause that Affiliate to abide by the terms of this Section 3.06, and special care shall be taken to restrict such disclosures in any case where that Affiliate is or may become a customer under a Storage Agreement or an "Marketing Affiliate" (as defined in the FERC's Standards of Conduct for Transmission Providers, 18 C.F.R. Part 358, Section 358.3(k));

(v) disclosures to the Parent of that Member, including the directors, officers, employees, agents and advisors of that Parent, but that Parent shall be subject to the terms of this Section 3.06;

(vi) disclosures to a Person that is not a Member or an Affiliate of a Member, if that Person has been retained by a Member or an Affiliate of a Member to provide services in connection with the Company or the Partnership and has agreed to abide by the terms of this Section 3.06;

(vii) disclosures to a bona-fide potential direct or indirect purchaser of that Member's Membership Interest, if that potential purchaser has agreed to abide by the terms of this Section 3.06;

(viii) disclosures required, with respect to a Member or an Affiliate of a Member, pursuant to (A) the Securities Act and the rules and regulations promulgated thereunder, (B) the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, (C) any state securities Laws or (D) any national securities exchange or automated quotation system; and

(ix) disclosures that a Member is legally compelled to make by deposition, interrogatory, request for documents, subpoena, civil investigative demand, order of a court of competent jurisdiction or similar process or otherwise by Law; provided, however, that, prior to any such disclosure, such Member shall, to the extent legally permissible:

(A) provide the Management Committee with prompt notice of such requirements so that one or more of the Members may seek a protective order or other appropriate remedy or waive compliance with the terms of this Section 3.06(b)(ix);

(B) consult with the Management Committee on the advisability of taking steps to resist or narrow such disclosure; and

(C) cooperate with the Management Committee and with the other Members in any attempt one or more of them may make to obtain a protective order or other appropriate remedy or assurance that confidential treatment will be afforded the Confidential Information; and in the event such protective order or other remedy is not obtained, or the other Members waive compliance with the provisions of this Agreement, that Member agrees (I) to furnish only that portion of the Confidential Information that, in the opinion of the Member's counsel, the Member is legally required to disclose, and (II) to exercise all reasonable efforts to obtain assurance that confidential treatment will be accorded the Confidential Information.

(c) Each Member shall take, and shall cause its Affiliates to take, such precautionary measures as may be required to ensure (and such Member shall be responsible for) compliance with this Section 3.06 by any of its Affiliates, and its and their directors, officers, employees and agents, and other Persons to which it may disclose Confidential Information in accordance with this Section 3.06.

(d) Promptly after its Withdrawal, a Withdrawn Member shall destroy (and provide a certificate of destruction to the Company with respect to), or return to the Company, all Confidential Information in its possession. Notwithstanding the immediately preceding sentence, but subject to the other provisions of this Section 3.06, a Withdrawn Member may retain for a stated period, but not disclose to any other Person, Confidential Information for the limited purposes of (i) explaining that Member's corporate decisions with respect to the Facilities or (ii) preparing such Member's tax returns and defending audits, investigations and proceedings relating thereto; provided, however, that the Withdrawn Member must notify the Management Committee in advance of such retention and specify in such notice the stated period of such retention.

(e) The Members agree that no adequate remedy at law exists for a breach or threatened breach of any of the provisions of this Section 3.06, the continuation of which unremedied will cause the Company, the Partnership and the other Members to suffer irreparable harm. Accordingly, the Members agree that the Company and the other Members shall be entitled, in addition to other remedies that may be available to them, to immediate injunctive relief from any breach of any of the provisions of this Section 3.06 and to specific performance of their rights hereunder, as well as to any other remedies available at law or in equity, pursuant to Section 10.04.

(f) The obligations of the Members under this Section 3.06 (including the obligations of any Withdrawn Member) shall continue to bind any Person that has ceased to be a Member and shall terminate on the second anniversary of the end of the Term.

3.07 ***Liability to Third Parties.*** No Member or its Affiliates shall be liable for the debts, obligations or liabilities of the Company.

3.08 ***Use of Members' Names and Trademarks.*** The Company, the Members, their Affiliates and the Partnership shall not use the name or trademark of any Member or its Affiliates in connection with public announcements regarding the Company and the Partnership, or marketing or financing activities of the Company and the Partnership, without the prior consent of such Member or Affiliate, which shall not be unreasonably withheld.

#### **ARTICLE 4 CAPITAL CONTRIBUTIONS**

4.01 ***Capital Contributions.***

(a) On the Effective Date, each of Spectra and NJR will make a Capital Contribution (i) in cash equal to its Sharing Ratio times \$1,040,000 and (ii) of its Sharing Ratio of a 1% interest in all of the rights and obligations set forth for Spectra Energy Transmission, LLC under the PSA, which shall be used to meet the Company's obligations to contribute to the Partnership's capital under the first sentence of Section 4.01(a) of the Partnership Agreement. After that time, the Management Committee whenever it determines appropriate, or the Operator whenever it determines funds are required in accordance with the Initial Facilities Plan or the Capital Budget or the Operating Budget (if any) then in effect, shall cause the Company, as general partner of the Partnership, to issue a "Capital Call" under Section 4.01(a) of the Partnership Agreement or require loans under Section 4.02(a) of the

Partnership Agreement; provided, however, that after the time the Company, as general partner of the Partnership, becomes obligated to seek third-party debt under Section 6.07(b), the Company may not issue a “Capital Call” under Section 4.01(a) of the Partnership Agreement or require loans under Section 4.02(a) of the Partnership Agreement to the extent that would cause the aggregate of the “Capital Contributions” under Section 4.01(a)(i) of the Partnership Agreement plus all such “Capital Calls” and loans under the Partnership Agreement to exceed \$140,000,000. Whenever a “Capital Call” is issued under Section 4.01(a) of the Partnership Agreement, the Management Committee or the Operator shall issue a notice to each Member for the making of Capital Contributions (a “Capital Call”) in an aggregate amount equal to the Company’s obligation for the “Capital Call” under Section 4.01(a) of the Partnership Agreement. The Management Committee also may issue a Capital Call whenever it determines the Company needs additional funds. The aggregate of the Capital Contributions under Section 4.01(a)(i) plus all Capital Calls may not exceed \$2,500,000. All amounts timely received by the Company under this Section 4.01 shall be credited to the respective Member’s Capital Account as of the specified date. Each of Spectra and NJR is entitled to a credit to its Capital Account equal to its Sharing Ratio times \$50,000 on account of its contribution under Section 4.01(a)(ii).

(b) Each Capital Call shall contain the following information:

(i) The total amount of Capital Contributions required from all Members;

(ii) The amount of Capital Contribution required from the Member to which the notice is addressed, which amount must equal that Member’s Sharing Ratio of the total Capital Call;

(iii) The purpose for which the funds are to be applied in such reasonable detail as the Management Committee (or if applicable, the Operator) shall direct; and

(iv) The date on which payments of the Capital Contribution shall be made (which date shall not be sooner than the 30th Day following the date the Capital Call is given, unless a sooner date is approved by the Management Committee) (or if applicable, the Operator) and the method of payment, provided that the date and the method shall be the same for each of the Members.

(c) Each Member agrees that it shall make payments of its respective Capital Contributions in accordance with Capital Calls issued as provided in Section 4.01(a).

4.02 **Loans.** Rather than causing the Company, as general partner of the Partnership, to make “Capital Calls” under Section 4.01(a) of the Partnership Agreement, the Management Committee may cause the Company, as the general partner of the Partnership, to require loans from the Limited Partners as provided in Section 4.02(a) of the Partnership Agreement.

4.03 **No Other Contribution Obligations.** No Member shall be required or permitted to make any Capital Contributions to the Company except as provided in this Article 4.

4.04 **Return of Contributions.** Except as expressly provided in this Agreement, a Member is not entitled to the return of any part of its Capital Contributions or to be paid interest in respect of either its Capital Account or its Capital Contributions. An unrepaid Capital Contribution is not a liability of the Company or of any Member. A Member is not required to contribute or to lend any cash or property to the Company to enable the Company to return any Member’s Capital Contributions.

4.05 **Capital Accounts.**

(a) Each Member’s Capital Account shall be increased by (i) the amount of money contributed by that Member to the Company, (ii) the fair market value of property contributed by that Member to the Company (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Section 752 of the Code), and (iii) allocations to that Member of Company income and gain (or items thereof), including income and gain exempt from tax and income and gain described in Treasury Regulation § 1.704-1(b)(2)(iv)(g), but excluding income and gain described in Treasury Regulation § 1.704-1(b)(4)(i), and shall be decreased by (iv) the amount of money distributed to that Member by the Company, (v) the fair market value of

property distributed to that Member by the Company (net of liabilities secured by such distributed property that such Member is considered to assume or take subject to under Section 752 of the Code), (vi) allocations to that Member of expenditures of the Company described (or treated as described) in Section 705(a)(2)(B) of the Code, and (vii) allocations of Company loss and deduction (or items thereof), including loss and deduction described in Treasury Regulation § 1.704-1(b)(2)(iv)(g), but excluding items described in (vi) above and loss or deduction described in Treasury Regulation § 1.704-1(b)(4)(i) or 1.704-1(b)(4)(iii). The Members' Capital Accounts shall also be maintained and adjusted as permitted by the provisions of Treasury Regulation § 1.704-1(b)(2)(iv)(f) and as required by the other provisions of Treasury Regulation §§ 1.704-1(b)(2)(iv) and 1.704-1(b)(4), including adjustments to reflect the allocations to the Members of depreciation, depletion, amortization, and gain or loss as computed for book purposes rather than the allocation of the corresponding items as computed for tax purposes, as required by Treasury Regulation § 1.704-1(b)(2)(iv)(g). Thus, the Members' Capital Accounts shall be increased or decreased to reflect a revaluation of the Company's property on its books based on the fair market value of the Company's property on the date of adjustment (as determined pursuant to Section 4.05(b)), immediately prior to (A) the contribution of money or other property to the Company by a new or existing Member as consideration for a Membership Interest or an increased Sharing Ratio (including any contribution under Section 4.06(c)), (B) the distribution of money or other property by the Company to a Member as consideration for a Membership Interest, or (C) the liquidation of the Company. A Member who has more than one Membership Interest shall have a single Capital Account that reflects all such Membership Interests, regardless of the class of Membership Interests owned by such Member and regardless of the time or manner in which such Membership Interests were acquired. Upon the Disposition of all or a portion of a Membership Interest, the Capital Account of the Disposing Member that is attributable to that Membership Interest shall carry over to the Assignee in accordance with the provisions of Treasury Regulation § 1.704-1(b)(2)(iv)(l). The Capital Accounts shall not be deemed to be, nor have the same meaning as, the capital account of the Company under the Natural Gas Act.

(b) Whenever the fair market value of the Company's property is required to be determined pursuant to the third and fourth sentences of Section 4.05(a), the Operator shall propose such a fair market value in a notice to the Members. If any Member wishes to disagree with the determination, that Member shall notify the Members of such disagreement on or before the 10th Business Day after receiving such notice. If that Dispute is not resolved on or before the fifth Business Day after that notice, any Member may submit that Dispute to binding arbitration by delivering an Arbitration Notice. All of the provisions of Article 11 shall apply to such arbitration, with the following exceptions: (i) the Arbitrator shall be an appraiser or investment banking firm having expertise in the valuation of natural gas storage facilities; (ii) the 20-Day period in Section 11.03(b) shall be a five-Business Day period; and (iii) the 90-Day period in Section 11.04 shall be a 20-Day period.

#### 4.06 ***Failure to Make a Capital Contribution.***

(a) **General.** If any Member fails to make a Capital Contribution when required in a Capital Call under Section 4.01 of this Agreement (each such Member being a "Non-Contributing Member"), then, provided the failure has not been cured, the Members that have contributed their Capital Contributions and that are not, and none of whose Affiliates are, Non-Contributing Partners under the Partnership Agreement (each, a "Contributing Member") may (without limitation as to other remedies that may be available) at any time after the 10th Day after the date the Capital Contribution was due elect to:

(i) treat the Non-Contributing Member's failure to contribute as a Default by giving notice to the Non-Contributing Member, in which event the provisions of this Agreement regarding the commission of a Default by a Member shall apply; or

(ii) pay the portion of the Capital Contribution owed and unpaid by the Non-Contributing Member (the "Additional Contribution"), in which event the Contributing Members that elect to fund the Non-Contributing Members' share (the "Additional Contribution Members") may treat the contribution as one of: (A) a Capital Contribution resulting in the Additional Contribution Members receiving a Priority Interest under Section 4.06(b), or (B) a permanent capital contribution that results in an adjustment of Membership Interests under Section 4.06(c), as determined by the Additional Contribution Members as set forth below.

No Contributing Member shall be obligated to elect either (i) or (ii) above. The decision of the Contributing Members to elect (i) or (ii) above shall be made by the determination of the Contributing Members holding the majority of the Sharing Ratios of all Contributing Members. The decision of the Additional Contribution Members to elect (ii)(A) or (ii)(B) above shall be made by the determination of the Additional Contribution Members holding the majority of the Sharing Ratios of all Additional Contribution Members. If the election has not been made on or before the 30th Day after the date the funds were paid by the Non-Contributing Member(s), payment of the Additional Contribution shall be treated as a Priority Interest under Section 4.06(a)(ii)(A).

(b) **Priority Interest.** If the Additional Contribution Members elect to treat the payment of Additional Contribution as a contribution for which the Additional Contribution Members receive a Priority Interest, then the following shall apply:

(i) Each Additional Contribution Member shall receive a Priority Interest in the distributions from the Company that would otherwise be due and payable to the Non-Contributing Member(s). The Priority Interest received by each Additional Contribution Member shall be in the proportion that the amount of the Additional Contribution paid by that Additional Contribution Member bears to the amount of the Additional Contributions made by all Additional Contribution Members (each Additional Contribution Member's percentage share of the Priority Interests shall be its "Priority Interest Sharing Ratio"). All distributions from the Company that would otherwise be due and payable to the Non-Contributing Member(s) instead shall be paid to the Additional Contribution Members in accordance with their respective Priority Interest Sharing Ratio and no distribution shall be made from the Company to any Non-Contributing Member until all Priority Interests have terminated. The Priority Interest shall terminate with respect to an Additional Contribution Member when that Additional Contribution Member has received either through the distributions it receives under its Priority Interest or through payment(s) to it by the Non-Contributing Member(s) (which payment(s) may be made by the Non-Contributing Member(s) at any time) of an amount equal to the Additional Contribution made by such Member, plus a return thereon of fourteen percent (14%) per annum (compounded monthly on the outstanding balance). For the purpose of making this calculation, all amounts received by an Additional Contribution Member shall be deemed to be applied first against a return on, and then to the amount of, the Additional Contribution. For purposes of maintaining Capital Accounts, any amount paid by a Non-Contributing Member to a Contributing Member to reduce and/or terminate a Priority Interest shall be treated as though such amount were contributed by the Non-Contributing Member to the Company and thereafter distributed by the Company to the Contributing Member with respect to its Priority Interest.

(ii) The Priority Interests shall not alter the Sharing Ratios, nor shall the Priority Interests alter any distributions to the Contributing Members (in their capacity as Contributing Members, as opposed to their capacity as Additional Contribution Members) in accordance with their respective Sharing Ratios. Notwithstanding any provision in this Agreement to the contrary, a Member may not dispose of all or a portion of its Priority Interest except to a Person to which it Disposes all or the applicable pro rata portion of its Membership Interest and its or its Affiliates' LP Interest after compliance with the requirements of this Agreement for the Disposition.

(iii) For so long as any Additional Contribution Member holds a Priority Interest (or it or any of its Affiliates that is an "Additional Contribution Partner" holds a "Priority Interest," as those terms are defined in the Partnership Agreement), neither any Non-Contributing Member nor its Representative (except for a Non-Contributing Member that has paid to the Additional Contribution Member(s) all of the amount of the Additional Contribution attributable to such Non-Contributing Member in accordance with Section 4.06(b)(i)) shall have the right to vote its Membership Interest (or Sharing Ratio) under the Agreement with respect to any decision regarding distributions from the Company, and any distribution to which such Non-Contributing Member is entitled shall be paid to the Additional Contribution Members in respect of the Priority Interest.

(iv) No Member that is a Non-Contributing Member may Dispose of its Membership Interest unless, at the closing of the Disposition, either the Non-Contributing Member or the proposed Assignee pays the amount necessary to terminate the Priority Interest arising from such Non-Contributing Member's failure to contribute. No Assignee shall be admitted to the Company as a Member until compliance with this Section 4.06(b)(iv) has occurred.

(c) **Permanent Contribution.** Subject to Section 4.06(a), if the Additional Contribution Members elect under Section 4.06(a) to have the Additional Contribution treated as a permanent capital contribution, then each Additional Contribution Member that funds a portion of the Additional Contribution shall have its capital account increased accordingly and the Members' Membership Interests and Sharing Ratios will be automatically adjusted to equal each Member's total Capital Contributions when expressed as a percentage of all Members' Capital Contributions.

(d) **Further Assurance.** In connection with this Section 4.06, each Member shall execute and deliver any additional documents and instruments and perform any additional acts that may be necessary or appropriate to effectuate and perform the provisions of this Section 4.06.

## ARTICLE 5 DISTRIBUTIONS AND ALLOCATIONS

5.01 **Distributions.** On or before the 30th Day following the end of each Quarter, the Management Committee shall review and determine the amount of Available Cash with respect to that Quarter and shall direct that the Company distribute an amount equal to 100% of Available Cash with respect to that Quarter. That amount shall, subject to Section 18-607 of the Act, be distributed in accordance with this Article 5 to the Members (other than a Breaching Member) in proportion to their respective Sharing Ratios (at the time the distributions are made).

5.02 **Distributions on Dissolution and Winding Up.** Upon the winding up of the Company, after adjusting the Capital Accounts for all distributions made under Section 5.01 and all allocations under Article 5, all available proceeds distributable to the Members as determined under Section 11.02 shall be distributed to all of the Members (other than a Breaching Member) pro rata in accordance with the Members' positive Capital Account balances.

5.03 **Withholding.** The Company is authorized to withhold from distributions to a Member and to pay over to a federal, state, local or non-United States government, any amounts required to be withheld pursuant to the Code, or any provisions of any other federal, state, local or non-United States law. Any amounts so withheld shall be treated as having been distributed to the applicable Member for all purposes of this Agreement and shall be offset against the current or next amounts otherwise distributable to the applicable Member.

### 5.04 **Allocations.**

(a) After giving effect to the special allocations set forth in Sections 5.05 and 5.06, for purposes of maintaining the Capital Accounts pursuant to Section 4.05 and for income tax purposes, except as provided in Section 5.03(b) and (c), each item of income, gain, loss, deduction and credit of the Company shall be allocated to the Members in accordance with their respective Sharing Ratios.

(b) With respect to each period during which a Priority Interest is outstanding, each Additional Contribution Member shall be allocated items of income and gain in an amount equal to the return that accrues with respect to that Additional Contribution Member's Additional Contribution pursuant to Section 4.06(b)(i), and items of income and gain that would otherwise be allocable to the Non-Contributing Member(s) shall be correspondingly reduced.

(c) For income tax purposes, income, gain, loss, and deduction with respect to property contributed to the Company by a Member or revalued pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(f) shall be allocated among the Members in a manner that takes into account the variation between the adjusted tax basis of such property and its book value, as required by Section 704(c) of the Code and Treasury Regulation Section 1.704-1(b)(4)(i). These allocations shall be made in such manner and utilizing such permissible tax election as are determined by the Tax Matters Member.

### 5.05 **Special Allocations.** The following special allocations shall be made in the following order:

(a) **Company Minimum Gain Chargeback.** Except as otherwise provided in Treasury Regulation Section 1.704-2(f), notwithstanding any other provision of this Article 5, if there is a net decrease in Company Minimum Gain during any fiscal year, each Member shall be specially allocated items of Company income and gain for such fiscal year (and, if necessary, subsequent fiscal years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, determined in accordance with Treasury Regulation Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulation Sections 1.704-2(f)(6) and 1.704-2(j)(2). This Section 5.05(a) is intended to comply with the partnership minimum gain chargeback requirement in Treasury Regulation Section 1.704-2(f) and shall be interpreted and applied consistently therewith.

