

NEW JERSEY RESOURCES CORP
Form 10-Q
May 03, 2019

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 March 31, 2019

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: 001 08359
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	NJR	New York Stock Exchange
(Title of each class)	(Trading symbol)	(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 every Interactive Data File required to be submitted 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 such files).

Yes: No:

Edgar Filing: NEW JERSEY RESOURCES CORP - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer: Accelerated filer:
Non-accelerated filer: Smaller reporting company:
Emerging growth company:

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 1, 2019 was 89,223,463.

New Jersey Resources Corporation

TABLE OF CONTENTS

	Page
<u>Glossary of Key Terms</u>	<u>1</u>
<u>Information Concerning Forward-Looking Statements</u>	<u>3</u>
PART I. FINANCIAL INFORMATION	
ITEM 1. <u>Unaudited Condensed Consolidated Financial Statements</u>	<u>4</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>Note 1. Nature of the Business</u>	<u>9</u>
<u>Note 2. Summary of Significant Accounting Policies</u>	<u>9</u>
<u>Note 3. Revenue</u>	<u>15</u>
<u>Note 4. Regulation</u>	<u>18</u>
<u>Note 5. Derivative Instruments</u>	<u>20</u>
<u>Note 6. Fair Value</u>	<u>25</u>
<u>Note 7. Investments in Equity Investees</u>	<u>27</u>
<u>Note 8. Earnings Per Share</u>	<u>27</u>
<u>Note 9. Debt</u>	<u>27</u>
<u>Note 10. Employee Benefit Plans</u>	<u>29</u>
<u>Note 11. Income Taxes</u>	<u>29</u>
<u>Note 12. Commitments and Contingent Liabilities</u>	<u>31</u>
<u>Note 13. Business Segment and Other Operations Data</u>	<u>33</u>
<u>Note 14. Related Party Transactions</u>	<u>36</u>
<u>Note 15. Acquisitions and Dispositions</u>	<u>36</u>
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>63</u>
ITEM 4. <u>Controls and Procedures</u>	<u>65</u>
PART II. OTHER INFORMATION	
ITEM 1. <u>Legal Proceedings</u>	<u>66</u>
ITEM 1A. <u>Risk Factors</u>	<u>66</u>
ITEM 2. <u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	<u>66</u>
ITEM 6. <u>Exhibits</u>	<u>67</u>
<u>Signatures</u>	<u>68</u>

New Jersey Resources Corporation

GLOSSARY OF KEY

TERMS

Adelphia	Adelphia Gateway, LLC
AFUDC	Allowance for Funds Used During Construction
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.
Dominion	Dominion Energy, Inc.
DM	Dominion Energy Midstream Partners, L.P., a master limited partnership
DM Common Units	Common units representing limited partnership interests in DM
DRP	NJR Direct Stock Purchase and Dividend Reinvestment Plan
Dths	Dekatherms
EE	Energy Efficiency
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
Fitch	Fitch Ratings Company
FMB	First Mortgage Bond
GAAP	Generally Accepted Accounting Principles of the United States
Home Services and Other	Home Services and Other Operations
ICE	Intercontinental Exchange
IEC	Interstate Energy Company, LLC
IIP	Infrastructure Investment Program
IRS	Internal Revenue Service
ISDA	The International Swaps and Derivatives Association
ITC	Federal Investment Tax Credit
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
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
	NJNG's \$250 million unsecured committed credit facility expiring in December 2023

NJNG Credit
Facility
NJR Credit
Facility

NJR's \$425 million unsecured committed credit facility expiring in December 2023

1

New Jersey Resources Corporation

GLOSSARY OF KEY TERMS

(cont.)

NJR or The Company	New Jersey Resources Corporation
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
OPEB	Other Postemployment Benefit Plans
PennEast	PennEast Pipeline Company, LLC
PPA	Power Purchase Agreement
PTC	Federal Production Tax Credit
RAC	Remediation Adjustment Clause
REC	Renewable Energy Certificate
S&P	Standard & Poor's Financial Services, LLC
SAFE	Safety Acceleration and Facility Enhancement
SAVEGREEN	The SAVEGREEN Project®
SBC	Societal Benefits Charge
SEC	U.S. Securities and Exchange Commission
SREC	Solar Renewable Energy Certificate
SRL	Southern Reliability Link
Steckman Ridge	Collectively, Steckman Ridge GP, LLC and Steckman Ridge, LP
Talen	Talen Energy Marketing, LLC
Tetco	Texas Eastern Transmission
The Exchange Act	The Securities Exchange Act of 1934, as amended
The Tax Act	An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, previously known as The Tax Cuts and Jobs Act of 2017
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, assumptions 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 Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and 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," "could," "might," "intend," "expect," "believe," "will," "plan," or "should," or comparable terminology and are made based upon management's current expectations, assumptions and beliefs as of this date concerning future developments and their potential effect on us. There can be no assurance that future developments will be in accordance with management's expectations, assumptions or beliefs, or that the effect of future developments on us will be those anticipated by management.

We caution readers that the expectations, assumptions and beliefs that form the basis for forward-looking statements regarding customer growth, customer usage, qualifications for ITCs and SRECs, future rate case proceedings, completion of infrastructure projects, financial condition, results of operations, cash flows, capital requirements, future capital expenditures, market risk, effective tax rate and other matters for fiscal 2019 and thereafter include many factors that are beyond our 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 our expectations, assumptions and beliefs include, but are not limited to, those discussed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2018, as well as the following:

- risks associated with our investments in clean energy projects, including the availability of regulatory incentives and federal tax credits, the availability of viable projects, our eligibility for ITCs, the future market for SRECs and electricity prices, and operational risks related to projects in service;
- our ability to obtain governmental and regulatory approvals, land-use rights, electric grid connection (in the case of clean energy projects) and/or financing for the construction, development and operation of our unregulated energy investments, pipeline transportation systems and NJNG and Midstream infrastructure projects, including NJ RISE, SRL, PennEast and Adelphia, in a timely manner;
- risks associated with acquisitions and the related integration of acquired assets with our current operations, including our planned Adelphia acquisition;
- volatility of natural gas and other commodity prices and their impact on NJNG customer usage, NJNG's BGSS incentive programs, our Energy Services segment operations and our risk management efforts;
- our ability to comply with current and future regulatory requirements;
- the level and rate at which NJNG's costs and expenses are incurred and the extent to which they are approved for recovery from customers through the regulatory process, including through future base rate case filings;
- the impact of a disallowance of recovery of environmental-related expenditures and other regulatory changes;
- the performance of our subsidiaries;
- operating risks incidental to handling, storing, transporting and providing customers with natural gas;
- access to adequate supplies of natural gas and dependence on third-party storage and transportation facilities for natural gas supply;
- the regulatory and pricing policies of federal and state regulatory agencies;
- timing of qualifying for ITCs due to delays or failures to complete planned solar projects and the resulting effect on our effective tax rate and earnings;
- the results of legal or administrative proceedings with respect to claims, rates, environmental issues, gas cost prudence reviews and other matters;

changes in rating agency requirements and/or credit ratings and their effect on availability and cost of capital to our Company;

- risks related to cyberattacks or failure of information technology systems;
- the impact of volatility in the equity and credit markets on our access to capital;
- the impact to the asset values and resulting higher costs and funding obligations of our 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 the Affordable Care Act;
- commercial and wholesale credit risks, including the availability of creditworthy customers and counterparties, and liquidity in the wholesale energy trading market;
- accounting effects and other risks associated with hedging activities and use of derivatives contracts;
- our ability to optimize our physical assets;
- weather and economic conditions;
- changes to tax laws and regulations;
- any potential need to record a valuation allowance for our deferred tax assets;
- our ability to comply with debt covenants;
- demographic changes in our service territory and their effect on our customer growth;
- the impact of natural disasters, terrorist activities and other extreme events on our operations and customers;
- the costs of compliance with present and future environmental laws, including potential climate change-related legislation;
- environmental-related and other uncertainties related to litigation or administrative proceedings;
- risks related to our employee workforce; and
- risks associated with the management of our joint ventures and partnership.

While we periodically reassess material trends and uncertainties affecting our results of operations and financial condition in connection with the preparation of management's discussion and analysis of results of operations and financial condition contained in our Quarterly and Annual Reports on Form 10-Q and Form 10-K, respectively, we do 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		Six Months Ended	
	March 31, 2019	2018	March 31, 2019	2018
OPERATING REVENUES				
Utility	\$301,420	\$317,064	\$501,385	\$526,851
Nonutility	564,835	701,979	1,176,637	1,197,497
Total operating revenues	866,255	1,019,043	1,678,022	1,724,348
OPERATING EXPENSES				
Gas purchases:				
Utility	138,117	96,586	225,766	174,188
Nonutility	545,268	621,223	1,080,651	1,066,307
Related parties	2,144	2,087	4,329	4,236
Operation and maintenance	62,959	56,797	123,061	110,957
Regulatory rider expenses	15,391	19,604	28,023	31,373
Depreciation and amortization	22,311	22,460	44,143	44,314
Energy and other taxes	3,064	21,542	6,305	38,033
Total operating expenses	789,254	840,299	1,512,278	1,469,408
OPERATING INCOME	77,001	178,744	165,744	254,940
Other income, net	2,758	1,028	3,627	7,004
Interest expense, net of capitalized interest	12,509	11,798	25,995	23,703
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	67,250	167,974	143,376	238,241
Income tax (benefit) provision	(2,952)	30,901	(9,913)	(19,267)
Equity in earnings of affiliates	3,371	3,193	6,532	6,457
NET INCOME	\$73,573	\$140,266	\$159,821	\$263,965
EARNINGS PER COMMON SHARE				
Basic	\$0.83	\$1.60	\$1.80	\$3.02
Diluted	\$0.82	\$1.59	\$1.79	\$3.01
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	88,836	87,595	88,692	87,295
Diluted	89,228	87,989	89,093	87,690

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Thousands)	Three Months		Six Months Ended	
	March 31, 2019	2018	March 31, 2019	2018
Net income	\$73,573	\$140,266	\$159,821	\$263,965
Other comprehensive income (loss), net of tax				
Unrealized loss on investments in equity securities, net of tax of \$0, \$7,366, \$0 and \$8,217, respectively	—	(20,401)	—	(22,691)
	—	14,801	—	11,647

Edgar Filing: NEW JERSEY RESOURCES CORP - Form 10-Q

Reclassifications of losses to net income on investments in equity securities, net of tax of \$0, \$(3,036), \$0 and \$(858), respectively				
Adjustment to postemployment benefit obligation, net of tax of \$(119), \$(104), \$(215) and \$(240), respectively	305	272	539	512
Other comprehensive income (loss)	\$305	\$(5,328)	\$539	\$(10,532)
Comprehensive income	\$73,878	\$134,938	\$160,360	\$253,433

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)	Six Months Ended March 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 159,821	\$ 263,965
Adjustments to reconcile net income to cash flows from operating activities		
Unrealized (gain) loss on derivative instruments	(707	) 23,246
Realized and unrealized gains on investments in equity securities	(1,567	) (5,332)
Gain on sale of businesses	(645	) (3,722)
Depreciation and amortization	44,143	44,314
Amortization of acquired wholesale energy contracts	7,346	17,911
Allowance for equity used during construction	(3,602	) (2,051)
Allowance for doubtful accounts	1,149	994
Deferred income taxes	16,337	28,169
Deferred income tax benefit due to the Tax Act	—	(58,532)
Manufactured gas plant remediation costs	(4,353	) (7,219)
Equity in earnings, net of distributions received from equity investees	(1,836	) (272)
Cost of removal - asset retirement obligations	(130	) (334)
Contributions to postemployment benefit plans	(1,909	) (1,648)
Tax benefit from stock-based compensation	1,284	2,841
Changes in:		
Components of working capital	(71,746	) (27,122)
Other noncurrent assets	13,483	38,462
Other noncurrent liabilities	14,719	(1,199)
Cash flows from operating activities	171,787	312,471
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Expenditures for:		
Utility plant	(121,962	) (69,695)
Solar equipment	(52,520	) (58,992)
Midstream and other	(5,786	) (3,159)
Cost of removal	(17,134	) (33,092)
Distribution from equity investees in excess of equity in earnings	1,154	1,315
Investments in equity investees	(1,457	) (11,177)
Cash paid related to acquisition	—	(10,000)
Proceeds from sale of businesses, net of closing costs	205,745	9,399
Proceeds from sale of investments in equity securities, net	34,484	6,616
Cash flows from (used in) investing activities	42,524	(168,785)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Payments of long-term debt	(12,005	) (5,346)
Payments of short-term debt, net	(106,050	) (115,100)
Proceeds from sale-leaseback transaction	9,895	7,820
Payments of common stock dividends	(51,750	) (47,459)
Proceeds from waiver discount issuance of common stock	24,539	22,690
Proceeds from issuance of common stock	9,522	9,876

Edgar Filing: NEW JERSEY RESOURCES CORP - Form 10-Q

Tax withholding payments related to net settled stock compensation	(6,607)	(13,420)
Cash flows used in financing activities	(132,456)	(140,939)
Change in cash, cash equivalents and restricted cash	81,855	2,747
Cash, cash equivalents and restricted cash at beginning of period	1,710	2,469
Cash, cash equivalents and restricted cash at end of period	\$83,565	\$5,216
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$(105,900)	\$(151,220)
Inventories	125,810	128,895
Recovery of gas costs	(14,989)	20,260
Gas purchases payable	(21,544)	18,928
Prepaid and accrued taxes	(4,555)	15,879
Accounts payable and other	(35,953)	(17,541)
Restricted broker margin accounts	(2,217)	(29,164)
Customers' credit balances and deposits	(9,163)	(8,696)
Other current assets	(3,235)	(4,463)
Total	\$(71,746)	\$(27,122)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for:		
Interest (net of amounts capitalized)	\$27,454	\$23,765
Income taxes	\$1,003	\$2,985
Accrued capital expenditures	\$29,685	\$14,485
Inception gain on natural gas swap contract recognized as non-cash proceeds from sale of business	\$—	\$14,579

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS
(Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

ASSETS

(Thousands)	March 31, 2019	September 30, 2018
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$2,440,125	\$ 2,368,914
Construction work in progress	243,462	192,481
Nonutility plant and equipment, at cost	756,473	697,406
Construction work in progress	43,629	45,690
Total property, plant and equipment	3,483,689	3,304,491
Accumulated depreciation and amortization, utility plant	(555,541)	)(530,753)
Accumulated depreciation and amortization, nonutility plant and equipment	(138,822)	)(122,689)
Property, plant and equipment, net	2,789,326	2,651,049
CURRENT ASSETS		
Cash and cash equivalents	83,160	1,458
Customer accounts receivable		
Billed	273,924	205,490
Unbilled revenues	42,850	7,199
Allowance for doubtful accounts	(6,216)	)(5,704)
Regulatory assets	17,906	18,297
Gas in storage, at average cost	58,436	184,633
Materials and supplies, at average cost	14,297	13,910
Prepaid and accrued taxes	971	23,047
Derivatives, at fair value	22,712	27,396
Restricted broker margin accounts	60,534	53,719
Assets held for sale	—	206,905
Other	36,611	33,730
Total current assets	605,185	770,080
NONCURRENT ASSETS		
Investments in equity method investees	195,203	190,866
Regulatory assets	376,420	368,592
Derivatives, at fair value	13,277	10,560
Investments in equity securities	—	32,917
Intangible assets, net	15,798	23,375
Other noncurrent assets	94,764	96,225
Total noncurrent assets	695,462	722,535
Total assets	\$4,089,973	\$ 4,143,664

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS
(Continued)

CAPITALIZATION AND LIABILITIES

(Thousands, except share data)	March 31, 2019	September 30, 2018
CAPITALIZATION		
Common stock, \$2.50 par value; authorized 150,000,000 shares; outstanding March 31, 2019 — 89,163,881; September 30, 2018 — 88,292,956	\$226,613	\$226,196
Premium on common stock	283,429	274,748
Accumulated other comprehensive loss, net of tax	(15,517)	(12,610)
Treasury stock at cost and other; shares March 31, 2019 — 1,480,919; September 30, 2018 2,185,013	(46,062)	(76,473)
Retained earnings	1,120,699	1,007,117
Common stock equity	1,569,162	1,418,978
Long-term debt	1,179,716	1,180,619
Total capitalization	2,748,878	2,599,597
CURRENT LIABILITIES		
Current maturities of long-term debt	124,629	123,545
Short-term debt	45,900	151,950
Gas purchases payable	189,755	211,303
Gas purchases payable to related parties	1,154	1,150
Accounts payable and other	91,754	135,240
Dividends payable	25,981	25,824
Accrued taxes	28,956	1,568
Regulatory liabilities	3,717	8,185
New Jersey Clean Energy Program	5,772	14,052
Derivatives, at fair value	48,019	46,652
Liabilities held for sale	—	4,182
Customers' credit balances and deposits	18,162	27,325
Total current liabilities	583,799	750,976
NONCURRENT LIABILITIES		
Deferred income taxes	208,450	242,436
Deferred investment tax credits	3,815	3,976
Deferred gain	1,947	9,104
Derivatives, at fair value	24,927	22,982
Manufactured gas plant remediation	128,897	130,800
Postemployment employee benefit liability	143,345	137,007
Regulatory liabilities	208,869	209,139
Asset retirement obligation	29,650	28,688
Other	7,396	8,959
Total noncurrent liabilities	757,296	793,091
Commitments and contingent liabilities (Note 12)		
Total capitalization and liabilities	\$4,089,973	\$4,143,664

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS
(Continued)

CONDENSED CONSOLIDATED STATEMENTS OF COMMON STOCK EQUITY (Unaudited)

(Thousands)	Number of Shares	Common Stock	Premium on Common Stock	Accumulated Other Comprehensive (Loss) Income	Treasury Stock And Other	Retained Earnings	Total
Balance at September 30, 2018	88,293	\$226,196	\$274,748	\$ (12,610)	\$(76,473)	\$1,007,117	\$1,418,978
Net income						86,248	86,248
Other comprehensive income				234			234
Common stock issued:							
Incentive compensation plan	137	343	1,791				2,134
Dividend reinvestment plan ⁽¹⁾	82		454		3,238		3,692
Waiver discount	168	—	1,293		6,671		7,964
Cash dividend declared (\$.2925 per share)						(25,938)	(25,938)
Treasury stock and other	—	—			1,504		1,504
Adoption of ASU 2016-01 ⁽²⁾				(3,446)		3,446	—
Adoption of ASU 2017-05 ⁽²⁾						4,970	4,970
Adoption of ASU 2014-09/ASC 606 ⁽²⁾						(2,736)	(2,736)
Balance at December 31, 2018	88,680	\$226,539	\$278,286	\$ (15,822)	\$(65,060)	\$1,073,107	\$1,497,050
Net income						73,573	73,573
Other comprehensive income				305			305
Common stock issued:							
Incentive compensation plan	30	74	1,150				1,224
Dividend reinvestment plan ⁽¹⁾	123		870		4,892		5,762
Waiver discount	339	—	3,123		13,452		16,575
Cash dividend declared (\$.2925 per share)						(25,981)	(25,981)
Treasury stock and other	(8)				654		654
Balance at March 31, 2019	89,164	\$226,613	\$283,429	\$ (15,517)	\$(46,062)	\$1,120,699	\$1,569,162
(Thousands)	Number of Shares	Common Stock	Premium on Common Stock	Accumulated Other Comprehensive (Loss) Income	Treasury Stock And Other	Retained Earnings	Total
Balance at September 30, 2017	86,556	\$222,258	\$219,696	\$ (3,256)	\$(70,039)	\$867,984	\$1,236,643
Net income						123,699	123,699
Other comprehensive loss				(5,204)			(5,204)
Common stock issued:							
Incentive plan	525	1,453	13,951				15,404
Dividend reinvestment plan ⁽¹⁾	90		245		3,554		3,799
Waiver discount	554	1,384	21,306				22,690
Cash dividend declared (\$.2725 per share)						(23,831)	(23,831)
Treasury stock and other	(250)		(56)		(25,374)		(25,430)
Balance at December 31, 2017	87,475	\$225,095	\$255,142	\$ (8,460)	\$(91,859)	\$967,852	\$1,347,770

Edgar Filing: NEW JERSEY RESOURCES CORP - Form 10-Q

Net income						140,266	140,266
Other comprehensive loss				(5,328	)		(5,328
Common stock issued:)
Incentive plan	30	78	1,047				1,125
Dividend reinvestment plan ⁽¹⁾	152		(73	)	6,029		5,956
Cash dividend declared (\$.2725 per share)						(23,886	(23,886
Treasury stock and other	(1	)	42		1,429		1,471
Balance at March 31, 2018	87,656	\$225,173	\$256,158	\$ (13,788	)	\$(84,401)	\$1,084,232
							\$1,467,374

(1) Shares sold through the DRP are issued from treasury stock at average cost, which may differ from the actual market price paid.

(2) See Note 2. Summary of Significant Accounting Policies - Recently Adopted Updates to the Accounting Standards Codification section for more details.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF THE BUSINESS

New Jersey Resources Corporation provides regulated gas distribution services and operates certain unregulated businesses primarily through the following:

New Jersey Natural Gas Company provides natural gas utility service to approximately 546,100 retail customers in central and northern New Jersey and is subject to rate regulation by the BPU. NJNG comprises the Natural Gas Distribution segment.

NJR Clean Energy Ventures Corporation, the Company's clean energy subsidiary, comprises the Clean Energy Ventures segment and consists of the Company's capital investments in commercial and residential solar projects located throughout New Jersey. Clean Energy Ventures finalized the sale of its remaining wind assets on February 7, 2019, see Note 15. Acquisitions and Dispositions for more details.

NJR Energy Services Company comprises the Energy Services segment. Energy Services maintains and transacts around a portfolio of natural gas storage and transportation capacity contracts and provides physical wholesale energy, retail energy and energy management services in the U.S. and Canada.

NJR Midstream Holdings Corporation, which comprises the Midstream segment, invests in energy-related ventures through its subsidiaries, NJR Steckman Ridge Storage Company, which holds the Company's 50 percent combined ownership interest in Steckman Ridge, located in Pennsylvania; NJNR Pipeline, which held our investment in Dominion; and NJR Pipeline Company, which includes Adelphia Gateway, LLC and the Company's 20 percent ownership interest in PennEast. See Note 7. Investments in Equity Investees for more information.

NJR Retail Holdings Corporation has two principal subsidiaries, NJR Home Services Company, which provides heating, central air conditioning, standby generators, solar and other indoor and outdoor comfort products to residential homes throughout New Jersey, and Commercial Realty & Resources Corporation, which owns commercial real estate. NJR Home Services Company and Commercial Realty & Resources Corporation are included in Home Services and Other operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared by NJR in accordance with the rules and regulations of the SEC and GAAP. The September 30, 2018 Balance Sheet data is derived from the audited financial statements of the Company. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and the notes thereto included in NJR's 2018 Annual Report on Form 10-K.

The Unaudited Condensed Consolidated Financial Statements include the accounts of NJR and its subsidiaries. In the opinion of management, the accompanying Unaudited Condensed Consolidated Financial Statements reflect all adjustments necessary for a fair presentation of the results of the interim periods presented. These adjustments are of a normal and recurring nature. 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 that are to be expected for the fiscal year ending September 30, 2019. Intercompany transactions and accounts have been eliminated.

Sales Tax Accounting

As a result of the adoption of ASC 606, Revenue from Contracts with Customers, as of October 1, 2018, the Company excludes from the transaction price all sales taxes that are assessed by a governmental authority and therefore presents sales tax on a net basis in operating revenues on the Unaudited Condensed Consolidated Statements of Operations. Previously, sales tax was presented in both operating revenues and operating expenses on the Unaudited Condensed Consolidated Statements of Operations.

