NEW JERSEY RESOURCES CORP
Form 10-Q
August 03, 2015

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

FORM 10 Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission file number 1 8359

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

New Jersey (State or other jurisdiction of incorporation or organization)	22 2376465 (I.R.S. Employer Identification Number)
1415 Wyckoff Road, Wall, New Jersey 07719 (Address of principal executive offices)	732 938 1480 (Registrant's telephone number, including area code)

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

Common Stock $2.50 Par Value (Title of each class)	New York Stock Exchange (Name of each exchange on which registered)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes: x No: o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes: x No: o

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

Large accelerated filer: x	Accelerated filer: o	Non-accelerated filer: o (Do not check if a smaller reporting company)	Smaller reporting company: o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes: o No: x

The number of shares outstanding of $2.50 par value Common Stock as of July 30, 2015 was 85,505,534.

New Jersey Resources Corporation

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GLOSSARY OF KEY TERMS

AFUDC	Allowance for Funds Used During Construction
AIP	Accelerated Infrastructure Program
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bcf	Billion Cubic Feet
BGSS	Basic Gas Supply Service
BPU	New Jersey Board of Public Utilities
CIP	Conservation Incentive Program
CME	Chicago Mercantile Exchange
CR&R	Commercial Realty & Resources Corp.
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DRP	NJR Direct Stock Purchase and Dividend Reinvestment Plan
FASB	Financial Accounting Standards Board
FCM	Futures Commission Merchant
FERC	Federal Energy Regulatory Commission
Financial Margin	A non-GAAP financial measure, which represents revenues earned from the sale of natural gas less costs of natural gas sold including any transportation and storage costs, and excludes any accounting impact from the change in the fair value of certain derivative instruments
FMB	First Mortgage Bonds
FRM	Financial Risk Management
GAAP	Generally Accepted Accounting Principles of the United States
Home Services and Other	Home Services and Other Operations (formerly Retail and Other Operations)
ICE	Intercontinental Exchange
Iroquois	Iroquois Gas Transmission L.P.
ISDA	The International Swaps and Derivatives Association
ITC	Federal Investment Tax Credit
LNG	Liquefied Natural Gas
MetLife	Metropolitan Life Insurance Company
MetLife Facility	NJR's unsecured, uncommitted $100 million private placement shelf note agreement with MetLife, Inc. expiring in September 2016
MGP	Manufactured Gas Plant
Moody's	Moody's Investors Service, Inc.
MW	Megawatts
MWh	Megawatt Hour
NAESB	The North American Energy Standards Board
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
NFE	Net Financial Earnings
NGV	Natural Gas Vehicles
NJ RISE	New Jersey Reinvestment in System Enhancement
NJCEP	New Jersey's Clean Energy Program
NJDEP	New Jersey Department of Environmental Protection
NJNG	New Jersey Natural Gas Company
NJNG Credit Facility	NJNG's $250 million unsecured committed credit facility expiring in May 2019
NJR Credit Facility	NJR's $425 million unsecured committed credit facility expiring in August 2017
NJR Energy	NJR Energy Corporation

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GLOSSARY OF KEY TERMS
(cont.)

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

New Jersey Resources Corporation

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

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

The Company cautions readers that the assumptions that form the basis for forward-looking statements regarding customer growth, customer usage, qualifications for ITCs, PTCs and SRECs, financial condition, results of operations, cash flows, capital requirements, future capital expenditures, market risk, effective tax rate and other matters for fiscal 2015 and thereafter include many factors that are beyond the Company's ability to control or estimate precisely, such as estimates of future market conditions, the behavior of other market participants and changes in the debt and equity capital markets. The factors that could cause actual results to differ materially from NJR's expectations include, but are not limited to, those discussed in Item 1A. Risk Factors of NJR's Annual Report on Form 10-K for the year ended September 30, 2014, as well as the following:

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

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

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

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL
STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands, except per share data)	2015	2014	2015	2014
OPERATING REVENUES				
Utility	$116,307	$111,383	$699,737	$739,380
Nonutility	342,160	576,874	1,595,944	2,406,851
Total operating revenues	458,467	688,257	2,295,681	3,146,231
OPERATING EXPENSES				
Gas purchases:				
Utility	41,562	37,875	255,106	293,812
Nonutility	342,105	598,043	1,477,649	2,306,315
Related parties	3,102	3,158	9,490	9,497
Operation and maintenance	48,598	45,995	146,135	149,291
Regulatory rider expenses	8,516	9,337	72,671	67,380
Depreciation and amortization	15,574	13,620	45,164	39,014
Energy and other taxes	8,319	9,437	47,272	50,894
Total operating expenses	467,776	717,465	2,053,487	2,916,203
OPERATING (LOSS) INCOME	(9,309)	(29,208)	242,194	230,028
Other income, net	1,491	10,952	2,518	12,791
Interest expense, net of capitalized interest	7,327	6,507	21,005	19,108
(LOSS) INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	(15,145)	(24,763)	223,707	223,711
Income tax (benefit) provision	(4,318)	(7,808)	56,693	65,377
Equity in earnings of affiliates	3,367	2,681	9,749	8,056
NET (LOSS) INCOME	$(7,460)	$(14,274)	$176,763	$166,390
(LOSS) EARNINGS PER COMMON SHARE				
Basic	$(0.09)	$(0.17)	$2.08	$1.98
Diluted	$(0.09)	$(0.17)	$2.05	$1.96
DIVIDENDS DECLARED PER COMMON SHARE	$0.23	$0.21	$0.68	$0.63
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	85,449	84,234	85,110	84,144
Diluted	85,449	84,234	86,128	84,912

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	2015	2014	2015	2014
Net (loss) income	$(7,460)	$(14,274)	$176,763	$166,390
Other comprehensive income, net of tax				
Unrealized (loss) gain on available for sale securities, net of tax of $394, $(353), $319 and $(150), respectively	$(570)	$511	(461)	216
	6	162	93	(24)

Net unrealized gain (loss) on derivatives, net of tax of $(6), $(95), $(56) and $14, respectively				
Adjustment to postemployment benefit obligation, net of tax of $(169), $(111), $(506) and $(334), respectively	246	161	732	483
Other comprehensive (loss) income	$(318)	$834	364	675
Comprehensive (loss) income	$(7,778)	$(13,440)	$177,127	$167,065

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)	Nine Months Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$176,763	$166,390
Adjustments to reconcile net income to cash flows from operating activities:		
Unrealized (gain) loss on derivative instruments	(19,010)	45,810
Depreciation and amortization	45,164	39,014
Allowance for equity used during construction	(3,371)	(1,154)
Allowance for bad debt expense	2,143	1,685
Deferred income taxes	36,764	21,226
Manufactured gas plant remediation costs	(4,745)	(3,391)
Equity in earnings of equity investees, net of distributions received	3,909	1,364
Cost of removal - asset retirement obligations	(467)	(257)
Contributions to postemployment benefit plans	(2,466)	(3,618)
Changes in:		
Components of working capital	88,290	83,223
Other noncurrent assets	22,572	15,735
Other noncurrent liabilities	34,214	10,434
Cash flows from operating activities	379,760	376,461
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for:		
Utility plant	(96,626)	(90,381)
Solar and wind equipment	(111,588)	(91,569)
Real estate properties and other	(90)	(636)
Cost of removal	(19,114)	(18,690)
Investments in equity investees	(2,313)	—
Distribution from equity investees in excess of equity in earnings	2,269	1,344
Proceeds from sale of asset	—	6,010
(Payment to) withdrawal from restricted cash construction fund	(1,484)	100
Cash flows (used in) investing activities	(228,946)	(193,822)
CASH FLOWS (USED IN) FINANCING ACTIVITIES		
Proceeds from issuance of common stock	33,659	12,161
Tax benefit from stock options exercised	838	348
Proceeds from sale-leaseback transaction	7,216	7,576
Proceeds from long-term debt	250,000	125,000
Payments of long-term debt	(7,227)	(78,964)
Purchases of treasury stock	(9,045)	(4,387)
Payments of common stock dividends	(57,226)	(52,922)
Net payments of short-term debt	(301,000)	(191,100)
Cash flows (used in) financing activities	(82,785)	(182,288)
Change in cash and cash equivalents	68,029	351
Cash and cash equivalents at beginning of period	2,151	2,969
Cash and cash equivalents at end of period	$70,180	$3,320

CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	$(8,566)	$(37,575)
Inventories	160,809	100,021
Recovery of gas costs	18,109	(5,725)
Gas purchases payable	(47,371)	3,367
Gas purchases payable - related parties	50	—
Prepaid and accrued taxes	(5,063)	28,404
Accounts payable and other	(26,829)	8,439
Restricted broker margin accounts	3,466	(19,045)
Customers' credit balances and deposits	(5,784)	(4,738)
Other current assets	(531)	10,075
Total	$88,290	$83,223
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for:		
Interest (net of amounts capitalized)	$14,324	$12,419
Income taxes	$22,818	$12,782
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Accrued capital expenditures	$30,038	$14,317