(b) **Member Minimum Gain Chargeback.** Except as otherwise provided in Treasury Regulation Section 1.704-2(i)(4), notwithstanding any other provision of this Article 5, if there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Debt during any fiscal year, any Member with a share of that Member Minimum Gain attributable to such a Member Nonrecourse Debt (as determined under Treasury Regulation Section 1.704-2(i)(5)) as of the beginning of the year shall be allocated items of Company income and gain for such fiscal year (and, if necessary, subsequent fiscal years) in an amount equal to such Member's share of the net decrease in Member Minimum Gain, determined in accordance with Treasury Regulation Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulation Sections 1.704-2(f)(6) and 1.704-2(j)(2). This Section 5.05(b) is intended to comply with the partner minimum gain chargeback requirements in the Treasury Regulations and shall be interpreted and applied consistently therewith.

(c) **Qualified Income Offset.** In the event any Member unexpectedly receives any adjustments, allocations, or distributions described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), (5), or (6), items of Company income and gain shall be specially allocated to such Member in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations, the Adjusted Capital Account Deficit as quickly as possible; provided, however, that an allocation pursuant to this Section 5.05(c) shall be made only if and to the extent that such Member would have an Adjusted Capital Account Deficit after all other allocations provided in this Article 5 have been tentatively made as if this Section 5.05(c) were not in this Agreement. This Section 5.05(c) is intended to comply with the qualified income offset provision in Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted and applied consistently therewith.

(d) **Gross Income Allocation.** In the event any Member has a deficit Capital Account at the end of any fiscal year that is in excess of the amount that such Member is deemed to be obligated to restore pursuant to the penultimate sentences of Treasury Regulation Sections 1.704-2(g)(1) and 1.704-2(i)(5), each such Member shall be specially allocated items of Company income and gain in an amount and manner sufficient to eliminate such deficit as quickly as possible; provided, however, that an allocation pursuant to this Section 5.05(d) shall be made only if and to the extent that such Member would have a deficit Capital Account in excess of such sum after all other allocations provided in this Article 5 have been tentatively made as if Section 5.05(c) and this Section 5.05(d) were not in this Agreement.

(e) **Nonrecourse Deductions.** Nonrecourse Deductions for any fiscal year shall be specially allocated to the Members in the manner determined by the Tax Matters Partner and each Member's share of excess Nonrecourse Debt shall be in the same manner.

(f) **Member Nonrecourse Deductions.** Member Nonrecourse Deductions for any fiscal year shall be specially allocated to the Member who bears the economic risk of loss with respect to the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable in accordance with Treasury Regulation Section 1.752-2. If more than one Member bears the economic risk of loss for a Member Nonrecourse Debt, any Member Nonrecourse Deductions attributable to that Member Nonrecourse Debt shall be allocated among the Members according to the ratio in which they bear the economic risk of loss.

5.06 **Curative Allocations.** The allocations set forth in Section 5.05 (the “Regulatory Allocations”) are intended to comply with certain requirements of the Treasury Regulations. It is the intent of the Members that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss or deduction pursuant to this Section 5.06. Therefore, notwithstanding any other provision of this Agreement, the Regulatory Allocations shall be taken into account in allocating items of Company income, gain, loss and deduction among the Members so that, to the extent possible, the net amount of such allocations of other items and the Regulatory Allocations to each Member shall be equal to the net amount that would have been allocated to each such Member pursuant to Section 5.01 if the Regulatory Allocations had not occurred.

5.07 **Varying Interests.** All items of income, gain, loss, deduction or credit shall be allocated, and all distributions shall be made, to the Persons shown on the records of the Company to have been Members as of the last calendar day of the period for which the allocation or distribution is to be made. Notwithstanding the foregoing, if during any taxable year there is a change in any Member’s Sharing Ratio, the Members agree that their allocable shares of items for the taxable year shall be determined on any method determined by the Management Committee to be permissible under Code Section 706 and the related Treasury Regulations to take account of the Members’ varying Sharing Ratios.

## **ARTICLE 6 MANAGEMENT**

6.01 **Generally.** The management of the Company is fully vested in the Members. To facilitate the orderly and efficient management of the Company, the Members shall act (a) collectively as a the “Management Committee” as provided in Section 6.02, and (b) through the delegation of certain duties and authority to the Operator and the Officers. Subject to the express provisions of this Agreement, each Member agrees that it will not exercise its authority under the Act to bind or commit the Company or the Partnership to agreements, transactions or other arrangements, or to hold itself out as an agent of the Company or the Partnership.

6.02 **Management Committee.** Decisions or actions taken by the Management Committee in accordance with the provisions of this Agreement shall constitute decisions or actions by the Company and shall be binding on each Member, Representative, Officer and employee of the Company. The Management Committee shall conduct its affairs in accordance with the following provisions and the other provisions of this Agreement:

(a) **Representatives.**

(i) **Designation.** To facilitate the orderly and efficient conduct of Management Committee meetings, each Member shall notify the other Members, from time to time, of the identity of (A) one of its officers, employees or agents who will represent it at meetings (a “Representative”), and (B) one of its officers, employees or agents who will represent it at any meeting that the Member’s Representative is unable to attend (“Alternate Representative”). (The term “Representative” shall also refer to any Alternate Representative that is actually performing the duties of the applicable Representative.). The initial Representative and Alternate Representative of each Member are set forth in Exhibit A. A Member may designate a different Representative or Alternate Representative for any meeting of the Management Committee by notifying each of the other Members on or before the third Business Day prior to the scheduled date for that meeting; provided, however, that if giving that advance notice is not feasible, then the new Representative or Alternate Representative shall present written evidence of his or her authority at the commencement of such meeting.

(ii) **Authority.** Each Representative shall have the full authority to act on behalf of the Member that designated that Representative; the action of a Representative at a meeting (or through a written consent) of the Management Committee shall bind the Member that designated that Representative; and the other Members shall be entitled to rely upon such action without further inquiry or investigation as to the actual authority (or lack thereof) of that Representative. In addition, the act of an Alternate Representative shall be deemed the act of the Representative for which that Alternate Representative is acting, without the need to produce evidence of the absence or unavailability of such Representative.

(iii) **DISCLAIMER OF DUTIES; INDEMNIFICATION.** EACH REPRESENTATIVE SHALL REPRESENT, AND OWE DUTIES TO, ONLY THE MEMBER THAT DESIGNATED THE REPRESENTATIVE (THE NATURE AND EXTENT OF SUCH DUTIES BEING AN INTERNAL AFFAIR OF THE MEMBER), AND NOT TO THE COMPANY, THE PARTNERSHIP, ANY OTHER MEMBER OR REPRESENTATIVE OR ANY OFFICER OR EMPLOYEE OF THE COMPANY OR THE PARTNERSHIP. THE PROVISIONS OF SECTION 6.02(e)(iii) SHALL ALSO INURE TO THE BENEFIT OF EACH MEMBER'S REPRESENTATIVE. THE COMPANY SHALL INDEMNIFY, PROTECT, DEFEND, RELEASE AND HOLD HARMLESS EACH REPRESENTATIVE FROM AND AGAINST ANY CLAIMS ASSERTED BY OR ON BEHALF OF ANY PERSON (INCLUDING ANOTHER MEMBER), OTHER THAN THE MEMBER THAT DESIGNATED THE REPRESENTATIVE, THAT ARISE OUT OF, RELATE TO OR ARE OTHERWISE ATTRIBUTABLE TO, DIRECTLY OR INDIRECTLY, THE REPRESENTATIVE'S SERVICE ON THE MANAGEMENT COMMITTEE.

(iv) **Attendance.** Each Member shall use all reasonable efforts to cause its Representative or Alternate Representative to attend each meeting of the Management Committee, unless its Representative is unable to do so because of a "force majeure" event or other event beyond his reasonable control, in which event that Member shall use all reasonable efforts to cause its Representative or Alternate Representative to participate in the meeting by telephone pursuant to Section 6.02(g).

(b) **Procedures.** The Management Committee shall maintain written minutes of each of its meetings, which shall be submitted for approval within 10 Days after each meeting. The Management Committee may adopt whatever rules and procedures relating to its activities as it may deem appropriate, provided that such rules and procedures shall not be inconsistent with or violate the provisions of this Agreement.

(c) **Time and Place of Meetings.** The Management Committee shall meet quarterly, subject to more or less frequent meetings upon approval of the Management Committee, at such times and places as the Representatives may agree. Special meetings of the Management Committee may be called at such times, and in such manner, as any Member deems necessary. Any Member calling for any such special meeting shall notify all other Members of the date and agenda for such meeting on or before the fifth Day prior to the date of such meeting. This five-Day period may be shortened by unanimous vote of the Management Committee. All meetings of the Management Committee shall be held at Spectra's address as provided on Exhibit A or such other location as the Members may agree. Attendance of a Member's Representative at a meeting of the Management Committee shall constitute a waiver of notice of that meeting, except where the Representative attends the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

(d) **Quorum.** The presence of a Majority Interest shall constitute a quorum for the transaction of business at any meeting of the Management Committee.

(e) **Voting.**

(i) **Voting by Sharing Ratios; Voting Thresholds.** Except as provided otherwise in this Agreement, voting shall be according to the Members' respective Sharing Ratios. Except as otherwise provided in this Agreement, the vote of one or more Members holding among them at least a majority of the Sharing Ratios (a "Majority Interest") shall constitute the action of the Management Committee.

(ii) **DISCLAIMER OF DUTIES.** WITH RESPECT TO ANY VOTE, CONSENT OR APPROVAL AT ANY MEETING OF THE MANAGEMENT COMMITTEE OR OTHERWISE UNDER THIS AGREEMENT, EACH MEMBER OR ITS REPRESENTATIVE MAY GRANT OR WITHHOLD ITS VOTE, CONSENT OR APPROVAL IN ITS SOLE DISCRETION. THE PROVISIONS OF THIS SECTION 6.02(e)(ii) SHALL APPLY NOTWITHSTANDING THE NEGLIGENCE, GROSS NEGLIGENCE, WILLFUL MISCONDUCT, STRICT LIABILITY OR OTHER FAULT OR RESPONSIBILITY OF A MEMBER OR ITS REPRESENTATIVE.

(iii) **Exclusion of Certain Members and Their Sharing Ratios.** With respect to any vote, consent or approval, any Breaching Member or Withdrawn Member shall be excluded from such decision (as contemplated by Section 9.03(c)), and the Sharing Ratio of such Breaching Member or Withdrawn Member shall be disregarded in calculating the voting thresholds in Section 6.02(e)(i). In addition, if any other provision of this Agreement provides that a Majority Interest is to be calculated without reference to the Sharing Ratio of a particular Member, then the applicable voting threshold, including the number of Members required, in Section 6.02(e)(i) shall be deemed adjusted accordingly.

(f) **Action by Written Consent.** Any action required or permitted to be taken at a meeting of the Management Committee may be taken without a meeting, without prior notice, and without a vote if a consent or consents in writing, setting forth the action so taken, is signed by all Members.

(g) **Meetings by Telephone.** Members may participate in and hold any meeting by means of conference telephone, videoconference or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting shall constitute presence in person at the meeting, except where a Member participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

(h) **Matters Requiring Management Committee Approval.** Except as expressly provided elsewhere in this Agreement, none of the following actions may be taken by, or on behalf of, the Company, for itself or on behalf of the Partnership, without first obtaining the vote of the Management Committee described below:

(i) **90% Interest.** The following actions shall require the approval of Members whose sharing Ratios total at least 90%:

(A) causing or permitting the Company or the Partnership to become Bankrupt (but this provision shall not be construed to require any Member to ensure the profitability or solvency of the Company or the Partnership);

(B) conducting, or authorizing the Partnership to conduct, any activity or business that may generate income for federal income tax purposes that may not be “qualifying income” (as such term is defined pursuant to Section 7704 of the Code);

(C) any other action that, pursuant to an express provision of this Agreement, requires the approval of a 90% Interest;

(D) authorizing the Partnership to enter into any contracts with an Affiliate of any Member if the contract (other than a Storage Agreement conforming with any applicable tariff) is for a nominal value in excess of \$250,000, or otherwise on terms that are not arm’s length;

(E) the Disposition or abandonment of all or substantially all of the assets of the Company or the Partnership; or

(F) causing or permitting the Company or the Partnership to merge with, or consolidate or convert into, any other entity.

(ii) **Majority Interest.** A Majority Interest shall be required to approve:

(A) causing the Company to take any action as general partner of the Partnership, including any right or power of the Company under the Partnership Agreement;

(B) the amount of Available Cash with respect to each Quarter;

(C) approving or amending the annual Capital Budget and Operating Budget for the Partnership (with it being understood that the latest approved Capital Budget or Operating Budget shall be used, and deemed approved, for any subsequent period until the new Capital Budget or Operating Budget (as applicable) for that period is so approved), including the parameters under which the Operator and the Officers are authorized to expend Partnership funds without further Management Committee approval; provided, however, that the Initial Facilities Plan shall serve as the Capital Budget until a Capital Budget is adopted;

(D) any Capital Call under Section 4.01 or loan under Section 4.02;

(E) any additions to or expansion of the Facilities;

(F) engaging any engineer, auditor, attorney or other consultant or adviser; or

(G) modifying the Initial Facilities Plan.

(i) **Subcommittees.** The Management Committee may create such subcommittees, and delegate to such subcommittees such authority and responsibility, and rescind any such delegations, as it may deem appropriate.

(j) **Officers.** The Management Committee may designate one or more Persons to be officers of the Company or cause the Company, as general partner of the Partnership, to designate one or more Persons as officers of the Partnership (each an “Officer”). Any Officers so designated shall have such titles and, subject to the other provisions of this Agreement, have such authority and perform such duties as the Management Committee may delegate to them and shall serve at the pleasure of the Management Committee and report to the Management Committee.

(k) **Initial Actions.** Notwithstanding the foregoing, the Members authorize Spectra, on behalf of the Company (for itself or as general partner of the Partnership), to take the following actions, including the execution and delivery of all appropriate documents and instruments to effect the following actions:

(i) file or cause to be filed the certificate of limited partnership of the Partnership;

(ii) qualify the Company as a foreign limited liability company and the Partnership as a foreign limited partnership in the Commonwealth of Pennsylvania and any other jurisdiction where that qualification is necessary or appropriate;

(iii) obtain a taxpayer identification number of each of the Company and the Partnership;

(iv) open the initial bank accounts of the Company and the Partnership;

(v) take all actions and execute and deliver all documents necessary or appropriate to effect the contributions described in Section 4.01(a)(ii) of this Agreement and Section 4.01(a)(ii) of the Partnership Agreement; and

(vi) take all actions and execute and deliver all documents, certificates and other instruments necessary or appropriate in connection with the Closing under the PSA.

6.03 **Operations and Management Agreement.** The Management Committee shall cause the Company to enter into the O&M Agreement with the Operator and the Partnership at the same time as the Partnership enters into it. From the Effective Date until the O&M Agreement is executed and delivered as provided in this Section 6.03, the Members authorize the Operator to take all actions this Agreement contemplates the Operator will perform.

(a) Until the end of the Term, the Members shall not, and shall cause their Affiliates not to, develop, construct, own, acquire or operate natural gas storage facilities or oil or gas exploration or production within the area identified on Exhibit C to this Agreement. The provisions of this Section 6.04(a) shall continue to bind a Withdrawn Member and its Affiliates until the third anniversary of such Withdrawal, but not thereafter. The Members agree that the provisions of this Section 6.04(a) are necessary (A) to further the purposes, business and activities of the Partnership, and (B) to protect confidential and proprietary information regarding the Partnership, to which the Members will have access pursuant to this Agreement. The Members agree that no adequate remedy at law exists for a breach or threatened breach of any of the provisions of this Section 6.04(a), the continuation of which unremedied will cause the Partnership and the other Members to suffer irreparable harm. Accordingly, the Members agree that the Partnership and the other Members shall be entitled, in addition to other remedies that may be available to them, to immediate injunctive relief from any breach of any of the provisions of this Section 6.04(a) and to specific performance of their rights hereunder, as well as to any other remedies available at law or in equity, pursuant to Section 10.04.

(b) Subject to Section 6.04(a), a Member or an Affiliate of a Member may engage in and possess interests in other business ventures of any and every type and description, independently or with others, including ones in competition with the Partnership or the Company and specifically including natural gas storage and oil and gas exploration and production, with no obligation to offer to the Partnership, the Company, any other Member or any Affiliate of another Member the right to participate therein. Subject to Sections 6.04(a), the Partnership or the Company may transact business with any Member or Affiliate of a Member, provided the terms of those transactions are approved by the Management Committee or expressly contemplated by this Agreement or the O&M Agreement. Without limiting the generality of the foregoing, the Members recognize and agree that their respective Affiliates currently, or in the future may, engage in various activities involving natural gas and electricity marketing and trading (including futures, options, swaps, exchanges of future positions for physical deliveries and commodity trading), gathering, processing, storage, transportation and distribution, electric generation, development and ownership, as well as other commercial activities related to natural gas and that these and other activities by Members' Affiliates may be based on natural gas that is stored in the Facilities or otherwise made possible or more profitable by reason of the Partnership's activities (herein referred to as "Affiliate's Outside Activities"). Subject to Sections 6.04(a), (i) no Affiliate of a Member shall be restricted in its right to conduct, individually or jointly with others, for its own account any Affiliate's Outside Activities, and (ii) no Member or its Affiliates shall have any duty or obligation, express or implied, fiduciary or otherwise, to account to, or to share the results or profits of such Affiliate's Outside Activities with, the Partnership, the Company, any other Member or any Affiliate of any other Member, by reason of such Affiliate's Outside Activities. The provisions of this Section 6.04(b) constitute an agreement to modify or eliminate fiduciary duties pursuant to the provisions of Section 18-1101 of the Act.

6.05 **Indemnification for Breach of Agreement.** Each Member shall indemnify, protect, defend, release and hold harmless each other Member, its Representative, its Affiliates, and its and their respective directors, officers, trustees, employees and agents from and against any Claims asserted by or on behalf of any Person (including another Member) that result from a breach by the indemnifying Member of this Agreement or the Partnership Agreement; provided, however, that this Section 6.05 shall not (a) apply to any Claim or other matter for which a Member (or its Representative) has no liability or duty, or is indemnified or released, pursuant to Section 6.02(a)(iii), 6.02(e)(ii) or 6.04 or pursuant to the terms of any Storage Agreements or (b) hold the indemnified Person harmless from special, consequential or exemplary damages, except in the case where the indemnified Person is legally obligated to pay such damages to another Person.

6.06 **General Regulatory Matters.** Each Member shall:

(a) cooperate fully with the Company, the Partnership, the Management Committee and the Operator in securing appropriate Authorizations for the development, construction and operation of the Facilities, including supporting all applications to the Governmental Authorities, and in connection with any reports prescribed by any other Governmental Authority having jurisdiction over the Company or the Partnership;

(b) join in any eminent domain takings by the Partnership, to the extent, if any, required by Law;

(c) devote such efforts as shall be reasonable and necessary to develop and promote the Facilities for the benefit of the Partnership, taking into account the Member's Sharing Ratio, resources and expertise; and

(d) cooperate fully with the Company, the Partnership, the Management Committee and the Operator to ensure compliance with FERC Standards of Conduct, if applicable.

6.07 ***Initial Facilities.***

(a) The Company, as general partner of the Partnership, shall cause the Partnership to develop and construct the Initial Facilities in accordance with the plan on Exhibit D, subject to such changes as the Management Committee may adopt from time to time (the "Initial Facilities Plan").

(b) The Company, as general partner of the Partnership, shall seek third-party debt for the Partnership to complete the Initial Facilities after receipt of appropriate FERC or state Authorizations and the execution and delivery of Storage Agreements for firm storage of at least 70% of the storage capacity of the Initial Facilities for an average period of at least 10 years or other appropriate financing. The Company, as general partner of the Partnership, shall cause the Partnership to enter into any such financing on such terms as the Management Committee may approve.