Gas in Storage

The following table summarizes gas in storage, at average cost by segment as of:

(\$ in thousands)	March 31, 2019		September 30, 2018	
	Gas in Storage	Bcf	Gas in Storage	Bcf
Energy Services	\$34,819	12.1	\$90,166	34.1
Natural Gas Distribution	23,617	4.4	94,467	24.9
Total	\$58,436	16.5	\$184,633	59.0

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Investments in Equity Securities

Investments in equity securities are carried at fair value on the Unaudited Condensed Consolidated Balance Sheets. For the fiscal year ended September 30, 2018, total unrealized gains and losses associated with equity securities were included as a part of accumulated other comprehensive income, a component of common stock equity, and reclassifications of realized gains or losses out of other comprehensive income into earnings were recorded in other income, net on the Unaudited Condensed Consolidated Statements of Operations, based on average cost. On October 1, 2018, the Company adopted ASU No. 2016-01, an amendment to ASC 825, Financial Instruments. As a result, both realized unrealized gains and losses are recorded in other income, net on the Unaudited Condensed Consolidated Statements of Operations, based on average cost.

As of September 30, 2018, the Company's investments in equity securities were comprised of an investment in DM Common Units, which had a fair value of \$32.9 million. On January 28, 2019, Dominion and DM finalized an agreement and plan of merger and outstanding DM Common Units held immediately before the closing of the merger were converted into 0.2492 shares of Dominion common stock. This resulted in the conversion of the Company's 1.84 million DM Common Units into approximately 458,000 Dominion shares. On March 6, 2019, the Company sold its investment in Dominion and received proceeds of approximately \$34.5 million related to the sale. During the three and six months ended March 31, 2019, total realized and unrealized gains of \$1.3 million and \$1.6 million, were recognized in other income, net on the Unaudited Condensed Consolidated Statements of Operations.

Loans Receivable

NJNG currently provides loans, with terms ranging from three to 10 years, to customers that elect to purchase and install certain energy-efficient equipment in accordance with its BPU-approved SAVEGREEN program. The loans are recognized at net present value on the Unaudited Condensed Consolidated Balance Sheets. The Company recorded \$11.4 million and \$10.4 million in other current assets and \$38.5 million and \$39.5 million in other noncurrent assets as of March 31, 2019 and September 30, 2018, respectively, on the Unaudited Condensed Consolidated Balance Sheets, related to the loans. If NJNG determines a loan is impaired, the basis of the loan would be subject to regulatory review for recovery. As of March 31, 2019 and September 30, 2018, the Company has not recorded an allowance for doubtful accounts for SAVEGREEN loans.

Assets Held for Sale

The wind assets classified as held for sale are measured at the lower of their carrying value or fair value less cost to sell. The major classes of assets and liabilities included within the disposal group as held for sale are as follows:

(Thousands)	Assets		Other adjustments (1)	March 31, 2019
	September 30, 2018	reclassified Assets as held for sale Sold		
Assets held for sale:				
Nonutility plant and equipment - wind equipment, at cost	\$ 224,356	\$ —	\$(224,356)	\$ —
Nonutility plant and equipment - accumulated depreciation, wind equipment	(18,501)	) —	18,501	—
Prepaid and other current assets	789	1,747	(1,541)	) (995)

Edgar Filing: NEW JERSEY RESOURCES CORP - Form 10-Q

Other noncurrent assets	261	—	(261)	—	—
	\$ 206,905	\$ 1,747	\$(207,657)	\$ (995)	\$ —
Liabilities held for sale:					
Accounts payable and other	\$ 186	\$ —	\$(186)	\$ —	\$ —
Asset retirement obligation	3,996	—	(3,996)	—	—
	\$ 4,182	\$ —	\$(4,182)	\$ —	\$ —

(1) Activity relates to amortization of prepaid and other current assets.

On February 7, 2019, Clean Energy Ventures finalized the sale of its remaining wind assets, see Note 15. Acquisitions and Dispositions for more details.

Software Costs

The Company capitalizes certain costs, such as software design and configuration, coding, testing and installation, that are incurred to purchase or create and implement computer software for internal use. Capitalized costs include external costs of materials and services utilized in developing or obtaining internal-use software and payroll and payroll-related costs for employees who are directly associated with and devote time to the internal-use software project. Training and maintenance costs are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Amortization is recorded on the straight-line basis over the estimated useful lives.

New Jersey Resources Corporation
Part INOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in the components of accumulated other comprehensive income (loss), net of related tax effects during the three months ended March 31, 2019 and 2018:

(Thousands)	Investments in Equity Securities	Postemployment Benefit Obligation	Total
Balance at December 31, 2018	\$ —	\$ (15,822)	\$ (15,822)
Other comprehensive loss (income), net of tax			
Amounts reclassified from accumulated other comprehensive loss, net of tax of \$0, \$(119), \$(119)	—	305	(1) 305
Balance at March 31, 2019	\$ —	\$ (15,517)	\$ (15,517)
Balance at December 31, 2017	\$ 5,600	\$ (14,060)	\$ (8,460)
Other comprehensive (loss) income, net of tax			
Other comprehensive loss, before reclassifications, net of tax of \$7,366, \$0, \$7,366	(20,401)	—	(20,401)
Amounts reclassified from accumulated other comprehensive income, net of tax of \$(3,036), \$(104), \$(3,140)	14,801	272	(1) 15,073
Net current-period other comprehensive (loss) income, net of tax of \$4,330, \$(104), \$4,226	(5,600)	272	(5,328)
Balance as of March 31, 2018	\$ —	\$ (13,788)	\$ (13,788)

The following table presents the changes in the components of accumulated other comprehensive income (loss), net of related tax effects during the six months ended March 31, 2019 and 2018:

(Thousands)	Investments in Equity Securities	Postemployment Benefit Obligation	Total
Balance at September 30, 2018	\$3,446	\$ (16,056)	\$ (12,610)
Other comprehensive income (loss), net of tax			
Amounts reclassified from accumulated other comprehensive income (loss), net of tax of \$0, \$(215), \$(215)	—	539	(1) 539
Reclassification to retained earnings	(3,446)	(2) —	(3,446)
Balance at March 31, 2019	\$ —	\$ (15,517)	\$ (15,517)
Balance as of September 30, 2017	\$11,044	\$ (14,300)	\$ (3,256)
Other comprehensive (loss) income, net of tax			
Other comprehensive loss, before reclassifications, net of tax of \$8,217, \$0, \$8,217	(22,691)	—	(22,691)
Amounts reclassified from accumulated other comprehensive (loss) income, net of tax of \$(858), \$(240), \$(1,098)	11,647	512	(1) 12,159
Net current-period other comprehensive (loss) income, net of tax of \$7,359, \$(240), \$7,119	(11,044)	512	(10,532)
Balance as of March 31, 2018	\$ —	\$ (13,788)	\$ (13,788)

(1) Included in the computation of net periodic pension cost, a component of operations and maintenance expense on the Unaudited Condensed Consolidated Statements of Operations.

Due to the adoption of ASU No. 2016-01, an amendment to ASC 825, Financial Instruments. See Note 2.
(2) Summary of Significant Accounting Policies - Recently Adopted Updates to the Accounting Standards Codification section for more details.

Reclassification

Certain prior period amounts related to restricted cash on the Unaudited Condensed Consolidated Statements of Cash Flows and compensation costs on the Unaudited Condensed Consolidated Statements of Operations have been reclassified to conform to the current period presentation due to the ASU adoptions listed below.

Recently Adopted Updates to the Accounting Standards Codification

Revenue

In May 2014, the FASB issued ASU No. 2014-09, and added ASC 606, Revenue from Contracts with Customers, to the ASC. ASC 606 supersedes ASC 605, Revenue Recognition, as well as most industry-specific guidance, and prescribes a single, comprehensive revenue recognition model designed to improve financial reporting comparability across entities, industries, jurisdictions and capital markets. The Company adopted the new guidance in the first quarter of fiscal 2019 and applied the new provisions on a modified retrospective basis.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The Company recorded a cumulative-effect adjustment of \$3.8 million, \$2.7 million net of deferred income taxes, to retained earnings at Home Services and Other. As of October 1, 2018, NJRHS recognizes contract revenue on a straight line basis over the term of the contract. Previously, contract revenue was recognized over the term of the service contract based on expected demand for services. Revenue for Home Services and Other after adopting ASC 606 was \$12.3 million and \$24.8 million, as opposed to \$8.7 million and \$18.8 million under ASC 605 for the three and six months ended March 31, 2019, respectively. The Company elected the practical expedient to exclude from the transaction price all sales taxes that are assessed by a governmental authority and therefore presents sales tax on a net basis in operating revenues on the Unaudited Condensed Consolidated Statements of Operations. Prior to adoption, operating revenue and energy taxes and other would have been \$19.9 million and \$34.4 million higher for the three and six months ended March 31, 2019, respectively, due to the Company's sales tax presentation. There was no additional impact on the Company's financial position, results of operations or cash flows.

The Company concluded that its tariff-based sales of natural gas are within the scope of the new guidance and the adoption did not result in any modification to the pattern of revenue recognition from such sales. Revenues from derivative instruments, such as those related to the Company's SREC sales and natural gas purchases and sales will continue to be accounted for under ASC 815 and thus are outside the scope of ASC 606. Additionally, NJNG revenues generated by the CIP have been determined to be alternative revenue programs under ASC 980 and are also outside the scope of ASC 606, as they are deemed to be a contract with the BPU. The Company also evaluated its renewable asset PPA arrangements and determined that no modification to the pattern of revenue recognition of the related electricity, capacity and REC sales was necessary. Revenues from RECs sold as part of a bundled arrangement continue to be recognized in the same period as the related generation.

Based on the completion of the Company's evaluation and assessment of its revenue streams, the Company concluded that the new guidance did not have a material impact on its financial position, results of operations or cash flows. ASC 606 requires expanded disclosures, including the disclosure of performance obligations, disaggregated revenues and contract balances, which is included in Note 3. Revenue.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, an amendment to ASC 230, Statement of Cash Flows, which addresses eight specific cash flow issues for which there has been diversity in practice. The Company adopted this guidance in the first quarter of fiscal 2019 and applied the new provisions on a retrospective basis, which did not impact its statement of cash flows.

In November 2016, the FASB issued ASU No. 2016-18, an amendment to ASC 230, Statement of Cash Flows, which requires that any amounts that are deemed to be restricted cash or restricted cash-equivalents be included in cash and cash-equivalent balances on the cash flow statement and, therefore, transfers between cash and restricted cash accounts will no longer be recognized within the statement of cash flows. The Company adopted this guidance in the first quarter of fiscal 2019 and applied the new provisions on a retrospective basis, which did not materially impact its statement of cash flows.

Accordingly, the following table provides a reconciliation of cash and cash equivalents and restricted cash reported in the Unaudited Condensed Consolidated Balance Sheets to the total amounts in the Unaudited Condensed Consolidated Statements of Cash Flows as follows:

(Thousands)	March 31, 2019	September 30, 2018	March 31, 2018	September 30, 2017
Balance Sheet				
Cash and cash equivalents	\$ 83,160	\$ 1,458	\$ 4,928	\$ 2,226
Restricted cash in other noncurrent assets	405	252	288	243
Statements of Cash Flow				
Cash, cash equivalents and restricted cash in the statement of cash flows	\$ 83,565	\$ 1,710	\$ 5,216	\$ 2,469

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, an amendment to ASC 825, Financial Instruments, to address certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. The standard affects investments in equity securities that do not result in consolidation and are not accounted for under the equity method and the presentation of certain fair value changes for financial liabilities measured at fair value. It also simplifies the impairment assessment of equity investments without a readily determinable fair value by requiring a qualitative assessment. The Company adopted this guidance in the first quarter of fiscal 2019 and applied the new provisions on a modified retrospective basis which resulted in the reclassification of \$4.7 million, \$3.4 million net of deferred income tax expense, to the opening balance of retained earnings from

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

accumulated other comprehensive income related to investments in equity securities. Subsequent changes to the fair value of the Company's investments in equity securities are recorded in other income, net in the Unaudited Condensed Consolidated Statement of Operations.

Business Combinations

In January 2017, the FASB issued ASU No. 2017-01, an amendment to ASC 805, Business Combinations, clarifying the definition of a business in the ASC, which is intended to reduce the complexity surrounding the assessment of a transaction as an asset acquisition or business combination. The amendment provides an initial fair value screen to reduce the number of transactions that would fit the definition of a business, and when the screen threshold is not met, provides an updated model that further clarifies the characteristics of a business. The Company adopted this guidance in the first quarter of fiscal 2019 and the new provisions will be applied on a prospective basis. The amendment could potentially have material impacts on future transactions that the Company may enter into by altering the Company's conclusion on the accounting framework that is applied to acquisitions.

Gains and Losses from the Derecognition of Nonfinancial Assets

In February 2017, the FASB issued ASU No. 2017-05, an amendment to ASC 610-20, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets, which clarifies the scope and accounting related to the derecognition of nonfinancial assets, including partial sales and contributions of nonfinancial assets to a joint venture or other non-controlled investee. The Company adopted this guidance in the first quarter of 2019, concurrently with ASC 606, and applied the new provisions on a modified retrospective basis through a cumulative effect adjustment of \$6.8 million, \$5 million net of deferred income tax expense, to the opening balance of retained earnings related to a transfer of a nonfinancial asset that was previously recorded as a deferred gain on the Unaudited Condensed Consolidated Balance Sheets.

Compensation - Retirement Benefits

In March 2017, the FASB issued ASU No. 2017-07, an amendment to ASC 715, Compensation - Retirement Benefits, which changes the presentation of net periodic benefit cost on the income statement by requiring companies to present all components of net periodic benefit cost, other than service cost, outside a subtotal of income from operations. The amendment also states that only the service cost component of net periodic benefits costs is eligible for capitalization, when applicable. The amendment establishes a practical expedient that permits entities to use their previously disclosed service and other costs in their pension and other postretirement benefit plan footnotes in the prior comparative periods as the estimation basis when applying the retrospective presentation of these costs in the income statement. The Company adopted this guidance in the first quarter of 2019, and applied the new provisions on a retrospective basis for income statement presentation, and is applying the new provisions on a prospective basis for changes to capitalization of costs. Accordingly, the following amounts on the Unaudited Condensed Consolidated Statement of Operations for the three and six months ended March 31, 2019, have been adjusted:

(Thousands)	As Previously Reported	Effect of As Change	Adjusted
Three Months Ended			
Statements of Operations			

Edgar Filing: NEW JERSEY RESOURCES CORP - Form 10-Q

Operation and maintenance	\$57,749	\$(952)	)\$56,797
Total operating expenses	\$841,251	\$(952)	)\$840,299
Operating income	\$177,792	\$952	\$178,744
Other income (expense), net	\$1,980	\$(952)	)\$1,028

Six Months Ended

Statements of Operations

Operation and maintenance	\$112,860	\$(1,903)	)\$110,957
Total operating expenses	\$1,471,311	\$(1,903)	)\$1,469,408
Operating income	\$253,037	\$1,903	\$254,940
Other income (expense), net	\$8,907	\$(1,903)	)\$7,004

The changes related to the costs that will be eligible for capitalization will not have a material impact on the Company's financial position, results of operations or cash flows upon adoption. There was no additional impact to the Company's financial position, results of operations or cash flows.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Stock Compensation

In May 2017, the FASB issued ASU No. 2017-09, an amendment to ASC 718, Compensation - Stock Compensation, which clarifies the accounting for changes to the terms or conditions of share-based payments. The Company adopted this guidance in the first quarter of fiscal 2019, and will apply the new provisions prospectively to awards modified on or after October 1, 2018. There was no impact to the Company's financial position, results of operations or cash flows upon adoption.

Intangibles

In August 2018, the FASB issued ASU No. 2018-15, an amendment to ASC 350, Intangibles - Goodwill and Other, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The Company elected to early adopt this guidance in the second quarter of fiscal 2019, as the Company has begun work on key technology replacement and enhancement initiatives and will apply the new provisions on a prospective basis. There was no material impact to the Company's financial position, results of operations or cash flows upon adoption, however as work progresses on the Company's key technology initiatives there may be a material impact in the future.

Other Recent Updates to the Accounting Standards Codification

Leases

In February 2016, the FASB issued ASU No. 2016-02, an amendment to ASC 842, Leases, which, along with other ASU's containing minor amendments and technical corrections, provides for a comprehensive overhaul of the lease accounting model and changes the definition of a lease within the accounting literature. Under the new standard, all leases with a term greater than one year will be recorded on the balance sheet. Amortization of the related asset will be accounted for using one of two approaches prescribed by the guidance. Additional disclosures will be required to allow the user to assess the amount, timing and uncertainty of cash flows arising from leasing activities. A modified retrospective transition approach is required for leases existing at the time of adoption.

In January 2018, the FASB issued ASU No. 2018-01, a further amendment to ASC 842, Leases, which was introduced by ASU No. 2016-02, as discussed above. This update provides an optional practical expedient that allows companies to not evaluate existing or expired land easements that were not previously accounted for under Topic 840 as leases. The Company expects to elect this practical expedient upon adoption. The guidance is effective for the Company beginning October 1, 2019.

In July 2018, the FASB issued ASU No. 2018-11, which provides an optional transition method to ASC 842 that allows the Company to recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. At this time, the Company does not plan to early adopt the new guidance and expects to transition on a modified retrospective basis.

The Company is currently in the process of reviewing its contracts to identify all of its leases and evaluating its lease population. The Company's operating leases primarily consist of office and land leases related to solar assets. While

the Company is currently evaluating the full impact of the standard and its related updates, it expects to recognize right-of-use assets and liabilities arising from current operating leases on its statement of financial position upon adoption, however, these amounts are not reasonably estimable at this time. The Company expects to elect the package of practical expedients whereby the Company would not be required to reassess all of its leases identified, lease classifications and initial direct costs associated with leases. The Company does not expect the amendments to the standard to have any impact on its results of operations or cash flows.

Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, an amendment to ASC 326, Financial Instruments - Credit Losses, which changes the impairment model for certain financial assets that have a contractual right to receive cash, including trade and loan receivables. The new model requires recognition based upon an estimation of expected credit losses rather than recognition of losses when it is probable that they have been incurred. An entity will apply the amendment through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The guidance is effective for the Company beginning October 1, 2020, with early adoption permitted. The Company is currently evaluating the amendment to understand the impact on its financial position, results of operations and cash flows upon adoption and will apply the new guidance to its trade and loan receivables on a modified retrospective basis.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Derivatives and Hedging

In August 2017, the FASB issued ASU No. 2017-12, an amendment to ASC 815, Derivatives and Hedging, which is intended to make targeted improvements to the accounting for hedging activities by better aligning an entity's risk management activities and financial reporting for hedging relationships. These amendments modify the accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Additionally, the amendments are intended to simplify the application of the hedge accounting guidance and provide relief to companies by easing certain hedge documentation requirements. The guidance is effective for the Company beginning October 1, 2019, with early adoption permitted. Upon adoption, the transition requirements and elections will be applied to hedging relationships existing on the date of adoption. The Company does not currently apply hedge accounting to any of its risk management activities and thus does not expect the amendments to have any impact on its financial position, results of operations and cash flows upon adoption.

In October 2018, the FASB issued ASU No. 2018-16, an amendment to ASC 815, Derivatives and Hedging, which permits the use of the Overnight Swap Index rate based on the Secured Overnight Financing Rate as an additional acceptable U.S. benchmark interest rate for hedge accounting purposes. The guidance is effective for the Company beginning October 1, 2019, with early adoption permitted. The Company does not currently apply hedge accounting to any of its risk management activities and thus does not expect the amendments to have any impact on its financial position, results of operations and cash flows upon adoption.

Stock Compensation

In June 2018, the FASB issued ASU No. 2018-07, an amendment to ASC 718, Compensation - Stock Compensation, which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. The guidance is effective for the Company beginning October 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of the amendment on the Company's financial position, results of operations and cash flows upon adoption.

Fair Value

In August 2018, the FASB issued ASU No. 2018-13, an amendment to ASC 820, Fair Value Measurement, which removes, modifies and adds to certain disclosure requirements of fair value measurements. Disclosure requirements removed include the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. Modifications include considerations around the requirement to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse. The additions include the requirement to disclose changes in unrealized gains and losses for the period in other comprehensive income for recurring Level 3 fair value measurements held and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The guidance is effective for the Company beginning October 1, 2020, with early adoption permitted. Upon adoption, the amendments will be applied on a prospective or retrospective basis depending on the specific amendments' transition requirements. The Company is currently evaluating the amendments to understand the impact on its financial position, results of operations, cash flows and disclosures upon adoption and will apply the new guidance.

Compensation - Retirement Benefits

In August 2018, the FASB issued ASU No. 2018-14, an amendment to ASC 715, Compensation - Retirement Benefits, which removes disclosures that no longer are considered cost-beneficial, clarifies the specific requirements of certain disclosures and adds new disclosure requirements identified as relevant. The guidance is effective for the Company beginning October 1, 2021, with early adoption permitted. Upon adoption, the amendments will be applied on a retrospective basis. The Company is continuing to evaluate the amendment to fully understand the impact on the Company's disclosures upon adoption.

3. REVENUE

Revenue is recognized when a performance obligation is satisfied by transferring control of a product or service to a customer. Revenue is measured based on consideration specified in a contract with a customer using the output method of progress. The Company elected to apply the invoice practical expedient for recognizing revenue, whereby the amounts invoiced to customers represent the value to the customer and the Company's performance completion as of the invoice date. Therefore we do not disclose related unsatisfied performance obligations. The Company also elected the practical expedient to exclude from the transaction price all sales taxes that are assessed by a governmental authority and therefore presents sales tax net in operating revenues on the Unaudited Condensed Consolidated Statements of Operations.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Below is a listing of performance obligations that arise from contracts with customers, along with details on the satisfaction of each performance obligation, the significant payment terms and the nature of the goods and services being transferred, by reporting segment and other business operations:

Revenue Recognized Over Time:

Segment	Performance Obligation	Description
Natural Gas Distribution	Natural gas utility sales	<p>NJNG's performance obligation is to provide natural gas to residential, commercial and industrial customers as demanded, based on regulated tariff rates, which are established by the BPU. Revenues from the sale of natural gas are recognized in the period that gas is delivered and consumed by customers, including an estimate for quantities consumed but not billed during the period. Payment is due each month for the previous month's deliveries. Natural gas sales to individual customers are based on meter readings, which are performed on a systematic basis throughout the billing period. The unbilled revenue estimates are based on estimated customer usage by customer type, weather effects and the most current tariff rates. NJNG is entitled to be compensated for performance completed until service is terminated.</p> <p>Customers may elect to purchase the natural gas commodity from NJNG or may contract separately to purchase natural gas directly from third-party suppliers. As NJNG is acting as an agent on behalf of the third party supplier, revenue is recorded for the delivery of natural gas to the customer.</p>
Clean Energy Ventures	Commercial solar and wind electricity	<p>Clean Energy Ventures operates wholly-owned solar and formerly operated wind projects that recognize revenue as electricity is generated and transferred to the customer. The performance obligation is to provide electricity to the customer in accordance with contract terms or the interconnection agreement and is satisfied upon transfer of electricity generated. Due to the sale of our wind assets, wind electricity sales ceased in February 2019.</p> <p>Revenue is recognized as invoiced and the payment is due each month for the previous month's services.</p>
Clean Energy Ventures	Residential solar electricity	<p>Clean Energy Ventures provides access to residential rooftop and ground-mount solar equipment to customers who then pay the Company a monthly fee. The performance obligation is to provide electricity to the customer based on generation from the underlying residential solar asset and is satisfied upon transfer of electricity generated.</p>
Energy Services	Wholesale natural gas services	<p>Revenue is derived from the contract terms and is recognized as invoiced, with the payment due each month for the previous month's services.</p> <p>The performance obligation of Energy Services is to provide the customer transportation, storage and asset management services on an as needed basis. Energy Services generates revenue through management fees, demand charges, reservation fees and transportation charges centered around the buying and selling of the natural gas commodity, representing one series of distinct performance obligations.</p>

Revenue is recognized based upon the underlying natural gas quantities physically delivered and the customer obtaining control. Energy Services invoices customers on a monthly basis in line with the terms of the contract and based on the services provided. Payment is due each month for the previous month's invoiced services.

Home
Services and
Other

Service
contracts

Home Services enters into service contracts with homeowners to provide maintenance and replacement services of applicable heating, cooling or ventilation equipment. All services provided relate to a distinct performance obligation which is to provide services for the specific equipment over the term of the contract.

Revenue is recognized on a straight line basis over the term of the contract and payment is due upon receipt of the invoice.

Revenue Recognized at a Point in Time:

Home
Services and
Other

Installations

Home Services installs appliances, including but not limited to, furnaces, air conditioning units, boilers and generators to customers. The distinct performance obligation is the installation of the contracted appliance, which is satisfied at the point in time the item is installed.