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)	June 30, 2015	September 30, 2014
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	$1,874,823	$1,791,009
Construction work in progress	152,890	139,624
Solar and wind equipment, real estate properties and other, at cost	455,017	347,285
Construction work in progress	68,551	55,625
Total property, plant and equipment	2,551,281	2,333,543
Accumulated depreciation and amortization, utility plant	(429,535)	(409,135)
Accumulated depreciation and amortization, solar and wind equipment, real estate properties and other	(53,449)	(40,298)
Property, plant and equipment, net	2,068,297	1,884,110
CURRENT ASSETS		
Cash and cash equivalents	70,180	2,151
Customer accounts receivable		
Billed	197,086	189,970
Unbilled revenues	6,707	7,231
Allowance for doubtful accounts	(5,527)	(5,357)
Regulatory assets	29,623	26,862
Gas in storage, at average cost	117,115	277,516
Materials and supplies, at average cost	7,757	8,165
Prepaid and accrued taxes	23,736	22,269
Derivatives, at fair value	38,291	64,223
Restricted broker margin accounts	23,873	27,339
Deferred taxes	25,487	36,451
Other	27,474	25,911
Total current assets	561,802	682,731
NONCURRENT ASSETS		
Investments in equity investees	151,923	153,010
Regulatory assets	351,763	377,575
Derivatives, at fair value	7,977	5,654
Other	67,162	55,724
Total noncurrent assets	578,825	591,963
Total assets	$3,208,924	$3,158,804

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS
(Continued)

CAPITALIZATION AND LIABILITIES

(Thousands)	June 30, 2015	September 30, 2014
CAPITALIZATION		
Common stock, $2.50 par value; authorized 150,000,000 shares; outstanding June 30, 2015-85,401,117; September 30, 2014-84,356,310	$220,830	$218,223
Premium on common stock	211,325	199,739
Accumulated other comprehensive (loss), net of tax	(5,230)	(5,594)
Treasury stock at cost and other; shares June 30, 2015-2,935,153; September 30, 2014-2,932,775	(97,688)	(121,031)
Retained earnings	794,075	674,829
Common stock equity	1,123,312	966,166
Long-term debt	847,521	598,209
Total capitalization	1,970,833	1,564,375
CURRENT LIABILITIES		
Current maturities of long-term debt	36,032	34,505
Short-term debt	—	301,000
Gas purchases payable	158,562	205,901
Gas purchases payable to related parties	1,416	1,398
Accounts payable and other	89,527	104,005
Dividends payable	19,269	19,001
Deferred and accrued taxes	1,350	2,721
Regulatory liabilities	11,284	6,072
New Jersey clean energy program	15,685	14,285
Derivatives, at fair value	52,989	79,863
Customers' credit balances and deposits	16,551	22,335
Total current liabilities	402,665	791,086
NONCURRENT LIABILITIES		
Deferred income taxes	450,871	423,213
Deferred investment tax credits	5,021	5,262
Deferred revenue	4,936	4,042
Derivatives, at fair value	2,415	6,690
Manufactured gas plant remediation	177,000	177,000
Postemployment employee benefit liability	88,646	86,674
Regulatory liabilities	66,233	61,326
Asset retirement obligation	31,584	30,495
Other	8,720	8,641
Total noncurrent liabilities	835,426	803,343
Commitments and contingent liabilities (Note 12)		
Total capitalization and liabilities	$3,208,924	$3,158,804

See Notes to Unaudited Condensed Consolidated Financial Statements

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 subsidiaries:

New Jersey Natural Gas Company provides natural gas utility service to approximately 512,000 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 Energy Services Company comprises the Energy Services segment that maintains and transacts around a portfolio of natural gas storage and transportation capacity contracts and provides wholesale energy and energy management services;

NJR Clean Energy Ventures Corporation, the Company's distributed power subsidiary, comprises the Clean Energy Ventures segment and consists of the Company's capital investments in distributed power projects, including commercial and residential solar projects and onshore wind investments;

NJR Midstream Holdings Corporation invests in energy-related ventures through its subsidiaries, NJR Steckman Ridge Storage Company, which holds the Company's 50 percent combined interest in Steckman Ridge, NJNR Pipeline Company, which holds the Company's 5.53 percent ownership interest in Iroquois Gas Transmission L.P and NJR Pipeline Company, which holds the Company's 20 percent ownership interest in PennEast. Steckman Ridge, Iroquois and PennEast comprise the Midstream segment; and

NJR Retail Holdings Corporation has two principal subsidiaries, NJR Home Services Company and Commercial Realty & Resources Corporation. Retail Holdings and NJR Energy 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 Securities and Exchange Commission and ASC 270. The September 30, 2014, 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 2014 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 ended September 30, 2015.