**ARTICLE 7  
TAXES**

7.01 ***Tax Returns.*** In accordance with the O&M Agreement, the Operator is to prepare and timely file (on behalf of the Company) all federal, state and local tax returns required to be filed by the Company. Each Member shall furnish to the Operator all pertinent information in its possession relating to the Company and the Partnership's operations that is necessary to enable the Company's tax returns to be timely prepared and filed. The Company shall bear the costs of the preparation and filing of its returns.

7.02 ***Tax Elections.*** The Company shall make the following elections on the appropriate tax returns:

(a) to adopt as the Company's fiscal year the calendar year;

(b) to adopt the accrual method of accounting;

(c) if a distribution of the Company's property as described in Code Section 734 occurs or upon a transfer of a Membership Interest as described in Code Section 743 occurs, on request by notice from any Member, to elect, pursuant to Code Section 754, to adjust the basis of the Company's properties;

(d) to elect to amortize the organizational expenses of the Company ratably over a period of 60 months as permitted by Section 709(b) of the Code;

(e) to elect to depreciate or amortize the assets of the Company using the most rapid means available; and

(f) any other election the Management Committee may deem appropriate.

Neither the Company nor any Member shall make an election for the Company to be excluded from the application of the provisions of subchapter K of chapter 1 of subtitle A of the Code or any similar provisions of applicable state law and no provision of this Agreement shall be construed to sanction or approve such an election.

7.03 ***Tax Matters Member.***

(a) Spectra or such other Member as the Management Committee may designate shall serve as the “tax matters partner” of the Company pursuant to Section 6231(a)(7) of the Code (the “Tax Matters Member”). The Tax Matters Member shall take such action as may be necessary to cause to the extent possible each other Member to become a “notice partner” within the meaning of Section 6223 of the Code. The Tax Matters Member shall inform each other Member of all significant matters that may come to its attention in its capacity as Tax Matters Member by giving notice thereof on or before the fifth Business Day after becoming aware thereof and, within that time, shall forward to each other Member copies of all significant written communications it may receive in that capacity.

(b) The Tax Matters Member shall provide any Member, upon request, access to accounting and tax information and schedules as shall be necessary for the preparation by such Member of its income tax returns and such Member’s tax information reporting requirements.

(c) The Tax Matters Member shall take no action without the authorization of the Management Committee, other than such action as may be required by Law. Any cost or expense incurred by the Tax Matters Member in connection with its duties, including the preparation for or pursuance of administrative or judicial proceedings, shall be paid by the Company.

(d) The Tax Matters Member shall not enter into any extension of the period of limitations for making assessments on behalf of the Members without first obtaining the consent of the Management Committee. The Tax Matters Member shall not bind any Member to a settlement agreement without obtaining the consent of such Member. Any Member that enters into a settlement agreement with respect to any Company item (as described in Code Section 6231(a)(3)) shall notify the other Members of the settlement agreement and its terms on or before the 90th Day after the date of the settlement.

(e) No Member shall file a request pursuant to Code Section 6227 for an administrative adjustment of Company items for any taxable year without first notifying the other Members. If the Management Committee consents to the requested adjustment, the Tax Matters Member shall file the request for the administrative adjustment on behalf of the Members. If this consent is not obtained on or before the 30th Day after the notice, or within the period required to timely file the request for administrative adjustment, if shorter, any Member, including the Tax Matters Member, may file a request for administrative adjustment on its own behalf. Any Member intending to file a petition under Code Sections 6226, 6228 or other Code Section with respect to any item involving the Company shall notify the other Members of that intention and the nature of the contemplated proceeding. In the case where the Tax Matters Member is the Member intending to file such petition on behalf of the Company, such notice shall be given within a reasonable period of time to allow the other Members to participate in the choosing of the forum in which such petition will be filed.

(f) If any Member intends to file a notice of inconsistent treatment under Code Section 6222(b), that Member shall give reasonable notice under the circumstances to the other Members of that intent and the manner in which the Member’s intended treatment of an item is (or may be) inconsistent with the treatment of that item by the other Members.

## ARTICLE 8

### BOOKS, RECORDS, REPORTS, AND BANK ACCOUNTS

8.01 ***Maintenance of Books; Reports.*** The Members acknowledge that the O&M Agreement will include provisions for the maintenance of the Company’s books and records and the preparation of various reports.

8.02 ***Bank Accounts.*** Funds of the Company shall be deposited in such banks or other depositories as shall be designated from time to time by the Management Committee. All withdrawals from any such depository shall be made only as authorized by the Management Committee and shall be made only by check, wire transfer, debit memorandum or other written instruction.

## ARTICLE 9

### WITHDRAWAL

9.01 ***No Right of Withdrawal.*** A Member has no power or right voluntarily to Withdraw from the Company.

9.02 **Deemed Withdrawal.** A Member is deemed to have Withdrawn from the Company upon the occurrence of any of the following events:

- (a) there occurs an event that makes it unlawful for the Member to continue to be a Member;
- (b) the Member becomes Bankrupt;
- (c) the Member commences liquidation or winding up;
- (d) notice from a Majority Interest (determined excluding the Member) if the Member commits a Default and the Default has not been cured; or
- (e) the Member and/or any of its Affiliates has withdrawn as a Limited Partner under the Partnership Agreement.

9.03 **Effect of Withdrawal.** A Member that is deemed to have Withdrawn under Section 9.02 (a “Withdrawn Member”), must comply with the following requirements in connection with its Withdrawal:

- (a) The Withdrawn Member ceases to be a Member immediately upon the occurrence of the applicable Withdrawal event.

(b) The Withdrawn Member shall not be entitled to receive any distributions from the Company except as set forth in Section 9.03(e), and neither it nor its Representative shall be entitled to exercise any voting or consent rights, or to appoint any Representative or Alternative Representative to the Management Committee (and the Representative (and the Alternative Representative) appointed by such Member shall be deemed to have resigned) or to receive any further information (or access to information) from the Company. The Sharing Ratio of that Member shall not be taken into account in calculating the Sharing Ratios of the Members for any purposes. This Section 9.03(b) shall also apply to a Breaching Member; but if a Breaching Member cures its breach during the applicable cure period, then any distributions that were withheld from that Member shall be paid to it, without interest.

- (c) The Withdrawn Member must pay to the Company all amounts it owes to the Company.

(d) The Withdrawn Member shall remain obligated for all liabilities it may have under this Agreement or otherwise with respect to the Company that accrue prior to the Withdrawal.

(e) From the date of the Withdrawal to the date of the payment, the former Capital Account balance of the Withdrawn Member shall be recorded as a contingent obligation of the Company, and not as a Capital Account, until payment is made. The rights of a Withdrawn Member under this Section 9.03(e) shall (i) be subordinate to the rights of any other creditor of the Company, (ii) not include any right on the part of the Withdrawn Member to receive any interest (except as may otherwise be provided in the evidence of any indebtedness of the Company owed to such Withdrawn Member) or other amounts with respect thereto; (iii) not require the Company to make any distribution (the Withdrawing Member’s rights under this Section 9.03(e) being limited to receiving such portion of distributions as the Management Committee may, in its Sole Discretion, decide to cause the Company to make); (iv) not require any Member to make a Capital Contribution or a loan to permit the Company to make a distribution or otherwise to pay the Withdrawing Member; and (v) be treated as a liability of the Company for purposes of Section 11.02. Subject to the foregoing, payment to the Withdrawn Member of its Capital Account balance shall be made upon the earliest of: (A) such time as the Management Committee determines in its Sole Discretion to make such payment, (B) the later of (I) two years from the date of Withdrawal, and (II) ten years from the date that the Initial Facilities are placed into commercial operation, and (C) the dissolution of the Company. Except as set forth in this Section 9.03(e), a Withdrawn Member shall not be entitled to receive any return of its Capital Contributions or other payment from the Company in respect of its Membership Interest.

(f) The Sharing Ratio of the Withdrawn Member shall be allocated among the remaining Members in the proportion that each Member's Sharing Ratio bears to the total Sharing Ratio of all remaining Members, or in such other proportion as the Members may unanimously agree.

## **ARTICLE 10**

### **DISPUTE RESOLUTION**

10.01 ***Disputes.*** This Article 10 shall apply to any dispute arising under or related to this Agreement (whether arising in contract, tort or otherwise, and whether arising at law or in equity), including (a) any dispute regarding the construction, interpretation, performance, validity or enforceability of any provision of this Agreement or whether any Person is in compliance with, or breach of, any provisions of this Agreement, and (b) the applicability of this Article 10 to a particular dispute. Notwithstanding the foregoing, this Article 10 shall not apply to any matters that, pursuant to the provisions of this Agreement, are to be resolved by a vote of the Members (including through the Management Committee); provided, however, that (i) any matter that is expressly stated herein to be determinable by arbitration may be so determined pursuant to this Article 10 and (ii) if a vote, approval, consent, determination or other decision must, under the terms of this Agreement, be made (or withheld) in accordance with a standard other than Sole Discretion (such as a reasonableness standard), then the issue of whether such standard has been satisfied may be a dispute to which this Article 10 applies. Any dispute to which this Article 10 applies is referred to herein as a "Dispute." With respect to a particular Dispute, each Member that is a party to such Dispute is referred to herein as a "Disputing Member." The provisions of this Article 10 shall be the exclusive method of resolving Disputes.

10.02 ***Negotiation to Resolve Disputes.*** If a Dispute arises, any Disputing Member may initiate the dispute resolution procedure under this Article 10 by notifying the other Disputing Members (a "Dispute Notice"), after which the Disputing Members shall attempt to resolve such Dispute through the following procedure:

(a) first, within 7 Days after receipt of the Dispute Notice, the Representatives of the Disputing Members shall meet (whether by phone or in person) in a good faith attempt to resolve the Dispute;

(b) second, if the Dispute is still unresolved, then after the 20th Day following the commencement of the negotiations described in Section 10.02(a) but in no event later than the 30th Day after receipt of the Dispute Notice, the chief executive officer (or his designee) of the Parent of each Disputing Member shall meet (whether by phone or in person) in a good faith attempt to resolve the Dispute; and

(c) third, if the Dispute is still unresolved, then after the 10th Day following the commencement of the negotiations described in Section 10.02(b), any Disputing Party may submit the Dispute for resolution under the Federal Arbitration Act by binding arbitration following the Commercial Arbitration Rules of the American Arbitration Association (or, if that Association has ceased to exist, its principal successor) (the "AAA") then in effect, including its evidentiary and procedural rules (excluding rules governing the payment of arbitration, administrative or other fees or expenses to the Arbitrator(s) or the AAA), to the extent that such rules do not conflict with the terms of this Agreement, by notifying the other Disputing Members (an "Arbitration Notice") within the applicable limitation period provided by law.

#### 10.03 ***Selection of Arbitrator.***

(a) For any case in which any claim, or combination of claims, is less than or equal to \$2,000,000, the arbitration shall be heard by a sole Arbitrator. Any case in which any claim, or combination of claims, exceeds \$2,000,000 will be subject to the AAA's Large, Complex Case Procedures and decided by the majority of a panel of three neutral Arbitrators. The Arbitrator(s) shall be selected in accordance with this Section 10.03.

(b) For arbitrations conducted by a single Arbitrator, the Disputing Member that submits a Dispute to arbitration shall designate a proposed neutral sole Arbitrator in its Arbitration Notice. If any other Disputing Member objects to a proposed sole Arbitrator, it may, on or before the tenth Day following delivery of the Arbitration Notice, notify all of the other Disputing Members of its objection. All of the Disputing Members shall

attempt to agree upon a mutually acceptable sole Arbitrator. If they have not done so, then after the 20th Day following delivery of the notice described in the immediately preceding sentence, any Disputing Member may request the AAA to designate the sole Arbitrator. For arbitrations conducted by a panel of three Arbitrators, the Disputing Member initiating arbitration shall nominate one Arbitrator at the time it initiates arbitration. The other Disputing Member(s) shall collectively nominate one Arbitrator on or before the 10th Day after receiving the Arbitration Notice. The two Arbitrators shall appoint a third, neutral Arbitrator. All arbitrators shall be competent and experienced in matters involving the gas storage business in the United States, with at least ten years of legal, engineering, or business experience in the gas industry, and shall be impartial and independent of the Members (and the other arbitrators, in the case of arbitrations conducted by a panel of three arbitrators, except for prior arbitrations) (each an “Arbitrator”). Each Disputing Member shall pay for the expenses incurred by the Arbitrator it appoints, if applicable, and the costs of the sole Arbitrator or the third Arbitrator shall be divided equally among the Disputing Members. If any Arbitrator so chosen shall die, resign or otherwise fail or becomes unable to serve as Arbitrator, a replacement Arbitrator shall be chosen in accordance with this Section 10.03.

10.04 **Conduct of Arbitration.** The Arbitrator(s) shall expeditiously (and, if possible, on or before the 90th Day after the Arbitrator(s)’s selection) hear and decide all matters concerning the Dispute. Any arbitration hearing shall be held in Wilmington, Delaware. Except as expressly provided to the contrary in this Agreement, the Arbitrator(s) shall have the power (a) to gather such materials, information, testimony and evidence as it deems relevant to the dispute before it (and each Member will provide such materials, information, testimony and evidence requested by the Arbitrator(s), except to the extent any information so requested is proprietary, subject to a third-party confidentiality restriction or to an attorney-client or other privilege) and (b) to grant injunctive relief and enforce specific performance. If they deem necessary, the Arbitrator(s) may propose to the Disputing Members that one or more other experts be retained to assist it in resolving the Dispute. The retention of such other experts shall require the unanimous consent of the Disputing Members, which shall not be unreasonably withheld. Each Disputing Member, the Arbitrator(s) and any proposed expert shall disclose to the other Disputing Members any business, personal or other relationship or affiliation that may exist or may have existed between the Disputing Member (or the Arbitrator(s)) and the proposed expert; and any Disputing Member may disapprove of the proposed expert on the basis of that relationship or affiliation. The decision of the Arbitrator(s) (which shall be rendered in writing) shall be final, nonappealable and binding upon the Disputing Members and may be enforced in any court of competent jurisdiction; provided, however, that the Members agree that the Arbitrator(s) and any court enforcing the award of the Arbitrator(s) shall not have the right or authority to award punitive, special, consequential, indirect, exemplary or similar damages to any Disputing Member. The responsibility for paying the costs and expenses of the arbitration, including compensation to any experts retained by the Arbitrator(s), shall be divided equally among the Disputing Members. Each Disputing Member shall be responsible for the fees and expenses of its respective counsel, consultants and witnesses, unless the Arbitrator(s) determines that compelling reasons exist for allocating all or a portion of those costs and expenses to one or more other Disputing Members.

10.05 **Consolidation.** While any matter is before the Arbitrator under this Article 10, if any of the Disputing Members party to the arbitration, or, if applicable, their Affiliates desire to bring a matter before an arbitrator under the Partnership Agreement, the matter shall be consolidated with the matter under this Agreement if, but only if, the Disputing Members under this Agreement and the Persons bringing the matter before an arbitrator under the Partnership Agreement are the same Persons or Affiliates of those Persons.

## ARTICLE 11 DISSOLUTION, WINDING UP AND TERMINATION

11.01 **Dissolution.** The Company shall dissolve and its affairs shall be wound up on the first to occur of the following events (each a “Dissolution Event”):

- (a) the unanimous consent of the Management Committee to dissolve the Company and/or the Partnership;
- (b) entry of a decree of judicial dissolution of the Company under Section 18-802 of the Act;
- (c) the Disposition or abandonment of all or substantially all of the Company’s and/or the Partnership’s business and assets; or

(d) an event that makes it unlawful for the business of the Company or the Partnership to be carried on.

11.02 ***Winding Up and Termination.***

(a) On the occurrence of a Dissolution Event, the Operator shall serve as liquidator under the supervision of the Management Committee. The liquidator shall proceed diligently to wind up the affairs of the Company and make final distributions as provided herein and in the Act. The costs of winding up shall be borne as a Company expense. Until final distribution, the liquidator shall continue to operate the Company properties with all of the power and authority of the Members. The steps to be accomplished by the liquidator are as follows:

(i) as promptly as possible after dissolution and again after final winding up, the liquidator shall cause a proper accounting to be made by a recognized firm of certified public accountants of the Company's assets, liabilities and operations through the last calendar day of the month in which the dissolution occurs or the final winding up is completed, as applicable;

(ii) the liquidator shall discharge from Company funds all of the indebtedness of the Company and other debts, liabilities and obligations of the Company (including all expenses incurred in winding up and any loans described in Section 4.02) or otherwise make adequate provision for payment and discharge thereof (including the establishment of a cash escrow fund for contingent liabilities in such amount and for such term as the liquidator may reasonably determine); and

(iii) all remaining assets of the Company shall be distributed to the Members as follows:

(A) the liquidator may sell any or all Company property, including to Members, and any resulting gain or loss from each sale shall be computed and allocated to the Capital Accounts of the Members in accordance with the provisions of Article 5;

(B) with respect to all Company property that has not been sold, the fair market value of that property shall be determined and the Capital Accounts of the Members shall be adjusted to reflect the manner in which the unrealized income, gain, loss, and deduction inherent in property that has not been reflected in the Capital Accounts previously would be allocated among the Members if there were a taxable disposition of that property for the fair market value of that property on the date of distribution; and

(C) Company property (including cash) shall be distributed among the Members in accordance with Section 5.02; and those distributions shall be made by the end of the taxable year of the Company during which the liquidation of the Company occurs (or, if later, the 90th Day after the date of the liquidation).

(b) The distribution of cash or property to a Member in accordance with the provisions of this Section 11.02 constitutes a complete return to the Member of its Capital Contributions and a complete distribution to the Member of its Membership Interest and all the Company's property and constitutes a compromise to which all Members have consented pursuant to Section 18-502(b) of the Act. To the extent that a Member returns funds to the Company, it has no claim against any other Member for those funds.

(c) No dissolution or termination of the Company shall relieve a Member from any obligation to the extent such obligation has accrued as of the date of such dissolution or termination. Upon such termination, any books and records of the Company that there is a reasonable basis for believing will ever be needed again shall be furnished to the liquidator, which shall keep such books and records (subject to review by any Person that was a Member at the time of dissolution) for a period at least three years. At such time as the liquidator no longer agrees to keep such books and records, it shall offer the Persons who were Members at the time of dissolution the opportunity to take over such custody, shall deliver such books and records to such Persons if they elect to take over such custody and may destroy such books and records if they do not so elect. Any such custody by such Persons shall be on such terms as they may agree upon among themselves.

11.03        **Deficit Capital Accounts.** No Member will be required to pay to the Company, to any other Member or to any third party any deficit balance that may exist from time to time in another Member's Capital Account.

11.04        **Certificate of Cancellation.** On completion of the distribution of Company assets as provided herein, the Members (or such other Person or Persons as the Act may require or permit) shall file a certificate of cancellation with the Secretary of State of the State of Delaware, cancel any other filings made pursuant to Section 2.05, and take such other actions as may be necessary to terminate the existence of the Company. Upon the filing of such certificate of cancellation, the existence of the Company shall terminate (and the Term shall end), except as may be otherwise provided by the Act or other applicable Law.

## ARTICLE 12 GENERAL PROVISIONS

12.01        **Offset.** Whenever the Company is to pay any sum to any Member, any amounts that Member owes the Company may be deducted from that sum before payment.