The transaction price for each installation differs accordingly. Revenue is recognition at a point in time upon completion of the installation, which is when the customer is billed.

New Jersey Resources Corporation
Part INOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Disaggregated revenues from contracts with customers by product line and by reporting segment and other business operations during the three months ended March 31, 2019 is as follows:

(Thousands)	Regulated		Unregulated		Total
	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Home Services and Other	
Natural gas utility sales	\$ 288,168	—	—	—	\$288,168
Wholesale natural gas services	—	—	12,248	—	12,248
Service contracts	—	—	—	7,847	7,847
Installations and maintenance	—	—	—	4,486	4,486
Electricity sales	—	5,058	—	—	5,058
Eliminations ⁽¹⁾	—	—	—	(652)	(652)
Revenues from contracts with customers	288,168	5,058	12,248	11,681	317,155
Alternative revenue programs	7,901	—	—	—	7,901
Derivative Instruments	5,351	6,302	535,577	—	547,230
Eliminations ⁽¹⁾	—	—	(6,031)	—	(6,031)
Revenues out of scope	13,252	6,302	529,546	—	549,100
Total operating revenues	\$ 301,420	11,360	541,794	11,681	\$866,255

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

Disaggregated revenues from contracts with customers by product line and by reporting segment and other business operations during the six months ended March 31, 2019 is as follows:

(Thousands)	Regulated		Unregulated		Total
	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Home Services and Other	
Natural gas utility sales	\$ 483,151	—	—	—	\$483,151
Wholesale natural gas services	—	—	22,328	—	22,328
Service contracts	—	—	—	15,643	15,643
Installations and maintenance	—	—	—	9,180	9,180
Electricity sales	—	12,199	—	—	12,199
Eliminations ⁽¹⁾	—	—	—	(1,197)	(1,197)
Revenues from contracts with customers	483,151	12,199	22,328	23,626	541,304
Alternative revenue programs	7,034	—	—	—	7,034
Derivative Instruments	11,200	14,058	1,112,764	—	1,138,022
Eliminations ⁽¹⁾	—	—	(8,338)	—	(8,338)
Revenues out of scope	18,234	14,058	1,104,426	—	1,136,718
Total operating revenues	\$ 501,385	26,257	1,126,754	23,626	\$1,678,022

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

Disaggregated revenues from contracts with customers by customer type and by reporting segment and other business operations during the three months ended March 31, 2019 is as follows:

(Thousands)	Regulated	Unregulated			Total
	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Home Services and Other	
Residential	\$ 204,518	2,191	—	11,417	\$ 218,126
Commercial and industrial	61,452	2,867	12,248	264	76,831
Firm transportation	20,776	—	—	—	20,776
Interruptible and off-tariff	1,422	—	—	—	1,422
Revenues out of scope	13,252	6,302	529,546	—	549,100
Total operating revenues	\$ 301,420	11,360	541,794	11,681	\$ 866,255

New Jersey Resources Corporation
Part INOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Disaggregated revenues from contracts with customers by customer type and by reporting segment and other business operations during the six months ended March 31, 2019, as follows:

(Thousands)	Regulated		Unregulated		Total
	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Home Services and Other	
Residential	\$ 338,208	4,323	—	23,134	\$365,665
Commercial and industrial	102,180	7,876	22,328	492	132,876
Firm transportation	39,710	—	—	—	39,710
Interruptible and off-tariff	3,053	—	—	—	3,053
Revenues out of scope	18,234	14,058	1,104,426	—	1,136,718
Total operating revenues	\$ 501,385	26,257	1,126,754	23,626	\$ 1,678,022

Customer Accounts Receivable/Credit Balances and Deposits

The timing of revenue recognition, customer billings and cash collections result in accounts receivables, billed and unbilled, and customers' credit balances and deposits on the Unaudited Condensed Consolidated Balance Sheets during the six months ended March 31, 2019 are as follows:

(Thousands)	Customer Accounts Receivable		Customers' Credit Balances and Deposits	
	Billed	Unbilled		
Balance as of October 1, 2018	\$205,490	\$7,199	\$ 27,325	
Increase (decrease)	68,434	35,651	(9,163)	
Balance as of March 31, 2019	\$273,924	\$42,850	\$ 18,162	

The following table provides information about receivables and revenue earned on contracts in progress in excess of billings, which are included within accounts receivable, billed and unbilled, and customers' credit balances and deposits, respectively, on the Unaudited Condensed Consolidated Balance Sheets as of March 31, 2019:

(Thousands)	Natural Gas Distribution		Clean Energy Ventures		Home Services and Other		Eliminations	Total
Customer accounts receivable								
Billed	\$ 113,472	2,557	156,349	2,344	(798)		\$273,924	
Unbilled	42,850	—	—	—	—		42,850	
Customers' credit balances and deposits	(18,159)	—	—	(3)	—		(18,162)	
Total	\$ 138,163	2,557	156,349	2,341	(798)		\$298,612	

4. REGULATION

NJNG is subject to cost-based regulation, therefore, it is permitted to recover authorized operating expenses and earn a reasonable return on its utility capital investments based on the BPU's approval. The impact of the ratemaking process and decisions authorized by the BPU allows NJNG to capitalize or defer certain costs that are expected to be recovered from its customers as regulatory assets and to recognize certain obligations representing amounts that are probable future expenditures as regulatory liabilities in accordance with accounting guidance applicable to regulated operations.

NJNG's recovery of costs is facilitated through its base rates, BGSS and other regulatory tariff riders. NJNG is required to make annual filings to the BPU for review of its BGSS, CIP and various other programs and related rates. Annual rate changes are typically requested to be effective at the beginning of the following fiscal year. All rate and program changes are subject to proper notification and BPU review and approval. In addition, NJNG is also permitted to implement certain BGSS rate changes on a provisional basis with proper notification to the BPU.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Regulatory assets and liabilities included on the Unaudited Condensed Consolidated Balance Sheets are comprised of the following:

(Thousands)	March 31, September 30,	
	2019	2018
Regulatory assets-current		
New Jersey Clean Energy Program	\$ 5,772	\$ 14,052
Underrecovered gas costs	12,093	4,137
Conservation Incentive Program	40	—
Derivatives at fair value, net	1	108
Total current regulatory assets	\$ 17,906	\$ 18,297
Regulatory assets-noncurrent		
Environmental remediation costs		
Expended, net of recoveries	\$ 31,436	\$ 33,017
Liability for future expenditures	128,897	130,800
Deferred income taxes	18,499	17,225
Derivatives at fair value, net	9	—
SAVEGREEN	5,570	8,636
Postemployment and other benefit costs	135,316	136,716
Deferred storm damage costs	9,772	10,858
Cost of removal	37,847	22,339
Other noncurrent regulatory assets	9,074	9,001
Total noncurrent regulatory assets	\$ 376,420	\$ 368,592
Regulatory liabilities-current		
Conservation Incentive Program	\$ —	\$ 6,994
Derivatives at fair value, net	3,717	1,191
Total current regulatory liabilities	\$ 3,717	\$ 8,185
Regulatory liabilities-noncurrent		
Tax Act impact ⁽¹⁾	\$ 202,912	\$ 205,410
New Jersey Clean Energy Program	4,198	1,902
Other noncurrent regulatory liabilities	1,759	1,827
Total noncurrent regulatory liabilities	\$ 208,869	\$ 209,139

(1) Reflects the re-measurement and subsequent amortization of NJNG's net deferred tax liabilities as a result of the change in federal tax rates enacted in the Tax Act.

Regulatory filings and/or actions that occurred during the current fiscal year include the following:

On December 18, 2018, the BPU approved a decrease in NJNG's EE recovery rate reflecting actual costs incurred through September 30, 2018, which will result in an annual decrease of \$8.8 million, effective January 1, 2019.

On December 28, 2018, NJNG notified the BPU that it will increase the BGSS rate, effective February 1, 2019, resulting in an estimated \$10.9 million increase to the revenues credited to BGSS from February through September 30, 2019.

•

On February 28, 2019, NJNG filed a petition with the BPU seeking authority to implement a five-year IIP. The IIP consists of two components, transmission and distribution investments and information technology replacement and enhancements. The total investment for the IIP is approximately \$507 million. All approved investments will be recovered through annual filings to adjust base rates.

On March 29, 2019, the BPU approved NJNG's annual SBC application requesting recovery of remediation expenses incurred through June 30, 2018, an increase in the RAC rate of \$1.4 million and an increase in the NJCEP factor of \$1.9 million, effective April 1, 2019.

On March 29, 2019, NJNG filed a petition with the BPU requesting a base rate increase of approximately \$8.7 million for the recovery associated with NJ RISE and SAFE II capital investment costs of approximately \$75 million made through June 30, 2019. Changes to base rates are anticipated to be effective October 1, 2019.

On March 29, 2019, NJNG filed a base rate case with the BPU requesting a natural gas revenue increase of \$128.2 million, including a change in the Company's overall rate of return on rate base to 7.87 percent. NJNG is also seeking permission to request recovery for SRL in a future filing, upon completion of the project.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

5. DERIVATIVE INSTRUMENTS

The Company is subject primarily to commodity price risk due to fluctuations in the market price of natural gas, SRECs and electricity. To manage this risk, the Company enters into a variety of derivative instruments including, but not limited to, futures contracts, physical forward contracts, financial options and swaps to economically hedge the commodity price risk associated with its existing and anticipated commitments to purchase and sell natural gas, SRECs and electricity. In addition, the Company is exposed to foreign currency and interest rate risk, the Company may utilize foreign currency derivatives to hedge Canadian dollar denominated gas purchases and/or sales and interest rate derivatives to reduce exposure to fluctuations in interest rates. All of these types of contracts are accounted for as derivatives. Accordingly, all of the financial and certain of the Company's physical derivative instruments are recorded at fair value on the Unaudited Condensed Consolidated Balance Sheets. For a more detailed discussion of the Company's fair value measurement policies and level disclosures associated with NJR's derivative instruments, see Note 6. Fair Value.

Energy Services

Energy Services chooses not to designate its financial commodity and physical forward commodity derivatives as accounting hedges or to elect NPNS. The changes in the fair value of these derivatives are recorded as a component of gas purchases or operating revenues, as appropriate for Energy Services, on the Unaudited Condensed Consolidated Statements of Operations as unrealized gains or losses. For Energy Services at settlement, realized gains and losses on all financial derivative instruments are recognized as a component of gas purchases and realized gains and losses on all physical derivatives follow the presentation of the related unrealized gains and losses as a component of either gas purchases or operating revenues.

Energy Services also enters into natural gas transactions in Canada and, consequently, is exposed to fluctuations in the value of Canadian currency relative to the U.S. dollar. Energy Services may utilize foreign currency derivatives to lock in the exchange rates associated with natural gas transactions denominated in Canadian currency. The derivatives may include currency forwards, futures, or swaps and are accounted for as derivatives. These derivatives are typically used to hedge demand fee payments on pipeline capacity, storage and gas purchase agreements.

As a result of Energy Services entering into transactions to borrow natural gas, commonly referred to as "park and loans," an embedded derivative is recognized relating to differences between the fair value of the amount borrowed and the fair value of the amount that will ultimately be repaid, based on changes in the forward price for natural gas prices at the borrowed location over the contract term. This embedded derivative is accounted for as a forward sale in the month in which the repayment of the borrowed gas is expected to occur, and is considered a derivative transaction that is recorded at fair value on the Unaudited Condensed Consolidated Balance Sheets, with changes in value recognized in current period earnings.

Expected production of SRECs is hedged through the use of forward and futures contracts. All contracts require the Company to physically deliver SRECs through the transfer of certificates as per contractual settlement schedules. For transactions occurring on or before December 31, 2015, the Company elected NPNS accounting treatment on SREC forward and futures contracts. Effective January 1, 2016, on a prospective basis, Energy Services no longer elects NPNS accounting treatment on SREC contracts entered into from January 1, 2016, and recognizes changes in the fair value of these derivatives as a component of operating revenues. Upon settlement of the contract, the related revenue

is recognized when the SREC is transferred to the counterparty. NPNS is a contract-by-contract election and, where appropriate, the Company can and may elect normal accounting for certain contracts.

Natural Gas Distribution

Changes in fair value of NJNG's financial commodity derivatives are recorded as a component of regulatory assets or liabilities on the Unaudited Condensed Consolidated Balance Sheets. The Company elects NPNS accounting treatment on all physical commodity contracts that NJNG entered into on or before December 31, 2015, and accounts for these contracts on an accrual basis. Accordingly, physical natural gas purchases are recognized in regulatory assets or liabilities on the Unaudited Condensed Consolidated Balance Sheets when the contract settles and the natural gas is delivered. The average cost of natural gas is charged to expense in the current period earnings based on the BGSS factor times the therm sales. Effective for contracts executed on or after January 1, 2016, NJNG no longer elects NPNS accounting treatment on all physical forward commodity contracts. However, since NPNS is a contract-by-contract election, where it makes sense to do so, NJNG can and may elect certain contracts to be normal. Because NJNG recovers these amounts through future BGSS rates as increases or decreases to the cost of natural gas in NJNG's tariff for gas service, the changes in fair value of these contracts are deferred as a component of regulatory assets or liabilities on the Unaudited Condensed Consolidated Balance Sheets.

Edgar Filing: NEW JERSEY RESOURCES CORP - Form 10-Q

Financial commodity contracts	Derivatives - current	17,053	30,279	19,169	28,176
	Derivatives - noncurrent	12,264	6,599	6,630	11,548
Foreign currency contracts	Derivatives - current	2	210	—	126
	Derivatives - noncurrent	—	144	—	118
Home Services and Other:					
Interest rate contracts	Derivatives - current	120	—	381	—
Total fair value of derivatives		\$ 35,989	\$ 72,946	\$ 37,956	\$ 69,634

Offsetting of Derivatives

The Company transacts under master netting arrangements or equivalent agreements that allow it to offset derivative assets and liabilities with the same counterparty. However, the Company's policy is to present its derivative assets and liabilities on a gross basis at the contract level unit of account on the Unaudited Condensed Consolidated Balance Sheets.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following table summarizes the reported gross amounts, the amounts that the Company has the right to offset but elects not to, financial collateral, as well as the net amounts the Company could present on the Unaudited Condensed Consolidated Balance Sheets but elects not to.

(Thousands)	Amounts Presented on Balance Sheets ⁽¹⁾	Offsetting Derivative Instruments ⁽²⁾	Financial Collateral Received/Pledged ⁽³⁾	Net Amounts ⁽⁴⁾
As of December 31, 2018:				
Derivative assets:				
Energy Services				
Physical commodity contracts	\$ 5,881	\$(1,428)	\$ (200)	\$ 4,253
Financial commodity contracts	29,317	(25,458)	(2,389)	1,470
Foreign currency contracts	2	(2)	—	—
Total Energy Services	\$ 35,200	\$(26,888)	\$ (2,589)	\$ 5,723
Natural Gas Distribution				
Physical commodity contracts	\$ 91	\$—	\$ —	\$ 91
Financial commodity contracts	578	(7)	(571)	—
Total Natural Gas Distribution	\$ 669	\$(7)	\$ (571)	\$ 91
Home Services and Other				
Interest rate contracts	\$ 120	\$—	\$ —	\$ 120
Total Home Services and Other	\$ 120	\$—	\$ —	\$ 120
Derivative liabilities:				
Energy Services				
Physical commodity contracts	\$ 35,658	\$(1,428)	\$ —	\$ 34,230
Financial commodity contracts	36,878	(25,458)	(9,032)	2,388
Foreign currency contracts	354	(2)	—	352
Total Energy Services	\$ 72,890	\$(26,888)	\$ (9,032)	\$ 36,970
Natural Gas Distribution				
Physical commodity contracts	\$ 49	\$—	\$ —	\$ 49
Financial commodity contracts	7	(7)	—	—
Total Natural Gas Distribution	\$ 56	\$(7)	\$ —	\$ 49
As of September 30, 2018:				
Derivative assets:				
Energy Services				
Physical commodity contracts	\$ 11,597	\$(3,944)	\$ (200)	\$ 7,453
Financial commodity contracts	25,799	(18,775)	—	7,024
Total Energy Services	\$ 37,396	\$(22,719)	\$ (200)	\$ 14,477
Natural Gas Distribution				
Physical commodity contracts	\$ 85	\$(3)	\$ —	\$ 82
Financial commodity contracts	94	—	(94)	—
Total Natural Gas Distribution	\$ 179	\$(3)	\$ (94)	\$ 82
Home Services and Other				
Interest rate contracts	\$ 381	\$—	\$ —	\$ 381

Total Home Services and Other	\$ 381	\$—	\$ —	\$ 381
Derivative liabilities:				
Energy Services				
Physical commodity contracts	\$ 29,474	\$(3,944)	\$ —	\$ 25,530
Financial commodity contracts	39,724	(18,775)	(20,949)	—
Foreign currency contracts	244	—	—	244
Total Energy Services	\$ 69,442	\$(22,719)	\$ (20,949)	\$ 25,774
Natural Gas Distribution				
Physical commodity contracts	\$ 192	\$(3)	\$ —	\$ 189
Total Natural Gas Distribution	\$ 192	\$(3)	\$ —	\$ 189

- (1) Derivative assets and liabilities are presented on a gross basis on the balance sheet as the Company does not elect balance sheet offsetting under ASC 210-20.
- (2) Includes transactions with NAESB netting election, transactions held by FCMs with net margining and transactions with ISDA netting.
- (3) Financial collateral includes cash balances at FCMs as well as cash received from or pledged to other counterparties.
- (4) Net amounts represent presentation of derivative assets and liabilities if the Company were to elect balance sheet offsetting under ASC 210-20.

New Jersey Resources Corporation
Part INOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Energy Services utilizes financial derivatives to economically hedge the gross margin associated with the purchase of physical gas to be used for storage injection and its subsequent sale at a later date. The gains or (losses) on the financial transactions that are economic hedges of the cost of the purchased gas are recognized prior to the gains or (losses) on the physical transaction, which are recognized in earnings when the natural gas is delivered. Therefore, mismatches between the timing of the recognition of realized gains or (losses) on the financial derivative instruments and gains or (losses) associated with the actual sale of the natural gas that is being economically hedged along with fair value changes in derivative instruments creates volatility in the results of Energy Services, although the Company's intended economic results relating to the entire transaction are unaffected.

The following table reflects the effect of derivative instruments on the Unaudited Condensed Consolidated Statements of Operations as of:

(Thousands)	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives			
		Three Months Ended		Six Months Ended	
		March 31, 2019	2018	March 31, 2019	2018
Derivatives not designated as hedging instruments:					
Energy Services:					
Physical commodity contracts	Operating revenues	\$ 171	\$(11,952)	\$(1,361)	\$(10,742)
Physical commodity contracts	Gas purchases	3,306	(44,646)	(2,126)	(67,343)
Financial commodity contracts	Gas purchases	(2,231)	13,767	(5,187)	(12,230)
Foreign currency contracts	Gas purchases	121	(215)	(225)	(263)
Home Services and Other:					
Interest rate contracts	Interest expense	(62)	121	(185)	121
Total unrealized and realized losses		\$ 1,305	\$(42,925)	\$(9,084)	\$(90,457)

NJNG's derivative contracts are part of the Company's risk management activities that relate to its natural gas purchases, BGSS incentive programs and debt financing. These transactions are entered into pursuant to regulatory approval. At settlement, the resulting gains and/or losses are payable to or recoverable from utility customers and are deferred in regulatory assets or liabilities resulting in no impact to earnings. The following table reflects the (losses) gains associated with NJNG's derivative instruments as of:

(Thousands)	Three Months Ended		Six Months Ended		
	March 31, 2019	2018	March 31, 2019	2018	
Natural Gas Distribution:					
Physical commodity contracts	\$ 1,436	\$(12,879)	\$ 4,413	\$(15,855)	
Financial commodity contracts	(1,157)	7,232	3,239	(1,576)	
Interest rate contracts	—	12,534	—	8,467	
Total unrealized and realized (losses) gains		\$ 279	\$ 6,887	\$ 7,652	\$(8,964)

NJNG and Energy Services had the following outstanding long (short) derivatives as of:

	Volume (Bcf)		
	March 31,	September 30,	
	2019	2018	
Natural Gas Distribution			
Futures	32.1	27.9	
Physical	23.6	23.1	
Energy Services			
Futures	(4.0)	(7.0))
Physical	18.6	51.2	
Swaps	(8.5)	(17.3))

Not included in the previous table are Energy Services' net notional amount of foreign currency transactions of approximately \$4.3 million, NJR's interest rate swap, as previously discussed, and 932,000 SRECs at Energy Services that are open as of March 31, 2019.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Broker Margin

Futures exchanges have contract specific margin requirements that require the posting of cash or cash equivalents relating to traded contracts. Margin requirements consist of initial margin that is posted upon the initiation of a position, maintenance margin that is usually expressed as a percent of initial margin, and variation margin that fluctuates based on the daily marked-to-market relative to maintenance margin requirements. The Company maintains separate broker margin accounts for the Natural Gas Distribution and Energy Services segments. The balances are as follows:

(Thousands)	Balance Sheet Location	March 31, September 30,	
		2019	2018
Natural Gas Distribution	Restricted broker margin accounts	\$ 2,049	\$ 2,038
Energy Services	Restricted broker margin accounts	\$ 58,485	\$ 51,681

Wholesale Credit Risk

NJNG, Energy Services and Clean Energy Ventures are exposed to credit risk as a result of their sales/wholesale marketing activities. As a result of the inherent volatility in the prices of natural gas commodities, derivatives, SRECs, electricity and RECs, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If a counterparty fails to perform the obligations under its contract (e.g., failed to deliver or pay for natural gas, SRECs, electricity or RECs), then the Company could sustain a loss.

NJR monitors and manages the credit risk of its wholesale operations through credit policies and procedures that management believes reduce overall credit risk. These policies include a review and evaluation of current and prospective counterparties' financial statements and/or credit ratings, daily monitoring of counterparties' credit limits and exposure, daily communication with traders regarding credit status and the use of credit mitigation measures, such as collateral requirements and netting agreements. Examples of collateral include letters of credit and cash received for either prepayment or margin deposit. Collateral may be requested due to NJR's election not to extend credit or because exposure exceeds defined thresholds. Most of NJR's wholesale marketing contracts contain standard netting provisions. These contracts include those governed by ISDA and the NAESB. The netting provisions refer to payment netting, whereby receivables and payables with the same counterparty are offset and the resulting net amount is paid to the party to which it is due.

Internally-rated exposure applies to counterparties that are not rated by S&P, Fitch or Moody's. In these cases, the counterparty's or guarantor's financial statements are reviewed, and similar methodologies and ratios used by S&P, Fitch and/or Moody's are applied to arrive at a substitute rating. Gross credit exposure is defined as the unrealized fair value of physical and financial derivative commodity contracts, plus any outstanding wholesale receivable for the value of natural gas delivered and/or financial derivative commodity contract that has settled for which payment has not yet been received.

The following is a summary of gross credit exposures grouped by investment and noninvestment grade counterparties, as of March 31, 2019. The amounts presented below have not been reduced by any collateral received or netting and exclude accounts receivable for NJNG retail natural gas sales and services and Clean Energy Ventures residential solar installations.

(Thousands)	Gross Credit Exposure
Investment grade	\$ 187,355
Noninvestment grade	24,891
Internally rated investment grade	26,002
Internally rated noninvestment grade	31,345
Total	\$ 269,593

Conversely, certain of NJNG's and Energy Services' derivative instruments are linked to agreements containing provisions that would require cash collateral payments from the Company if certain events occur. These provisions vary based upon the terms in individual counterparty agreements and can result in cash payments if NJNG's credit rating were to fall below its current level. NJNG's credit rating, with respect to S&P, reflects the overall corporate credit profile of NJR. Specifically, most, but not all, of these additional payments will be triggered if NJNG's debt is downgraded by the major credit agencies, regardless of investment grade status. In addition, some of these agreements include threshold amounts that would result in additional collateral payments if the values of derivative liabilities were to exceed the maximum values provided for in relevant counterparty agreements. Other provisions include payment features that are not specifically linked to ratings, but are based on certain financial metrics.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Collateral amounts associated with any of these conditions are determined based on a sliding scale and are contingent upon the degree to which the Company's credit rating and/or financial metrics deteriorate, and the extent to which liability amounts exceed applicable threshold limits. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on March 31, 2019 and September 30, 2018, was \$102,000 and \$124,000, respectively, for which the Company had not posted collateral. If all thresholds related to the credit-risk-related contingent features underlying these agreements had been invoked on March 31, 2019 and September 30, 2018, the Company would have been required to post an additional \$33,000 and \$33,000, respectively, to its counterparties. These amounts differ from the respective net derivative liabilities reflected on the Unaudited Condensed Consolidated Balance Sheets because the agreements also include clauses, commonly known as "Rights of Offset," that would permit the Company to offset its derivative assets against its derivative liabilities for determining additional collateral to be posted, as previously discussed.