Intercompany transactions and accounts have been eliminated.

Gas in Storage

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

	June 30, 2015		September 30, 2014	
($ in thousands)	Gas in Storage	Bcf	Gas in Storage	Bcf
NJRES	$ 81,829	36.6	$ 191,250	56.5
NJNG	35,286	12.1	86,266	21.3
Total	$ 117,115	48.7	$ 277,516	77.8

Available for Sale Securities

Included in other noncurrent assets on the Unaudited Condensed Consolidated Balance Sheets are certain investments in equity securities of a publicly traded energy company that have a fair value of $9.9 million and $10.7 million as of June 30, 2015 and September 30, 2014, respectively. Total unrealized gains associated with these equity securities, which are included as a part of accumulated other comprehensive income, a component of common stock equity, were $7.3 million, or $4.3 million after tax, and $8.1 million, or $4.8 million after tax, as of June 30, 2015 and September 30, 2014, respectively. Reclassifications of realized gains out of other comprehensive income into income are determined based on average cost.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Sale of Asset

On October 22, 2013, CR&R sold approximately 25.4 acres of undeveloped land located in Monmouth County for $6 million, generating a pre-tax gain after closing costs of $313,000, which was recognized in other income in the first fiscal quarter of fiscal 2014 on the Unaudited Condensed Consolidated Statements of Operations.

Common Stock Split

On January 20, 2015, NJR’s Board of Directors approved a 2 for 1 stock split of the Company’s common stock for the Company’s common stock shareholders of record on February 6, 2015. The additional shares were issued on March 3, 2015, resulting in an increase in average shares outstanding from approximately 42.7 million to approximately 85.4 million. All share-related information for prior periods has been adjusted throughout this report on a retroactive basis to reflect the effects of the stock split. As well, common stock and premium on common stock amounts have been adjusted as of the earliest period presented in the Unaudited Condensed Consolidated Balance Sheets.

Customer Accounts Receivable

Customer accounts receivable include outstanding billings from the following subsidiaries as of:

(Thousands)	June 30, 2015			September 30, 2014		
NJRES	$ 114,531	58	%	$ 142,566	75	%
NJNG [(1)]	76,716	39		41,281	22	
NJRCEV	898	—		594	—	
NJRHS and other	4,941	3		5,529	3	
Total	$ 197,086	100	%	$ 189,970	100	%

(1) Does not include unbilled revenues of $6.7 million and $7.2 million as of June 30, 2015 and September 30, 2014, respectively.

Loan Receivable

NJNG provides interest-free loans, with terms ranging from two 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 has recorded $5.2 million and $3.9 million in other current assets and $33.7 million and $27.3 million in other noncurrent assets as of June 30, 2015 and September 30, 2014, respectively, on the Unaudited Condensed Consolidated Balance Sheets, related to the loans.

NJR's policy is to establish an allowance for doubtful accounts when loan balances are in arrears for more than 60 days. As of June 30, 2015 and September 30, 2014, there was no allowance for doubtful accounts established for the SAVEGREEN loans.

Recent Updates to the Accounting Standards Codification

Income Taxes

In July 2013, the FASB issued ASU No. 2013-11, an amendment to ASC 740, Income Taxes, which clarifies financial statement presentation for unrecognized tax benefits. The ASU requires that an unrecognized tax benefit, or portion thereof, shall be presented in the balance sheet as a reduction to a deferred tax asset for a net operating loss carryforward, similar tax loss or a tax credit carryforward. To the extent such a deferred tax asset is not available or the Company does not intend to use it to settle any additional taxes that would result from the disallowance of a tax position, the related unrecognized tax benefit will be presented as a liability in the financial statements. The amended guidance became effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company currently does not have unrecognized tax benefits recorded on its balance sheet and there was no impact to its financial position upon adoption.

