

NEW JERSEY RESOURCES CORP
Form 10-Q
February 03, 2016

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

FORM 10 Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2015
OR

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 1480
(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)

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

Yes: No:

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes: No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer: Accelerated filer:

Non-accelerated filer:
(Do not check if a smaller
reporting company)

Smaller reporting company:

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

Yes: No:

The number of shares outstanding of \$2.50 par value Common Stock as of February 1, 2016 was 85,923,516.

New Jersey Resources Corporation

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GLOSSARY OF KEY

TERMS

AFUDC	Allowance for Funds Used During Construction
AIP	Accelerated Infrastructure Program
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bcf	Billion Cubic Feet
BGSS	Basic Gas Supply Service
BPU	New Jersey Board of Public Utilities
CIP	Conservation Incentive Program
CME	Chicago Mercantile Exchange
CR&R	Commercial Realty & Resources Corp.
DM	Dominion Midstream Partners, L.P., a master limited partnership
DM Common Units	Common units representing limited partnership interests in DM
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DRP	NJR Direct Stock Purchase and Dividend Reinvestment Plan
dths	Dekatherms
FASB	Financial Accounting Standards Board
FCM	Futures Commission Merchant
FERC	Federal Energy Regulatory Commission
Financial Margin	A non-GAAP financial measure, which represents revenues earned from the sale of natural gas less costs of natural gas sold including any transportation and storage costs, and excludes any accounting impact from the change in the fair value of certain derivative instruments
FMB	First Mortgage Bonds
FRM	Financial Risk Management
GAAP	Generally Accepted Accounting Principles of the United States
Home Services and Other	Home Services and Other Operations (formerly Retail and Other Operations)
ICE	Intercontinental Exchange
Iroquois	Iroquois Gas Transmission L.P.
ISDA	The International Swaps and Derivatives Association
ITC	Federal Investment Tax Credit
LNG	Liquefied Natural Gas
MetLife	Metropolitan Life Insurance Company
MetLife Facility	NJR's unsecured, uncommitted \$100 million private placement shelf note agreement with MetLife, Inc. expiring in September 2016
MGP	Manufactured Gas Plant
Moody's	Moody's Investors Service, Inc.
Mortgage Indenture	The Amended and Restated Indenture of Mortgage, Deed of Trust and Security Agreement between NJNG and U.S. Bank National Association dated as of September 1, 2014
MW	Megawatts
MWh	Megawatt Hour
NAESB	The North American Energy Standards Board
NFE	Net Financial Earnings
NGV	Natural Gas Vehicles
NJ RISE	New Jersey Reinvestment in System Enhancement
NJCEP	New Jersey's Clean Energy Program
NJDEP	New Jersey Department of Environmental Protection
NJNG	New Jersey Natural Gas Company

GLOSSARY OF KEY TERMS

(cont.)

NJNG Credit Facility	NJNG's \$250 million unsecured committed credit facility expiring in May 2019
NJR Credit Facility	NJR's \$425 million unsecured committed credit facility expiring in September 2020
NJR Energy	NJR Energy Corporation
NJR or The Company	New Jersey Resources Corporation
NJRCEV	NJR Clean Energy Ventures Corporation
NJRES	NJR Energy Services Company
NJRHS	NJR Home Services Company
Non-GAAP	Not in accordance with Generally Accepted Accounting Principles of the United States
NPNS	Normal Purchase/Normal Sale
NYMEX	New York Mercantile Exchange
O&M	Operation and Maintenance
OCI	Other Comprehensive Income
OPEB	Other Postemployment Benefit Plans
PennEast	PennEast Pipeline Company, LLC
PIM	Pipeline Integrity Management
PPA	Power Purchase Agreement
Prudential	Prudential Investment Management, Inc.
Prudential Facility	NJR's unsecured, uncommitted private placement shelf note agreement with Prudential
PTC	Federal Production Tax Credit
RA	Remediation Adjustment
Retail Holdings	NJR Retail Holdings Corporation
S&P	Standard & Poor's Financial Services, LLC
SAFE	Safety Acceleration and Facility Enhancement
Sarbanes-Oxley	Sarbanes-Oxley Act of 2002
SAVEGREEN	The SAVEGREEN Project®
SBC	Societal Benefits Charge
SREC	Solar Renewable Energy Certificate
SRL	Southern Reliability Link
Steckman Ridge	Collectively, Steckman Ridge GP, LLC and Steckman Ridge, LP
Superstorm Sandy	Post-Tropical Cyclone Sandy
Tetco	Texas Eastern Transmission
The Exchange Act	The Securities Exchange Act of 1934, as amended
Trustee	U.S. Bank National Association
U.S.	The United States of America
USF	Universal Service Fund