6. FAIR VALUE

Fair Value of Assets and Liabilities

The fair value of cash and cash equivalents, accounts receivable, current loan receivables, accounts payable, commercial paper and borrowings under revolving credit facilities are estimated to equal their carrying amounts due to the short maturity of those instruments. Non-current loan receivables are recorded based on what the Company expects to receive, which approximates fair value. The Company regularly evaluates the credit quality and collection profile of its customers to approximate fair value.

The estimated fair value of long-term debt at NJNG and NJR, including current maturities, excluding capital leases, debt issuance costs and solar asset financing obligations, is as follows:

(Thousands)	March 31, September 30,	
	2019	2018
Carrying value ⁽¹⁾ ⁽²⁾ ⁽³⁾	\$ 1,172,045	\$ 1,172,045
Fair market value	\$ 1,200,720	\$ 1,158,051

(1) Excludes capital leases of \$40.2 million and \$35.9 million as of March 31, 2019 and September 30, 2018, respectively.

(2) Excludes NJNG's debt issuance costs of \$6.4 million and \$6.5 million as of March 31, 2019 and September 30, 2018, respectively.

(3) Excludes NJR's debt issuance costs of \$1.1 million for both March 31, 2019 and September 30, 2018.

NJR utilizes a discounted cash flow method to determine the fair value of its debt. Inputs include observable municipal and corporate yields, as appropriate for the maturity of the specific issue and the Company's credit rating. As of March 31, 2019, NJR discloses its debt within Level 2 of the fair value hierarchy.

Fair Value Hierarchy

NJR applies fair value measurement guidance to its financial assets and liabilities, as appropriate, which include financial derivatives and physical commodity contracts qualifying as derivatives, investments in equity securities and other financial assets and liabilities. In addition, authoritative accounting literature prescribes the use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the source of the data

used to develop the price inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to inputs that are based on unobservable market data and include the following:

Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets. NJR's Level 1 assets and liabilities include exchange traded natural gas futures and options contracts, listed equities and money market funds. Exchange traded futures and options contracts include all energy contracts traded on the NYMEX, CME and ICE that NJR refers internally to as basis swaps, fixed swaps, futures and financial options that are cleared through a FCM.

Level 2 Other significant observable inputs such as interest rates or price data, including both commodity and basis pricing that is observed either directly or indirectly from publications or pricing services. NJR's Level 2 assets and liabilities include over-the-counter physical forward commodity contracts and swap contracts, SREC forward sales or derivatives that are initially valued using observable quotes and are subsequently adjusted to include time value, credit risk or estimated transport pricing components for which no basis price is available. Level 2 financial derivatives consist of transactions with non-FCM counterparties (basis swaps, fixed swaps and/or options). NJNG's treasury lock is also considered Level 2 as valuation is based on quoted market interest and swap rates as inputs to the valuation model. Inputs are verifiable and do not require significant management judgment. For some physical commodity contracts the Company utilizes transportation tariff rates that are publicly available and that it considers to be observable inputs

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

that are equivalent to market data received from an independent source. There are no significant judgments or adjustments applied to the transportation tariff inputs and no market perspective is required. Even if the transportation tariff input were considered to be a “model,” it would still be considered to be a Level 2 input as the data is:

- widely accepted and public;
- non-proprietary and sourced from an independent third party; and
- observable and published.

These additional adjustments are generally not considered to be significant to the ultimate recognized values.

Level 3 Inputs derived from a significant amount of unobservable market data. These include NJR's best estimate of fair value and are derived primarily through the use of internal valuation methodologies.

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

(Thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of March 31, 2019:				
Assets:				
Physical commodity contracts	\$—	\$ 5,972	\$ —	\$5,972
Financial commodity contracts	26,036	3,859	—	29,895
Financial commodity contracts - foreign exchange	—	2	—	2
Interest rate contracts	—	120	—	120
Money market funds	74,923	—	—	74,923
Other	1,947	—	—	1,947
Total assets at fair value	\$102,906	\$ 9,953	\$ —	\$112,859
Liabilities:				
Physical commodity contracts	\$—	\$ 35,707	\$ —	\$35,707
Financial commodity contracts	36,885	—	—	36,885
Financial commodity contracts - foreign exchange	—	354	—	354
Total liabilities at fair value	\$36,885	\$ 36,061	\$ —	\$72,946
As of September 30, 2018:				
Assets:				
Physical commodity contracts	\$—	\$ 11,682	\$ —	\$11,682
Financial commodity contracts	18,868	7,025	—	25,893
Interest rate contracts	—	381	—	381
Investments in equity securities	32,917	—	—	32,917
Other ⁽¹⁾	1,217	—	—	1,217
Total assets at fair value	\$53,002	\$ 19,088	\$ —	\$72,090

Liabilities:

Physical commodity contracts	\$—	\$ 29,666	\$	—	\$29,666
Financial commodity contracts	39,724	—	—	—	39,724
Financial commodity contracts - foreign exchange	—	244	—	—	244
Total liabilities at fair value	\$39,724	\$ 29,910	\$	—	\$69,634

(1) Includes money market funds.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7. INVESTMENTS IN EQUITY INVESTEEES

NJR's investments in equity method investees include the following as of:

(Thousands)	March 31, September 30,	
	2019	2018
Steckman Ridge ⁽¹⁾	\$ 115,775	\$ 117,001
PennEast	79,428	73,865
Total	\$ 195,203	\$ 190,866

⁽¹⁾ Includes loans with a total outstanding principal balance of \$70.4 million for both March 31, 2019 and September 30, 2018. The loans accrue interest at a variable rate that resets quarterly and are due October 1, 2023.

The Company, through its subsidiary NJR Pipeline Company, is an investor in PennEast, which is expected to construct and operate a 120-mile natural gas pipeline that will extend from northeast Pennsylvania to western New Jersey. PennEast has advised that it currently expects the pipeline to begin construction in 2020. However, construction could be delayed beyond 2020 due to factors that are beyond PennEast's ability to control or estimate precisely, including potential delays in obtaining (or the inability to obtain) governmental and regulatory approvals and land-use rights, and unforeseen construction delays.

NJNG and Energy Services have entered into storage and park and loan agreements with Steckman Ridge. In addition, NJNG has entered into a precedent capacity agreement with PennEast. See Note 14. Related Party Transactions for more information on these intercompany transactions.

8. EARNINGS PER SHARE

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

(Thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Net income, as reported	\$73,573	\$140,266	\$159,821	\$263,965
Basic earnings per share				
Weighted average shares of common stock outstanding-basic	88,836	87,595	88,692	87,295
Basic earnings per common share	\$0.83	\$1.60	\$1.80	\$3.02
Diluted earnings per share				
Weighted average shares of common stock outstanding-diluted	88,836	87,595	88,692	87,295
Incremental shares ⁽¹⁾	392	394	401	395
Weighted average shares of common stock outstanding-diluted	89,228	87,989	89,093	87,690
Diluted earnings per common share ⁽²⁾	\$0.82	\$1.59	\$1.79	\$3.01

⁽¹⁾ Incremental shares consist primarily of unvested stock awards and performance shares.

⁽²⁾ There were no anti-dilutive shares excluded from the calculation of diluted earnings per share during fiscal 2019 and 2018.

9. DEBT

NJR and NJNG finance working capital requirements and capital expenditures through various short-term debt and long-term financing arrangements, including a commercial paper program and committed unsecured credit facilities.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Credit Facilities

A summary of NJR's credit facility and NJNG's commercial paper program and credit facility are as follows:

(Thousands)	March 31, 2019	September 30, 2018	Expiration Dates
NJR			
Bank revolving credit facilities ⁽¹⁾	\$425,000	\$ 425,000	December 2023
Notes outstanding at end of period	\$—	\$ 87,950	
Weighted average interest rate at end of period	—	% 3.07	%
Amount available at end of period ⁽²⁾	\$421,315	\$ 322,144	
Bank revolving credit facilities ⁽¹⁾	\$100,000	\$—	April 2019
Amount available at end of period	\$100,000	\$—	
NJNG			
Bank revolving credit facilities ⁽¹⁾	\$250,000	\$ 250,000	December 2023
Commercial paper outstanding at end of period	\$45,900	\$ 64,000	
Weighted average interest rate at end of period	2.72	% 2.18	%
Amount available at end of period ⁽³⁾	\$203,369	\$ 185,269	

(1) Committed credit facilities, which require commitment fees on the unused amounts.

(2) Letters of credit outstanding total \$3.7 million and \$14.9 million for March 31, 2019 and September 30, 2018, respectively, which reduces amount available by the same amount.

(3) Letters of credit outstanding total \$731,000 for both March 31, 2019 and September 30, 2018, which reduces the amount available by the same amount.

On December 5, 2018, NJNG entered into an Amended and Restated Credit Agreement governing a \$250 million NJNG Credit Facility. The NJNG Credit Facility expires on December 5, 2023, subject to two mutual options for a one-year extension beyond that date. The NJNG Credit Facility permits the borrowing of revolving loans and swingline loans, as well as the issuance of letters of credit. The NJNG Credit Facility also includes an accordion feature, which would allow NJNG, in the absence of a default or event of default, to increase from time to time, with the existing or new lenders, the revolving credit commitments under the NJNG Credit Facility in minimum increments of \$50 million up to a maximum of \$100 million.

On December 5, 2018, NJR entered into an Amended and Restated Credit Agreement governing a \$425 million NJR Credit Facility. The NJR Credit Facility expires on December 5, 2023, subject to two mutual options for a one-year extension beyond that date. The NJR Credit Facility permits the borrowing of revolving loans and swingline loans, as well as the issuance of letters of credit. The NJR Credit Facility also includes an accordion feature, which would allow NJR, in the absence of a default or event of default, to increase from time to time, with the existing or new lenders, the revolving credit commitments under the NJR Credit Facility in minimum increments of \$50 million up to a maximum of \$250 million. Certain of NJR's unregulated subsidiaries have guaranteed all of NJR's obligations under the NJR Credit Facility.

For accounting purposes, the Company treated both of the new credit facilities as a debt modification.

On December 21, 2018, NJR entered into a four-month, \$100 million revolving line of credit facility, which expired on April 18, 2019. As of March 31, 2019, there were no borrowings against the facility.

Amounts available under credit facilities are reduced by bank or commercial paper borrowings, as applicable, and any outstanding letters of credit. Neither NJNG nor the results of its operations are obligated or pledged to support the NJR credit or debt shelf facilities.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Long-term Debt

NJNG

NJNG received \$9.9 million and \$7.8 million in December 2018 and 2017, respectively, in connection with the sale-leaseback of its natural gas meters. NJNG records a capital lease obligation that is paid over the term of the lease and has the option to purchase the meters back at fair value upon expiration of the lease. NJNG exercised early purchase options with respect to certain outstanding meter leases by making final principal payments of \$1.1 million during both the six months ended March 31, 2019 and 2018.

On April 18, 2019, NJNG remarketed three FMBs, in the amount of \$35.8 million, with a weighted average interest rate of 3.02 percent. The bonds have maturity dates ranging from April 2038 to April 2059.

10. EMPLOYEE BENEFIT PLANS

Pension and Other Postemployment Benefit Plans

The components of the net periodic cost for pension benefits, including the Company's Pension Equalization Plan, and OPEB costs (principally health care and life insurance) for employees and covered dependents were as follows:

	Pension		OPEB					
	Three Months Ended March 31,		Six Months Ended March 31,		Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	2019	2018	2019	2018	2019	2018	2019	2018
Service cost	\$1,846	\$2,034	\$3,691	\$4,069	\$1,101	\$1,151	\$2,202	\$2,303
Interest cost	3,043	2,624	6,086	5,247	2,081	1,591	4,162	3,182
Expected return on plan assets	(4,764)	(4,909)	(9,527)	(9,819)	(1,379)	(1,338)	(2,758)	(2,676)
Recognized actuarial loss	1,441	1,885	2,882	3,769	1,616	1,165	3,233	2,330
Prior service cost amortization	26	26	51	53	(91)	(91)	(182)	(182)
Net periodic benefit cost	\$1,592	\$1,660	\$3,183	\$3,319	\$3,328	\$2,478	\$6,657	\$4,957

The Company does not expect to be required to make additional contributions to fund the pension plans during fiscal 2019 or 2020 based on current actuarial assumptions; however, funding requirements are uncertain and can depend significantly on changes in actuarial assumptions, returns on plan assets and changes in the demographics of eligible employees and covered dependents. In addition, as in the past, the Company may elect to make contributions in excess of the minimum required amount to the plans. There were no discretionary contributions made during the six months ended March 31, 2019 and 2018.

11. INCOME TAXES

ASC Topic 740, Income Taxes requires the use of an estimated annual effective tax rate for purposes of determining the income tax provision during interim reporting periods. In calculating its estimated annual effective tax rate, NJR considers forecasted annual pre-tax income and estimated permanent book versus tax differences, as well as tax credits associated with solar and wind projects. For investment tax credits, the estimate is based on solar projects that

are probable of being completed and placed in service during the current fiscal year based on the best information available at each reporting period. For production tax credits, the estimate is based on the forecast of electricity produced during the current fiscal year based on the best information available at each reporting period. Adjustments to the effective tax rate and management's estimates will occur as information and assumptions change.

Changes in tax laws or tax rates are recognized in the financial reporting period that includes the enactment date, the date in which the act is signed into law.

NJR evaluates its tax positions to determine the appropriate accounting and recognition of potential future obligations associated with unrecognized tax benefits. During the six months ended March 31, 2019 and 2018, the Company determined there was no need to recognize any liabilities associated with uncertain tax positions.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The Tax Act

On December 22, 2017, the President signed into law the Tax Act. The law made several changes to the Internal Revenue Code of 1986, as amended, the most impactful to the Company of which was a reduction in the federal corporate income tax rate from 35 percent to 21 percent that became effective January 1, 2018. Since the Company's fiscal year end is September 30, it is required by the Internal Revenue Code to calculate a statutory rate based upon the federal tax rates in effect before and after the effective date of the change in the taxable year that includes the effective date. Accordingly, the Company applied a federal statutory tax rate of 24.5 percent during fiscal 2018 and as of October 1, 2018, uses the enacted rate of 21 percent. As a result of the changes associated with the Tax Act, the Company recognized a tax benefit of \$58.5 million during the six months ended March 31, 2018.

Effective Tax Rate

The forecasted effective tax rates were (5.8) percent and 17.2 percent, for the six months ended March 31, 2019 and 2018, respectively. The decrease in the effective tax rate, when compared with the prior fiscal year, is due primarily to a decrease in forecasted pre-tax income combined with the lower federal statutory rate, and an increase in forecasted tax credits for the fiscal year ending September 30, 2019. Forecasted tax credits, net of deferred income taxes, were \$45.2 million and \$23.2 million for fiscal 2019 and 2018, respectively.

To the extent there are discrete tax items that are not included in the forecasted effective tax rate, the actual effective tax rate will differ from the estimated annual effective tax rate. The Company recognized \$1.3 million and \$2.8 million during the six months ended March 31, 2019 and 2018, respectively, in excess tax benefits associated with the vesting of share-based awards, as a component of income tax (benefit) provision in its Unaudited Condensed Consolidated Statements of Operations. The six months ended March 31, 2018, also included the the changes associated with the Tax Act as previously discussed. As a result of these discrete items, NJR's actual effective tax rate was (6.6) percent and (7.9) percent during the six months ended March 31, 2019 and 2018, respectively.

Other Tax Items

As of March 31, 2019 and September 30, 2018, the Company had federal income tax net operating losses of approximately \$136.8 million. Federal net operating losses incurred before the implementation of the Tax Act can generally be carried back two years and forward 20 years and will begin to expire in fiscal 2036, with the remainder expiring by 2038. The Company expects to exercise its ability to carryback federal net operating losses to offset taxable income in prior periods.

For the net operating losses it expects to carryback, the Company estimated the portion considered refundable and recorded receivables of approximately \$23 million as of March 31, 2019 and September 30, 2018, as a component of other noncurrent assets on the Unaudited Condensed Consolidated Balance Sheets. Upon filing amended federal income tax returns to carryback its remaining federal net operating losses totaling \$24.5 million, the Company will reduce its taxable income in those periods and recapture federal investment tax credits of the same amount that were previously utilized to offset taxable income.

In addition, as of March 31, 2019 and September 30, 2018, the Company had ITC/PTC carryforwards of approximately \$109.9 million and \$121.1 million, respectively, which each have a life of 20 years. When the

Company carries back the federal net operating losses noted above, it expects to recapture investment tax credits totaling \$24.5 million. These recaptured tax credits are in addition to the \$109.9 million and will be carried forward to offset future taxable income. The Company expects to utilize this entire carryforward, which would begin to expire in fiscal 2033.

As of March 31, 2019 and September 30, 2018, the Company had state income tax net operating losses of approximately \$385.4 million and \$578.8 million, respectively. These state net operating losses have varying carry forward periods dictated by the state in which they were incurred. These state carry forward periods range from seven to 20 years and would begin to expire in fiscal 2021, with the majority expiring after 2035.

On February 7, 2019, Clean Energy Ventures finalized the sale of its remaining wind assets. As a result of the sale, it is more likely than not that certain state net operating loss carryforwards will not be realizable prior to their expiration. The Company had a valuation allowance of \$4 million as of March 31, 2019 and September 30, 2018, related to state net operating loss carryforwards in Montana, Iowa and Kansas. The remaining state income tax net operating losses are expected to be utilized prior to expiration.

In March 2019, the IRS commenced an examination of the Company's federal income tax return for fiscal 2016.

The State of New Jersey is conducting a general tax examination for fiscal years 2014 through 2017 related to NJRHS. All periods subsequent to those ended September 30, 2013 are statutorily open to examination.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

12. COMMITMENTS AND CONTINGENT LIABILITIES

Cash Commitments

NJNG has entered into long-term contracts, expiring at various dates through September 2024, for the supply, storage and transportation of natural gas. These contracts include annual fixed charges of approximately \$63.8 million at current contract rates and volumes for the remainder of the fiscal year, which are recoverable through BGSS.

For the purpose of securing storage and pipeline capacity, the Energy Services segment enters into storage and pipeline capacity contracts, which require the payment of certain demand charges by Energy Services to maintain the ability to access such natural gas storage or pipeline capacity, during a fixed time period, which generally ranges from one to 10 years. Demand charges are established by interstate storage and pipeline operators and are regulated by FERC. These demand charges represent commitments to pay storage providers or pipeline companies for the right to store and/or transport natural gas utilizing their respective assets.

Commitments as of March 31, 2019, for natural gas purchases and future demand fees for the next five fiscal year periods are as follows:

(Thousands)	2019	2020	2021	2022	2023	Thereafter
Energy Services:						
Natural gas purchases	\$212,509	\$98,677	\$12,253	\$—	\$—	\$—
Storage demand fees	16,112	26,227	15,648	11,749	6,953	2,599
Pipeline demand fees	34,875	69,617	38,650	24,811	19,186	5,424
Sub-total Energy Services	\$263,496	\$194,521	\$66,551	\$36,560	\$26,139	\$8,023
NJNG:						
Natural gas purchases	\$50,881	\$44,346	\$34,879	\$34,844	\$35,939	\$38,281
Storage demand fees	18,400	33,881	24,162	15,696	9,037	6,613
Pipeline demand fees	45,416	93,593	104,462	94,029	88,231	617,010
Sub-total NJNG	\$114,697	\$171,820	\$163,503	\$144,569	\$133,207	\$661,904
Total	\$378,193	\$366,341	\$230,054	\$181,129	\$159,346	\$669,927

Legal Proceedings

Manufactured Gas Plant Remediation

NJNG is responsible for the remedial cleanup of five MGP sites, dating back to gas operations in the late 1800s and early 1900s, which contain contaminated residues from former gas manufacturing operations. NJNG is currently involved in administrative proceedings with the NJDEP, and 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, under NJDEP regulations.

NJNG has had discussions with the NJDEP regarding NJNG's association with two additional sites located within its service territory, upon which former MGP operations appear to have been located in the late 1800s or early 1900s. NJNG agreed to perform a preliminary assessment and site investigation at these sites to determine if there is soil and groundwater contamination present indicative of MGP operations. Preliminary results at one of the sites indicated the

existence of contaminants from gas manufacturing activities. Upon completion of the site investigation phase, a remedial investigation will be conducted to further determine the nature and extent of potential contamination. Subsequent to this effort, and if sufficient information is available, the Company should be able to evaluate remedial alternatives, select an appropriate remedy that complies with NJDEP regulations and guidance, and estimate potential remedial costs. Given the progress made to date, the uncertainties regarding the extent of potential contamination and unknown efforts that may be necessary to remediate the site, the total amount of potential costs to complete all remedial actions cannot be reasonably estimated at this time. The costs associated with the completion of site investigation activities and the remedial investigation phase are estimated to be approximately \$600,000. Inclusive of this estimate, total costs incurred to date in the investigation of the site amount to approximately \$1.4 million. The Company will continue to gather information to further refine and enhance its estimate of potential costs as it becomes available.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

At the second site, NJNG is in the early investigatory stage, which includes conducting a preliminary assessment and site investigation to determine if there were former MGP operations active at the location and prior ownership of the site. NJNG will continue to gather information to determine whether a potential obligation exists to undertake further remedial investigation and remedial action, if any, and whether there are other potentially responsible parties.

NJNG periodically, and at least annually, performs an environmental review of MGP sites located in Atlantic Highlands, Berkeley, Long Branch, Manchester and Toms River, including a review of potential liability for investigation and remedial action. NJNG estimated at the time of the most recent review that total future expenditures to remediate and monitor the five MGP sites for which it is responsible, including potential liabilities for natural resource damages that might be brought by the NJDEP for alleged injury to groundwater or other natural resources concerning these sites, will range from approximately \$117.7 million to \$204.1 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. Where it is probable that costs will be incurred, and the information is sufficient to establish a range of possible liability, NJNG accrues the most likely amount in the range. If no point within the range is more likely than the other, it is NJNG's policy to accrue the lower end of the range. Accordingly, NJNG recorded an MGP remediation liability and a corresponding regulatory asset on the Unaudited Condensed Consolidated Balance Sheets of \$130.8 million as of September 30, 2018, based on the most likely amount at year end and \$128.9 million as of March 31, 2019, which includes adjustments for actual expenditures during fiscal 2019. 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 insurance recoveries, if any.

NJNG recovers its remediation expenditures, including carrying costs, over rolling seven-year periods pursuant to a RAC approved by the BPU. On March 29, 2019, the BPU approved NJNG's annual SBC filing requesting an increase in the RAC, which increased the annual recovery from \$7.1 million to \$8.5 million, effective April 1, 2019. As of March 31, 2019, \$31.4 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in regulatory assets on the Unaudited Condensed Consolidated Balance Sheets. NJNG will continue to seek recovery of MGP-related costs through the RAC. If any future regulatory position indicates that the recovery of such costs is not probable, the related non-recoverable costs would be charged to income in the period of such determination.

General

The Company is involved, and from time to time in the future may be involved, in a number of pending and threatened judicial, regulatory and arbitration proceedings relating to matters that arise in the ordinary course of business. In view of the inherent difficulty of predicting the outcome of litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, the Company cannot state with confidence what the eventual outcome of the pending litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter will be, if any. In accordance with applicable accounting guidance, NJR establishes accruals for litigation for those matters that present loss contingencies as to which it is both probable that a loss will be incurred and the amount of such loss can be reasonably estimated. NJR also discloses contingent matters for which there is a reasonable possibility of a loss. Based upon currently available information, NJR believes that the results of litigation that is currently pending, taken together, will not have a materially adverse effect on the Company's financial condition, results of operations or cash

flows. The actual results of resolving the pending litigation matters may be substantially higher than the amounts accrued.