Discontinued Operations

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The new guidance changes the definition and reporting of discontinued operations to include only those disposals that represent a strategic shift and that have a major effect on an entity's operations and financial results. The new guidance, which also requires additional disclosures, becomes effective for annual periods beginning on or after December 15, 2014 and interim periods within those years. The Company does not expect this standard to have any impact to its financial position, results of operations and cash flows upon adoption.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Revenue

In May 2014, the FASB issued ASU No. 2014-09, and added Topic 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 new guidance will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. In July 2015, the FASB voted to defer the implementation of the new guidance for one year. Upon adoption, the guidance will be applied on a full or modified retrospective basis. The Company is currently evaluating the provisions of ASC 606 to understand the impact, if any, to its financial position, results of operations and cash flows upon adoption.

Stock Compensation

In June 2014, the FASB issued ASU No. 2014-12, an amendment to ASC 718, Compensation - Stock Compensation, which clarifies the accounting for performance awards when the terms of the award provide that a performance target could be achieved after the requisite service period. The new guidance will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The Company does not expect this standard to have any impact to its financial position, results of operations and cash flows upon adoption.

Extraordinary and Unusual Items

In January 2015, the FASB issued ASU No. 2015-01, an amendment to ASC 225, Income Statement, which eliminates the concept of extraordinary items and, therefore, removes the requirement for separate presentation, net of tax, after income from continuing operations. The new guidance will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The Company does not expect this standard to have any impact to its financial position, results of operations and cash flows upon adoption.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, an amendment to ASC 810, Consolidation, which changes the consolidation analysis required under U.S. GAAP and reevaluates whether limited partnerships and similar entities must be consolidated. The new guidance will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Upon adoption, the amendment will be applied on a full or modified retrospective basis. The Company is currently evaluating the provisions of ASC 810 to understand the impact, if any, to its financial position, results of operations and cash flows upon adoption.

Interest

In April 2015, the FASB issued ASU No. 2015-03, an amendment to ASC 835, Interest - Imputation of Interest, which simplifies the presentation of debt issuance costs by requiring them to be presented in the balance sheet as a deduction from the carrying amount of the liability. The amendments do not affect the recognition and measurement guidance for debt issuance costs. The amended guidance becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Upon adoption, the amendment will be applied on a retrospective basis. The Company is currently evaluating the amendments to understand the impact to its financial position, results of operations and cash flows upon adoption.

Intangibles

In April 2015, the FASB issued ASU No. 2015-05, an amendment to ASC 350, Intangibles - Goodwill and Other - Internal-Use Software, which clarifies the accounting for fees in a cloud computing arrangement. The amendments provide guidance on how an entity should evaluate the accounting for fees paid in a cloud computing arrangement to determine whether an arrangement includes the sale or license of software. The amended guidance becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Upon adoption, the amendments can be applied on a prospective or retrospective basis. The Company is currently evaluating the amendment to understand the impact to its financial position, results of operations and cash flows upon adoption.

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3. 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 investment 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.

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

(Thousands)	June 30, 2015	September 30, 2014
Regulatory assets-current		
New Jersey Clean Energy Program	$ 15,685	$ 14,285
Derivatives at fair value, net	13,938	—
Underrecovered gas costs	—	12,577
Total current regulatory assets	$ 29,623	$ 26,862
Regulatory assets-noncurrent		
Environmental remediation costs		
Expended, net of recoveries	$ 18,095	$ 30,916
Liability for future expenditures	177,000	177,000
Deferred income taxes	9,968	9,968
SAVEGREEN	23,738	29,180
Postemployment and other benefit costs	102,497	108,507
Deferred Superstorm Sandy costs	15,207	15,207
Other noncurrent regulatory assets	5,258	6,797
Total noncurrent regulatory assets	$ 351,763	$ 377,575
Overrecovered gas costs	$ 3,820	$ —
Conservation Incentive Program	7,464	5,752
Derivatives at fair value, net	—	320
Total current regulatory liabilities	$ 11,284	$ 6,072
Regulatory liabilities-noncurrent		
Cost of removal obligation	$ 49,904	$ 61,163
Derivatives at fair value, net	3,450	57
Conservation programs	11,911	—
Other noncurrent regulatory liabilities	968	106
Total noncurrent regulatory liabilities	$ 66,233	$ 61,326

NJNG's recovery of costs is facilitated through its base tariff rates, BGSS and other regulatory tariff riders. As recovery of regulatory assets is subject to BPU approval, if there are any changes in regulatory positions that indicate recovery is not probable, the related cost would be charged to income in the period of such determination.