New Jersey Resources Corporation

INFORMATION CONCERNING 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 "anticipate," "estimate," "may," "intend," "expect," "believe," "will" "plan," "should," or comparable terminology and are made based upon management's current expectations and beliefs as of this date concerning future developments and their potential effect on 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, qualifications for ITCs, PTCs and SRECs, financial condition, results of operations, cash flows, capital requirements, future capital expenditures, market risk, effective tax rate and other matters for fiscal 2016 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, those discussed in Item 1A. Risk Factors of NJR's Annual Report on Form 10-K for the year ended September 30, 2015, as well as the following:

- weather and economic conditions;
- demographic changes in the NJNG service territory and their effect on NJNG's customer growth;
- volatility of natural gas and other commodity prices and their impact on NJNG customer usage, NJNG's BGSS incentive programs, 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;
- the impact of volatility in the credit markets on our access to capital;
- the ability to comply with debt covenants;
- the impact to the asset values and resulting higher costs and funding obligations of NJR's pension and postemployment benefit plans as a result of potential downturns in the financial markets, lower discount rates, revised actuarial assumptions or impacts associated with the Patient Protection and Affordable Care Act;
- risks associated with hedging activities and use of derivatives contracts;
- commercial and wholesale credit risks, including the availability of creditworthy customers and counterparties, and liquidity in the wholesale energy trading market;
- regulatory approval of NJNG's planned infrastructure programs;
- the ability to obtain governmental and regulatory approvals, land-use rights, electric grid connection (in the case of distributed power projects) and/or financing for the construction, development and operation of NJR's unregulated energy investments and NJNG's infrastructure projects in a timely manner;
- risks associated with the management of the Company's joint ventures and partnerships;
- risks associated with NJR's investments in distributed power projects, including the availability of regulatory and tax incentives, the availability of viable projects, NJR's eligibility for ITCs and PTCs, the future market for SRECs and operational risks related to projects in service;
- timing of qualifying for ITCs and PTCs due to delays or failures to complete planned solar and wind energy projects and the resulting effect on our effective tax rate and earnings;
- the level and rate at which NJNG's costs are incurred and the extent to which they are allowed to be recovered from customers through the regulatory process;

- access to adequate supplies of natural gas and dependence on third-party storage and transportation facilities for natural gas supply;
- operating risks incidental to handling, storing, transporting and providing customers with natural gas;
- risks related to our employee workforce;
- the regulatory and pricing policies of federal and state regulatory agencies;
- the costs of compliance with present and future environmental laws, including potential climate change-related legislation;
- risks related to changes in accounting standards;
- the impact of a disallowance of recovery of environmental-related expenditures and other regulatory changes;
- environmental-related and other litigation and other uncertainties;
- risks related to cyber-attack or failure of information technology systems; and
- the impact of natural disasters, terrorist activities, and other extreme events could adversely affect our operations, financial conditions and results of operations.

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.