The foregoing statements about NJR's litigation are based upon the Company's judgments, assumptions and estimates and are necessarily subjective and uncertain. The Company has a number of threatened and pending litigation matters at various stages. Certain of the Company's significant litigation is described below.

Stafford Township

In February 2015, a natural gas fire and explosion occurred in Stafford Township, New Jersey as a result of a natural gas leak emanating from an underground pipe. There were no fatalities, although several employees of NJNG were injured and several homes were damaged. NJNG notified its insurance carrier and believes that any costs associated with the incident, including attorneys' fees, property damage and other losses, will be substantially covered by insurance. All but one of the non-subrogated property damage claims and all of the personal injury claims asserted against the Company and co-defendants as well as all cross-claims have been settled subject to documentation as of April 30, 2019. The settlements will not have a material impact on the Company's financial position or results from operation.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

13. REPORTING SEGMENT AND OTHER OPERATIONS DATA

The Company organizes its businesses based on a combination of factors, including its products and its regulatory environment. As a result, the Company manages its businesses through the following reporting segments and other operations: the Natural Gas Distribution segment consists of regulated energy and off-system, capacity and storage management operations; the Clean Energy Ventures segment consists of capital investments in clean energy projects; the Energy Services segment consists of unregulated wholesale and retail energy operations; the Midstream segment consists of the Company's investments in natural gas transportation and storage facilities; the Home Services and Other operations consist of heating, cooling and water appliance sales, installations and services, other investments and general corporate activities.

Information related to the Company's various reporting segments and other operations is detailed below:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2019	2018	2019	2018
Operating revenues				
Natural Gas Distribution				
External customers	\$ 301,420	\$ 317,064	\$ 501,385	\$ 526,851
Clean Energy Ventures				
External customers	11,360	12,866	26,257	26,862
Energy Services				
External customers ⁽¹⁾	541,794	681,475	1,126,754	1,153,646
Intercompany	6,031	43,838	8,338	49,648
Subtotal	860,605	1,055,243	1,662,734	1,757,007
Home Services and Other				
External customers	11,681	7,638	23,626	16,989
Intercompany	652	623	1,197	1,229
Eliminations	(6,683)	(44,461)	(9,535)	(50,877)
Total	\$ 866,255	\$ 1,019,043	\$ 1,678,022	\$ 1,724,348
Depreciation and amortization				
Natural Gas Distribution	\$ 13,972	\$ 13,353	\$ 27,868	\$ 26,136
Clean Energy Ventures	8,091	8,928	16,014	17,863
Energy Services ⁽²⁾	25	15	52	29
Midstream	2	2	3	3
Subtotal	22,090	22,298	43,937	44,031
Home Services and Other	222	189	443	377
Eliminations	(1)	(27)	(237)	(94)
Total	\$ 22,311	\$ 22,460	\$ 44,143	\$ 44,314
Interest income ⁽³⁾				
Natural Gas Distribution	\$ 181	\$ 131	\$ 380	\$ 250
Energy Services	14	106	14	106
Midstream	945	771	2,001	1,435
Subtotal	1,140	1,008	2,395	1,791
Home Services and Other	669	354	1,105	558

Eliminations	(1,390	)(1,168	)(2,882	)(2,099)
Total	\$419	\$194	\$618	\$250	

(1) Includes sales to Canada, which are immaterial.

(2) The amortization of acquired wholesale energy contracts is excluded above and is included in gas purchases - nonutility on the Unaudited Condensed Consolidated Statements of Operations.

(3) Included in other income, net on the Unaudited Condensed Consolidated Statements of Operations.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2019	2018	March 31, 2019	2018
Interest expense, net of capitalized interest				
Natural Gas Distribution	\$5,762	\$6,523	\$11,865	\$13,059
Clean Energy Ventures	4,657	4,344	10,085	8,552
Energy Services	1,624	1,203	3,511	2,460
Midstream	565	385	1,108	694
Subtotal	12,608	12,455	26,569	24,765
Home Services and Other	611	21	1,003	111
Eliminations	(710)	(678)	(1,577)	(1,173)
Total	\$12,509	\$11,798	\$25,995	\$23,703
Income tax provision (benefit)				
Natural Gas Distribution	\$12,266	\$17,991	\$18,096	\$29,695
Clean Energy Ventures	(14,042)	(12,722)	(37,246)	(86,710)
Energy Services	(1,388)	23,965	8,256	37,708
Midstream	1,219	3,131	2,181	(9,712)
Subtotal	(1,945)	32,365	(8,713)	(29,019)
Home Services and Other	(659)	(1,281)	(851)	10,417
Eliminations	(348)	(183)	(349)	(665)
Total	\$(2,952)	\$30,901	\$(9,913)	\$(19,267)
Equity in earnings of affiliates				
Midstream	\$3,998	\$4,068	\$7,799	\$8,197
Eliminations	(627)	(875)	(1,267)	(1,740)
Total	\$3,371	\$3,193	\$6,532	\$6,457
Net financial earnings (loss)				
Natural Gas Distribution	\$68,546	\$60,442	\$100,259	\$94,551
Clean Energy Ventures	21,730	10,051	31,935	81,301
Energy Services	19,304	72,832	27,674	93,106
Midstream	4,498	1,315	8,149	18,826
Subtotal	114,078	144,640	168,017	287,784
Home Services and Other	(1,581)	(2,488)	(1,505)	(10,204)
Eliminations	(80)	(90)	(2)	(185)
Total	\$112,417	\$142,062	\$166,510	\$277,395
Capital expenditures				
Natural Gas Distribution	\$79,341	\$55,397	\$139,096	\$102,787
Clean Energy Ventures	20,394	40,605	52,520	58,992
Midstream	(1,689)	—	—	—
Subtotal	98,046	96,002	191,616	161,779
Home Services and Other	5,055	1,846	5,786	3,159
Total	\$103,101	\$97,848	\$197,402	\$164,938
Investments in equity investees				
Midstream	\$1,457	\$3,975	\$1,457	\$11,177
Total	\$1,457	\$3,975	\$1,457	\$11,177

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The Chief Executive Officer, who uses NFE as a measure of profit or loss in measuring the results of the Company's segments and operations, is the chief operating decision maker of the Company. A reconciliation of consolidated NFE to consolidated net income is as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2019	2018	2019	2018
Net financial earnings ⁽¹⁾	\$112,417	\$142,062	\$166,510	\$277,395
Less:				
Unrealized loss (gain) on derivative instruments and related transactions	10,226	(11,608)	(707)	23,246
Tax effect	(2,435)	4,716	149	(3,343)
Effects of economic hedging related to natural gas inventory	22,367	6,125	756	(19,262)
Tax effect	(5,316)	(1,715)	(180)	6,529
NFE tax adjustment	14,002	4,278	6,671	6,260
Net income ⁽¹⁾	\$73,573	\$140,266	\$159,821	\$263,965

⁽¹⁾ Includes income tax benefit related to the Tax Act of \$967,000 and \$58.5 million, for the three and six months ended March 31, 2018, respectively.

The Company uses derivative instruments as economic hedges of purchases and sales of physical gas inventory. For GAAP purposes, these derivatives are recorded at fair value and related changes in fair value are included in reported earnings. Revenues and cost of gas related to physical gas flow is recognized when the gas is delivered to customers. Consequently, there is a mismatch in the timing of earnings recognition between the economic hedges and physical gas flows. Timing differences occur in two ways:

unrealized gains and losses on derivatives are recognized in reported earnings in periods prior to physical gas inventory flows; and

unrealized gains and losses of prior periods are reclassified as realized gains and losses when derivatives are settled in the same period as physical gas inventory movements occur.

NFE is a measure of the earnings based on eliminating these timing differences, to effectively match the earnings effects of the economic hedges with the physical sale of gas, SRECs and foreign currency contracts. Consequently, to reconcile between net income and NFE, current period unrealized gains and losses on the derivatives are excluded from NFE as a reconciling item. Additionally, realized derivative gains and losses are also included in current period net income. However, NFE includes only realized gains and losses related to natural gas sold out of inventory, effectively matching the full earnings effects of the derivatives with realized margins on physical gas flows. Included in the tax effects are current and deferred income tax expense corresponding with the NFE. Also included in the tax effects during the three and six months ended March 31, 2018, are the impacts of the Tax Act and resulting revaluation of the deferred income taxes that arose from derivative and hedging activity as measured under NFE. The revaluation caused the effective tax rate on reconciling items to differ from the statutory rate in effect for the quarter. NJR also calculates a quarterly tax adjustment based on an estimated annual effective tax rate for NFE purposes.

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

(Thousands)	March 31,	September 30,
	2019	2018

Assets at end of period:

Natural Gas Distribution	\$2,790,221	\$2,663,054
Clean Energy Ventures ⁽¹⁾	721,162	865,018
Energy Services	320,476	396,852
Midstream	218,557	242,069
Subtotal	4,050,416	4,166,993
Home Services and Other	195,381	114,732
Intercompany assets ⁽²⁾	(155,824)	(138,061)
Total	\$4,089,973	\$4,143,664

(1) Includes assets held for sale of \$206.9 million for September 30, 2018.

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

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

14. RELATED PARTY TRANSACTIONS

Effective April 1, 2010, NJNG entered into a 10-year agreement for 3 Bcf of firm storage capacity with Steckman Ridge. Under the terms of the agreement, NJNG incurs demand fees at market rates of approximately \$9.3 million annually, a portion of which is eliminated in consolidation. These fees are recoverable through NJNG's BGSS mechanism and are included as a component of regulatory assets.

Energy Services may periodically enter into storage or park and loan agreements with its affiliated FERC-jurisdictional natural gas storage facility, Steckman Ridge. As of March 31, 2019, Energy Services has entered into transactions with Steckman Ridge for varying terms, all of which expire by October 31, 2020.

Demand fees, net of eliminations, associated with Steckman Ridge were as follows:

	Three Months Ended		Six Months Ended	
(Thousands)	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Natural Gas Distribution	\$1,443	\$1,407	\$2,916	\$2,855
Energy Services	701	680	1,413	1,381
Total	\$2,144	\$2,087	\$4,329	\$4,236

The following table summarizes demand fees payable to Steckman Ridge as of:

(Thousands)	March 31, September 30,	
	2019	2018
Natural Gas Distribution	\$ 778	\$ 775
Energy Services	376	375
Total	\$ 1,154	\$ 1,150

NJNG and Energy Services have entered into various asset management agreements, the effects of which are eliminated in consolidation. Under the terms of these agreements, NJNG releases certain transportation and storage contracts to Energy Services. As of March 31, 2019, NJNG and Energy Services had five asset management agreements with expiration dates ranging from March 31, 2019 through October 31, 2021.

NJNG has entered into a 15-year transportation precedent agreement for committed capacity of 180,000 Dths per day with PennEast, to commence when PennEast is in service.

15. ACQUISITIONS AND DISPOSITIONS

Acquisitions

In October 2017, Adelphia, an indirect wholly owned subsidiary of NJR, entered into a Purchase and Sale Agreement with Talen pursuant to which Adelphia will acquire all of Talen's membership interests in IEC for a base purchase price of \$166 million. As additional consideration, Adelphia will pay Talen specified amounts of up to \$23 million contingent upon the achievement of certain regulatory approvals and binding natural gas capacity commitments. In November 2017, the Company made an initial payment of \$10 million towards the base purchase price, which is

included in other noncurrent assets on the Unaudited Condensed Consolidated Balance Sheets.

IEC owns an existing 84-mile pipeline in southeastern Pennsylvania. The transaction is expected to close during fiscal 2019, following receipt of necessary permits and regulatory actions including those from the FERC and the Pennsylvania Public Utility Commission. Upon the closing, Adelphia will acquire IEC and, with it, IEC's existing pipeline, related assets and rights of way. Adelphia has also agreed to provide firm natural gas transportation service for ten years following the closing to two power generators owned by affiliates of Talen that are currently served by IEC.

Dispositions

On February 7, 2019, Clean Energy Ventures finalized the sale of its remaining wind assets to a subsidiary of Skyline Renewables LLC for a total purchase price of \$208.6 million. The transaction generated a pre-tax gain of \$645,000, which was recognized as a component of O&M expense on the Unaudited Condensed Consolidated Statements of Operations.

New Jersey Resources Corporation
Part II

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies

A summary of our 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, 2018. Our critical accounting policies have not changed from those reported in the 2018 Annual Report on Form 10-K.

Recently Issued Accounting Standards

Refer to Note 2. Summary of Significant Accounting Policies for discussion of recently issued accounting standards.

Management's Overview

Consolidated

NJR is an energy services holding company providing retail natural gas service in New Jersey and wholesale natural gas and related energy services to customers in the United States and Canada. In addition, we invest in clean energy projects, midstream assets and provide various repair, sales and installations services. A more detailed description of our organizational structure can be found in Item 1. Business of our 2018 Annual Report on Form 10-K.

Reporting Segments

We have four primary reporting segments as presented in the chart below:

In addition to our four reporting segments, we have non-utility operations that either provide corporate support services or do not meet the criteria to be treated as a separate reporting segment. These operations, which comprise Home Services and Other, include: appliance repair services, sales and installations at NJRHS; and commercial real estate holdings at CR&R.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

Operating Results

Net income (loss) by reporting segment and operations are as follows:

(Thousands)	Three Months Ended				Six Months Ended			
	March 31,		2018		March 31,		2018	
	2019		2018		2019		2018	
Net income (loss)								
Natural Gas Distribution	\$68,546	93 %	\$60,442	43 %	\$100,259	63 %	\$94,551	36 %
Clean Energy Ventures	7,728	10	5,773	4	25,264	16	75,042	28
Energy Services	(4,460)	(6)	75,810	54	28,914	18	86,930	33
Midstream	4,498	6	1,315	1	8,149	5	18,826	7
Home Services and Other	(1,668)	(2)	(2,394)	(2)	(1,693)	(1)	(10,110)	(4)
Eliminations ⁽¹⁾	(1,071)	(1)	(680)	—	(1,072)	(1)	(1,274)	—
Total	\$73,573	100 %	\$140,266	100 %	\$159,821	100 %	\$263,965	100 %

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

The decrease in net income during the three months ended March 31, 2019, compared with the three months ended March 31, 2018, was driven primarily by decreased earnings at Energy Services. The decrease in net income during the six months ended March 31, 2019, compared with the six months ended March 31, 2018, was driven primarily by decreased earnings at Energy Services and an income tax benefit of \$58.5 million associated with the revaluation of deferred income taxes resulting from the Tax Act during the six months ended March 31, 2018 that did not recur during the six months ended March 31, 2019. The primary drivers of the changes noted above are described in more detail in the individual segment discussions.

Assets by reporting segment and operations are as follows:

(Thousands)	March 31,		September 30,	
	2019		2018	
Assets				
Natural Gas Distribution	\$2,790,221	68 %	\$2,663,054	64 %
Clean Energy Ventures ⁽¹⁾	721,162	18	865,018	21
Energy Services	320,476	8	396,852	9
Midstream	218,557	5	242,069	6
Home Services and Other	195,381	5	114,732	3
Intercompany assets ⁽²⁾	(155,824)	(4)	(138,061)	(3)
Total	\$4,089,973	100 %	\$4,143,664	100 %

(1) Includes assets held for sale of \$206.9 million at September 30, 2018.

(2) Consists of transactions between subsidiaries that are eliminated in consolidation.

The decrease in assets was due primarily to the sale of our remaining wind assets at Clean Energy Ventures, decreased gas in storage at Energy Services and our Natural Gas Distribution segment and the sale of equity securities at Midstream, partially offset by increased utility plant, accounts receivable and unbilled revenue at our Natural Gas Distribution segment and increased solar assets at Clean Energy Ventures.

Non-GAAP Financial Measures

Our management uses NFE, a non-GAAP financial measure, when evaluating our operating results. Energy Services economically hedges its natural gas inventory with financial derivative instruments. NFE is a measure of the earnings based on eliminating timing differences surrounding the recognition of certain gains or losses, to effectively match the earnings effects of the economic hedges with the physical sale of gas and, therefore, eliminates the impact of volatility to GAAP earnings associated with the derivative instruments. There is a related tax effect on current and deferred income tax expense corresponding with this non-GAAP measure. Also included in the prior year tax effect are the impacts of the Tax Act and resulting revaluation of the deferred income taxes that arose from derivative and hedging activity as measured under NFE. The revaluation caused the effective tax rate on reconciling items to differ from the statutory rate in effect. To the extent we utilize forwards, futures, or other derivatives to hedge forecasted SREC production, unrealized gains and losses are also eliminated for NFE purposes.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

GAAP requires us, during the interim periods, to estimate our annual effective tax rate and use this rate to calculate the year-to-date tax provision. We also determine an annual estimated effective tax rate for NFE purposes and calculate a quarterly tax adjustment based on the differences between our forecasted net income and our forecasted NFE for the fiscal year. Since the annual estimated effective tax rate is based on certain forecasted assumptions, including estimates surrounding completion of Clean Energy Ventures projects, the rate and resulting NFE are subject to change. No adjustment is needed during the fourth quarter, since the actual effective tax rate is calculated at year end.

Non-GAAP financial measures are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not as a substitute for or a replacement of, the comparable GAAP measure and should be read in conjunction with those GAAP results. Below is a reconciliation of consolidated net income, the most directly comparable GAAP measure, to NFE:

(Thousands, except per share data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net income	\$73,573	\$140,266	\$159,821	\$263,965
Add:				
Unrealized loss (gain) on derivative instruments and related transactions	10,226	(11,608)	(707)	23,246
Tax effect	(2,435)	4,716	149	(3,343)
Effects of economic hedging related to natural gas inventory ⁽¹⁾	22,367	6,125	756	(19,262)
Tax effect	(5,316)	(1,715)	(180)	6,529
NFE tax adjustment	14,002	4,278	6,671	6,260
Net financial earnings	\$112,417	\$142,062	\$166,510	\$277,395
Basic earnings per share	\$0.83	\$1.60	\$1.80	\$3.02
Add:				
Unrealized loss (gain) on derivative instruments and related transactions	0.12	(0.13)	(0.01)	0.27
Tax effect	(0.03)	0.05	—	(0.04)
Effects of economic hedging related to natural gas inventory ⁽¹⁾	0.25	0.07	0.01	(0.22)
Tax effect	(0.06)	(0.02)	—	0.08
NFE tax adjustment	0.16	0.05	0.08	0.07
Basic NFE per share	\$1.27	\$1.62	\$1.88	\$3.18

(1) Effects of hedging natural gas inventory transactions where the economic impact is realized in a future period.

NFE by reporting segment and other operations, discussed in more detail within the operating results sections of each segment, is summarized as follows:

(Thousands)	Three Months Ended March 31,			Six Months Ended March 31,				
	2019	2018		2019	2018			
Net financial earnings (loss)								
Natural Gas Distribution	\$68,546	61 %	\$60,442	43 %	\$100,259	60 %	\$94,551	34 %
Clean Energy Ventures	21,730	19	10,051	7	31,935	19	81,301	29
Energy Services	19,304	17	72,832	51	27,674	17	93,106	34
Midstream	4,498	4	1,315	1	8,149	5	18,826	7
Home Services and Other	(1,581)	(1)	(2,488)	(2)	(1,505)	(1)	(10,204)	(4)

Eliminations ⁽¹⁾	(80)—	(90)—	(2)—	(185)—
Total	\$112,417 100 %	\$142,062 100 %	\$166,510 100 %	\$277,395 100 %

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

The decrease in NFE during the three months ended March 31, 2019, compared with the three months ended March 31, 2018, was due primarily to lower financial margin generated at Energy Services resulting from narrower pricing spreads and less price volatility in the physical natural gas market. The decrease in NFE during the six months ended March 31, 2019, compared with the six months ended March 31, 2018, was due primarily to the income tax benefit of \$58.5 million associated with the revaluation of deferred income taxes resulting from the Tax Act during the six months ended March 31, 2018, that did not recur during the six months ended March 31, 2019, and lower financial margin generated at Energy Services, as previously discussed.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

Natural Gas Distribution Segment

Overview

Our Natural Gas Distribution segment is comprised of NJNG, a natural gas utility that provides regulated retail natural gas service in central and northern New Jersey to approximately 546,100 residential and commercial customers in its service territory and also participates in the off-system sales and capacity release markets. The business is subject to various risks, which can negatively impact customer growth, operating and financing costs, fluctuations in commodity prices and customer conservation efforts. These risks include, but are not limited to, adverse economic conditions, customer usage, certain regulatory actions, environmental remediation and severe weather conditions. It is often difficult to predict the impact of events or trends associated with these risks.

In addition, NJNG's business is seasonal by nature, as weather conditions directly influence the volume of natural gas delivered to customers on an annual basis. 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 natural gas distribution revenues during the first and second fiscal quarters and is subject to variations in earnings and working capital during the year.

As a regulated company, NJNG is required to recognize the impact of regulatory decisions on its financial statements. See Note 4. Regulation in the accompanying Unaudited Condensed Consolidated Financial Statements for a more detailed discussion on regulatory actions, including filings related to programs and associated expenditures, as well as rate requests related to recovery of capital investments and operating costs.

NJNG's operations are managed with the goal of providing safe and reliable service, growing its customer base, diversifying its gross margin, promoting clean energy programs and mitigating the risks discussed above.

Infrastructure projects

NJNG has significant annual capital expenditures associated with the management of its natural gas distribution and transmission system, including new utility plant associated with customer growth and its associated pipeline integrity management and infrastructure programs. Below is a summary of NJNG's capital expenditures, including accruals, for the six months ended March 31, 2019, and estimates of expected investments for fiscal 2019 and 2020:

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

Estimated capital expenditures are reviewed on a regular basis and may vary based on the ongoing effects of regulatory oversight, environmental regulations, unforeseen events and the ability to access capital.

On February 28, 2019, NJNG filed a petition with the BPU seeking authority to implement a five-year Infrastructure Investment Program. The IIP consists of two components, transmission and distribution investments and information technology replacement and enhancements. The total investment for the IIP is approximately \$507 million. All approved investments will be recovered through annual filings to adjust base rates.

SAFE II and NJ RISE

NJNG continues to implement BPU-approved infrastructure projects that are designed to enhance the reliability and integrity of NJNG's gas distribution system.

The BPU approved the 5-year SAFE II program and the associated rate mechanism, to replace the remaining unprotected steel mains and services from NJNG's natural gas distribution system at an estimated cost of approximately \$200 million, excluding AFUDC. The accelerated cost recovery methodology for the \$157.5 million associated with the extension of SAFE II was approved in NJNG's base rate case. The remaining \$42.5 million in capital expenditures will be requested for recovery in future base rate cases.

The BPU approved NJNG's NJ RISE capital infrastructure program, which consists of six capital investment projects estimated to cost \$102.5 million, excluding AFUDC, for gas distribution storm hardening and mitigation projects, along with associated depreciation expense. These system enhancements are intended to minimize service impacts during extreme weather events to customers in the most storm-prone areas of NJNG's service territory. Recovery of NJ RISE investments is included in NJNG's base rates.

In September 2018, the BPU approved NJNG's annual petition requesting a base rate increase of \$6.8 million for the recovery of SAFE II and NJ RISE capital investment costs related to the twelve months ended June 30, 2018, with a weighted cost of capital of 6.9 percent including a return on equity of 9.75 percent, effective October 1, 2018.

On March 29, 2019, NJNG filed a petition with the BPU requesting a base rate increase of approximately \$8.7 million for the recovery of NJ RISE and SAFE II capital investment costs of approximately \$75 million made through June 30, 2019. Changes to base rates are anticipated to be effective October 1, 2019.

Southern Reliability Link

The SRL is an approximately 30-mile, 30-inch transmission main designed to support improved system reliability and integrity in the southern portion of NJNG's service territory, estimated to cost between \$200 million and \$230 million. All approvals issued by state agencies are under appeal and certain road-opening permits are in the process of being secured. Construction began in December 2018, with an estimated in-service date in 2020.