12.02        **Notices.** Except as expressly set forth to the contrary in this Agreement, all notices, requests or consents provided for or permitted to be given under this Agreement must be in writing and must be delivered to the recipient in person, by courier or mail or by facsimile or other electronic transmission. A notice, request or consent given under this Agreement is effective on receipt by the Member to receive it; provided, however, that a facsimile or other electronic transmission that is transmitted after the normal business hours of the recipient shall be deemed effective on the next Business Day. All notices, requests and consents to be sent to a Member must be sent to or made at the addresses given for that Member on Exhibit A or in the instrument described in Section 3.03(b)(iii)(A)(II) or 3.04, or such other address as that Member may specify by notice to the other Members. Any notice, request or consent to the Company must be given to all of the Members. Whenever any notice is required to be given by Law, the Certificate or this Agreement, a written waiver thereof, signed by the Person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

12.03        **Entire Agreement; Superseding Effect.** This Agreement, the Partnership Agreement, and the O&M Agreement constitute the entire agreement of the Members and their Affiliates relating to the Company and the transactions contemplated hereby and supersede all provisions and concepts contained in all prior agreements.

12.04        **Effect of Waiver or Consent.** Except as otherwise provided in this Agreement, a waiver or consent, express or implied, to or of any breach or default by any Member in the performance by that Member of its obligations with respect to the Company is not a consent or waiver to or of any other breach or default in the performance by that Member of the same or any other obligations of that Member with respect to the Company. Except as otherwise provided in this Agreement, failure on the part of a Member to complain of any act of any Member or to declare any Member in default with respect to the Company, irrespective of how long that failure continues, does not constitute a waiver by that Member of its rights with respect to that default until the applicable statute-of-limitations period has run.

12.05        **Amendment or Restatement.** This Agreement or the Certificate may be amended or restated only by a written instrument executed (or, in the case of the Certificate, approved) by all Members.

12.06        **Binding Effect.** Subject to the restrictions on Dispositions set forth in this Agreement, this Agreement is binding on and shall inure to the benefit of the Members and their respective successors and permitted assigns.

12.07 **Governing Law; Severability.** THIS AGREEMENT IS GOVERNED BY AND SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF DELAWARE, EXCLUDING ANY CONFLICT-OF-LAWS RULE OR PRINCIPLE THAT MIGHT REFER THE GOVERNANCE OR THE CONSTRUCTION OF THIS AGREEMENT TO THE LAW OF ANOTHER JURISDICTION. WITHOUT LIMITING THE PROVISIONS OF ARTICLE 10, A MEMBER MAY BRING AN ACTION ARISING UNDER OR RELATING TO THIS AGREEMENT, IF AT ALL, ONLY IN COURTS OF THE STATE OF DELAWARE OR (IF IT HAS JURISDICTION) THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF DELAWARE. In the event of a direct conflict between the provisions of this Agreement and any mandatory, non-waivable provision of the Act, such provision of the Act shall control. If any provision of the Act provides that it may be varied or superseded in a limited liability company agreement (or otherwise by agreement of the members or managers of a limited liability company), that provision shall be deemed superseded and waived in its entirety if this Agreement contains a provision addressing the same issue or subject matter. If any provision of this Agreement or the application thereof to any Member or circumstance is held invalid or unenforceable to any extent, (a) the remainder of this Agreement and the application of that provision to other Members or circumstances is not affected thereby, and (b) the Members shall negotiate in good faith to replace that provision with a new provision that is valid and enforceable and that puts the Members in substantially the same economic, business and legal position as they would have been in if the original provision had been valid and enforceable.

12.08 **Further Assurances.** In connection with this Agreement and the transactions it contemplates, each Member shall execute and deliver any additional documents and instruments and perform any additional acts that may be necessary or appropriate to effectuate and perform the provisions of this Agreement and those transactions; provided, however, that this Section 12.08 shall not obligate a Member to furnish guarantees or other credit supports by such Member's Parent or other Affiliates.

12.09 **Waiver of Certain Rights.** Each Member irrevocably waives any right it may have to maintain any action for dissolution of the Company or for partition of the property of the Company.

12.10 **Counterparts.** This Agreement may be executed in any number of counterparts with the same effect as if all signing parties had signed the same document. All counterparts shall be construed together and constitute the same instrument.

[Remainder of page intentionally left blank. Signature page follows.]

IN WITNESS WHEREOF, the Members have executed this Agreement as of the date first set forth above.

**MEMBERS:**

**SPECTRA ENERGY TRANSMISSION SERVICES, LLC**

By: /s/ Mark Fiedorek

Name: Mark Fiedorek

Title: Vice President

**NJR STECKMAN RIDGE STORAGE COMPANY**

By: /s/ Glenn C. Lockwood

Name: Glenn C. lockwood

Title: Senior Vice President and  
Chief Financial Officer

**EXHIBIT A  
MEMBERS**

| <b>Name and Address</b>                                                                                                                               | <b>Sharing Ratio</b> | <b>Parent</b>                       | <b>Representative and Alternate<br/>Representatives</b>            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------------------------|--------------------------------------------------------------------|
| Spectra Energy Transmission Services, LLC<br>5400 Westheimer Court<br>Houston, Texas 77056-5310<br>Attn: Christine M. Pallenik<br>Fax: (713) 386-4694 | 50%                  | Spectra Energy Corp                 | R. Mark Fiedorek<br><i>Alternate:</i><br><br>Gregory P. Bilinski   |
| NJR Steckman Ridge Storage Company<br>1415 Wyckoff Road<br>Wall, New Jersey 07719<br>Attn: William P. Scharfenberg<br>Fax: (732) 938-1226             | 50%                  | New Jersey Resources<br>Corporation | Richard R. Gardner<br><i>Alternate:</i><br><br>Jeffrey S. Davidson |

**EXHIBIT B**  
**PARTNERSHIP AGREEMENT**

[Attached]

**EXHIBIT C**  
**NON-COMPETITION AREA**

The following areas, from the surface to all depths:

- The area inside the brown line on Exhibit F to the PSA
- Any shaded tracts on Exhibit F to the PSA
- Any other leases conveyed to the Partnership at the Closing under the PSA

**EXHIBIT D**  
**INITIAL FACILITIES PLAN**

|                   |                                                                                                       |               |
|-------------------|-------------------------------------------------------------------------------------------------------|---------------|
| Acquisition       |                                                                                                       | \$105,000,000 |
|                   |                                                                                                       |               |
| Development:      |                                                                                                       |               |
| Wells             | - 15 new wells<br>- 5 existing well conversions                                                       | \$54,382,198  |
| Gathering System  | - 6.625 in. pipe<br>- 8.625 in. pipe<br>- 16 in. pipe                                                 | \$31,679,713  |
| Station           | - Compressor<br>- Cooler<br>- Heater<br>- Dehydration<br>- Slug Catcher<br>- Measurement & Regulation | \$36,239,008  |
| Pad Gas           | - Gas required to maintain minimum reservoir pressure                                                 | \$19,390,352  |
| Development Total |                                                                                                       | \$141,691,271 |
|                   |                                                                                                       |               |
| Total             |                                                                                                       | \$246,691,271 |

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**LIMITED PARTNERSHIP AGREEMENT**

**OF**

**STECKMAN RIDGE, LP**

**A Delaware Limited Partnership**

**March 2, 2007**

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**EXHIBITS:**

- A - Partners
- B - Initial Facilities
- C - Non-Competition Area
- D - O&M Agreement

**LIMITED PARTNERSHIP AGREEMENT  
OF  
STECKMAN RIDGE, LP  
A Delaware Limited Partnership**

This LIMITED PARTNERSHIP AGREEMENT OF STECKMAN RIDGE, LP (this "Agreement"), dated as of March 2, 2007, is adopted, executed and agreed to, for good and valuable consideration, by STECKMAN RIDGE GP, LLC, a Delaware limited liability company (the "General Partner"), as the initial general partner and SPECTRA ENERGY TRANSMISSION RESOURCE, LLC, a Delaware limited liability company ("Spectra"), and NJR STECKMAN RIDGE STORAGE COMPANY, a Delaware corporation ("NJR"), as the initial limited partners. Capitalized terms used in this Agreement and not defined elsewhere have the meanings given to them in Article 1 below.

**RECITALS**

The Persons executing this Agreement as of the date of this Agreement are becoming partners of the Partnership and desire to enter into a written agreement pursuant to the Act governing the affairs of the Partnership and the conduct of its business. This Agreement is intended to bind all Partners from time to time and the Partnership.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Partners agree as follows:

**ARTICLE 1  
DEFINITIONS**

**1.01        *Definitions.***

(a)        ***Certain Definitions.*** As used in this Agreement, the following terms have the respective meanings set forth below or set forth in the Sections referred to below:

***AAA*** - Section 10.02(c).

***Act*** - the Delaware Revised Uniform Limited Partnership Act.

***Additional Contribution*** - Section 4.06(a)(ii).

***Additional Contribution Partner*** - Section 4.06(a)(ii).

***Adjusted Capital Account Deficit*** - with respect to any Partner, the deficit balance, if any, in such Partner's Capital Account as of the end of the relevant Fiscal Year after giving effect to the following adjustments: (a) credit to such Capital Account any amounts that such Partner is obligated to restore pursuant to the penultimate sentences of Treasury Regulation Sections 1.704-2(g)(1) and 1.704-2(i)(5) and (b) debit to such Capital Account such Partner's share of the items described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6). This definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

***Affiliate*** - with respect to any Person, (a) each entity that such Person Controls; (b) each Person that Controls such Person, including, in the case of a Partner, the Partner's Parent; and (c) each entity that is under common Control with the Person, including, in the case of a Partner, each entity that is Controlled by the Partner's Parent; provided, with respect to any Partner, an Affiliate shall include (y) a limited partnership or a Person Controlled by a limited partnership if a general partner of the limited partnership is Controlled by the Partner's Parent, or (z) a limited liability company or a Person controlled by a limited liability company if the managing partner of the limited liability company is Controlled by such Partner's Parent; provided further, for purposes of this Agreement the Partnership and its subsidiaries (if any) shall not be an Affiliate of any Partner.

**Affiliate's Outside Activities** - Section 6.04(b).

**Agreement** - introductory paragraph.

**Arbitration Notice** - Section 10.02(c).

**Arbitrator** - Section 10.03(b).

**Assignee** - any Person that acquires a Partnership Interest or any portion of a Partnership Interest through a Disposition; provided, however, that an Assignee shall have no right to be admitted to the Partnership as a Partner except with the prior written approval of the General Partner. The Assignee of a liquidated or wound up Partner is the shareholder, partner, partner or other equity owner or owners of the liquidated or wound up Partner to which that Partner's Partnership Interest is assigned by the Person conducting the liquidation or winding up of that Partner. The Assignee of a Bankrupt Partner is (a) the Person or Persons (if any) to whom such Bankrupt Partner's Partnership Interest is assigned by order of the bankruptcy court or other Governmental Authority having jurisdiction over such Bankruptcy, or (b) in the event of a general assignment for the benefit of creditors, the creditor to which such Partnership Interest is assigned.

**Authorizations** - licenses, certificates, permits, orders, approvals, determinations and authorizations from Governmental Authorities having valid jurisdiction.

**Available Cash** - with respect to any Quarter ending prior to the liquidation and winding up of the Partnership, the excess, if any and without duplication, of:

(a) the sum of all cash and cash equivalents of the Partnership on hand at the end of that Quarter, over

(b) the amount of any cash reserves that are necessary or appropriate in the Sole Discretion of the General Partner to (i) provide for the proper conduct of the business of the Partnership (including reserves for future maintenance capital expenditures and for anticipated future credit needs of the Partnership) subsequent to that Quarter or (ii) comply with applicable Law or any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which the Partnership is a party or by which it is bound or its assets are subject; provided, however, that distributions made by the Partnership or cash reserves established, increased or reduced after the end of that Quarter but on or before the date of determination of Available Cash with respect to that Quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, within that Quarter if the General Partner so determines.

Notwithstanding the foregoing, "Available Cash" with respect to the Quarter in which a liquidation or winding up of the Partnership occurs and any subsequent Quarter shall be deemed to equal zero.

**Bankruptcy or Bankrupt** - with respect to any Person, (a) that Person (i) makes a general assignment for the benefit of creditors; (ii) files a voluntary bankruptcy petition; (iii) becomes the subject of an order for relief or is declared insolvent in any federal or state bankruptcy or insolvency proceedings; (iv) files a petition or answer seeking for that Person a reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any Law; (v) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against that Person in a proceeding of the type described in subclauses (i) through (iv) of this clause (a); or (vi) seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of that Person or of all or any substantial part of that Person's properties; or (b) against that Person, a proceeding seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any Law has been commenced and 120 Days have expired without dismissal thereof or with respect to which, without that Person's consent or acquiescence, a trustee, receiver or liquidator of that Person or of all or any substantial part of that Person's properties has been appointed and 90 Days have expired without the appointment's having been vacated or stayed, or 90 Days have expired after the date of expiration of a stay, if the appointment has not previously been vacated.

**Breaching Partner** - a Partner (a) that (i) has committed a failure or breach of the type described in the definition of “Default,” (ii) has received a notice of the type described in the definition of “Default,” and (iii) has not cured the failure or breach, but as to which the applicable cure period set forth in the definition of “Default” has not yet expired or (b) that is, or any Affiliate of which is, a “Breaching Partner” as defined in the GP LLC Agreement.

**Business Day** - any day other than a Saturday, a Sunday, or a U.S. federal holiday.

**Capital Account** - the account maintained by the Partnership for each Partner in accordance with this Agreement and to be maintained by the Partnership for each Partner from and after the Effective Date in accordance with Section 4.05.

**Capital Call** - Section 4.01(a).

**Capital Contribution** - with respect to any Partner, the amount of money and the net agreed value of any property (other than money) contributed to the Partnership by the Partner. Any reference in this Agreement to the Capital Contribution of a Partner shall include a Capital Contribution of its predecessors in interest.

**Certificate** - Section 2.01.

**Claim** - any and all judgments, claims, causes of action, demands, lawsuits, suits, proceedings, Governmental investigations or audits, losses, assessments, fines, penalties, administrative orders, obligations, costs, expenses, liabilities and damages (whether actual, consequential or punitive), including interest, penalties, reasonable attorney’s fees, disbursements and costs of investigations, deficiencies, levies, duties, imposts, remediation and cleanup costs, and natural resources damages.

**Code** - the Internal Revenue Code of 1986.

**Confidential Information** - information and data (including all copies) that is furnished or submitted by any of the Partners, their Affiliates, or the Operator, whether oral, written, or electronic, to the other Partners, their Affiliates, or the Operator in connection with the Facilities and the resulting information and data obtained from those studies, including market evaluations, market proposals, service designs and pricing, pipeline system design and routing, cost estimating, rate studies, identification of permits, strategic plans, legal documents, environmental studies and requirements, public and governmental relations planning, identification of regulatory issues and development of related strategies, legal analysis and documentation, financial planning, gas reserves and deliverability data, studies of the natural gas supplies for the Facilities, and other studies and activities to determine the potential viability of the Facilities and their design characteristics, and identification of key issues. Notwithstanding the foregoing, the term “Confidential Information” shall not include any information that:

(a) is in the public domain at the time of its disclosure or thereafter, other than as a result of a disclosure directly or indirectly by a Partner or its Affiliates or the Operator in contravention of this Agreement;

(b) as to any Partner or its Affiliates or the Operator, was in the possession of such Partner or its Affiliates or Operator prior to the execution of any confidentiality agreements related to the Facilities or this Agreement; or

(c) has been independently acquired or developed by a Partner or its Affiliates or Operator without violating any of the obligations of that Partner or its Affiliates or Operator under any applicable agreement.

**Contributing Partner** - Section 4.06(a).

**Control** - the possession, directly or indirectly, through one or more intermediaries, of the following:

(a) (i) in the case of a corporation, 50% or more of the outstanding voting securities thereof; (ii) in the case of a limited liability company, general partnership or venture, the right to 25% or more of the distributions therefrom (including liquidating distributions); (iii) in the case of a trust or estate, including a business trust, 50% or more of the beneficial interest therein; and (iv) in the case of any other entity, 50% or more of the economic or beneficial interest therein; provided, however, in the case of a limited partnership, “Control” shall mean possession, directly or indirectly through one or more intermediaries, of (A) in the case where the general partner of the limited partnership is a corporation, ownership of 50% or more of the outstanding voting securities of the corporate general partner, (B) in the case where the general partner of the limited partnership is a partnership, limited liability company or other entity (other than a corporation or limited partnership), the right to 25% or more of the distributions from the general partner entity, and (C) in the case where the general partner of the limited partnership is a limited partnership, Control of the general partner of the general partner in the manner described under clause (A) or (B), in each case, notwithstanding that the Person with respect to which Control is being determined does not possess, directly or indirectly through one or more subsidiaries, the right to receive at least 25% of the distributions from such limited partnership; and

(b) in the case of any entity, the power or authority, through ownership of voting securities, by contract or otherwise, to exercise predominant control over the management of the entity.

**Day** - a calendar day; provided, however, that, if any period of Days referred to in this Agreement shall end on a Day that is not a Business Day, then the expiration of that period shall be automatically extended until the end of the first succeeding Business Day.

**Default** - with respect to any Partner,

(a) the failure of that Partner to contribute, on or before the 10th Day after the date required, all or any portion of a Capital Contribution that Partner is required to make as provided in this Agreement or

(b) the failure of a Partner to comply in any material respect with any of its other agreements, covenants or obligations under this Agreement, or the failure of any representation or warranty made by a Partner in this Agreement to have been true and correct in all material respects at the time it was made, in each case if the breach is not cured by the applicable Partner on or before the 30th Day after its receiving notice of such breach from any other Partner (or, if such breach is not capable of being cured within such 30-Day period, if such Partner fails to promptly commence substantial efforts to cure such breach or to prosecute such curative efforts to completion with continuity and diligence). The General Partner may, but shall have no obligation to, extend the foregoing 10-Day and 30-Day periods.

**Default Rate** - a rate per annum equal to the lesser of (a) a varying rate per annum equal to the sum of (i) the prime rate as published in The Wall Street Journal, with adjustments in that varying rate to be made on the same date as any change in that rate is so published, plus (ii) 2% per annum, and (b) the maximum rate permitted by Law.

**Dispose, Disposing or Disposition** - with respect to any asset (including an LP Interest or any portion of an LP Interest), a sale, assignment, transfer, conveyance, gift, exchange or other disposition of such asset, whether such disposition be voluntary, involuntary or by operation of Law, including the following: (a) in the case of an asset owned by a natural person, a transfer of such asset upon the death of its owner, whether by will, intestate succession or otherwise; (b) in the case of an asset owned by an entity, (i) a merger or consolidation of such entity (other than where such entity is the survivor thereof), (ii) a conversion of such entity into another type of entity, or (iii) a distribution of such asset, including in connection with the dissolution, liquidation, winding up or termination of such entity (unless, in the case of dissolution, such entity’s business is continued without the commencement of liquidation or winding up); and (c) a disposition in connection with, or in lieu of, a foreclosure of an Encumbrance; but such terms shall not include the creation of an Encumbrance.

**Disposing Partner** - Section 3.03(a).

**Dispute** - Section 10.01.

**Dispute Notice** - Section 10.02.

**Disputing Partner** - Section 10.01.

**Dissolution Event** - Section 11.01.

**Effective Date** - the date the Partnership is formed as provided in Section 2.01.

**Encumber, Encumbering or Encumbrance** - the creation of a security interest, lien, pledge, mortgage or other encumbrance, whether such encumbrance be voluntary, involuntary or by operation of Law.

**Facilities** - (a) the Initial Facilities and (b) any additions to or expansion of existing Facilities that are approved by the General Partner.

**FERC** - the Federal Energy Regulatory Commission or any Governmental Authority succeeding to the powers of such commission.

**Governmental Authority (or Governmental)** - a federal, state, local or foreign governmental authority; a state, province, commonwealth, territory or district thereof; a county or parish; a city, town, township, village or other municipality; a district, ward or other subdivision of any of the foregoing; any executive, legislative or other governing body of any of the foregoing; any agency, authority, board, department, system, service, office, commission, committee, council or other administrative body of any of the foregoing; including the FERC, any court or other judicial body; and any officer, official or other representative of any of the foregoing.

**GP LLC Agreement** - the Limited Liability Company Agreement of the General Partner, dated as of March 2, 2007, as amended from time to time.

**including** - including, without limitation.

**Initial Facilities** - means the gas storage facility and related equipment and other infrastructure described on Exhibit B.