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL
STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Thousands, except per share data)	Three Months Ended December 31,	
	2015	2014
OPERATING REVENUES		
Utility	\$ 151,606	\$ 208,727
Nonutility	292,652	615,397
Total operating revenues	444,258	824,124
OPERATING EXPENSES		
Gas purchases:		
Utility	46,665	84,263
Nonutility	254,088	472,971
Related parties	2,074	3,264
Operation and maintenance	46,233	44,759
Regulatory rider expenses	9,628	21,463
Depreciation and amortization	16,482	14,386
Energy and other taxes	9,637	14,321
Total operating expenses	384,807	655,427
OPERATING INCOME	59,451	168,697
Other income (expense), net	1,924	(110)
Interest expense, net of capitalized interest	6,777	7,195
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	54,598	161,392
Income tax provision	8,357	40,867
Equity in earnings of affiliates	2,406	2,795
NET INCOME	\$ 48,647	\$ 123,320
EARNINGS PER COMMON SHARE		
Basic	\$.57	\$ 1.46
Diluted	\$.56	\$ 1.44
DIVIDENDS DECLARED PER COMMON SHARE	\$.24	\$.225
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	85,675	84,552
Diluted	86,676	85,574

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Thousands)	Three Months Ended December 31,	
	2015	2014
Net income	\$ 48,647	\$ 123,320
Other comprehensive income, net of tax		
Unrealized gain on available for sale securities, net of tax of \$(2,614) and \$(455), respectively	3,701	659
Net unrealized (loss) on derivatives, net of tax of \$19, and \$18, respectively	(33)	(31)
	256	247

Adjustment to postemployment benefit obligation, net of tax of \$(174) and \$(169),
respectively

Other comprehensive income	3,924	875
Comprehensive income	\$52,571	\$124,195

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS
(Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Thousands)	Three Months Ended December 31,	
	2015	2014
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		
Net income	\$48,647	\$123,320
Adjustments to reconcile net income to cash flows from operating activities		
Unrealized (gain) on derivative instruments	(1,135)	(88,673)
Depreciation and amortization	16,482	14,386
Allowance for equity used during construction	(1,215)	(1,253)
Allowance for bad debt expense	334	964
Deferred income taxes	46,166	35,897
Manufactured gas plant remediation costs	(1,520)	(1,008)
Equity in earnings of equity investees, net of distributions received	1,139	2,146
Cost of removal - asset retirement obligations	(33)	(105)
Contributions to postemployment benefit plans	(30,144)	(69)
Changes in:		
Components of working capital	(102,068)	(75,089)
Other noncurrent assets	(20,270)	13,489
Other noncurrent liabilities	4,401	16,844
Cash flows (used in) from operating activities	(39,216)	40,849
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for:		
Utility plant	(42,465)	(34,114)
Solar and wind equipment	(45,006)	(55,345)
Real estate properties and other	(797)	(11)
Cost of removal	(6,575)	(2,634)
Investments in equity investees	(2,846)	(547)
Other	2,304	445
Cash flows (used in) investing activities	(95,385)	(92,206)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	3,807	24,373
Tax benefit from stock options exercised	—	816
Proceeds from sale-leaseback transaction	7,107	7,216
Proceeds from long-term debt	—	100,000
Payments of long-term debt	(2,676)	(1,723)
Purchases of treasury stock	(1,008)	(3,945)
Payments of common stock dividends	(20,524)	(18,993)
Net proceeds from (payments of) short-term debt	144,650	(46,804)
Cash flows from financing activities	131,356	60,940
Change in cash and cash equivalents	(3,245)	9,583
Cash and cash equivalents at beginning of period	4,928	2,151
Cash and cash equivalents at end of period	\$1,683	\$11,734
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$(27,784)	\$(166,229)

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Inventories	(26,772)	8,385
Recovery of gas costs	(11,882)	2,015
Gas purchases payable	(7,071)	65,563
Gas purchases payable - related parties	(406)	184
Prepaid and accrued taxes	(27,794)	14,108
Accounts payable and other	(22,489)	(53,852)
Restricted broker margin accounts	6,855	46,550
Customers' credit balances and deposits	10,056	14,345
Other current assets	5,219	(6,158)
Total	\$(102,068)	\$(75,089)

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

Cash paid for:

Interest (net of amounts capitalized)	\$5,403	\$1,376
Income taxes	\$202	\$2,228
Accrued capital expenditures	\$21,721	\$12,107

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation

Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