Customer growth

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 political and regulatory policies, the delivered cost of natural gas compared with competing fuels, interest rates and general economic and business conditions. NJNG's total customers include the following:

	March 31, 2019	March 31, 2018
Firm customers		
Residential	482,126	467,014
Commercial, industrial & other	30,562	28,926
Residential transport	24,464	30,815
Commercial transport	8,907	10,058
Total firm customers	546,059	536,813
Other	59	58
Total customers	546,118	536,871

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

During the six months ended March 31, 2019 and 2018, respectively, NJNG added 5,030 and 4,656 new customers and converted 153 and 324 existing customers to natural gas heat and other services. NJNG expects these new customer additions, and those customers who added additional natural gas services to their premises to contribute approximately \$2.9 million annually to utility gross margin.

NJNG expects to add approximately 28,000 to 30,000 new customers during the three-year period of fiscal 2019 to 2021. Based on information from municipalities and developers, as well as external industry analysts and management's experience, NJNG estimates that approximately 65 percent of the growth will come from new construction markets and 35 percent from customer conversions to natural gas from other fuel sources. This new customer and conversion growth would increase utility gross margin under NJNG's base rates by approximately \$5.3 million annually, as calculated under NJNG's CIP tariff. See the Natural Gas Distribution Segment Operating Results section of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations that follows for a definition and further discussion of utility gross margin.

Energy Efficiency Programs

SAVEGREEN conducts home energy audits and provides various grants, incentives and financing alternatives, which are designed to encourage the installation of high-efficiency heating and cooling equipment and other energy-efficiency upgrades. Depending on the specific incentive or approval, NJNG recovers costs associated with the programs over a two to 10-year period through a tariff rider mechanism.

On December 18, 2018, the BPU approved a decrease in NJNG's EE recovery rate reflecting actual costs incurred through September 30, 2018, which will result in an annual decrease of \$8.8 million, effective January 1, 2019.

Since inception, \$168 million in grants, rebates and loans has been provided to customers, with a total annual recovery of approximately \$16.1 million. The recovery includes a weighted average cost of capital that ranges from 6.69 percent to 7.76 percent, with a return on equity of 9.75 percent to 10.3 percent.

Conservation Incentive Program/BGSS

The CIP facilitates normalizing NJNG's utility gross margin for variances not only due to weather but also for other factors affecting customer usage, such as conservation and energy efficiency. Recovery of utility gross margin for the non-weather variance through the CIP is limited to the amount of certain gas supply cost savings achieved and is subject to a variable margin revenue test. Additionally, recovery of the CIP utility gross margin is subject to an annual earnings test. An annual review of the CIP must be filed by June 1, coincident with NJNG's annual BGSS filing, during which NJNG can request rate changes to the CIP. In May 2014, the BPU approved the continuation of the CIP program with no expiration date.

NJNG's total utility firm gross margin includes the following adjustments related to the CIP mechanism:

	Three Months	Six Months		
	Ended	Ended		
	March 31,	March 31,		
(Thousands)	2019	2018	2019	2018
Weather ⁽¹⁾	\$(363)	\$3,245	\$(1,831)	\$1,877

Usage	4,283	(2,113)	2,343	(1,471)
Total	\$3,920	\$1,132	\$512	\$406

Compared with the CIP 20-year average, weather was 1 percent colder-than-normal and 1.5 percent warmer-than-normal during the three months ended March 31, 2019 and 2018, respectively, and 2.4 percent colder-than-normal and 0.9 percent warmer-than-normal during the six months ended March 31, 2019 and 2018, respectively.

Recovery of natural gas costs

NJNG's cost of natural gas is passed through to our customers, without markup, by applying NJNG's authorized BGSS rate to actual therms delivered. There is no utility gross margin associated with BGSS costs; therefore, changes in such costs do not impact NJNG's earnings. NJNG monitors its actual gas costs in comparison to its BGSS rates to manage its cash flows associated with its allowed recovery of natural gas costs, which is facilitated through BPU-approved deferred accounting and the BGSS pricing mechanism. Accordingly, NJNG occasionally adjusts its periodic BGSS rates or can issue credits or refunds, as appropriate, for its residential and small commercial customers when the commodity cost varies from the existing BGSS rate. BGSS rates for its large commercial customers are adjusted monthly based on NYMEX prices.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

On April 18, 2019, the BPU approved NJNG's annual petition to maintain its BGSS rate for residential and small commercial customers and increase its balancing charge rate, resulting in a \$10.3 million increase to the annual revenues credited to BGSS, as well changes to the CIP rates, which will result in a \$30.9 million annual recovery decrease, effective October 1, 2018. The balancing charge rate includes the cost of balancing natural gas deliveries with customer usage for sales and transportation customers and balancing charge revenues are credited to BGSS.

On December 28, 2018, NJNG notified the BPU that it will implement a BGSS increase of five percent to a typical customer's bill effective February 1, 2019, which will result in an increase in revenues credited to BGSS of \$10.9 million through September 2019.

BGSS 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 and storage incentive programs. These programs are designed to encourage better utilization and hedging of NJNG's natural gas supply, transportation and storage assets. Depending on the program, NJNG shares 80 or 85 percent of utility gross margin generated by these programs with firm customers. Utility gross margin from incentive programs was \$1.4 million and \$2.4 million during the three months ended March 31, 2019 and 2018, respectively, and \$3.4 million and \$6.8 million during the six months ended March 31, 2019 and 2018, respectively.

Hedging

In order to provide relative price stability to its natural gas supply portfolio, NJNG employs a hedging strategy with the goal of having at least 75 percent of the Company's projected winter periodic BGSS gas sales volumes hedged by each November 1 and at least 25 percent of the projected periodic BGSS gas sales hedged for the following April through March period. This is accomplished with the use of various financial instruments including futures, swaps and options used in conjunction with commodity and/or weather-related hedging activity.

Commodity prices

Our Natural Gas Distribution segment is affected by the price of natural gas, which can have a significant impact on our cash flows, short-term financing costs, the price of natural gas charged to our customers through the BGSS clause, our ability to collect accounts receivable, which impacts our bad debt expense, and our ability to maintain a competitive advantage over other fuel sources. Natural gas commodity prices may experience high volatility as shown in the graph below, which illustrates the daily natural gas prices⁽¹⁾ in the Northeast market region, also known as Tetc0 M-3.

(1) Data source from Platts, a division of McGraw Hill Financial.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

The maximum price per MMBtu was \$9.17 and \$94.93 and the minimum price was \$1.25 and \$0.53 for the six months ended March 31, 2019 and 2018, respectively. A more detailed discussion of the impacts of the price of natural gas on operating revenues, gas purchases and cash flows can be found in the Results of Operations and Cash Flow sections of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Societal Benefits Charge

USF

NJNG’s qualifying customers are eligible for the USF program, which is administered by the New Jersey Department of Community Affairs, to help make energy bills more affordable. In September 2018, the BPU approved NJNG’s annual USF compliance filing to increase the statewide USF rate, which will result in a \$1 million annual increase, effective October 1, 2018.

Environmental Remediation

NJNG is responsible for the environmental remediation of five MGP sites, which contain contaminated residues from former gas manufacturing operations that ceased operating at these sites by the mid-1950s and, in some cases, had been discontinued many years earlier. Actual MGP remediation costs may vary from management's estimates due to the developing nature of remediation requirements, regulatory decisions by the NJDEP and related litigation. NJNG reviews these costs at the end of each fiscal year and adjusts its liability and corresponding regulatory asset as necessary to reflect its expected future remediation obligation. Accordingly, NJNG recognized a regulatory asset and an obligation of \$128.9 million as of March 31, 2019, a decrease of \$1.9 million, compared with September 30, 2018. NJNG is currently authorized to recover remediation costs of approximately \$7.1 million annually, which is based on expenditures through June 30, 2017. On March 29, 2019, the BPU approved NJNG’s annual SBC application requesting recovery of remediation expenses incurred through June 30, 2018, an increase in the RAC rate of \$1.4 million and an increase in the NJCEP factor of \$1.9 million, effective April 1, 2019.

NJNG has had discussions with the NJDEP regarding NJNG’s association with two additional sites located within its service territory. Preliminary results at one of the sites has indicated the existence of contaminants from gas manufacturing activities. The costs associated with the completion of site investigation activities and the remedial investigation phase are estimated to be approximately \$600,000. Inclusive of this estimate, total costs incurred to date in the investigation of the site amount to approximately \$1.4 million. The Company will continue to gather information to further refine and enhance its estimate of potential costs as it becomes available. See Note 12. Commitments and Contingent Liabilities for a more detailed description.

Other regulatory filings and a more detailed discussion of the filings in this section can be found in Note 4. Regulation in the accompanying Unaudited Condensed Consolidated Financial Statements.

Operating Results

NJNG's operating results are as follows:

	Three Months Ended	Six Months Ended
--	--------------------	------------------

Edgar Filing: NEW JERSEY RESOURCES CORP - Form 10-Q

(Thousands)	March 31,		March 31,	
	2019	2018	2019	2018
Operating revenues	\$301,420	\$317,064	\$501,385	\$526,851
Operating expenses				
Gas purchases ⁽¹⁾	145,171	141,988	237,349	226,743
Operation and maintenance	39,507	38,689	76,390	73,510
Regulatory rider expense	15,391	19,604	28,023	31,373
Depreciation and amortization	13,972	13,353	27,868	26,136
Energy and other taxes	1,599	19,263	2,943	33,013
Total operating expenses	215,640	232,897	372,573	390,775
Operating income	85,780	84,167	128,812	136,076
Other income, net	794	789	1,408	1,229
Interest expense, net of capitalized interest	5,762	6,523	11,865	13,059
Income tax provision	12,266	17,991	18,096	29,695
Net income	\$68,546	\$60,442	\$100,259	\$94,551

Includes related party transactions of approximately \$7.1 million and \$45.4 million for the three months ended (1) March 31, 2019 and 2018, respectively, and \$11.6 million and \$52.6 million for the six months ended March 31, 2019 and 2018, respectively, the majority of which is eliminated in consolidation.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

Operating Revenues and Gas Purchases

During the three months ended March 31, 2019, compared with the three months ended March 31, 2018, operating revenues decreased by 4.9 percent and gas purchases increased 2.2 percent. During the six months ended March 31, 2019, compared with the six months ended March 31, 2018, operating revenues decreased by 4.8 percent and gas purchases increased 4.7 percent.

The factors contributing to the (decreases) increases in operating revenues and gas purchases are as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2019 v. 2018		March 31, 2019 v. 2018	
	Operating Gas revenues	Operating Gas purchases	Operating Gas revenues	Operating Gas purchases
ASC 606 adoption - sales tax election	(17,873)	—	\$(30,277)	\$—
Off-system sales	(14,457)	(14,161)	(19,902)	(19,285)
Tax Act impact to base rates	(9,176)	—	(14,913)	—
Tax Act refund ⁽¹⁾	8,777	—	8,777	—
Average BGSS rates	12,247	12,247	17,889	17,889
Firm sales	3,309	4,665	12,386	9,440
SAFE II/NJ RISE	3,108	—	5,052	—
CIP adjustments	2,787	—	105	—
Other ⁽²⁾	(4,366)	432	(4,583)	2,562
Total (decrease) increase	\$(15,644)	\$ 3,183	\$(25,466)	\$ 10,606

(1) Excludes sales tax of \$582,000 which is included in the ASC 606 adoption - sales tax election line.

(2) Other includes changes in rider rates, including those related to EE, NJCEP and other programs.

Off-system sales were lower due primarily to a 37.4 percent reduction in volumes, partially offset by an 6.7 percent increase in the average price of gas sold. Firm sales increased primarily due to customer growth and higher usage related to weather being 3.5 percent colder during the six months ended March 31, 2019, compared with the six months ended March 31, 2018.

Non-GAAP Financial Measures

Management uses utility gross margin, a non-GAAP financial measure, when evaluating the operating results of NJNG. NJNG's utility gross margin is defined as natural gas revenues less natural gas purchases, sales tax, and regulatory rider expenses, and may not be comparable to the definition of gross margin used by others in the natural gas distribution business and other industries. Management believes that utility gross margin provides a meaningful basis for evaluating utility operations since natural gas costs, sales tax and regulatory rider expenses are included in operating revenue and passed through to customers and, therefore, have no effect on utility gross margin. Non-GAAP financial measures are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not as a substitute for, the comparable GAAP measure.

Utility Gross Margin

A reconciliation of operating revenues, the closest GAAP financial measure to NJNG's utility gross margin, is as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Operating revenues	\$301,420	\$317,064	\$501,385	\$526,851
Less:				
Gas purchases	145,171	141,988	237,349	226,743
Energy taxes ⁽¹⁾	—	17,873	—	30,277
Regulatory rider expense	15,391	19,604	28,023	31,373
Utility gross margin	\$140,858	\$137,599	\$236,013	\$238,458

Energy taxes does not include sales tax during the three and six months ended March 31, 2019, due to the adoption (1) of ASC 606, Revenue from Contracts with Customers. Energy taxes includes only sales tax on operating revenues during the six months ended March 31, 2018, excluding tax-exempt sales.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

Utility gross margin consists of three components:

• utility firm gross margin generated from only the delivery component of either a sales tariff or a transportation tariff from residential and commercial customers who receive natural gas service from NJNG;

• BGSS incentive programs, where revenues generated or savings achieved from BPU-approved off-system sales, capacity release or storage incentive programs are shared between customers and NJNG; and

• utility gross margin generated from off-tariff customers, as well as interruptible customers.

The following provides more information on the components of utility gross margin and associated throughput (Bcf) of natural gas delivered to customers:

	Three Months Ended				Six Months Ended			
	March 31, 2019		2018		March 31, 2019		2018	
(\$ in thousands)	Margin	Bcf	Margin	Bcf	Margin	Bcf	Margin	Bcf
Utility gross margin/throughput								
Residential	\$99,645	22.6	\$94,555	22.5	\$163,784	37.1	\$159,290	36.1
Commercial, industrial and other	20,673	5.0	19,230	4.2	34,019	7.8	33,148	6.8
Firm transportation	17,871	5.2	20,177	6.6	32,267	9.6	36,437	11.2
Total utility firm gross margin/throughput	138,189	32.8	133,962	33.3	230,070	54.5	228,875	54.1
BGSS incentive programs	1,402	28.4	2,360	36.7	3,357	55.8	6,795	75.4
Interruptible/off-tariff agreements	1,267	7.8	1,277	8.5	2,586	12.8	2,788	18.4
Total utility gross margin/throughput	\$140,858	69.0	\$137,599	78.5	\$236,013	123.1	\$238,458	147.9

Utility Firm Gross Margin

Utility firm gross margin increased \$4.2 million and \$1.2 million during the three and six months ended March 31, 2019, respectively, compared with the three and six months ended March 31, 2018, due primarily to customer growth and an increase in rates related to the NJ RISE/SAFE II programs, partially offset by decreased base rates due to the lower federal income tax rate resulting from the Tax Act.

BGSS Incentive Programs

The factors contributing to the change in utility gross margin generated by BGSS incentive programs are as follows:

	Three Months Ended March 31, 2019	Six Months Ended March 31, 2019	v. 2018	v. 2018
(Thousands)				
Storage	\$84	\$(1,505)		
Capacity release	(744)	(1,315)		

Off-system sales	(298)	(618)
Total decrease	\$(958)	\$(3,438)

The decrease during the three months ended March 31, 2019, compared with the three months ended March 31, 2018, was due primarily to a decrease in capacity release volume, as well as lower margins in off-system sales. The decrease during the six months ended March 31, 2019, compared with the six months ended March 31, 2018, was due primarily to fewer market opportunities for the storage incentive program, a decrease in capacity release volume, as well as lower margins in off-system sales.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

Operation and Maintenance Expense

The factors contributing to the increase in O&M expense are as follows:

	Three Months Ended March 31, 2019 v. 2018	Six Months Ended March 31, 2019 v. 2018
(Thousands)		
Shared corporate costs	\$1,335	\$2,716
Compensation and benefits ⁽¹⁾	47	1,096
Donations	(28)	(753)
Other	(536)	(179)
Total increase	\$818	\$2,880

(1) Includes higher compensation costs due to increased headcount, partially offset by a recalculation of paid time off for certain union employees as part of recent collective bargaining agreement.

Depreciation Expense

Depreciation expense increased \$619,000 and \$1.7 million during the three and six months ended March 31, 2019, respectively, compared with the three and six months ended March 31, 2018, as a result of additional utility plant being placed into service.

Income Tax Provision

Income tax provision decreased \$5.7 million and \$11.6 million during the three and six months ended March 31, 2019, respectively, compared with the three and six months ended March 31, 2018, due primarily to the lower income tax rate and the amortization of overcollected taxes included in base rates primarily related to timing differences associated with utility plant depreciation resulting from the Tax Act.

Net Income

Net income increased \$8.1 million during three months ended March 31, 2019, compared with the three months ended March 31, 2018, due primarily to customer growth and increased rates related to the NJ RISE/SAFE II programs. Net income increased \$5.7 million during six months ended March 31, 2019, compared with the six months ended March 31, 2018, due primarily to customer growth and increased rates related to the NJ RISE/SAFE II programs, partially offset by increased O&M, as previously discussed.

Clean Energy Ventures Segment

Overview

Our Clean Energy Ventures segment actively pursues opportunities in the renewable energy markets. Clean Energy Ventures enters into various agreements to install solar net-metered systems for residential and commercial customers, as well as large commercial grid-connected projects. In addition, Clean Energy Ventures enters into various long-term agreements, including PPAs, to supply energy from commercial solar projects.

The primary contributors toward the value of qualifying clean energy projects are tax incentives and SRECs. Changes in the federal statutes related to the ITC or in the marketplace and/or relevant legislation surrounding solar renewable energy credits, could significantly affect future results.

Solar

Since inception, Clean Energy Ventures has constructed a total of 254.1 MW of solar capacity and has an additional 31.3 MW under construction. During the six months ended March 31, 2019, NJRCEV placed into service two commercial projects totaling approximately 19.2 MW of solar capacity. There were no commercial projects placed into service during the six months ended March 31, 2018. Projects that are placed in service through December 31, 2019, qualify for a 30-percent federal ITC. The credit will decline to 26 percent for property under construction during 2020 and to 22 percent for property under construction during 2021. The ITC will be reduced to 10 percent for any property that is under construction before 2022, but not placed in service before 2024.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

Clean Energy Ventures may enter into transactions to sell certain of its commercial solar assets concurrent with agreements to lease the assets back over a period of six to 15 years. The Company will continue to operate the solar assets and are responsible for related expenses and entitled to retain the revenue generated from SRECs and energy sales. The ITCs and other tax benefits associated with these solar projects transfer to the buyer; however, the lease payments are structured so that Clean Energy Ventures is compensated for the transfer of the related tax incentives. Accordingly, for solar projects financed under sale leasebacks, Clean Energy Ventures recognizes the equivalent value of the ITC in other income on the Unaudited Condensed Consolidated Statements of Operations over the respective five-year ITC recapture periods, starting with the second year of the lease. Clean Energy Ventures did not enter into any sale-leaseback transactions for its commercial solar assets during the six months ended March 31, 2019 and 2018, and currently does not expect that it will enter into any such transactions through the end of the fiscal year.

As part of its solar investment portfolio, Clean Energy Ventures operates a residential solar program, The Sunlight Advantage®, that provides qualifying homeowners the opportunity to have a solar system installed at their home with no installation or maintenance expenses. Clean Energy Ventures owns, operates and maintains the system over the life of the contract in exchange for monthly payments. Clean Energy Ventures' residential solar leasing program installed approximately 1.9 MW of capacity for 189 customers, and 1.8 MW of capacity for 200 customers during the three months ended March 31, 2019 and 2018, respectively, and 3.6 MW of capacity for 355 customers and 3.6 MW of capacity for 391 customers during the six months ended March 31, 2019 and 2018, respectively.

The Company had \$59 million and \$11.4 million of solar-related capital expenditures that were ITC-eligible and placed in service during six months ended March 31, 2019 and 2018, respectively.

Once a solar installation has received the proper certifications and commences operations, each MWh of electricity produced creates an SREC that represents the renewable energy attribute of the solar-electricity generated that can be sold to third parties, predominantly load-serving entities that are required to comply with the solar requirements under New Jersey's renewable portfolio standard. SREC activity consisted of the following:

	Six Months Ended March 31,	
	2019	2018
Inventory balance as of October 1,	105,192	48,357
SRECs generated	100,451	88,056
SRECs delivered	(68,820)	(55,680)
Inventory balance as of March 31,	136,823	80,733

During the six months ended March 31, 2019, SRECs generated increased inventory by 14.1 percent, compared with the six months ended March 31, 2018, and the average SREC sales price was \$192 and \$221 during the six months ended March 31, 2019, and 2018, respectively.

Clean Energy Ventures hedges its expected SREC production through the use of forward sales contracts. The following table reflects the hedged percentage of our projected inventory related to its in-service commercial and residential assets:

Energy Year ⁽¹⁾ Percent of SRECs Hedged

2019	99%
2020	100%
2021	87%
2022	21%

(1) Energy years are compliance periods for New Jersey's renewable portfolio standard that run from June 1 to May 31.

There are no direct costs associated with the production of SRECs by our solar assets. All related costs are included as a component of O&M expenses on the Unaudited Condensed Consolidated Statements of Operations, including such expenses as facility maintenance and various fees.

Onshore Wind

Clean Energy Ventures invested in small to mid-size onshore wind projects that fit its investment profile. The wind projects were eligible for PTCs for a 10-year period following commencement of operations and have PPAs of various terms in place, which typically govern the sale of energy, capacity and/or renewable energy credits. Once a wind installation commenced operations,

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

each MWh of electricity produced created a REC that represented the renewable energy attribute of the wind-electricity generated that can be sold to third parties. There are no direct costs associated with the production of RECs by our wind assets and all related costs were included as a component of O&M expenses on the Unaudited Condensed Consolidated Statements of Operations.

In June 2018, Clean Energy Ventures completed the sale of its membership interest in its 9.7 MW wind farm in Two Dot, Montana to NorthWestern Energy for a total purchase price of \$18.5 million. The transaction generated a pre-tax gain of approximately \$951,000, which was recognized as a reduction to O&M on the Unaudited Condensed Consolidated Statements of Operations.

On February 7, 2019, Clean Energy Ventures finalized the sale of its remaining wind assets to a subsidiary of Skyline Renewables LLC for total proceeds of \$208.6 million. The transaction generated a pre-tax gain of \$645,000, which was recognized as a component of O&M expense on the Unaudited Condensed Consolidated Statements of Operations.

Operating Results

Clean Energy Ventures' financial results are summarized as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Operating revenues	\$ 11,360	\$ 12,866	\$ 26,257	\$ 26,862
Operating expenses				
Operation and maintenance	4,546	6,206	11,240	11,304
Depreciation and amortization	8,091	8,928	16,014	17,863
Other taxes	297	265	751	669
Total operating expenses	12,934	15,399	28,005	29,836
Operating loss	(1,574)	(2,533)	(1,748)	(2,974)
Other expense, net	(83)	(72)	(149)	(142)
Interest expense, net	4,657	4,344	10,085	8,552
Income tax benefit	(14,042)	(12,722)	(37,246)	(86,710)
Net income	\$ 7,728	\$ 5,773	\$ 25,264	\$ 75,042

Operating Revenues

Operating revenues decreased \$1.5 million and \$605,000 during the three and six months ended March 31, 2019, respectively, compared with the three and six months ended March 31, 2018, due primarily to decreased wind electricity sales as a result of the sale of the remaining wind assets on February 7, 2019, partially offset by increased electricity sales from solar assets and increased SREC revenue.

Operation and Maintenance Expense

O&M expense decreased \$1.7 million during the three months ended March 31, 2019, compared with the three ended March 31, 2018, due primarily to a pre-tax gain of 645,000, associated with the sale of the wind assets, as well as a decrease in maintenance costs and consulting expense.

O&M expense decreased \$64,000 during the three and six months ended March 31, 2019, compared with the three and six months ended March 31, 2018, due primarily to a pre-tax gain of 645,000, associated with the sale of the wind assets, partially offset by higher compensation costs and shared corporate costs.