**Law** - any applicable constitutional provision, statute, act, code (including the Code), law, regulation, rule, ordinance, order, decree, ruling, proclamation, resolution, judgment, decision, declaration or interpretative or advisory opinion or letter of a Governmental Authority having valid jurisdiction.

**Limited Partner** - any Person executing this Agreement as of the date of this Agreement as a limited partner or subsequently admitted to the Partnership as a limited partner as provided in this Agreement, but such term does not include any Person that has ceased to be a limited partner in the Partnership.

**LP Interest** - the Partnership Interest of a Limited Partner in its capacity as such.

**Non-Contributing Partner** - Section 4.06(a).

**Nonrecourse Debt** - the meaning set forth in Treasury Regulation Section 1.704-2(b)(3).

**Nonrecourse Deductions** - the meaning, and the amount thereof shall be, as set forth in Treasury Regulation Sections 1.704-2(b) and 1.704-2(c).

**O&M Agreement** - Section 6.03.

**Officer** - any Person designated as an officer of the Partnership as provided in Section 6.02, but that term does not include any Person who has ceased to be an officer of the Partnership.

**Operator** - Spectra Energy Transmission Services, LLC, a Delaware limited liability company.

**Parent** - the Person that Controls a Limited Partner and that is not itself Controlled by any other Person.

**Partner** - the General Partner or any Limited Partner.

**Partnership** - Steckman Ridge, LP, a Delaware limited partnership.

**Partnership Interest** - with respect to any Partner, (a) that Partner's status as a Partner; (b) that Partner's share of the income, gain, loss, deduction and credits of, and the right to receive distributions from, the Partnership; (c) any Priority Interest to which that Partner is entitled pursuant to Section 4.06(b); (d) all other rights, benefits and privileges enjoyed by that Partner (under the Act, this Agreement or otherwise) in its capacity as a Partner; and (e) all obligations, duties and liabilities imposed on that Partner (under the Act, this Agreement or otherwise) in its capacity as a Partner, including any obligations to make Capital Contributions.

**Partnership Minimum Gain** - "partnership minimum gain" set forth in Treasury Regulation Sections 1.704-2(b)(2) and 1.704-2(d).

**Partner Minimum Gain** - "partner nonrecourse debt minimum gain" as determined under Treasury Regulation Section 1.704-2(i)(2).

**Partner Nonrecourse Debt** - "partner nonrecourse debt" as set forth in Treasury Regulation Section 1.704-2(b)(4).

**Partner Nonrecourse Deductions** - "partner nonrecourse deductions," and the amount thereof shall be, as set forth in Treasury Regulation Section 1.704-2(i).

**Person** - the meaning assigned that term in Section 17-101(14) of the Act and also includes a Governmental Authority and any other entity.

**Priority Interest** - the special distribution rights under Section 4.06(b) received by each Additional Contribution Partner, which rights include the right to receive the return described in Section 4.06(b)(i) and which form part of the Additional Contribution Partner's Partnership Interest.

**Priority Interest Sharing Ratio** - Section 4.06(b)(i).

**PSA** - the Purchase and Sale Agreement dated as of February 9, 2007, between Pennsylvania General Energy Company, L.L.C. and Spectra Energy Transmission, LLC.

**Quarter** - unless the context requires otherwise, a fiscal quarter of the Partnership.

**Regulatory Allocations** - Section 5.06.

**Securities Act** - the Securities Act of 1933.

**Sharing Ratio** - subject in each case to adjustments in accordance with this Agreement or in connection with Dispositions of Partnership Interests, (a) in the case of a Partner executing this Agreement as of the date of this Agreement or a Person acquiring that Partner's Partnership Interest, the percentage specified for that Partner as its Sharing Ratio on Exhibit A, and (b) in the case of Partnership Interests issued under Section 3.04, the Sharing Ratio established in Section 3.04; provided, however, that the total of all Sharing Ratios shall always equal 100%.

**Sole Discretion** - (a) in the applicable Person's sole and absolute discretion (b) with or without cause, (c) subject to such conditions as it may deem appropriate, and (d) without taking into account the interests of, and without incurring liability to, the Partnership, any Partner, or any Officer or employee of the Partnership.

**Storage Agreement** - any agreement of the Partnership to store natural gas or to perform other services under applicable tariffs for other Persons at any of the Facilities.

**Tax Matters Partner** - Section 7.03(a).

**Term** - Section 2.07.

**Treasury Regulations** - the regulations (including temporary regulations) promulgated by the United States Department of the Treasury pursuant to and in respect of provisions of the Code. All references herein to sections of the Treasury Regulations shall include any corresponding provision or provisions of succeeding, similar or substitute, temporary or final Treasury Regulations.

**Withdraw, Withdrawing or Withdrawal** - the withdrawal, resignation or retirement of a Partner from the Partnership as a partner. Such terms shall not include any Dispositions of Partnership Interest (which are governed by Sections 3.03(a) and (b)), even though the Partner making a Disposition may cease to be a Partner as a result of the Disposition.

**Withdrawn Partner** - Section 9.03.

(b) **Other Terms.** Terms defined elsewhere in this Agreement have the meanings so given them.

1.02 **Interpretation.** Unless the context requires otherwise: (a) the gender (or lack of gender) of all words used in this Agreement includes the masculine, feminine and neuter; (b) references to Articles and Sections refer to Articles and Sections of this Agreement; (c) references to Exhibits refer to the Exhibits attached to this Agreement, each of which is made a part hereof for all purposes; (d) references to Laws refer to such Laws as they may be amended from time to time, and references to particular provisions of a Law include any corresponding provisions of any succeeding Law; and (e) references to money refer to legal currency of the United States of America.

## ARTICLE 2 ORGANIZATION

2.01 **Formation.** The General Partner shall form the Partnership as a Delaware limited partnership by the filing of a Certificate of Limited Partnership (the “Certificate”) promptly following the execution and delivery of this Agreement.

2.02 **Name.** The name of the Partnership is “Steckman Ridge, LP” and all Partnership business must be conducted in that name or such other names that comply with Law as the General Partner may select.

2.03 **Registered Office; Registered Agent; Principal Office in the United States; Other Offices.** The registered office of the Partnership required by the Act to be maintained in the State of Delaware shall be the office of the initial registered agent named in the Certificate or such other office (which need not be a place of business of the Partnership) as the General Partner may designate in the manner provided by Law. The registered agent of the Partnership in the State of Delaware shall be the initial registered agent named in the Certificate or such other Person or Persons as the General Partner may designate in the manner provided by Law. The principal office of the Partnership in the United States shall be at such place as the General Partner may designate, which need not be in the State of Delaware, and the Partnership shall maintain records there or such other place as the General Partner shall designate and shall keep the street address of such principal office at the registered office of the Partnership in the State of Delaware. The Partnership may have such other offices as the General Partner may designate.

2.04 **Purposes.** The purposes of the Partnership are to plan, design, construct, acquire, own, maintain and operate the Facilities, to market the services of the Facilities, to engage in the storage of natural gas through the Facilities, and to engage in any activities directly or indirectly relating to the foregoing.

2.05 **Foreign Qualification.** Prior to the Partnership's conducting business in any jurisdiction other than Delaware, the General Partner shall cause the Partnership to comply, to the extent procedures are available and those matters are reasonably within the control of the General Partner, with all requirements necessary to qualify the Partnership as a foreign limited partnership in that jurisdiction. At the request of the General Partner, each Partner shall execute, acknowledge, swear to and deliver all certificates and other instruments conforming with this Agreement that are necessary or appropriate to qualify, continue and terminate the Partnership as a foreign limited partnership in all such jurisdictions in which the Partnership may conduct business.

2.06 **PSA.** Immediately following the formation of the Partnership, the Partners, pro rata to their Sharing Ratios, shall contribute to the Partnership, and the General Partner shall cause the Partnership to accept and assume, all of the rights and obligations set forth for Spectra Energy Transmission, LLC under the PSA.

2.07 **Term.** The period of existence of the Partnership (the "Term") commenced with the acceptance for filing of the Certificate by the Secretary of State of the State of Delaware and shall end at such time as a certificate of cancellation is filed with the Secretary of State of the State of Delaware in accordance with Section 11.04.

### ARTICLE 3 PARTNERSHIP; DISPOSITIONS OF INTERESTS

3.01 **Initial Partners.** As of the formation of the Partnership, the General Partner is admitted to the Partnership as the general partner and Spectra and NJR are admitted to the Partnership as limited partners.

3.02 **Representations, Warranties and Covenants.** Each Limited Partner hereby represents, warrants and covenants to the Partnership and each other Partner that the following statements are true and correct as of the Effective Date and shall be true and correct at all times that such Limited Partner is a Partner:

(a) that Limited Partner is duly incorporated, organized or formed (as applicable), validly existing, and (if applicable) in good standing under the Law of the jurisdiction of its incorporation, organization or formation; if required by applicable Law, that Limited Partner is duly qualified and in good standing in the jurisdiction of its principal place of business, if different from its jurisdiction of incorporation, organization or formation; and that Limited Partner has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder, and all necessary actions by the board of directors, shareholders, managers, partners, partners, trustees, beneficiaries, or other applicable Persons necessary for the due authorization, execution, delivery and performance of this Agreement by that Limited Partner have been duly taken;

(b) that Limited Partner has duly executed and delivered this Agreement and the other documents contemplated herein, and they constitute the legal, valid and binding obligation of that Limited Partner enforceable against it in accordance with their terms (except as may be limited by bankruptcy, insolvency or similar Laws of general application and by the effect of general principles of equity, regardless of whether considered at law or in equity);

(c) that Limited Partner's authorization, execution, delivery, and performance of this Agreement does not and will not (i) conflict with, or result in a breach, default or violation of, (A) the organizational documents of that Limited Partner, (B) any contract or agreement to which that Limited Partner is a party or is otherwise subject, or (C) any Law, order, judgment, decree, writ, injunction or arbitral award to which that Limited Partner is subject; or (ii) require any consent, approval or authorization from, filing or registration with, or notice to, any Governmental Authority or other Person, unless such requirement has already been satisfied;

(d) that Limited Partner's Parent is the Person identified as such on Exhibit A;

(e) that Limited Partner is acquiring its LP Interest solely for investment for its own account and not for distribution or sale to others in connection with any distribution or public offering;

(f) that Limited Partner understands that there will not be any public market for the LP Interests and that it must bear the economic risk of an investment in the Partnership for an indefinite period of time because (i) its LP Interest has not been registered under the Securities Act or any applicable state securities laws and (ii) it may Dispose or Encumber, in whole or in part, its LP Interest only in accordance with this Agreement and then only if its LP Interest is subsequently registered in accordance with the provisions of the Securities Act and applicable state securities laws, unless registration is not required;

(g) that Limited Partner understands that the Partnership is not obligated to register the LP Interests for resale under the Securities Act or any applicable state securities laws;

(h) that Limited Partner is a “qualified institutional buyer” within the meaning of rule 144A of the Securities and Exchange Commission or an “accredited investor” within the meaning of Regulation D of the Securities and Exchange Commission and is able to bear the economic risk of such an investment in the Partnership for an indefinite period of time, and it has no need for liquidity of this investment and it could bear a complete loss of this investment; if it is either a “qualified purchaser” within the meaning of the Investment Company Act of 1940 or is an entity formed and is being utilized primarily for the purpose of making an investment in the Partnership, each of the shareholders, partners, partners or other holders of equity or beneficial interests in that Partner is such a qualified purchaser; and

(i) that Limited Partner has the knowledge and sophistication to evaluate the risks of investing in the Partnership; it has conducted its own investigation and due diligence into the Partnership and is satisfied that its investment in the Partnership is appropriate; it understands and agrees that none of the other Partners or their Affiliates, or the Partnership, has made nor will make any representation or warranty with respect to the worthiness, terms, value, or any other aspect of the Partnership or the LP Interests, and it explicitly disclaims any warranty, express or implied, with respect to such matters; and it specifically acknowledges, represents, and warrants that it is not relying on any other Partner or its Affiliates (i) for its investigation or due diligence concerning, or evaluation of, the Partnership or any related transaction or (ii) with respect to tax and other economic considerations involved in an investment in the Partnership.

### 3.03 ***Dispositions and Encumbrances of LP Interests.***

(a) A Limited Partner (the “Disposing Partner”) may Dispose of or Encumber all or any portion of its LP Interest only (i) to an Affiliate of the Partner making the Disposition or (ii) with the written consent of the General Partner. Any attempted Disposition or Encumbrance of an LP Interest, other than in strict accordance with this Section 3.03, shall be, and is hereby declared, null and void ab initio. The rights and obligations constituting an

(b) LP Interest may not be separated, divided or split from the other attributes of an LP Interest except with the prior written approval of the General Partner and as contemplated by the express provisions of this Agreement.  
LP Interests may be diluted as provided in the GP LLC Agreement.

(c) Each Limited Partner agrees that it will include its LP Interest in any sale when required under Section 3.03(b)(iv) of the GP LLC Agreement.

(d) No Disposition of a Partnership Interest shall effect a release of the Disposing Partner from any liabilities to the Partnership or the other Partners arising from events occurring prior to the Disposition.

(e) The Partners agree that a breach of the provisions of this Section 3.03 may cause irreparable injury to the Partnership and to the other Partners for which monetary damages (or other remedy at law) are inadequate in view of (i) the complexities and uncertainties in measuring the actual damages that would be sustained by reason of the failure of a Limited Partner to comply with such provision and (ii) the uniqueness of the Partnership business and the relationship among the Partners. Accordingly, the Limited Partners agree that the provisions of this Section 3.03 may be enforced by specific performance in accordance with Section 10.04(b).

(f) Notwithstanding anything to the contrary in this Agreement, a direct or indirect Disposition of a Partnership Interest shall be made only with the consent of all Partners if the Disposition would (a) cause a termination of the Partnership under Section 708 of the Code or (b) adversely affect the tax consequences of the Partnership or any Partner.

3.04 **Creation of Additional Partnership Interests.** Additional Partnership Interests may be created and issued to existing Partners or to other Persons, and such other Persons may be admitted to the Partnership as Partners, only with the consent of the General Partner, on such terms and conditions as the General Partner may determine at the time of admission. The terms of admission or issuance must specify the applicable Sharing Ratios and may provide for the creation of different classes or groups of Partners having different rights, powers and duties. Any such admission is effective only after the new Partner has executed and delivered to the General Partner an instrument containing the notice address of the new Partner, the Assignee's ratification of this Agreement and agreement to be bound by it, and its confirmation that the representations and warranties in Section 3.02 are true and correct with respect to it. The provisions of this Section 3.04 shall not apply to Dispositions of Partnership Interests or admissions of Assignees in connection therewith, such matters being governed by Section 3.03.

3.05 **Access to Information.** Each Partner shall be entitled to receive any information that it may request concerning the Partnership; provided, however, that this Section 3.05 shall not obligate the Partnership, the General Partner, or Operator to create any information that does not already exist at the time of such request (other than to convert existing information from one medium to another, such as providing a printout of information that is stored in a computer database). Each Partner shall also have the right, upon reasonable notice, and at all reasonable times during usual business hours to inspect the properties of the Partnership and to audit, examine and make copies of the books of account and other records of the Partnership. This right may be exercised through any agent or employee of a Partner designated in writing by it or by an independent public accountant, engineer, attorney or other consultant so designated. The Partner making the request shall bear all costs and expenses incurred in any inspection, examination or audit made on that Partner's behalf. The Partners agree to cooperate reasonably, and to cause their respective independent public accountants, engineers, attorneys or other consultants to cooperate reasonably, in connection with any such request. Confidential Information obtained under this Section 3.05 shall be subject to the provisions of Section 3.06.

3.06 **Confidential Information.**

(a) Except as permitted by Section 3.06(b), (i) each Partner shall, and shall cause its Affiliates to, keep confidential all Confidential Information and shall not disclose any Confidential Information to any Person, including any of its Affiliates, and (ii) each Partner shall use the Confidential Information only in connection with the Facilities and the Partnership.

(b) Notwithstanding Section 3.06(a), but subject to the other provisions of this Section 3.06, a Partner or, where applicable, its Affiliates, may make the following disclosures and uses of Confidential Information:

(i) disclosures to another Partner, the Operator or any other Person retained by the Partnership or the General Partner in connection with the Partnership;

(ii) disclosures and uses that are approved by the General Partner;

(iii) disclosures that may be required from time to time to obtain requisite Authorizations or financing for the Facilities, if the disclosures are approved by the General Partner;

(iv) disclosures to an Affiliate of that Partner, including the directors, officers, employees, agents and advisors of that Affiliate, provided the Partner shall cause that Affiliate to abide by the terms of this Section 3.06, and special care shall be taken to restrict such disclosures in any case where that Affiliate is or may become a customer under a Storage Agreement or an "Marketing Affiliate" (as defined in the FERC's Standards of Conduct for Transmission Providers, 18 C.F.R. Part 358, Section 358.3(k));

(v) disclosures to the Parent of that Partner, including the directors, officers, employees, agents and advisors of that Parent, but that Parent shall be subject to the terms of this Section 3.06;

(vi) disclosures to a Person that is not a Partner or an Affiliate of a Partner, if that Person has been retained by a Partner or an Affiliate of a Partner to provide services in connection with the Partnership and has agreed to abide by the terms of this Section 3.06;

(vii) disclosures to a bona-fide potential direct or indirect purchaser of that Partner's Partnership Interest, if that potential purchaser has agreed to abide by the terms of this Section 3.06;

(viii) disclosures required, with respect to a Partner or an Affiliate of a Partner, pursuant to (A) the Securities Act and the rules and regulations promulgated thereunder, (B) the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, (C) any state securities Laws or (D) any national securities exchange or automated quotation system; and

(ix) disclosures that a Partner is legally compelled to make by deposition, interrogatory, request for documents, subpoena, civil investigative demand, order of a court of competent jurisdiction or similar process or otherwise by Law; provided, however, that, prior to any such disclosure, such Partner shall, to the extent legally permissible:

(A) provide the General Partner with prompt notice of such requirements so that one or more of the Partners may seek a protective order or other appropriate remedy or waive compliance with the terms of this Section 3.06(b)(ix);

(B) consult with the General Partner on the advisability of taking steps to resist or narrow such disclosure; and

(C) cooperate with the General Partner and with the other Partners in any attempt one or more of them may make to obtain a protective order or other appropriate remedy or assurance that confidential treatment will be afforded the Confidential Information; and in the event such protective order or other remedy is not obtained, or the other Partners waive compliance with the provisions of this Agreement, that Partner agrees (I) to furnish only that portion of the Confidential Information that, in the opinion of the Partner's counsel, the Partner is legally required to disclose, and (II) to exercise all reasonable efforts to obtain assurance that confidential treatment will be accorded the Confidential Information.

(c) Each Partner shall take, and shall cause its Affiliates to take, such precautionary measures as may be required to ensure (and such Partner shall be responsible for) compliance with this Section 3.06 by any of its Affiliates, and its and their directors, officers, employees and agents, and other Persons to which it may disclose Confidential Information in accordance with this Section 3.06.

(d) Promptly after its Withdrawal, a Withdrawn Partner shall destroy (and provide a certificate of destruction to the Partnership with respect to), or return to the Partnership, all Confidential Information in its possession. Notwithstanding the immediately preceding sentence, but subject to the other provisions of this Section 3.06, a Withdrawn Partner may retain for a stated period, but not disclose to any other Person, Confidential Information for the limited purposes of (i) explaining that Partner's corporate decisions with respect to the Facilities or (ii) preparing such Partner's tax returns and defending audits, investigations and proceedings relating thereto; provided, however, that the Withdrawn Partner must notify the General Partner in advance of such retention and specify in such notice the stated period of such retention.

(e) The Partners agree that no adequate remedy at law exists for a breach or threatened breach of any of the provisions of this Section 3.06, the continuation of which unremedied will cause the Partnership and the other Partners to suffer irreparable harm. Accordingly, the Partners agree that the Partnership and the other Partners shall be entitled, in addition to other remedies that may be available to them, to immediate injunctive relief from any breach of any of the provisions of this Section 3.06 and to specific performance of their rights hereunder, as well as to any other remedies available at law or in equity, pursuant to Section 10.04.