Depreciation Expense

Depreciation expense decreased \$837,000 and \$1.8 million during the three and six months ended March 31, 2019, respectively, compared with the three and six months ended March 31, 2018, due primarily to depreciation on wind assets no longer being recorded, partially offset by increases in solar capital additions placed in service.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

Income Tax Benefit

Income tax benefit increased \$1.3 million during the three months ended March 31, 2019, compared with the three months ended March 31, 2018, due primarily to an increase in ITCs recognized. Income tax benefit decreased \$49.5 million during the six months ended March 31, 2019, compared with the six months ended March 31, 2018, due primarily to an income tax benefit of \$63.1 million associated with the revaluation of deferred income taxes resulting from the Tax Act during the six months ended March 31, 2018, that did not recur during the six months ended March 31, 2019, partially offset by an increase in ITCs recognized.

Net Income

Net income increased \$2 million during the three months ended March 31, 2019, compared with the three months ended March 31, 2018, due primarily to the pre-tax gain recognized on the sale of the remaining wind assets, decreased O&M expenses and increased income tax benefit, as previously discussed. Net income decreased \$49.8 million during the six months ended March 31, 2019, compared with the six months ended March 31, 2018, due primarily to the decreased income tax benefit, as previously discussed.

Non-GAAP Financial Measures

Management of the Company uses NFE, a non-GAAP financial measure, when evaluating the operating results of Clean Energy Ventures. GAAP requires us, during the interim periods, to estimate our annual effective tax rate and use this rate to calculate the year-to-date tax provision. We also determine an annual estimated effective tax rate for NFE purposes and calculate a quarterly tax adjustment based on the differences between our forecasted net income and our forecasted NFE for the fiscal year. This adjustment is applied to Clean Energy Ventures, as such adjustment is primarily related to tax credits generated by Clean Energy Ventures. No adjustment is needed during the fourth quarter, since the actual effective tax rate is calculated at year end. Accordingly, for NFE purposes, the annual estimated effective tax rate is (10.2) percent for fiscal 2019 and 15.3 percent for fiscal 2018.

Since the annual estimated effective tax rate is based on certain forecasted assumptions, including estimates surrounding completion of projects, the rate and resulting NFE are subject to change. The details of such tax adjustments can be found in the table below. Non-GAAP financial measures are not in accordance with, or an alternative to GAAP, and should be considered in addition to, and not as a substitute for the comparable GAAP measure. A reconciliation of Clean Energy Ventures' net income, the most directly comparable GAAP financial measure to NFE is as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	2019	2018	2019	2018
Net income	\$7,728	\$5,773	\$25,264	\$75,042
Add:				
Net income to NFE tax adjustment	14,002	4,278	6,671	6,259
Net financial earnings	\$21,730	\$10,051	\$31,935	\$81,301

Energy Services Segment

Overview

Energy Services markets and sells natural gas to wholesale customers and manages natural gas storage and transportation assets throughout major market areas across North America. Energy Services maintains a strategic portfolio of natural gas storage and transportation contracts that it utilizes in conjunction with its market expertise to provide service and value to its customers. Availability of these storage and transportation contracts allows Energy Services to generate market opportunities by capturing price differentials over specific time horizons and between geographic market locations.

Energy Services also provides management of storage and transportation assets for natural gas producers and regulated utilities. These management transactions typically involve the release of producer/utility owned storage and/or transportation capacity in combination with either an obligation to purchase and/or deliver physical natural gas. In addition to the contractual purchase and/or sale of physical natural gas, Energy Services generates or pays fee-based margin in exchange for its active management and may provide the producer and/or utility with additional margin based on actual results.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

In conjunction with the active management of these contracts, Energy Services generates financial margin by identifying market opportunities and simultaneously entering into natural gas purchase/sale, storage or transportation contracts and financial derivative contracts. In cases where storage is utilized to fulfill these contracts, these forecast sales and/or purchases are economically hedged through the use of financial derivative contracts. The financial derivative contracts consist primarily of exchange-traded futures, options and swap contracts, and are frequently used to lock in anticipated transactional cash flows and to help manage volatility in natural gas market prices. Generally, when its storage and transportation contracts are exposed to periods of increased market volatility, Energy Services is able to implement strategies that allow them to capture margin by improving the respective time or geographic spreads on a forward basis.

Energy Services accounts for its physical commodity contracts and its financial derivative instruments at fair value on the Unaudited Condensed Consolidated Balance Sheets. Changes in the fair value of physical commodity contracts and financial derivative instruments are included in earnings as a component of operating revenue or gas purchases on the Unaudited Condensed Consolidated Statements of Operations. Volatility in reported net income at Energy Services can occur over periods of time due to changes in the fair value of derivatives, as well as timing differences related to certain transactions. Unrealized gains and losses can fluctuate as a result of changes in the price of natural gas, SRECs and foreign currency from the original transaction price. Volatility in earnings can also occur as a result of timing differences between the settlement of financial derivatives and the sale of the underlying physical commodity. For example, when a financial instrument settles and the physical natural gas is injected into inventory, the realized gains and losses associated with the financial instrument are recognized in earnings. However, the gains and losses associated with the physical natural gas are not recognized in earnings until the natural gas inventory is withdrawn from storage and sold, at which time Energy Services realizes the entire margin on the transaction.

Operating Results

Energy Services' financial results are summarized as follows:

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
(Thousands)	2019	2018	2019	2018
Operating revenues ⁽¹⁾	\$547,825	\$725,313	\$1,135,092	\$1,203,294
Operating expenses				
Gas purchases (including demand charges ⁽²⁾⁽³⁾)	546,395	622,347	1,082,903	1,068,557
Operation and maintenance	5,367	1,076	10,640	5,512
Depreciation and amortization	25	15	52	29
Other taxes	294	1,019	867	2,236
Total operating expenses	552,081	624,457	1,094,462	1,076,334
Operating (loss) income	(4,256)	)100,856	40,630	126,960
Other income, net	32	122	51	138
Interest expense, net	1,624	1,203	3,511	2,460
Income tax (benefit) provision	(1,388)	)23,965	8,256	37,708
Net (loss) income	\$(4,460)	)\$75,810	\$28,914	\$86,930

(1) Includes related party transactions of approximately \$6 million and \$43.8 million for the three months ended March 31, 2019 and 2018, respectively, and \$8.3 million and \$49.6 million for the six months ended March 31,

2019 and 2018, respectively, which are eliminated in consolidation.

(2) Costs associated with pipeline and storage capacity that are expensed over the term of the related contracts, which generally varies from less than one year to ten years.

(3) Includes related party transactions of approximately \$1.1 million and \$1.1 million for the three months ended March 31, 2019 and 2018, respectively, and \$2.3 million and \$2.3 million for the six months ended March 31, 2019 and 2018, respectively, a portion of which is eliminated in consolidation.

Energy Services' portfolio of financial derivative instruments are composed of:

	Six
	Months
	Ended
	March
	31,
(in Bcf)	20192018
Net short futures contracts	12.538.4

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

Operating Revenues and Gas Purchases

Operating revenues decreased \$177.5 million and gas purchases decreased \$76 million during the three months ended March 31, 2019, compared with the three months ended March 31, 2018, due primarily to less price volatility in the physical gas market. Operating revenues decreased \$68.2 million and gas purchases increased \$14.3 million during the six months ended March 31, 2019, compared with the six months ended March 31, 2018, due primarily to less market volatility and decreased volumes.

Future results at Energy Services are contingent upon natural gas market price volatility driven by variations in both the supply and demand balances caused by weather and other factors. As a result, variations in weather patterns in the key market areas served may affect earnings during the fiscal year. Changes in market fundamentals such as an increase in supply and decrease in demand due to milder temperatures, and reduced volatility can negatively impact Energy Services' earnings. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Natural Gas Distribution Segment for Tetco M-3 Daily Prices, which illustrates the daily natural gas prices in the Northeast market region.

Operation and Maintenance Expense

O&M expense increased \$4.3 million and \$5.1 million during the three and six months ended March 31, 2019, respectively, compared with the three and six months ended months ended March 31, 2018, due primarily to a pre-tax gain of \$3.7 million associated with the sale of NJR Retail Services Company in February 2018, as well as increased compensation costs and share corporate costs.

Income Tax Provision

Income tax provision decreased \$25.4 million during the three months ended March 31, 2019, compared with the three months ended March 31, 2018, due primarily to decreased operating income. Income tax provision decreased \$29.5 million during the six months ended March 31, 2019, compared with the six months ended March 31, 2018, due primarily to decreased operating income, along with income tax expense of \$7.7 million during the six months ended March 31, 2018, associated with the revaluation of deferred income taxes that did not recur during the six months ended March 31, 2019.

Net Income

Net income decreased \$80.3 million and \$58 million during the three and six months ended March 31, 2019, compared with the three months ended March 31, 2018, respectively, due primarily to decreased operating income, partially offset by the related decrease in income tax provision.

Non-GAAP Financial Measures

Management uses financial margin and NFE, non-GAAP financial measures, when evaluating the operating results of Energy Services. Financial margin and NFE are based on removing timing differences associated with certain derivative instruments, as discussed above. There is a related tax effect on current and deferred income tax expense corresponding with NFE. Also included in the tax effect are the impacts of the Tax Act and resulting revaluation of

the deferred income taxes that arose from derivative and hedging activity as measured under NFE. The revaluation caused the effective tax rate on reconciling items to differ from the statutory rate in effect for the six months ended March 31, 2018.

Management views these measures as representative of the overall expected economic result and uses these measures to compare Energy Services' results against established benchmarks and earnings targets as these measures eliminate the impact of volatility on GAAP earnings as a result of timing differences associated with the settlement of derivative instruments. To the extent that there are unanticipated impacts from changes in the market value related to the effectiveness of economic hedges, Energy Services' actual non-GAAP results can differ from the results anticipated at the outset of the transaction. Non-GAAP financial measures are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not as a substitute for, the comparable GAAP measure.

When Energy Services reconciles the most directly comparable GAAP measure to both financial margin and NFE, the current period unrealized gains and losses on derivatives are excluded as a reconciling item. Financial margin and NFE also exclude the effects of economic hedging of the value of our natural gas in storage and, therefore, only include realized gains and losses related to natural gas withdrawn from storage, effectively matching the full earnings effects of the derivatives with realized margins on the related physical gas flows.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

Financial Margin

The following table is a computation of Energy Services' financial margin:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2019	2018	2019	2018
Operating revenues ⁽¹⁾	\$547,825	\$725,313	\$1,135,092	\$1,203,294
Less: Gas purchases	546,395	622,347	1,082,903	1,068,557
Add:				
Unrealized loss (gain) on derivative instruments and related transactions	8,805	(12,249)	(2,372)	21,624
Effects of economic hedging related to natural gas inventory ⁽²⁾	22,367	6,125	756	(19,262)
Financial margin	\$32,602	\$96,842	\$50,573	\$137,099

Includes unrealized losses related to an intercompany transaction between NJNG and Energy Services that have been eliminated in consolidation of approximately \$1.3 million and \$762,000 for the three months ended ⁽¹⁾March 31, 2019 and 2018, respectively, and \$1.4 million and \$1.7 million for the six months ended March 31, 2019 and 2018, respectively.

⁽²⁾Effects of hedging natural gas inventory transactions where the economic impact is realized in a future period.

A reconciliation of operating income, the closest GAAP financial measure, to Energy Services' financial margin is as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2019	2018	2019	2018
Operating (loss) income	\$(4,256)	\$100,856	\$40,630	\$126,960
Add:				
Operation and maintenance	5,367	1,076	10,640	5,512
Depreciation and amortization	25	15	52	29
Other taxes	294	1,019	867	2,236
Subtotal	1,430	102,966	52,189	134,737
Add:				
Unrealized loss (gain) on derivative instruments and related transactions	8,805	(12,249)	(2,372)	21,624
Effects of economic hedging related to natural gas inventory	22,367	6,125	756	(19,262)
Financial margin	\$32,602	\$96,842	\$50,573	\$137,099

Financial margin decreased \$64.2 million and \$86.5 million during the three and six months ended March 31, 2019, compared with the three and six months ended March 31, 2018, respectively, due primarily to narrower pricing spreads and less price volatility in the physical natural gas market.

Net Financial Earnings

A reconciliation of Energy Services' net income, the most directly comparable GAAP financial measure, to NFE is as follows:

Edgar Filing: NEW JERSEY RESOURCES CORP - Form 10-Q

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Net (loss) income	\$(4,460)	\$75,810	\$28,914	\$86,930
Add:				
Unrealized loss (gain) on derivative instruments and related transactions	8,805	(12,249)	(2,372)	21,624
Tax effect ⁽¹⁾	(2,092)	4,861	556	(2,715)
Effects of economic hedging related to natural gas inventory	22,367	6,125	756	(19,262)
Tax effect	(5,316)	(1,715)	(180)	6,529
Net financial earnings	\$19,304	\$72,832	\$27,674	\$93,106

Includes taxes related to an intercompany transaction between NJNG and Energy Services that have been eliminated in consolidation of approximately \$(310,000) and \$(172,000) for the three months ended March 31, 2019 and 2018, respectively, and \$(334,000) and \$(654,000) for the six months ended March 31, 2019 and 2018, respectively.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

NFE decreased \$53.5 million during the three months ended March 31, 2019, compared with the three months ended March 31, 2018, due primarily to lower financial margin. NFE decreased \$65.4 million during the six months ended March 31, 2019, compared with the six months ended March 31, 2018, due primarily to lower financial margin, as well as income tax expense of \$7.7 million associated with the revaluation of deferred income taxes resulting from the Tax Act, during the six months ended March 31, 2018, that did not recur during the six months ended March 31, 2019.

Future results are subject to Energy Services' ability to expand its wholesale sales and service activities and are contingent upon many other factors, including an adequate number of appropriate and credit qualified counterparties in an active and liquid natural marketplace, volatility in the natural gas market due to weather or other fundamental market factors impacting supply and/or demand, transportation, storage and/or other market arbitrage opportunities, sufficient liquidity in the overall energy trading market, and continued access to liquidity in the capital markets.

Midstream Segment

Overview

Our Midstream segment invests in natural gas assets, such as natural gas transportation and storage facilities. We believe that acquiring, owning and developing these midstream assets, which operate under a tariff structure that has either regulated or market-based rates, can provide us a growth opportunity. To that end, we have a 50 percent ownership interest in Steckman Ridge, a storage facility that operates under market-based rates and a 20 percent ownership interest in PennEast, a natural gas pipeline.

PennEast received a Certificate of Public Convenience and Necessity for the project from FERC on January 19, 2018. PennEast has advised that it currently expects the pipeline to begin construction in 2020. However, construction could be delayed beyond 2020, due to factors beyond PennEast's ability to control or estimate precisely, including potential delays in obtaining (or the inability to obtain) governmental and regulatory approvals and land-use rights, and unforeseen construction delays. As of March 31, 2019, our net investments in Steckman Ridge and PennEast were \$115.8 million and \$79.4 million, respectively.

Operating Results

The financial results of our Midstream segment are summarized as follows:

	Three Months		Six Months	
	Ended	Ended	Ended	Ended
	March 31,	March 31,	March 31,	March 31,
(Thousands)	2019	2018	2019	2018
Equity in earnings of affiliates	\$3,998	\$4,068	\$7,799	\$8,197
Operation and maintenance	\$1,067	\$589	\$1,703	\$961
Other income, net	\$3,354	\$1,356	\$5,346	\$2,577
Interest expense, net	\$565	\$385	\$1,108	\$694
Income tax provision (benefit)	\$1,219	\$3,131	\$2,181	\$(9,712)
Net income	\$4,498	\$1,315	\$8,149	\$18,826

Equity in earnings of affiliates decreased \$70,000 and \$398,000 during the three and six months ended March 31, 2019, compared with the three and six months ended March 31, 2018, due primarily to decreases in storage revenue and increases in debt service costs at Steckman Ridge, partially offset by an increase in AFUDC earned at PennEast.

O&M expense increased \$478,000 and \$742,000 during the three and six months ended March 31, 2019, respectively, compared with the three and six months ended months ended March 31, 2018, due primarily to increased shared corporate costs and consulting expenses.

Other income increased \$2 million and \$2.8 million during the three and six months ended March 31, 2019, respectively, compared with the three and six months ended March 31, 2018, due primarily to the realized and unrealized gains of \$1.6 million associated with the sale of Dominion shares and increased dividend income associated with our investment in equity securities.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

Income taxes decreased \$1.9 million during the three months ended March 31, 2019, compared with the three months ended March 31, 2018, due primarily to the recognition of stranded tax effects reclassified from AOCI related to an other-than-temporary loss on equity securities that was recorded in March 2018, that did not recur. Income taxes increased \$11.9 million during the six months ended March 31, 2019, due primarily to an income tax benefit of \$13.8 million associated with the revaluation of deferred income taxes resulting from the Tax Act during the six months ended March 31, 2018, that did not recur during the six months ended March 31, 2019.

Net income increased \$3.2 million during the three months ended March 31, 2019, compared with the three months ended March 31, 2018, due primarily to increased other income and the decrease in income tax expense as previously discussed. Net income decreased \$10.7 million six months ended March 31, 2019, compared with the six months ended March 31, 2018, due primarily to the decreased income tax benefit, partially offset by increased other income, as previously discussed.

Home Services and Other Operations

Overview

The financial results of Home Services and Other consist primarily of the operating results of NJRHS. NJRHS provides service, sales and installation of appliances to approximately 109,000 service contract customers and has been focused on growing its installation business and expanding its service contract customer base. Home Services and Other also includes organizational expenses incurred at NJR and rental income at CR&R.

Operating Results

The consolidated financial results of Home Services and Other are summarized as follows:

	Three Months Ended		Six Months Ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
(Thousands)				
Operating revenues	\$12,333	\$8,261	\$24,823	\$18,218
Operation and maintenance	\$13,004	\$10,734	\$24,030	\$20,611
Energy and other taxes	\$873	\$993	\$1,743	\$2,113
Other income, net	\$50	\$—	\$(148)	\$5,301
Income tax (benefit) provision	\$(659)	\$(1,281)	\$(851)	\$10,417
Net loss	\$(1,668)	\$(2,394)	\$(1,693)	\$(10,110)

Operating revenue increased \$4.1 million and \$6.6 million during the three and six months ended March 31, 2019, compared with the three and six months ended March 31, 2018, due primarily to increased contract revenue at NJRHS resulting from the adoption of ASC 606, Revenue from Contracts with Customers. As of October 1, 2018, NJRHS recognizes contract revenue on a straight line basis over the term of the contract. Previously, contract revenue was recognized on a seasonal basis based on demand for services.

O&M increased \$2.3 million and \$3.4 million during the three and six months ended March 31, 2019, compared with the three and six months ended March 31, 2018, due primarily to increased consulting expenses related to technology

improvement projects as well as increased compensation costs.

Other income, net remained relatively flat during the three months ended March 31, 2019, compared with the three months ended March 31, 2018. Other income, net decreased \$5.4 million during the six months ended March 31, 2019, compared with the six months ended March 31, 2018, due primarily to the sale of equity securities in an energy company, which resulted in a pre-tax gain of \$5.3 million during the six months ended March 31, 2018.

Income tax benefit remained relatively flat during the three months ended March 31, 2019, compared with the three months ended March 31, 2018. Income tax provision decreased \$11.3 million during the six months ended March 31, 2019, compared with the six months ended March 31, 2018, due primarily to income tax expense of \$10.7 million associated with the revaluation of deferred income taxes resulting from the Tax Act during the six months ended March 31, 2018, that did not recur during the six months ended March 31, 2019.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

Net loss decreased \$726,000 and \$8.4 million during the three and six months ended March 31, 2019, compared with the three and six months ended March 31, 2018, due primarily to the increase in operating revenue and decrease in income tax provision, partially offset by the decrease in other income, net and the increase in O&M, as previously discussed.

Non-GAAP Financial Measures

NFE is based on removing timing differences associated with NJR's variable-for-fixed interest rate swap. Non-GAAP financial measures are not in accordance with, or an alternative to GAAP, and should be considered in addition to, and not as a substitute for the comparable GAAP measure. A reconciliation of Home Services and Other's net income, the most directly comparable GAAP financial measure, to NFE is as follows:

(Thousands)	Three Months Ended		Six Months Ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Net loss	\$(1,668)	\$(2,394)	\$(1,693)	\$(10,110)
Add:				
Unrealized loss (gain) on derivative instruments and related transactions	120	(121)	261	(121)
Tax effect	(33)	27	(73)	27
Net financial loss	\$(1,581)	\$(2,488)	\$(1,505)	\$(10,204)

Liquidity and Capital Resources

Our objective is to maintain an efficient consolidated capital structure that reflects the different characteristics of each business segment and business operations and provides adequate financial flexibility for accessing capital markets as required.

Our consolidated capital structure was as follows:

	March 31, 2019		September 30, 2018	
		%		%
Common stock equity	54	%	49	%
Long-term debt	40		41	
Short-term debt	6		10	
Total	100	%	100	%

Common Stock Equity

We satisfy our external common equity requirements, if any, through issuances of our common stock, including the proceeds from stock issuances under our DRP. The DRP allows us, at our option, to use treasury shares or newly issued shares to raise capital. NJR raised approximately \$24.5 million and \$22.7 million of equity by issuing approximately 507,000 and 554,000 shares of common stock through the waiver discount feature of the DRP during the six months ended March 31, 2019 and 2018, respectively. NJR also raised \$9.5 million and \$9.9 million of equity through the DRP by issuing approximately 205,000 and 242,000 shares of treasury stock, during the six months ended March 31, 2019 and 2018, respectively.

In 1996, the Board of Directors authorized us to implement a share repurchase program, which was expanded seven times since the inception of the program, authorizing a total of 19.5 million shares of common stock for repurchase. As of March 31, 2019, we repurchased a total of approximately 17.1 million of those shares and may repurchase an additional 2.4 million shares under the approved program. There were no shares repurchased during the six months ended March 31, 2019 and 2018.

Debt

NJR and its unregulated subsidiaries generally rely on cash flows generated from operating activities and the utilization of committed credit facilities to provide liquidity to meet working capital and short-term debt financing requirements. NJNG also relies on the issuance of commercial paper for short-term funding. NJR and NJNG periodically access the capital markets to fund long-life assets through the issuance of long-term debt securities.

We believe that our existing borrowing availability, equity proceeds and cash flow from operations will be sufficient to satisfy our and our subsidiaries' working capital, capital expenditures and dividend requirements for the next 12 months. NJR, NJNG, Clean Energy Ventures and Energy Services currently anticipate that each of their financing requirements for the next 12

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

months will be met primarily through the issuance of short and long-term debt and equity, including proceeds from our DRP and including utilizing the waiver discount feature.

We believe that as of March 31, 2019, NJR and NJNG were, and currently are, in compliance with all existing debt covenants, both financial and non-financial.

Short-Term Debt

We use our short-term borrowings primarily to finance Energy Services' short-term liquidity needs, Midstream investments and PennEast contributions, share repurchases and, on an initial basis, Clean Energy Ventures' investments. Energy Services' use of high volume storage facilities and anticipated pipeline park-and-loan arrangements, combined with related economic hedging activities in the volatile wholesale natural gas market, create significant short-term cash requirements.

As of March 31, 2019, NJR had revolving credit facilities totaling \$525 million, with \$521.3 million available under the facilities.

NJNG satisfies its debt needs by issuing short-term and long-term debt based on its financial profile. 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, based on its financial profile, through the issuance of commercial paper supported by the NJNG Credit Facility or through short-term bank loans under the NJNG Credit Facility.

NJNG's commercial paper is sold through several commercial banks under an issuing and paying agency agreement and is supported by the \$250 million NJNG Credit Facility. As of March 31, 2019, the unused amount available under the NJNG Credit Facility, including amounts allocated to the backstop under the commercial paper program and the issuance of letters of credit, was \$203.4 million.

Short-term borrowings were as follows:

(Thousands)	Three	Six Months		
	Months	Ended		
	Ended	March 31, 2019		
NJR				
Notes Payable to banks:				
Balance at end of period	\$—	\$—		
Weighted average interest rate at end of period	—	%	—	%
Average balance for the period	\$162,767	\$190,212		
Weighted average interest rate for average balance	3.44	%	3.33	%
Month end maximum for the period	\$268,050	\$280,000		
NJNG				
Commercial Paper and Notes Payable to banks:				
Balance at end of period	\$45,900	\$45,900		

Edgar Filing: NEW JERSEY RESOURCES CORP - Form 10-Q

Weighted average interest rate at end of period	2.72	%	2.72	%
Average balance for the period	\$64,045		\$80,606	
Weighted average interest rate for average balance	2.76	%	2.65	%
Month end maximum for the period	\$68,700		\$123,500	

Due to the seasonal nature of natural gas prices and demand, and because inventory levels are built up during its natural gas injection season (April through October), NJR and NJNG's short-term borrowings tend to peak in the November through January time frame.

NJR

Based on its average borrowings during the three and six months ended March 31, 2019, NJR's average interest rate was 3.44 percent and 3.33 percent, respectively, resulting in interest expense of approximately \$1.4 million and \$3.1 million, respectively.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

As of March 31, 2019, NJR had three letters of credit outstanding totaling \$3.7 million, which reduced the amount available under the NJR Credit Facility by the same amount. NJR does not anticipate that these letters of credit will be drawn upon by the counterparties.

On December 5, 2018, NJR entered into an Amended and Restated Credit Agreement governing a \$425 million NJR Credit Facility. The NJR Credit Facility expires on December 5, 2023, subject to two mutual options for a one-year extension beyond that date. The NJR Credit Facility permits the borrowing of revolving loans and swingline loans, as well as the issuance of letters of credit. The NJR Credit Facility also includes an accordion feature, which would allow NJR, in the absence of a default or event of default, to increase from time to time, with the existing or new lenders, the revolving credit commitments under the NJR Credit Facility in minimum increments of \$50 million up to a maximum of \$250 million. Certain of NJR's unregulated subsidiaries have guaranteed all of NJR's obligations under the NJR Credit Facility.

On December 21, 2018, NJR entered into a four-month \$100 million revolving line of credit facility, which expired on April 18, 2019. As of March 31, 2019, there were no borrowings against the facility.

Neither NJNG nor its assets are obligated or pledged to support the NJR Credit Facility.

NJNG

As noted above, based on its average borrowings during the three and six months ended March 31, 2019, NJNG's average interest rate was 2.76 percent and 2.65 percent, respectively, resulting in interest expense of approximately \$444,000 and \$1.1 million, respectively.

As of March 31, 2019, NJNG had two letters of credit outstanding for \$731,000, which reduced the amount available under NJNG's committed credit facility by the same amount. NJNG does not anticipate that these letters of credit will be drawn upon by the counterparties.

On December 5, 2018, NJNG entered into an Amended and Restated Credit Agreement governing a \$250 million NJNG Credit Facility. The NJNG Credit Facility expires on December 5, 2023, subject to two mutual options for a one-year extension beyond that date. The NJNG Credit Facility permits the borrowing of revolving loans and swingline loans, as well as the issuance of letters of credit. The NJNG Credit Facility also includes an accordion feature, which would allow NJNG, in the absence of a default or event of default, to increase from time to time, with the existing or new lenders, the revolving credit commitments under the NJNG Credit Facility in minimum increments of \$50 million up to a maximum of \$100 million.

Short-Term Debt Covenants

Borrowings under the NJR Credit Facility and the NJNG Credit Facility are conditioned upon compliance with a maximum leverage ratio (consolidated total indebtedness to consolidated total capitalization as defined in the applicable agreements), of not more than .65 to 1.00 at any time. These revolving credit facilities contain customary representations and warranties for transactions of this type. They also contain customary events of default and certain covenants that will limit NJR's or NJNG's ability, beyond agreed upon thresholds, to, among other things:

- incur additional debt;
- incur liens and encumbrances;
- make dispositions of assets;
- enter into transactions with affiliates; and
- merge, consolidate, transfer, sell or lease all or substantially all of the borrower's or guarantors' assets.

These covenants are subject to a number of exceptions and qualifications set forth in the applicable agreements.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

Default Provisions

The agreements governing our long-term and short-term debt obligations include provisions that, if not complied with, could require early payment or similar actions. Default events include, but are not limited to, the following:

- defaults for non-payment;
- defaults for breach of representations and warranties;
- defaults for insolvency;
- defaults for non-performance of covenants;
- cross-defaults to other debt obligations of the borrower; and
- guarantor defaults.

The occurrence of an event of default under these agreements could result in all loans and other obligations of the borrower becoming immediately due and payable and the termination of the credit facilities or term loan.

Long-Term Debt

NJR

As of March 31, 2019, NJR had the following outstanding:

- \$100 million variable rate term loan due August 16, 2019;
- \$50 million of 3.25 percent senior notes due September 2022;
- \$50 million of 3.2 percent senior notes due August 18, 2023;
- \$100 million of 3.48 percent senior notes due November 7, 2024;
- \$100 million of 3.54 percent senior notes due August 18, 2026; and
- \$100 million of 3.96 percent senior notes due June 8, 2028.

Neither NJNG nor its assets are obligated or pledged to support NJR's long-term debt.

NJNG

As of March 31, 2019, NJNG's long-term debt consisted of \$575 million in fixed-rate debt issuances secured by the Mortgage Indenture, with maturities ranging from 2024 to 2048, \$97 million in secured variable rate debt with

maturities ranging from 2027 to 2041 and \$29.6 million in capital leases with various maturities ranging from 2019 to 2025.

On April 18, 2019, NJNG remarketed three FMBs, in the amount of \$35.8 million, with a weighted average interest rate of 3.02 percent. The bonds have maturity dates ranging from April 2038 to April 2059.

NJR is not obligated directly or contingently with respect to the NJNG notes or the FMBs.

Long-Term Debt Covenants and Default Provisions

The NJR and NJNG long-term debt instruments contain customary representations and warranties for transactions of their type. They also contain customary events of default and certain covenants that will limit NJR or NJNG's ability beyond agreed upon thresholds to, among other things:

- incur additional debt (including a covenant that limits the amount of consolidated total debt of the borrower at the end of a fiscal quarter to 65 percent of the consolidated total capitalization of the borrower, as those terms are defined in the applicable agreements, and a covenant limiting priority debt to 20 percent of the borrower's consolidated total capitalization, as those terms are defined in the applicable agreements);

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

- incur liens and encumbrances;
- make loans and investments;
- make dispositions of assets;
- make dividends or restricted payments;
- enter into transactions with affiliates; and
- merge, consolidate, transfer, sell or lease substantially all of the borrower's assets.

The aforementioned covenants are subject to a number of exceptions and qualifications set forth in the applicable note purchase agreements.

In addition, the FMBs issued by NJNG under the Mortgage Indenture are subject to certain default provisions. Events of Default, as defined in the Mortgage Indenture, consist mainly of:

- failure for 30 days to pay interest when due;
- failure to pay principal or premium when due and payable;
- failure to make sinking fund payments when due;
- failure to comply with any other covenants of the Mortgage Indenture after 30 days' written notice from the Trustee;
- failure to pay or provide for judgments in excess of \$30 million in aggregate amount within 60 days of the entry thereof; or
- certain events that are or could be the basis of a bankruptcy, reorganization, insolvency or receivership proceeding.

Upon the occurrence and continuance of such an Event of Default, the Mortgage Indenture, subject to any provisions of law applicable thereto, provides that the Trustee may take possession and conduct the business of NJNG, may sell the trust estate, or proceed to foreclose the lien pursuant to the Mortgage Indenture. The interest rate on defaulted principal and interest, to the extent permitted by law, on the FMBs issued under the Mortgage Indenture is the rate stated in the applicable supplement or, if no such rate is stated, six percent per annum.

Sale-Leaseback

NJNG

NJNG received \$9.9 million and \$7.8 million in December 2018 and 2017, respectively, in connection with the sale-leaseback of its natural gas meters. NJNG exercised early purchase options with respect to certain outstanding meter leases by making final principal payments of \$1.1 million during both the six months ended March 31, 2019 and

2018. NJNG continues to evaluate this sale-leaseback program based on current market conditions. As noted, natural gas meters are accepted as property under the Mortgage Indenture.

Clean Energy Ventures

Clean Energy Ventures has entered into transactions to sell certain of its commercial solar assets concurrent with agreements to lease the assets back over six to 15-year terms. These sale-leasebacks are financing obligations secured by the solar assets and related future cash flows from SREC and energy sales. ITCs and other tax benefits associated with these solar projects were transferred to the buyer. Clean Energy Ventures will continue to operate the solar projects and retain ownership of SRECs generated, and has the option to renew the lease or repurchase the assets at the end of the lease term per the terms of the arrangement. Clean Energy Ventures did not enter into sale-leasebacks transactions during the six months ended March 31, 2019 and 2018.

Contractual Obligations

NJNG's total capital expenditures are projected to be \$338.9 million and \$448.6 million, in fiscal 2019 and 2020, respectively. Total capital expenditures spent or accrued during the six months ended March 31, 2019, were \$142.7 million. NJNG expects to fund its obligations with a combination of cash flow from operations, cash on hand, issuance of commercial paper, available

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

capacity under its revolving credit facility and the issuance of long-term debt. As of March 31, 2019, NJNG's future MGP expenditures are estimated to be \$128.9 million. For a more detailed description of MGP expenditures see Note 12. Commitments and Contingent Liabilities in the accompanying Unaudited Condensed Consolidated Financial Statements.

Estimated capital expenditures are reviewed on a regular basis and may vary based on the ongoing effects of regulatory constraints, environmental regulations, unforeseen events, and the ability to access capital.

Clean Energy Ventures' expenditures include clean energy projects that support our goal to promote renewable energy. Accordingly, Clean Energy Ventures enters into agreements to install solar equipment involving both residential and commercial projects. During the six months ended March 31, 2019, total capital expenditures spent or accrued related to the purchase and installation of solar equipment were \$51.3 million. An additional \$62.5 million has been committed for solar projects to be placed into service during fiscal 2019 and beyond. We estimate solar-related capital expenditures for projects during fiscal 2019 to be between \$153 million and \$167 million.

Capital expenditures related to clean energy projects are subject to change due to a variety of factors that may affect our ability to commence operations at these projects on a timely basis or at all, including logistics associated with the start-up of residential and commercial solar projects, such as timing of construction schedules, the permitting and regulatory process, any delays related to electric grid interconnection, economic trends, unforeseen events and the ability to access capital or allocation of capital to other investments or business opportunities.

During the six months ended March 31, 2019, capital expenditures related to our Midstream investment in the Adelpia project were \$4.6 million. We estimate expenditures to be between \$230 million and \$270 million in fiscal 2019. During the six months ended March 31, 2018, capital expenditures related to our Midstream investment in the PennEast pipeline project were \$1.5 million. We estimate expenditures related to our Midstream investment in the PennEast project to be between \$4 million and \$14 million in fiscal 2019.

Energy Services does not currently anticipate any significant capital expenditures in fiscal 2019 and 2020.

More detailed information regarding contractual obligations is contained in Liquidity and Capital Resources - Contractual Obligations section of Part II, 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, 2018.

Off-Balance-Sheet Arrangements

Our off-balance-sheet arrangements consist of guarantees covering approximately \$339.6 million of natural gas purchases, SREC sales and demand fee commitments and outstanding letters of credit totaling \$4.4 million.

Cash Flows

Operating Activities

Cash flows from operating activities during the six months ended March 31, 2019, totaled \$171.8 million compared with \$312.5 million during the six months ended March 31, 2018. Operating cash flows are primarily affected by

variations in working capital, which can be impacted by several factors, including:

- seasonality of our business;
- fluctuations in wholesale natural gas prices and other energy prices, including changes in derivative asset and liability values;
- timing of storage injections and withdrawals;
- the deferral and recovery of gas costs;
- changes in contractual assets utilized to optimize margins related to natural gas transactions;
- broker margin requirements;
- impact of unusual weather patterns on our wholesale business;

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

- timing of the collections of receivables and payments of current liabilities;
- volumes of natural gas purchased and sold; and
- timing of SREC deliveries.

The decrease of \$140.7 million in cash flows from operating activities during the six months ended March 31, 2019, compared with the six months ended March 31, 2018, was due primarily to lower financial margin generated at Energy Services along with increased working capital requirements.

Investing Activities

Cash flows from investing activities totaled \$42.5 million during the six months ended March 31, 2019, compared with Cash flows (used in) investing activities totaling \$(168.8) million during the six months ended March 31, 2018. The increase of \$211.3 million was due primarily to proceeds, net of closing costs, from the sale of our wind assets of \$205.7 million and Dominion shares of \$34.5 million, partially offset by an increase in expenditures of \$36.3 million and \$6.5 million for utility plant and solar projects, respectively.

Financing Activities

Financing cash flows generally are seasonal in nature and are impacted by the volatility in pricing in the natural gas and other energy markets. NJNG's inventory levels are built up during its natural gas injection season (April through October) and reduced during withdrawal season (November through March) in response to the supply requirements of its customers. Changes in financing cash flows can also be impacted by gas management and marketing activities at Energy Services and clean energy investments at Clean Energy Ventures.

Cash flows used in financing activities totaled \$132.5 million during the six months ended March 31, 2019, compared with \$140.9 million during the six months ended March 31, 2018. The decrease of \$8.5 million is due primarily to payments of short-term debt at NJR and NJNG and an increase in dividends paid to shareowners.

Credit Ratings

The table below summarizes NJNG's credit ratings as of March 31, 2019, issued by three rating entities, S&P, Moody's and Fitch:

	S&P	Moody's	Fitch
Corporate Rating	BBB+	N/A	A-
Commercial Paper	A-2	P-1	F-2
Senior Secured	A	Aa3	A+
Ratings Outlook	Negative	Negative	Stable

On November 29, 2018, Fitch assigned a first-time long-term issuer default rating to NJNG. The rating reflects a constructive regulatory environment, including margin decoupling and fuel cost recovery, and strong customer growth. Other considerations were the weakened credit metrics driven by the impact of tax reform and an elevated capital program, with a substantial portion of investment recovered under tracking mechanisms. On March 28, 2019,

Fitch affirmed the ratings outlook as stable.

On February 8, 2019, Moody's revised NJNG's secured rating from Aa2 to Aa3. This change reflects Moody's view that the Company's credit measures are expected to deteriorate due to loss of cash flow from deferred taxes, lower authorized returns and peak capital programs in 2019 and 2020. These measures are mitigated by the credit supportive regulatory rate construct and NJNG's recovery mechanism. Management's response and regulatory outcomes have partially mitigated some of the near term negative cash flow impacts related to tax reform. This action does not currently affect any of NJNG's short or long term borrowing rates.

The S&P rating was reaffirmed on August 18, 2018. NJNG's S&P, Moody's and Fitch ratings are investment-grade ratings. NJR is not a rated entity.

New Jersey Resources Corporation
Part I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Continued)

Although 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, if such ratings are downgraded below investment grade, borrowing costs could increase, as would the costs of maintaining certain contractual relationships and future financing and our access to capital markets would be reduced. Even if ratings are downgraded without falling below investment grade, NJR and NJNG could face increased borrowing costs under their credit facilities. A rating set forth above is not a recommendation to buy, sell or hold NJR'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 NJNG's current short-term 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. Its prices are determined effectively by the NYMEX, ICE and over-the-counter markets. The prices on the NYMEX, CME, ICE and over-the-counter markets generally reflect the national balance of natural gas supply and demand, but are also significantly influenced from time to time by other events.

Our regulated and deregulated businesses are subject to market risk due to fluctuations in the price of natural gas. To economically hedge against such fluctuations, we have entered into forwards, futures, options and swap agreements. To manage these derivative instruments, we have well-defined risk management policies and procedures that include daily monitoring of volumetric limits and monetary guidelines. Our natural gas businesses are conducted through two of our operating subsidiaries. NJNG is a regulated utility that uses futures, options and swaps to provide relative price stability, and its recovery of natural gas costs is governed by the BPU. Energy Services uses futures, options, swaps and physical contracts to economically hedge purchases and sales of natural gas.

The following table reflects the changes in the fair market value of financial derivatives related to natural gas purchases and sales:

	Balance	Increase	Less	Balance
	September 30,	(Decrease)	Amounts	March 31,
(Thousands)	2018	in Fair	Settled	2019
		Market		
		Value		
Natural Gas Distribution	\$ 94	(1,482)	(1,959)	\$571
Energy Services	(13,925)	(7,727)	(14,091)	(7,561)
Total	\$ (13,831)	(9,209)	(16,050)	\$ (6,990)

There were no changes in methods of valuations during the six months ended March 31, 2019.

Edgar Filing: NEW JERSEY RESOURCES CORP - Form 10-Q

The following is a summary of fair market value of financial derivatives at March 31, 2019, excluding foreign exchange contracts discussed below, by method of valuation and by maturity for each fiscal year period:

(Thousands)	2019	2020	2021 - 2023	After 2023	Total Fair Value
Price based on NYMEX/CME	\$1,689	1,542	629		—\$3,860
Price based on ICE	(1,285)	(7,578)	(1,987)		—(10,850)
Total	\$404	(6,036)	(1,358)		—\$(6,990)

The following is a summary of financial derivatives by type as of March 31, 2019:

	Volume Bcf	Price per MMBtu ⁽¹⁾	Amounts included in Derivatives (Thousands)
Natural Gas Distribution Futures	32.1	2.06 - 2.94	\$ 571
Energy Services Futures	(4.0)	.93 - 4.43	(11,421)
Swaps	(8.5)	2.72 - 3.46	3,860
Total			\$ (6,990)

(1) Million British thermal unit

New Jersey Resources Corporation
Part I

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
(Continued)

The following table reflects the changes in the fair market value of physical commodity contracts:

(Thousands)	Balance	Increase	Less	Balance
	September 30, 2018	in Fair Market Value	(Decrease) Amounts Settled	March 31, 2019
Natural Gas Distribution - Prices based on other external data	\$ (107)	2,558	2,409	\$42
Energy Services - Prices based on other external data	(17,877)	(18,287)	(6,387)	(29,777)
Total	\$ (17,984)	(15,729)	(3,978)	\$(29,735)

The following table reflects the changes in the fair market value of interest rate contracts:

(Thousands)	Balance	Increase	Less	Balance
	September 30, 2018	in Fair Market Value	(Decrease) Amounts Settled	March 31, 2019
Home Services and Other - Prices based on other external data	381	(185)	76	120
Total	\$ 381	(185)	76	\$ 120

Our market price risk is predominately linked with changes in the price of natural gas at the Henry Hub, the delivery point for the NYMEX natural gas futures contracts. Based on price sensitivity analysis, an illustrative 10 percent movement in the natural gas futures contract price, for example, increases (decreases) the reported derivative fair value of all open, unadjusted Henry Hub natural gas futures and fixed price swap positions by approximately \$3.7 million. This analysis does not include potential changes to reported credit adjustments embedded in the \$2.9 million reported fair value.

Derivative Fair Value Sensitivity Analysis

(Thousands)	Henry Hub Futures and Fixed Price Swaps				
	0%	5%	10%	15%	20%
Percent increase in NYMEX natural gas futures prices					
Estimated change in derivative fair value	\$—	\$(1,849)	\$(3,698)	\$(5,547)	\$(7,396)
Ending derivative fair value	\$2,884	\$1,035	\$(814)	\$(2,663)	\$(4,512)
Percent decrease in NYMEX natural gas futures prices	0%	(5)%	(10)%	(15)%	(20)%
Estimated change in derivative fair value	\$—	\$1,849	\$3,698	\$5,547	\$7,396
Ending derivative fair value	\$2,884	\$4,733	\$6,582	\$8,431	\$10,280

Wholesale Credit Risk

The following is a summary of gross and net credit exposures, grouped by investment and non-investment grade counterparties, as of March 31, 2019. Gross credit exposure is defined as the unrealized fair value of derivative and energy trading contracts plus any outstanding wholesale receivable for the value of natural gas or power delivered and/or financial derivative commodity contract that has settled 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 NJNG retail natural gas sales and services.

Energy Services' & Clean Energy Ventures' counterparty credit exposure as of March 31, 2019, is as follows:

(Thousands)	Gross Credit Exposure	Net Credit Exposure
Investment grade	\$181,650	\$144,901
Noninvestment grade	24,534	923
Internally rated investment grade	25,334	17,955
Internally rated noninvestment grade	11,493	4,064
Total	\$243,011	\$167,843

New Jersey Resources Corporation
Part I

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
(Continued)

NJNG's counterparty credit exposure as of March 31, 2019, is as follows:

(Thousands)	Gross	Net
	Credit Exposure	Credit Exposure
Investment grade	\$ 5,705	\$ 4,109
Noninvestment grade	357	—
Internally rated investment grade	668	367
Internally rated noninvestment grade	19,852	12,745
Total	\$ 26,582	\$ 17,221

Due to the inherent volatility in the market price for natural gas, electricity and SRECs, 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 make payment for natural gas received), we 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 or received at a price that exceeds the original contract price. Any such loss could have a material impact on our financial condition, results of operations or cash flows.

Effects of Interest Rate and Foreign Currency Rate Fluctuations

We are also exposed to changes in interest rates on our debt hedges, variable rate debt and changes in foreign currency rates for our business conducted in Canada using Canadian dollars. We do not believe an immediate 10 percent increase or decrease in interest rates or foreign currency rates would have a material effect on our operating results or cash flows.

Information regarding NJR's interest rate risk can be found in Item 7A. Quantitative and Qualitative Disclosures About Market Risks and the Liquidity and Capital Resources - Debt section of 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, 2018.

Effects of Inflation

Although inflation rates have been relatively low to moderate in recent years, including the three most recent fiscal years, any change in price levels has an effect on operating results due to the capital-intensive and regulated nature of our utility subsidiary. We attempt to minimize the effects of inflation through cost control, productivity improvements and regulatory actions, when appropriate.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the

end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of end of the period covered by this report, our disclosure controls and procedures are effective, to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended March 31, 2019, that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

New Jersey Resources Corporation
Part II

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, 2018, and is set forth in Part I, Item 1, Note 12. Commitments and Contingent Liabilities-Legal Proceedings on the Unaudited Condensed Consolidated Financial Statements, which is incorporated by reference. No legal proceedings became reportable during the quarter ended March 31, 2019, 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

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical, under the circumstances, some level of risk and uncertainty will always be present. Part I, Item 1A. Risk Factors of our 2018 Annual Report on Form 10-K includes a detailed discussion of our risk factors. Those risks and uncertainties have the potential to materially affect our financial condition and results of operations. There have been no material changes in our risk factors from those previously disclosed in Part I, Item 1A, of our 2018 Annual Report on Form 10-K.

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

The following table sets forth our repurchase activity for the quarter ended March 31, 2019:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
1/01/19 - 1/31/19	—	\$ —	—	2,431,053
2/01/19 - 2/28/19	—	—	—	2,431,053
3/01/19 - 3/31/19	—	—	—	2,431,053
Total	—	\$ —	—	2,431,053

The stock repurchase plan, which was authorized by our Board of Directors, became effective in September 1996 and as of March 31, 2019, included 19.5 million shares of common stock for repurchase, of which, approximately 2.4 million shares remained available for repurchase. The stock repurchase plan will expire when we have repurchased all shares authorized for repurchase thereunder, unless the repurchase plan is earlier terminated by action of our Board of Directors or further shares are authorized for repurchase.

New Jersey Resources Corporation
Part II

ITEM 6.
EXHIBITS

Exhibit Number	Exhibit Description
4.1+	<u>Amended and Restated Indenture, dated as of April 1, 2019, between NJNG and New Jersey Economic Development Authority and U.S. Bank National Association, as Trustee</u>
4.2+	<u>Second Amendment to the Loan Agreement, dated as of April 1, 2019, NJNG and New Jersey Economic Development Authority</u>
4.3+	<u>Amended and Restated Continuing Disclosure Undertaking, dated as of April 18, 2019</u>
4.4+	<u>Fourth Supplemental Indenture, dated as of April 1, 2019, between NJNG and U.S. Bank National Association, as Trustee</u>
31.1+	<u>Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2+	<u>Certification of the Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1+	<u>Certification of the Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2+	<u>Certification of the Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002</u>
101+	Interactive Data File (Form 10-Q, for the fiscal period ended March 31, 2019, furnished in XBRL (eXtensible Business Reporting Language))

+Filed herewith.

† 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.

New Jersey Resources Corporation
Part II

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

NEW JERSEY RESOURCES CORPORATION
(Registrant)

Date: May 3, 2019

By:/s/ Patrick Migliaccio
Patrick Migliaccio
Senior Vice President and
Chief Financial Officer