(f) The obligations of the Partners under this Section 3.06 (including the obligations of any Withdrawn Partners) shall continue to bind any Person that has ceased to be a Partner and shall terminate on the second anniversary of the end of the Term.

3.07 **Liability to Third Parties.** No Limited Partner or Affiliate of a Partner shall be liable for the debts, obligations or liabilities of the Partnership.

3.08 **Use of Partners' Names and Trademarks.** The Partnership, the Partners and their Affiliates shall not use the name or trademark of any Partner or its Affiliates in connection with public announcements regarding the Partnership, or marketing or financing activities of the Partnership, without the prior consent of such Partners or Affiliate, which shall not be unreasonably withheld.

#### ARTICLE 4 CAPITAL CONTRIBUTIONS

##### 4.01 **Capital Contributions.**

(a) On the formation of the Partnership, each Partner will make a Capital Contribution (i) in cash equal to its Sharing Ratio times \$104,000,000 and (ii) of the interest in the PSA described in Section 2.06. After that time, except as otherwise provided in the following provisions of this Section 4.01 or 4.02, the General Partner may issue or cause to be issued a notice to each Partner for the making of Capital Contributions at such times and in such amounts as the General Partner shall determine (a "Capital Call"); provided, however, that the aggregate of the Capital Contributions under Section 4.01(a)(i) plus all Capital Calls and all loans under Section 4.02 may not exceed \$250,000,000. All amounts timely received by the Partnership under this Section 4.01 shall be credited to the respective Partner's Capital Account as of the specified date. Each Partner is entitled to a credit to its Capital Account equal to its Sharing Ratio times \$5,000,000 on account of its contribution under Section 4.01(a)(ii).

(b) Each Capital Call shall contain the following information:

(i) The total amount of Capital Contributions required from all Partners;

(ii) The amount of Capital Contribution required from the Partner to which the notice is addressed, which amount must equal that Partner's Sharing Ratio of the total Capital Call;

(iii) The purpose for which the funds are to be applied in such reasonable detail as the General Partner shall direct; and

(iv) The date on which payments of the Capital Contribution shall be made (which date shall not be sooner than the 30th Day following the date the Capital Call is given, unless a sooner date is approved by the General Partner) and the method of payment, provided that the date and the method shall be the same for each of the Partners.

(c) Each Partner agrees that it shall make payments of its respective Capital Contributions in accordance with Capital Calls issued as provided in Section 4.01(a).

##### 4.02 **Loans.**

(a) Rather than making a Capital Call under Section 4.01, the General Partner by notice may require the Limited Partners to lend funds to the Partnership at such times, in such amounts and under such terms and conditions as the General Partner shall determine; provided, however, that (i) the General Partner shall not call for loans rather than Capital Contributions to the extent doing so would breach any financing or other agreement of the Partnership and (ii) the aggregate of the cash Capital Contributions under Section 4.01(a)(i) plus all Capital Calls

and all loans under this Section 4.02 may not exceed \$250,000,000. All amounts received from a Limited Partner after the date specified in Section 4.02(b)(iv) by the Partnership under this Section 4.02 shall be accompanied by interest on such overdue amounts (and the default shall not be cured unless such interest is also received by the Partnership), which interest shall be payable to the Partnership and shall accrue from and after such specified date at the Default Rate. Any such interest paid shall be credited to the respective Capital Accounts of all the Limited Partners, on a pro rata basis in accordance with their respective Sharing Ratios as of the date such payment is made to the Partnership, but shall not be considered part of the principal of the loan.

(b) Each notice issued under Section 4.02(a) shall contain the following information:

(i) The total amount of loans required from the Limited Partners;

(ii) The amount of the loan required from the Limited Partner to which the notice is addressed, which amount must equal (A) that Limited Partner's Sharing Ratio of the total amount of loans requested divided by (B) the sum of the Sharing Ratios of all Limited Partners;

(iii) The purpose for which the funds are to be applied in such reasonable detail as the General Partner shall direct;

(iv) The date on which the loans to the Partnership shall be made (which date shall not be sooner than the 30th Day following the date the request is given, unless a sooner date is approved by the General Partner) and the method of payment, provided that the date and the method shall be the same for each of the Limited Partners; and

(v) All terms concerning the repayment of or otherwise relating to the loans, provided that the terms shall be the same for each of the Limited Partners.

(c) Each Limited Partner agrees that it shall make its respective loans in accordance with requests issued as provided in Section 4.02(a).

4.03 **No Other Contribution Obligations.** No Partner shall be required or permitted to make any Capital Contributions or loans to the Partnership except as provided in this Article 4.

4.04 **Return of Contributions.** Except as expressly provided in this Agreement, a Partner is not entitled to the return of any part of its Capital Contributions or to be paid interest in respect of either its Capital Account or its Capital Contributions. An unrepaid Capital Contribution is not a liability of the Partnership or of any Partner. A Partner is not required to contribute or to lend any cash or property to the Partnership to enable the Partnership to return any Partner's Capital Contributions.

4.05 **Capital Accounts.**

(a) Each Partner's Capital Account shall be increased by (i) the amount of money contributed by that Partner to the Partnership, (ii) the fair market value of property contributed by that Partners to the Partnership (net of liabilities secured by such contributed property that the Partnership is considered to assume or take subject to under Section 752 of the Code), and (iii) allocations to that Partner of Partnership income and gain (or items thereof), including income and gain exempt from tax and income and gain described in Treasury Regulation § 1.704-1(b)(2)(iv)(g), but excluding income and gain described in Treasury Regulation § 1.704-1(b)(4)(i), and shall be decreased by (iv) the amount of money distributed to that Partner by the Partnership, (v) the fair market value of property distributed to that Partner by the Partnership (net of liabilities secured by such distributed property that such Partner is considered to assume or take subject to under Section 752 of the Code), (vi) allocations to that Partner of expenditures of the Partnership described (or treated as described) in Section 705(a)(2)(B) of the Code, and (vii) allocations of Partnership loss and deduction (or items thereof), including loss and deduction described in

Treasury Regulation § 1.704-1(b)(2)(iv)(g), but excluding items described in (vi) above and loss or deduction described in Treasury Regulation § 1.704-1(b)(4)(i) or 1.704-1(b)(4)(iii). The Partners' Capital Accounts shall also be maintained and adjusted as permitted by the provisions of Treasury Regulation § 1.704-1(b)(2)(iv)(f) and as required by the other provisions of Treasury Regulation §§ 1.704-1(b)(2)(iv) and 1.704-1(b)(4), including adjustments to reflect the allocations to the Partners of depreciation, depletion, amortization, and gain or loss as computed for book purposes rather than the allocation of the corresponding items as computed for tax purposes, as required by Treasury Regulation § 1.704-1(b)(2)(iv)(g). Thus, the Partners' Capital Accounts shall be increased or decreased to reflect a revaluation of the Partnership's property on its books based on the fair market value of the Partnership's property on the date of adjustment (as determined pursuant to Section 4.05(b)), immediately prior to (A) the contribution of money or other property to the Partnership by a new or existing Partner as consideration for a Partnership Interest or an increased Sharing Ratio (including any contribution under Section 4.06(c)), (B) the distribution of money or other property by the Partnership to a Partner as consideration for a Partnership Interest, or (C) the liquidation of the Partnership. A Partner who has more than one Partnership Interest shall have a single Capital Account that reflects all such Partnership Interests, regardless of the class of Partnership Interests owned by such Partner and regardless of the time or manner in which such Partnership Interests were acquired. Upon the Disposition of all or a portion of a Partnership Interest, the Capital Account of the Disposing Partner that is attributable to that Partnership Interest shall carry over to the Assignee in accordance with the provisions of Treasury Regulation § 1.704-1(b)(2)(iv)(l). The Capital Accounts shall not be deemed to be, nor have the same meaning as, the capital account of the Partnership under the Natural Gas Act.

(b) Whenever the fair market value of the Partnership's property is required to be determined pursuant to the third and fourth sentences of Section 4.05(a), the General Partner shall establish the fair market value in a notice to the Limited Partners.

#### 4.06 ***Failure to Make a Capital Contribution.***

(a) ***General.*** If any Limited Partner fails to make a Capital Contribution when required in a Capital Call under Section 4.01 of this Agreement, or a loan when required under Section 4.02 of this Agreement (each such Partner being a "Non-Contributing Partner"), then, provided the failure has not been cured, the Limited Partners that have contributed their Capital Contributions and that are not, and none of whose Affiliates are, Non-Contributing Partners under the GP LLC Agreement (each, a "Contributing Partner") may (without limitation as to other remedies that may be available) at any time after the 10th Day after the date the Capital Contribution was due elect to:

(i) treat the Non-Contributing Partner's failure to contribute as a Default by giving notice to the Non-Contributing Partner, in which event the provisions of this Agreement regarding the commission of a Default by a Partner shall apply; or

(ii) pay the portion of the Capital Contribution owed and unpaid by the Non-Contributing Partner (the "Additional Contribution"), in which event the Contributing Partners that elect to fund the Non-Contributing Partners' share (the "Additional Contribution Partners") may treat the contribution as one of: (A) a Capital Contribution resulting in the Additional Contribution Partners receiving a Priority Interest under Section 4.06(b), or (B) a permanent capital contribution that results in an adjustment of Partnership Interests under Section 4.06(c), as determined by the Additional Contribution Partners as set forth below.

No Contributing Partner shall be obligated to elect either (i) or (ii) above. The decision of the Contributing Partners to elect (i) or (ii) above shall be made by the determination of the Contributing Partners holding the majority of the Sharing Ratios of all Contributing Partners. The decision of the Additional Contribution Partners to elect (ii)(A) or (ii)(B) above shall be made by the determination of the Additional Contribution Partners holding the majority of the Sharing Ratios of all Additional Contribution Partners. If the election has not been made on or before the 30th Day after the date the funds were paid by the Non-Contributing Partner(s), payment of the Additional Contribution shall be treated as a Priority Interest under Section 4.06(a)(ii)(A).

(b) ***Priority Interest.*** If the Additional Contribution Partners elect to treat the payment of Additional Contribution as a contribution for which the Additional Contribution Partners receive a Priority Interest, then the following shall apply:

(i) Each Additional Contribution Partner shall receive a Priority Interest in the distributions from the Partnership that would otherwise be due and payable to the Non-Contributing Partner(s). The Priority Interest received by each Additional Contribution Partner shall be in the proportion that the amount of the Additional Contribution paid by that Additional Contribution Partner bears to the amount of the Additional Contributions made by all Additional Contribution Partners (each Additional Contribution Partner's percentage share of the Priority Interests shall be its "Priority Interest Sharing Ratio"). All distributions from the Partnership that would otherwise be due and payable to the Non-Contributing Partner(s) instead shall be paid to the Additional Contribution Partners in accordance with their respective Priority Interest Sharing Ratio and no distribution shall be made from the Partnership to any Non-Contributing Partner until all Priority Interests have terminated. The Priority Interest shall terminate with respect to an Additional Contribution Partner when that Additional Contribution Partner has received either through the distributions it receives under its Priority Interest or through payment(s) to it by the Non-Contributing Partner(s) (which payment(s) may be made by the Non-Contributing Partner(s) at any time) of an amount equal to the Additional Contribution made by such Partner, plus a return thereon of fourteen percent (14%) per annum (compounded monthly on the outstanding balance). For the purpose of making this calculation, all amounts received by an Additional Contribution Partner shall be deemed to be applied first against a return on, and then to the amount of, the Additional Contribution. For purposes of maintaining Capital Accounts, any amount paid by a Non-Contributing Partner to a Contributing Partner to reduce and/or terminate a Priority Interest shall be treated as though such amount were contributed by the Non-Contributing Partner to the Partnership and thereafter distributed by the Partnership to the Contributing Partner with respect to its Priority Interest.

(ii) The Priority Interests shall not alter the Sharing Ratios, nor shall the Priority Interests alter any distributions to the Contributing Partners (in their capacity as Contributing Partners, as opposed to their capacity as Additional Contribution Partners) in accordance with their respective Sharing Ratios. Notwithstanding any provision in this Agreement to the contrary, a Partner may not dispose of all or a portion of its Priority Interest except to a Person to which it Disposes all or the applicable pro rata portion of its Partnership Interest after compliance with the requirements of this Agreement for the Disposition.

(iii) No Partner that is a Non-Contributing Partner may Dispose of its Partnership Interest unless, at the closing of such Disposition, either the Non-Contributing Partner or the proposed Assignee pays the amount necessary to terminate the Priority Interest arising from such Non-Contributing Partner's failure to contribute. No Assignee shall be admitted to the Partnership as a Partner until compliance with this Section 4.06(b)(iii) has occurred.

(c) **Permanent Contribution.** Subject to Section 4.06(a), if the Additional Contribution Partners elect under Section 4.06(a) to have the Additional Contribution treated as a permanent capital contribution, then each Additional Contribution Partner that funds a portion of the Additional Contribution shall have its capital account increased accordingly and the Partners' Partnership Interests and Sharing Ratios will be automatically adjusted to equal each Partner's total Capital Contributions when expressed as a percentage of all Partners' Capital Contributions.

(d) **Further Assurance.** In connection with this Section 4.06, each Partner shall execute and deliver any additional documents and instruments and perform any additional acts that may be necessary or appropriate to effectuate and perform the provisions of this Section 4.06.

## ARTICLE 5 DISTRIBUTIONS AND ALLOCATIONS

5.01 **Distributions.** On or before the 30th Day following the end of each Quarter, the General Partner shall review and determine the amount of Available Cash with respect to that Quarter, and shall direct that the Partnership distribute an amount equal to 100% of Available Cash with respect to that Quarter. That amount shall, subject to Section 17-607 of the Act, be distributed in accordance with this Article 5 to the Partners (other than a Breaching Partner) in proportion to their respective Sharing Ratios (at the time the distributions are made).

5.02 **Distributions on Dissolution and Winding Up.** Upon the winding up of the Partnership, after adjusting the Capital Accounts for all distributions made under Section 5.01 and all allocations under Article 5, all available proceeds distributable to the Partners as determined under Section 11.02 shall be distributed to all of the Partners (other than a Breaching Partner) pro rata in accordance with the Partners' positive Capital Account balances.

5.03 **Withholding.** The Partnership is authorized to withhold from distributions to a Partner and to pay over to a federal, state, local or non-United States government, any amounts required to be withheld pursuant to the Code, or any provisions of any other federal, state, local or non-United States law. Any amounts so withheld shall be treated as having been distributed to the applicable Partner for all purposes of this Agreement and shall be offset against the current or next amounts otherwise distributable to the applicable Partner.

5.04 **Allocations.**

(a) After giving effect to the special allocations set forth in Sections 5.05 and 5.06, for purposes of maintaining the Capital Accounts pursuant to Section 4.05 and for income tax purposes, except as provided in Section 5.03(b) and (c), each item of income, gain, loss, deduction and credit of the Partnership shall be allocated to the Partners in accordance with their respective Sharing Ratios.

(b) With respect to each period during which a Priority Interest is outstanding, each Additional Contribution Partner shall be allocated items of income and gain in an amount equal to the return that accrues with respect to that Additional Contribution Partner's Additional Contribution pursuant to Section 4.06(b)(i), and items of income and gain that would otherwise be allocable to the Non-Contributing Partner(s) shall be correspondingly reduced.

(c) For income tax purposes, income, gain, loss, and deduction with respect to property contributed to the Partnership by a Partner or revalued pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(f) shall be allocated among the Partners in a manner that takes into account the variation between the adjusted tax basis of such property and its book value, as required by Section 704(c) of the Code and Treasury Regulation Section 1.704-1(b)(4)(i). These allocations shall be made in such manner and utilizing such permissible tax elections as are determined by the Tax Matters Partner.

5.05 **Special Allocations.** The following special allocations shall be made in the following order:

(a) **Partnership Minimum Gain Chargeback.** Except as otherwise provided in Treasury Regulation Section 1.704-2(f), notwithstanding any other provision of this Article 5, if there is a net decrease in Partnership Minimum Gain during any fiscal year, each Partner shall be specially allocated items of Partnership income and gain for such fiscal year (and, if necessary, subsequent fiscal years) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain, determined in accordance with Treasury Regulation Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulation Sections 1.704-2(f)(6) and 1.704-2(j)(2). This Section 5.05(a) is intended to comply with the partnership minimum gain chargeback requirement in Treasury Regulation Section 1.704-2(f) and shall be interpreted and applied consistently therewith.

(b) **Partner Minimum Gain Chargeback.** Except as otherwise provided in Treasury Regulation Section 1.704-2(i)(4), notwithstanding any other provision of this Article 5, if there is a net decrease in Partner Minimum Gain attributable to a Partner Nonrecourse Debt during any fiscal year, any Partner with a share of that Partner Minimum Gain attributable to such a Partner Nonrecourse Debt (as determined under Treasury Regulation Section 1.704-2(i)(5)) as of the beginning of the year shall be allocated items of Partnership income and gain for such fiscal year (and, if necessary, subsequent fiscal years) in an amount equal to such Partner's share of the net decrease in Partner Minimum Gain, determined in accordance with Treasury Regulation Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be

allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulation Sections 1.704-2(f)(6) and 1.704-2(j)(2). This Section 5.05(b) is intended to comply with the partner minimum gain chargeback requirements in the Treasury Regulations and shall be interpreted and applied consistently therewith.

(c) **Qualified Income Offset.** In the event any Partner unexpectedly receives any adjustments, allocations, or distributions described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), (5), or (6), items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations, the Adjusted Capital Account Deficit as quickly as possible; provided, however, that an allocation pursuant to this Section 5.05(c) shall be made only if and to the extent that such Partner would have an Adjusted Capital Account Deficit after all other allocations provided in this Article 5 have been tentatively made as if this Section 5.05(c) were not in this Agreement. This Section 5.05(c) is intended to comply with the qualified income offset provision in Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted and applied consistently therewith.

(d) **Gross Income Allocation.** In the event any Partner has a deficit Capital Account at the end of any fiscal year that is in excess of the amount that such Partner is deemed to be obligated to restore pursuant to the penultimate sentences of Treasury Regulation Sections 1.704-2(g)(1) and 1.704-2(i)(5), each such Partner shall be specially allocated items of Partnership income and gain in an amount and manner sufficient to eliminate such deficit as quickly as possible; provided, however, that an allocation pursuant to this Section 5.05(d) shall be made only if and to the extent that such Partner would have a deficit Capital Account in excess of such sum after all other allocations provided in this Article 5 have been tentatively made as if Section 5.05(c) and this Section 5.05(d) were not in this Agreement.

(e) **Nonrecourse Deductions.** Nonrecourse Deductions for any fiscal year shall be specially allocated to the Partners in the manner determined by the Tax Matters Partner and each Partner's share of excess Nonrecourse Debt shall be in the same manner.

(f) **Partner Nonrecourse Deductions.** Partner Nonrecourse Deductions for any fiscal year shall be specially allocated to the Partner who bears the economic risk of loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulation Section 1.752-2. If more than one Partner bears the economic risk of loss for a Partner Nonrecourse Debt, any Partner Nonrecourse Deductions attributable to that Partner Nonrecourse Debt shall be allocated among the Partners according to the ratio in which they bear the economic risk of loss.

5.06 **Curative Allocations.** The allocations set forth in Section 5.05 (the "Regulatory Allocations") are intended to comply with certain requirements of the Treasury Regulations. It is the intent of the Partners that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Partnership income, gain, loss or deduction pursuant to this Section 5.06. Therefore, notwithstanding any other provision of this Agreement, the Regulatory Allocations shall be taken into account in allocating items of Partnership income, gain, loss and deduction among the Partners so that, to the extent possible, the net amount of such allocations of other items and the Regulatory Allocations to each Partner shall be equal to the net amount that would have been allocated to each such Partner pursuant to Section 5.01 if the Regulatory Allocations had not occurred.

5.07 **Varying Interests.** All items of income, gain, loss, deduction or credit shall be allocated, and all distributions shall be made, to the Persons shown on the records of the Partnership to have been Partners as of the last calendar day of the period for which the allocation or distribution is to be made. Notwithstanding the foregoing, if during any taxable year there is a change in any Partner's Sharing Ratio, the Partners agree that their allocable shares of items for the taxable year shall be determined on any method determined by the General Partner to be permissible under Code Section 706 and the related Treasury Regulations to take account of the Partners' varying Sharing Ratios.

**ARTICLE 6**  
**MANAGEMENT**

6.01        **Generally.** The management of the Partnership is fully vested in the General Partner. The General Partner has full power and authority to cause the Partnership to take any action, enter into any contract, borrow money, or do any thing else the General Partner determines, subject to the other provisions of this Agreement.

6.02        **Officers.** The General Partner may designate one or more Persons to be Officers of the Partnership. Any Officers so designated shall have such titles and, subject to the other provisions of this Agreement, have such authority and perform such duties as the General Partner may delegate to them and shall serve at the pleasure of the General Partner and report to the General Partner.

6.03        **Operations and Management Agreement.** Promptly after the Partnership's formation, the General Partner shall cause the Partnership to enter into an Operations and Management Agreement with the Operator on substantially similar terms to those on Exhibit C or such other terms as it may find acceptable (the "O&M Agreement"). Until the O&M Agreement is executed, the Operator may perform services, and shall be entitled to compensation, on the terms set forth on Exhibit D to this Agreement.

6.04        ***Conflicts of Interest.***

(a)        Until the end of the Term, the Partners shall not, and shall cause their Affiliates not to, develop, construct, own, acquire or operate natural gas storage facilities or oil or gas exploration or production within the area identified in Exhibit C to this Agreement. The provisions of this Section 6.04(a) shall continue to bind a Withdrawn Partner and its Affiliates until the third anniversary of such Withdrawal, but not thereafter. The Partners agree that the provisions of this Section 6.04(a) are necessary (A) to further the purposes, business and activities of the Partnership, and (B) to protect confidential and proprietary information regarding the Partnership, to which the Partners will have access pursuant to this Agreement. The Partners agree that no adequate remedy at law exists for a breach or threatened breach of any of the provisions of this Section 6.04(a), the continuation of which unremedied will cause the Partnership and the other Partners to suffer irreparable harm. Accordingly, the Partners agree that the Partnership and the other Partners shall be entitled, in addition to other remedies that may be available to them, to immediate injunctive relief from any breach of any of the provisions of this Section 6.04(a) and to specific performance of their rights hereunder, as well as to any other remedies available at law or in equity, pursuant to Section 10.04.

(b)        Subject to Sections 6.04(a), a Partner or an Affiliate of a Partner may engage in and possess interests in other business ventures of any and every type and description, independently or with others, including ones in competition with the Partnership and specifically including natural gas storage and oil and gas exploration and production, with no obligation to offer to the Partnership, any other Partner or any Affiliate of another Partner the right to participate therein. Subject to Sections 6.04(a), the Partnership may transact business with any Partner or Affiliate of a Partner, provided the terms of those transactions are approved by the General Partner or expressly contemplated by this Agreement or the O&M Agreement. Without limiting the generality of the foregoing, the Partners recognize and agree that their respective Affiliates currently, or in the future may, engage in various activities involving natural gas and electricity marketing and trading (including futures, options, swaps, exchanges of future positions for physical deliveries and commodity trading), gathering, processing, storage, transportation and distribution, electric generation, development and ownership, as well as other commercial activities related to natural gas and that these and other activities by Partners' Affiliates may be based on natural gas that is stored in the Facilities or otherwise made possible or more profitable by reason of the Partnership's activities (herein referred to as "Affiliate's Outside Activities"). Subject to Sections 6.04(a), (i) no Affiliate of a Partner shall be restricted in its right to conduct, individually or jointly with others, for its own account any Affiliate's Outside Activities, and (ii) no Partner or its Affiliates shall have any duty or obligation, express or implied, fiduciary or otherwise, to account to, or to share the results or profits of such Affiliate's Outside Activities with, the Partnership, any other Partner or any Affiliate of any other Partner, by reason of such Affiliate's Outside Activities. The provisions of this Section 6.04(b) constitute an agreement to modify or eliminate fiduciary duties pursuant to the provisions of Section 17-1101 of the Act.

6.05 **Indemnification for Breach of Agreement.** Each Partner shall indemnify, protect, defend, release and hold harmless each other Partner, its Affiliates, and its and their respective directors, officers, trustees, employees and agents from and against any Claims asserted by or on behalf of any Person (including another Partner) that result from a breach by the indemnifying Partner of this Agreement; provided, however, that this Section 6.05 shall not (a) apply to any Claim or other matter for which a Partner has no liability or duty, or is indemnified or released, pursuant to Section 6.04 or pursuant to the terms of any Storage Agreements or (b) hold the indemnified Person harmless from special, consequential or exemplary damages, except in the case where the indemnified Person is legally obligated to pay such damages to another Person.

6.06 **General Regulatory Matters.** Each Partner shall:

(a) cooperate fully with the Partnership, the General Partner and the Operator in securing appropriate Authorizations for the development, construction and operation of the Facilities, including supporting all applications to the FERC, and in connection with any reports prescribed by any other Governmental Authority having jurisdiction over the Partnership;

(b) join in any eminent domain takings by the Partnership, to the extent, if any, required by Law;

(c) devote such efforts as shall be reasonable and necessary to develop and promote the Facilities for the benefit of the Partnership, taking into account the Partner's Sharing Ratio, resources and expertise; and

(d) cooperate fully with the Partnership, the General Partner and the Operator to ensure compliance with FERC Standards of Conduct, if applicable.

6.07 **Disclaimer Of Duties.** WITH RESPECT TO ANY ACTION, CONSENT OR APPROVAL, EACH PARTNER, INCLUDING THE GENERAL PARTNER AND THE "REPRESENTATIVES" (AS DEFINED IN THE GP LLC AGREEMENT), MAY TAKE OR NOT TAKE THE ACTION, OR GRANT OR WITHHOLD CONSENT OR APPROVAL, IN ITS SOLE DISCRETION. THE PROVISIONS OF THIS SECTION 6.07 SHALL APPLY NOTWITHSTANDING THE NEGLIGENCE, GROSS NEGLIGENCE, WILLFUL MISCONDUCT, STRICT LIABILITY OR OTHER FAULT OR RESPONSIBILITY OF ANY PARTNER AND THE "REPRESENTATIVES" (AS DEFINED IN THE GP LLC AGREEMENT).

## ARTICLE 7 TAXES

7.01 **Tax Returns.** In accordance with the O&M Agreement, the Operator is to prepare and timely file (on behalf of the Partnership) all federal, state and local tax returns required to be filed by the Partnership. Each Partner shall furnish to the Operator all pertinent information in its possession relating to the Partnership's operations that is necessary to enable the Partnership's tax returns to be timely prepared and filed. The Partnership shall bear the costs of the preparation and filing of its returns.

7.02 **Tax Elections.** The Partnership shall make the following elections on the appropriate tax returns:

(a) to adopt as the Partnership's fiscal year the calendar year;

(b) to adopt the accrual method of accounting;

(c) if a distribution of the Partnership's property as described in Code Section 734 occurs or upon a transfer of a Partnership Interest as described in Code Section 743 occurs, on request by notice from any Partner, to elect, pursuant to Code Section 754, to adjust the basis of the Partnership's properties;

(d) to elect to amortize the organizational expenses of the Partnership ratably over a period of 60 months as permitted by Section 709(b) of the Code;

- (e) to elect to depreciate or amortize the assets of the Partnership using the most rapid means available; and
- (f) any other election the General Partner may deem appropriate.

Neither the Partnership nor any Partner shall make an election for the Partnership to be excluded from the application of the provisions of subchapter K of chapter 1 of subtitle A of the Code or any similar provisions of applicable state law and no provision of this Agreement shall be construed to sanction or approve such an election.

7.03 ***Tax Matters Partner.***

(a) The General Partner shall serve as the “tax matters partner” of the Partnership pursuant to Section 6231(a)(7) of the Code (the “Tax Matters Partner”). The Tax Matters Partner shall take such action as may be necessary to cause to the extent possible each other Partner to become a “notice partner” within the meaning of Section 6223 of the Code. The Tax Matters Partner shall inform each other Partner of all significant matters that may come to its attention in its capacity as Tax Matters Partner by giving notice thereof on or before the fifth Business Day after becoming aware thereof and, within that time, shall forward to each other Partner copies of all significant written communications it may receive in that capacity.

(b) The Tax Matters Partner shall provide any Partner, upon request, access to accounting and tax information and schedules as shall be necessary for the preparation by such Partner of its income tax returns and such Partner’s tax information reporting requirements.

(c) Any cost or expense incurred by the Tax Matters Partner in connection with its duties, including the preparation for or pursuance of administrative or judicial proceedings, shall be paid by the Partnership.

(d) The Tax Matters Partner shall not bind any Partner to a settlement agreement without obtaining the consent of such Partner. Any Partner that enters into a settlement agreement with respect to any Partnership item (as described in Code Section 6231(a)(3)) shall notify the other Partners of the settlement agreement and its terms on or before the 90th Day after the date of the settlement.

(e) No Partner shall file a request pursuant to Code Section 6227 for an administrative adjustment of Partnership items for any taxable year without first notifying the other Partners. If the General Partner consents to the requested adjustment, the Tax Matters Partner shall file the request for the administrative adjustment on behalf of the Partners. If such consent is not obtained on or before the 30th Day after such notice, or within the period required to timely file the request for administrative adjustment, if shorter, any Partner, including the Tax Matters Partner, may file a request for administrative adjustment on its own behalf. Any Partner intending to file a petition under Code Sections 6226, 6228 or other Code Section with respect to any item involving the Partnership shall notify the other Partners of such intention and the nature of the contemplated proceeding. In the case where the Tax Matters Partner is the Partner intending to file such petition on behalf of the Partnership, such notice shall be given within a reasonable period of time to allow the other Partners to participate in the choosing of the forum in which such petition will be filed.

(f) If any Partner intends to file a notice of inconsistent treatment under Code Section 6222(b), that Partner shall give reasonable notice under the circumstances to the other Partners of its intent and the manner in which the Partner’s intended treatment of an item is (or may be) inconsistent with the treatment of that item by the other Partners.

**ARTICLE 8**  
**BOOKS, RECORDS, REPORTS, AND BANK ACCOUNTS**

8.01 ***Maintenance of Books; Reports.*** The Partners acknowledge that the O&M Agreement will include provisions for the maintenance of the Partnership’s books and records and the preparation of various reports.

8.02 **Bank Accounts.** Funds of the Partnership shall be deposited in such banks or other depositories as shall be designated from time to time by the General Partner. All withdrawals from any such depository shall be made only as authorized by the General Partner and shall be made only by check, wire transfer, debit memorandum or other written instruction.

## ARTICLE 9 WITHDRAWAL

9.01 **No Right of Withdrawal.** A Partner has no power or right voluntarily to Withdraw from the Partnership.

9.02 **Deemed Withdrawal.** A Limited Partner is deemed to have Withdrawn from the Partnership upon the occurrence of any of the following events:

- (a) there occurs an event that makes it unlawful for the Limited Partner to continue to be a Partner;
- (b) the Limited Partner becomes Bankrupt;
- (c) the Limited Partner commences liquidation or winding up;
- (d) notice from the General Partner if the Limited Partner commits a Default and the Default has not been cured; or
- (e) the Limited Partner and/or any of its Affiliates has withdrawn as a Partner of the General Partner under the GP LLC Agreement.

9.03 **Effect of Withdrawal.** A Limited Partner that is deemed to have Withdrawn under Section 9.02 (a “Withdrawn Partner”), must comply with the following requirements in connection with its Withdrawal:

- (a) The Withdrawn Partner ceases to be a Partner immediately upon the occurrence of the applicable Withdrawal event.
- (b) The Withdrawn Partner shall not be entitled to receive any distributions from the Partnership except as set forth in Section 9.03(e), and it shall not be entitled to exercise any consent rights or to receive any further information (or access to information) from the Partnership. The Sharing Ratio of that Partner shall not be taken into account in calculating the Sharing Ratios of the Partners for any purposes. This Section 9.03(b) shall also apply to a Breaching Partner; but if a Breaching Partner cures its breach during the applicable cure period, then any distributions that were withheld from that Partner shall be paid to it, without interest.
- (c) The Withdrawn Partner must pay to the Partnership all amounts it owes to the Partnership.
- (d) The Withdrawn Partner shall remain obligated for all liabilities it may have under this Agreement or otherwise with respect to the Partnership that accrue prior to the Withdrawal.
- (e) From the date of the Withdrawal to the date of the payment, the former Capital Account balance of the Withdrawn Partner shall be recorded as a contingent obligation of the Partnership, and not as a Capital Account, until payment is made. The rights of a Withdrawn Partner under this Section 9.03(e) shall (i) be subordinate to the rights of any other creditor of the Partnership, (ii) not include any right on the part of the Withdrawn Partner to receive any interest (except as may otherwise be provided in the evidence of any indebtedness of the Partnership owed to such Withdrawn Partner) or other amounts with respect thereto; (iii) not require the Partnership to make any distribution (the Withdrawing Partner’s rights under this Section 9.03(e) being limited to receiving such portion of distributions as the General Partner may, in its Sole Discretion, decide to cause the Partnership to make); (iv) not

require any Partner to make a Capital Contribution or a loan to permit the Partnership to make a distribution or otherwise to pay the Withdrawing Partner; and (v) be treated as a liability of the Partnership for purposes of Section 11.02. Subject to the foregoing, payment to the Withdrawn Partner of its Capital Account balance shall be made upon the earliest of: (A) such time as the General Partner determines in its Sole Discretion to make such payment, (B) the later of (I) two years from the date of Withdrawal, and (II) ten years from the date that the Initial Facilities are placed into commercial operation, and (C) the dissolution of the Partnership. Except as set forth in this Section 9.03(e), a Withdrawn Partner shall not be entitled to receive any return of its Capital Contributions or other payment from the Partnership in respect of its Partnership Interest.

(f) The Sharing Ratio of the Withdrawn Partner shall be allocated among the remaining Partners in the proportion that each Partner's Sharing Ratio bears to the total Sharing Ratio of all remaining Partners, or in such other proportion as the Partners may unanimously agree.

## **ARTICLE 10**

### **DISPUTE RESOLUTION**

10.01 ***Disputes.*** This Article 10 shall apply to any dispute arising under or related to this Agreement (whether arising in contract, tort or otherwise, and whether arising at law or in equity), including (a) any dispute regarding the construction, interpretation, performance, validity or enforceability of any provision of this Agreement or whether any Person is in compliance with, or breach of, any provisions of this Agreement, and (b) the applicability of this Article 10 to a particular dispute. Any matter that is expressly stated herein to be determinable by arbitration may be so determined pursuant to this Article 10 and if approval, consent, determination or other decision must, under the terms of this Agreement, be made (or withheld) in accordance with a standard other than Sole Discretion (such as a reasonableness standard), then the issue of whether such standard has been satisfied may be a dispute to which this Article 10 applies. Any dispute to which this Article 10 applies is referred to herein as a "Dispute." With respect to a particular Dispute, each Partner that is a party to such Dispute is referred to herein as a "Disputing Partner." The provisions of this Article 10 shall be the exclusive method of resolving Disputes.

10.02 ***Negotiation to Resolve Disputes.*** If a Dispute arises, any Disputing Partner may initiate the dispute resolution procedure under this Article 10 by notifying the other Disputing Partners (a "Dispute Notice"), after which the Disputing Partners shall attempt to resolve such Dispute through the following procedure:

(a) first, within 7 Days after receipt of the Dispute Notice, the Representatives of the Disputing Partners shall meet (whether by phone or in person) in a good faith attempt to resolve the Dispute;

(b) second, if the Dispute is still unresolved, then after the 20th Day following the commencement of the negotiations described in Section 10.02(a) but in no event later than the 30th Day after receipt of the Dispute Notice, the chief executive officer (or his designee) of the Parent of each Disputing Partner shall meet (whether by phone or in person) in a good faith attempt to resolve the Dispute; and

(c) third, if the Dispute is still unresolved, then after the 10th Day following the commencement of the negotiations described in Section 10.02(b), any Disputing Party may submit the Dispute for resolution under the Federal Arbitration Act by binding arbitration following the Commercial Arbitration Rules of the American Arbitration Association (or, if that Association has ceased to exist, its principal successor) (the "AAA") then in effect, including its evidentiary and procedural rules (excluding rules governing the payment of arbitration, administrative or other fees or expenses to the Arbitrator(s) or the AAA), to the extent that such rules do not conflict with the terms of this Agreement, by notifying the other Disputing Partners (an "Arbitration Notice") within the applicable limitation period provided by law.

#### 10.03 ***Selection of Arbitrator.***

(a) For any case in which any claim, or combination of claims, is less than or equal to \$2,000,000, the arbitration shall be heard by a sole Arbitrator. Any case in which any claim, or combination of claims, exceeds \$2,000,000 will be subject to the AAA's Large, Complex Case Procedures and decided by the majority of a panel of three neutral Arbitrators. The Arbitrator(s) shall be selected in accordance with this Section 10.03.

(b) For arbitrations conducted by a single Arbitrator, the Disputing Partner that submits a Dispute to arbitration shall designate a proposed neutral sole Arbitrator in its Arbitration Notice. If any other Disputing Partner objects to a proposed sole Arbitrator, it may, on or before the tenth Day following delivery of the Arbitration Notice, notify all of the other Disputing Partners of its objection. All of the Disputing Partners shall attempt to agree upon a mutually acceptable sole Arbitrator. If they have not done so, then after the 20th Day following delivery of the notice described in the immediately preceding sentence, any Disputing Partner may request the AAA to designate the sole Arbitrator. For arbitrations conducted by a panel of three Arbitrators, the Disputing Partner initiating arbitration shall nominate one Arbitrator at the time it initiates arbitration. The other Disputing Partner(s) shall collectively nominate one Arbitrator on or before the 10th Day after receiving the Arbitration Notice. The two Arbitrators shall appoint a third, neutral Arbitrator. All arbitrators shall be competent and experienced in matters involving the gas storage business in the United States, with at least ten years of legal, engineering, or business experience in the gas industry, and shall be impartial and independent of the Partners (and the other arbitrators, in the case of arbitrations conducted by a panel of three arbitrators, except for prior arbitrations) (each an “Arbitrator”). Each Disputing Partner shall pay for the expenses incurred by the Arbitrator it appoints, if applicable, and the costs of the sole Arbitrator or the third Arbitrator shall be divided equally among the Disputing Partners. If any Arbitrator so chosen shall die, resign or otherwise fail or becomes unable to serve as Arbitrator, a replacement Arbitrator shall be chosen in accordance with this Section 10.03.

10.04 **Conduct of Arbitration.** The Arbitrator(s) shall expeditiously (and, if possible, on or before the 90th Day after the Arbitrator(s)’s selection) hear and decide all matters concerning the Dispute. Any arbitration hearing shall be held in Wilmington, Delaware. Except as expressly provided to the contrary in this Agreement, the Arbitrator(s) shall have the power (a) to gather such materials, information, testimony and evidence as it deems relevant to the dispute before it (and each Partner will provide such materials, information, testimony and evidence requested by the Arbitrator(s), except to the extent any information so requested is proprietary, subject to a third-party confidentiality restriction or to an attorney-client or other privilege) and (b) to grant injunctive relief and enforce specific performance. If they deem necessary, the Arbitrator(s) may propose to the Disputing Partners that one or more other experts be retained to assist it in resolving the Dispute. The retention of such other experts shall require the unanimous consent of the Disputing Partners, which shall not be unreasonably withheld. Each Disputing Partner, the Arbitrator(s) and any proposed expert shall disclose to the other Disputing Partners any business, personal or other relationship or affiliation that may exist or may have existed between the Disputing Partner (or the Arbitrator(s)) and the proposed expert; and any Disputing Partner may disapprove of the proposed expert on the basis of that relationship or affiliation. The decision of the Arbitrator(s) (which shall be rendered in writing) shall be final, nonappealable and binding upon the Disputing Partners and may be enforced in any court of competent jurisdiction; provided, however, that the Partners agree that the Arbitrator(s) and any court enforcing the award of the Arbitrator(s) shall not have the right or authority to award punitive, special, consequential, indirect, exemplary or similar damages to any Disputing Partner. The responsibility for paying the costs and expenses of the arbitration, including compensation to any experts retained by the Arbitrator(s), shall be divided equally among the Disputing Partners. Each Disputing Partner shall be responsible for the fees and expenses of its respective counsel, consultants and witnesses, unless the Arbitrator(s) determines that compelling reasons exist for allocating all or a portion of those costs and expenses to one or more other Disputing Partners.

10.05 **Consolidation.** While any matter is before the Arbitrator under this Article 10, if any of the Disputing Partners party to the arbitration, or, if applicable, their Affiliates desire to bring a matter before an arbitrator under the GP LLC Agreement, the matter shall be consolidated with the matter under this Agreement if, but only if, the Disputing Partners under this Agreement and the Persons bringing the matter before an arbitrator under the GP LLC Agreement are the same Persons or Affiliates of those Persons.

## ARTICLE 11 DISSOLUTION, WINDING UP AND TERMINATION

11.01 **Dissolution.** The Partnership shall dissolve and its affairs shall be wound up on the first to occur of the following events (each a “Dissolution Event”):

- (a) notice from the General Partner to the Limited Partners dissolving the Partnership;
- (b) entry of a decree of judicial dissolution of the Partnership under Section 17-802 of the Act;
- (c) the Disposition or abandonment of all or substantially all of the Partnership's business and assets; or
- (d) an event that makes it unlawful for the business of the Partnership to be carried on.

11.02 ***Winding Up and Termination.***

(a) On the occurrence of a Dissolution Event, the Operator shall serve as liquidator under the supervision of the General Partner. The liquidator shall proceed diligently to wind up the affairs of the Partnership and make final distributions as provided herein and in the Act. The costs of winding up shall be borne as a Partnership expense. Until final distribution, the liquidator shall continue to operate the Partnership properties with all of the power and authority of the Partners. The steps to be accomplished by the liquidator are as follows:

(i) as promptly as possible after dissolution and again after final winding up, the liquidator shall cause a proper accounting to be made by a recognized firm of certified public accountants of the Partnership's assets, liabilities and operations through the last calendar day of the month in which the dissolution occurs or the final winding up is completed, as applicable;

(ii) the liquidator shall discharge from Partnership funds all of the indebtedness of the Partnership and other debts, liabilities and obligations of the Partnership (including all expenses incurred in winding up and any loans described in Section 4.02) or otherwise make adequate provision for payment and discharge thereof (including the establishment of a cash escrow fund for contingent liabilities in such amount and for such term as the liquidator may reasonably determine); and

(iii) all remaining assets of the Partnership shall be distributed to the Partners as follows:

(A) the liquidator may sell any or all Partnership property, including to Partners, and any resulting gain or loss from each sale shall be computed and allocated to the Capital Accounts of the Partners in accordance with the provisions of Article 5;

(B) with respect to all Partnership property that has not been sold, the fair market value of that property shall be determined and the Capital Accounts of the Partners shall be adjusted to reflect the manner in which the unrealized income, gain, loss and deduction inherent in property that has not been reflected in the Capital Accounts previously would be allocated among the Partners if there were a taxable disposition of that property for the fair market value of that property on the date of distribution; and

(C) Partnership property (including cash) shall be distributed among the Partners in accordance with Section 5.02; and those distributions shall be made by the end of the taxable year of the Partnership during which the liquidation of the Partnership occurs (or, if later, the 90th Day after the date of the liquidation).

(b) The distribution of cash or property to a Partner in accordance with the provisions of this Section 11.02 constitutes a complete return to the Partner of its Capital Contributions and a complete distribution to the Partner of its Partnership Interest and all the Partner's property and constitutes a compromise to which all Partners have consented pursuant to Section 17-502(b) of the Act. To the extent that a Partner returns funds to the Partnership, it has no claim against any other Partner for those funds.

(c) No dissolution or termination of the Partnership shall relieve a Partner from any obligation to the extent such obligation has accrued as of the date of such dissolution or termination. Upon such termination, any books and records of the Partnership that there is a reasonable basis for believing will ever be needed again shall be furnished to the liquidator, which shall keep such books and records (subject to review by any Person that was a

Partner at the time of dissolution) for a period at least three years. At such time as the liquidator no longer agrees to keep such books and records, it shall offer the Persons who were Partners at the time of dissolution the opportunity to take over such custody, shall deliver such books and records to such Persons if they elect to take over such custody and may destroy such books and records if they do not so elect. Any such custody by such Persons shall be on such terms as they may agree upon among themselves.

11.03        **Deficit Capital Accounts.** No Partner will be required to pay to the Partnership, to any other Partner or to any third party any deficit balance that may exist from time to time in another Partner's Capital Account.

11.04        **Certificate of Cancellation.** On completion of the distribution of Partnership assets as provided herein, the Partners (or such other Person or Persons as the Act may require or permit) shall file a certificate of cancellation with the Secretary of State of the State of Delaware, cancel any other filings made pursuant to Section 2.05, and take such other actions as may be necessary to terminate the existence of the Partnership. Upon the filing of such certificate of cancellation, the existence of the Partnership shall terminate (and the Term shall end), except as may be otherwise provided by the Act or other applicable Law.

## **ARTICLE 12 GENERAL PROVISIONS**

12.01        **Offset.** Whenever the Partnership is to pay any sum to any Partner, any amounts that Partner owes the Partnership may be deducted from that sum before payment.

12.02        **Notices.** Except as expressly set forth to the contrary in this Agreement, all notices, requests or consents provided for or permitted to be given under this Agreement must be in writing and must be delivered to the recipient in person, by courier or mail or by facsimile or other electronic transmission. A notice, request or consent given under this Agreement is effective on receipt by the Partner to receive it; provided, however, that a facsimile or other electronic transmission that is transmitted after the normal business hours of the recipient shall be deemed effective on the next Business Day. All notices, requests and consents to be sent to a Partner must be sent to or made at the addresses given for that Partner on Exhibit A or in the instrument described in Section 3.04, or such other address as that Partner may specify by notice to the other Partners. Any notice, request or consent to the Partnership must be given to all of the Partners. Whenever any notice is required to be given by Law, the Certificate or this Agreement, a written waiver thereof, signed by the Person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

12.03        **Entire Agreement; Superseding Effect.** This Agreement, the GP LLC Agreement, and the O&M Agreement constitute the entire agreement of the Partners and their Affiliates relating to the Partnership and the transactions contemplated hereby and supersede all provisions and concepts contained in all prior agreements.

12.04        **Effect of Waiver or Consent.** Except as otherwise provided in this Agreement, a waiver or consent, express or implied, to or of any breach or default by any Partner in the performance by that Partner of its obligations with respect to the Partnership is not a consent or waiver to or of any other breach or default in the performance by that Partner of the same or any other obligations of that Partner with respect to the Partnership. Except as otherwise provided in this Agreement, failure on the part of a Partner to complain of any act of any Partner or to declare any Partner in default with respect to the Partnership, irrespective of how long that failure continues, does not constitute a waiver by that Partner of its rights with respect to that default until the applicable statute-of-limitations period has run.

12.05        **Amendment or Restatement.** This Agreement or the Certificate may be amended or restated only by a written instrument executed (or, in the case of the Certificate, approved) by all Partners.

12.06        **Binding Effect.** Subject to the restrictions on Dispositions set forth in this Agreement, this Agreement is binding on and shall inure to the benefit of the Partners and their respective successors and permitted assigns.

12.07 **Governing Law; Severability.** THIS AGREEMENT IS GOVERNED BY AND SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF DELAWARE, EXCLUDING ANY CONFLICT-OF-LAWS RULE OR PRINCIPLE THAT MIGHT REFER THE GOVERNANCE OR THE CONSTRUCTION OF THIS AGREEMENT TO THE LAW OF ANOTHER JURISDICTION. WITHOUT LIMITING THE PROVISIONS OF ARTICLE 10, A PARTNER MAY BRING AN ACTION ARISING UNDER OR RELATING TO THIS AGREEMENT, IF AT ALL, ONLY IN COURTS OF THE STATE OF DELAWARE OR (IF IT HAS JURISDICTION) THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF DELAWARE. In the event of a direct conflict between the provisions of this Agreement and any mandatory, non-waivable provision of the Act, such provision of the Act shall control. If any provision of the Act provides that it may be varied or superseded in a limited partnership agreement (or otherwise by agreement of the partners of a limited partnership), that provision shall be deemed superseded and waived in its entirety if this Agreement contains a provision addressing the same issue or subject matter. If any provision of this Agreement or the application thereof to any Partner or circumstance is held invalid or unenforceable to any extent, (a) the remainder of this Agreement and the application of that provision to other Partners or circumstances is not affected thereby, and (b) the Partners shall negotiate in good faith to replace that provision with a new provision that is valid and enforceable and that puts the Partners in substantially the same economic, business and legal position as they would have been in if the original provision had been valid and enforceable.

12.08 **Further Assurances.** In connection with this Agreement and the transactions it contemplates, each Partner shall execute and deliver any additional documents and instruments and perform any additional acts that may be necessary or appropriate to effectuate and perform the provisions of this Agreement and those transactions; provided, however, that this Section 12.08 shall not obligate a Partner to furnish guarantees or other credit supports by such Partnership's Parent or other Affiliates.

12.09 **Waiver of Certain Rights.** Each Partner irrevocably waives any right it may have to maintain any action for dissolution of the Partnership or for partition of the property of the Partnership.

12.10 **Counterparts.** This Agreement may be executed in any number of counterparts with the same effect as if all signing parties had signed the same document. All counterparts shall be construed together and constitute the same instrument.

[Remainder of page intentionally left blank. Signature page follows.]

IN WITNESS WHEREOF, the Partners have executed this Agreement as of the date first set forth above.

**PARTNERS:**

**GENERAL PARTNER**

**STECKMAN RIDGE GP, LLC**

By: Spectra Energy Transmission Services, LLC, partner

By:           /s/ Mark Fiedorek  
Name:           Mark Fiedorek  
Title:   Vice President

By: NJR Steckman Ridge Storage Company, partner

By:           /s/ Richard R. Gardner  
Name: Richard R. Gardner  
Title:   Vice President

**LIMITED PARTNERS:**

**SPECTRA ENERGY TRANSMISSION RESOURCE, LLC**

By:           /s/ Mark Fiedorek  
Name:           Mark Fiedorek  
Title:   Vice President

**NJR STECKMAN RIDGE STORAGE COMPANY**

By:           /s/ Glenn C. Lockwood  
Name: Glenn C. Lockwood  
Title: Senior Vice President and  
      Chief Financial Officer

*[Signature page to Limited Partnership Agreement of Steckman Ridge, LP]*

**EXHIBIT A****PARTNERS**

| <b>Name and Address</b>                                                                                                                                                                                                                                      | <b>Sharing Ratio</b> | <b>Parent</b>                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------------------|
| Steckman Ridge GP, LLC<br>5400 Westheimer Court<br>Houston, Texas 77056-5310<br>Attn: Christine M. Pallenik<br>Fax: (713) 386-4694<br><br>With a copy to:<br><br>1415 Wyckoff Road<br>Wall, NJ 07719<br>Attn: William P. Scharfenberg<br>Fax: (732) 938-1226 | 1%                   | N/A                              |
| Spectra Energy Transmission Resource, LLC<br>5400 Westheimer Court<br>Houston, Texas 77056-5310<br>Attn: Christine M. Pallenik<br>Fax: (713) 386-4694                                                                                                        | 49.5%                | Spectra Energy Corp              |
| NJR Steckman Ridge Storage Company<br>1415 Wyckoff Road<br>Wall, NJ 07719<br>Attn: William P. Scharfenberg<br>Fax: (732) 938-1226                                                                                                                            | 49.5%                | New Jersey Resources Corporation |

## **EXHIBIT B**

### **INITIAL FACILITIES**

A natural gas storage facility with an expected working capacity of approximately 10.3 billion cubic feet, located within the area defined on Exhibit C to this Agreement, which facility will include:

- New wells and the conversion of 5 existing wells to injection and withdrawal wells
- A gathering system comprised of primarily of NPS 6, 8 and 16 pipe.
- A station comprised of a driver and compression, dehydration, separator, heater, cooler, slug catcher, buildings, measurement and regulation.
- Base gas

## **EXHIBIT C**

### **NON-COMPETITION AREA**

The following areas, from the surface to all depths:

- The area inside the brown line on Exhibit F to the PSA
- Any shaded tracts on Exhibit F to the PSA
- Any other leases conveyed to the Partnership at the Closing under the PSA

## EXHIBIT D

### O&M AGREEMENT

|                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b><i>Parties</i></b>                                   | The Partnership, the General Partner, and the Operator                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b><i>Term</i></b>                                      | Through the Term of the Partnership subject to early termination as provided below                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b><i>Summary of Services</i></b>                       | <ul style="list-style-type: none"><li>· Development of the Initial Facilities</li><li>· Direct Operation and Maintenance of Facilities</li><li>· Gas Control and Regulatory Services</li><li>· Business Development and Marketing</li><li>· Accounting Services</li><li>· FERC Regulatory Requirements and Filings</li></ul>                                                                                                                                                                                                                                                                                                                                                                   |
| <b><i>Development of the Initial Facilities</i></b>     | <p>The Operator shall manage the development, application and agency/commission approval process for the construction and operation of the Initial Facilities</p> <p>The Operator may enter into design, construction, equipment procurement, maintenance, and service agreements in the name of the Partnership within such guidelines as the Partnership may establish from time to time or as the Partnership otherwise may approve.</p>                                                                                                                                                                                                                                                    |
| <b><i>Direct Operation and Maintenance Services</i></b> | <p>The Operator shall manage the day-to-day direct operation and maintenance of the Facilities, including managing supplies and consumables; property and lease commitments; communications; and insurance.</p> <p>In conducting operations and maintenance, the Operator may change the physical Facilities; provided, however, the Partnership must approve any significant reconfiguration of the Facilities.</p> <p>The Operator may enter into design, construction, equipment procurement, maintenance, and service agreements in the name of the Partnership within such guidelines as the Partnership may establish from time to time or as the Partnership otherwise may approve.</p> |
| <b><i>Gas Control and Regulatory Services</i></b>       | The Operator shall manage the gas control operations of the Facilities including Gas Control and Gas Management Services; Legal; and Regulatory. This will also include managing nominations and allocations; planning and scheduling withdrawals and injections as well as managing the FERC posting requirements on Operator's LINK system. Regulatory strategies and tariff filings will be completed within such guidelines as the Partnership may establish from time to time or as the Partnership otherwise may approve.                                                                                                                                                                |
| <b><i>Business Development and Marketing</i></b>        | The Operator shall negotiate and, on behalf of the Partnership, execute and deliver Storage Agreements within such guidelines as the Partnership may establish from time to time or as the Partnership otherwise may approve. The Operator also shall oversee the performance of Storage Agreement and, on behalf of the Partnership, exercise the Partnership's rights under Storage Agreements.                                                                                                                                                                                                                                                                                              |
| <b><i>Accounting Services</i></b>                       | The Operator shall prepare the following reports and other materials for the Partnership and, where applicable, the General Partner:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

- Monthly balance sheets, income statements, and cash flow statements
- Quarterly balance sheets, income statements, and cash flow statements
- Annual balance sheets, income statements, and cash flow statements (NJR shall coordinate the audit of those statements)
- Federal, state and local income tax returns as appropriate
- Proposed capital and operating budgets for the Partnership, to be approved by the General Partner as provided in the GP LLC Agreement

The Operator also shall receive all funds in the name of the Partnership, deposit them in bank or other accounts of the Partnership or the General Partner (as applicable), and from those funds pay all amounts the Partnership or the General Partner (as applicable) owes to third parties.

### ***Fees for Services; Cost Reimbursement***

The Operator shall be paid the following fees for its services:

- The Partnership shall pay the Operator a fixed monthly fee (for reimbursement of reasonable overhead costs) plus reimbursement for particular services or expenses . Requests for reimbursement shall be supported with appropriate detail.
- On behalf of the General Partner the Operator will prepare an analysis of fair market value of these services in support of a review of the fees every 3 years. This analysis will be subject to review and comment by NJR. Service fees shall be subject to change based on the results of such analysis.
- NJR shall have the right to audit Operator's accounts and records relating to the Partnership.

The Operator is not responsible for the fees or expenses of the Partnership's or the General Partner's auditors, legal counsel, engineering or design firms or other third parties providing services [except to the extent explicitly noted above].

### ***Partnership Decisions***

The General Partner is authorized to make all decisions on behalf of the Partnership under the O&M Agreement.

### ***Early Termination***

The Operator on the one hand, and the Partnership and the General Partner on the other, may terminate the Agreement:

- If the other party has failed to make payments of more than \$1,000,000 in the aggregate and those amounts have been outstanding more than 30 days
- If the other party fails to perform any material obligations and that failure remains unremedied more than 30 days after notice from the terminating party
- Sale of the Partnership or its assets, or the dissolution of the Partnership
- Other standard termination events, such as bankruptcy or insolvency of the Operator

### ***Nature of Services***

The Operator is performing its services as an independent contractor and (other than as specifically authorized) not as an agent of the Partnership or the Company. The O&M Agreement shall obligate the Operator to perform its services in accordance with budgetary and other guidelines specified by the Partnership. The Operator shall operate the Facilities as a reasonable and prudent operator. Provided the Operator conducts its activities as just described and

has otherwise complied with the O&M Agreement, the Partnership shall indemnify the Operator, its Affiliates, and their respective officers, employees, and agents from and against all liabilities they may incur in connection with or arising out of the O&M Agreement. In the absence of intentional misconduct, the Operator's liability is limited to the amount of fees for its services.

***Miscellaneous***

The O&M Agreement will include confidentiality, conflicts, dispute resolution and other provisions similar to those in Sections 3.06 and 6.04 and Articles 10 and 12 of the Limited Partnership Agreement of the Partnership.

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Laurence M. Downes, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of New Jersey Resources Corporation;
- (2) Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Quarterly Report;
- (4) The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-f15(f) and 15d-15(f) for the Registrant and have:
  - a.) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
  - b.) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c.) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation;
  - d.) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to adversely affect, the Registrant's internal control over financial reporting; and
- 5) The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
  - a.) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b.) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 2, 2007

By: /s/ Laurence M. Downes  
Laurence M. Downes  
Chairman & Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Glenn C. Lockwood, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of New Jersey Resources Corporation;
- 2) Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Quarterly Report;
- 4) The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-f15(f) and 15d-15(f) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation;
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to adversely affect, the Registrant's internal control over financial reporting; and
- 5) The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 2, 2007

By: /s/ Glenn C. Lockwood  
Glenn C. Lockwood  
Senior Vice President, Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Laurence M. Downes, hereby certifies as follows:

- (a) I am the Chief Executive Officer of New Jersey Resources Corporation (the “Company”);
- (b) To the best of my knowledge, the Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2007 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (c) To the best of my knowledge, based upon a review of the Report, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

NEW JERSEY RESOURCES CORPORATION

Date: May 2, 2007

By: /s/ Laurence M. Downes  
Laurence M. Downes  
Chairman & Chief Executive Officer

This certificate accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Glenn C. Lockwood, hereby certifies as follows:

- (a) I am the Chief Financial Officer of New Jersey Resources Corporation (the “Company”);
- (b) To the best of my knowledge, the Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2007 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (c) To the best of my knowledge, based upon a review of the Report, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

NEW JERSEY RESOURCES CORPORATION

Date: May 2, 2007

By: /s/ Glenn C. Lockwood  
Glenn C. Lockwood  
Senior Vice President Chief Financial Officer

This certificate accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.