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

- On October 1, 2014, NJNG implemented a decrease to its BGSS rate for residential sales and general service small sales customers resulting in a 5 percent decrease to the average residential heat customer's bill. In addition, NJNG reduced its CIP rates resulting in a 4.3 percent decrease to the average residential heat customer's bill. On April 15, 2015, the BPU approved the BGSS and CIP rates on a final basis.

- On October 22, 2014, the BPU approved, as prudent and reasonable, the deferred O&M storm costs associated with Superstorm Sandy, to be recovered in NJNG's next base rate case to be filed no later than November 15, 2015.

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- On December 17, 2014, NJNG filed a petition with the BPU to extend SAVEGREEN through June 30, 2018, with minor modifications. On July 22, 2015, the BPU approved the petition allowing the extension of SAVEGREEN through July 31, 2017, with an additional $75.2 million in investments and a weighted average cost of capital of 6.69 percent.

- On March 18, 2015, the BPU approved the June 2014 compliance filing associated with SAVEGREEN to maintain the existing rate. On July 31, 2015, NJNG submitted its 2015 SAVEGREEN rate recovery filing to maintain its existing SAVEGREEN recovery rate.

- On March 27, 2015, NJNG filed a letter petition with the BPU to continue its existing BGSS Incentive Programs, which currently expire October 31, 2015.

- On April 2, 2015, NJNG filed two petitions with the BPU to construct, operate and finalize the route for its SRL project. On June 5, 2015, NJNG filed two petitions with the BPU to amend the previously proposed route.

- On May 19, 2015, the BPU approved a decrease to NJNG's SBC rate, resulting in a 3.3 percent decrease to the average residential heat customer's bill, effective June 1, 2015, and approved the recovery of NJNG's MGP expenditures incurred through June 2014. The rate includes a reduction in the RA factor from $18.7 million to $8.5 million annually and in the NJCEP factor from $26.8 million to $16.3 million annually.

- On May 29, 2015, NJNG filed a petition with the BPU for NJ RISE to recover costs through July 31, 2015, resulting in a .03 percent increase to the average residential heat customer's bill, effective November 1, 2015.

- On June 1, 2015, NJNG filed a petition with the BPU to continue its existing BGSS rate for residential and small commercial customers and to increase its CIP rates resulting in a .08 percent increase to the average residential heat customer's bill effective October 1, 2015. This petition included notification that NJNG will provide bill credits to residential and small commercial customers during the months of November 2015 through February 2016, as a result of a decline in the wholesale price of natural gas. The amount of the bill credits will be determined during Fiscal 2016, but estimates a reduction of approximately $63.7 million, or an approximate 14.3 percent decrease to the average residential heat customer's bill.

- On June 19, 2015, NJNG submitted its annual USF compliance filing proposing to decrease the statewide USF rate, resulting in a .6 percent decrease to the average residential heat customer’s total bill effective October 1, 2015.

4. DERIVATIVE INSTRUMENTS

The Company is subject 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 may utilize foreign currency derivatives as cash flow hedges of Canadian dollar denominated gas purchases and/or sales. These contracts, with a few exceptions as described below, 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 the NJR's derivative instruments, see Note 5. Fair Value.

Since NJRES chooses not to designate its financial commodity and physical forward commodity derivatives as accounting hedges or to elect NPNS, changes in the fair value of these derivative instruments are recorded as a component of gas purchases or operating revenues, as appropriate for NJRES, on the Unaudited Condensed Consolidated Statements of Operations as unrealized gains or (losses). For NJRES 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.

NJRES also enters into natural gas transactions in Canada and, consequently, is exposed to fluctuations in the value of Canadian currency relative to the US dollar. NJRES may utilize foreign currency derivatives to lock in the currency translation rate 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 may be used to hedge future forecasted cash payments associated with transportation and storage contracts along with purchases of natural gas. The Company designates these foreign currency derivatives as cash flow hedges of that exposure, and expects the hedge relationship to be highly effective throughout

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the term. Since NJRES designates its foreign exchange contracts as cash flow hedges, changes in fair value of the effective portion of the hedge are recorded in OCI. When the foreign exchange contracts are settled and the related purchases are recognized in income, realized gains and (losses) are recognized in gas purchases on the Unaudited Condensed Consolidated Statements of Operations. As of June 30, 2015, the Company had no open foreign currency hedges.

As a result of NJRES entering into transactions to borrow gas, commonly referred to as “park and loans,” an embedded derivative is created related 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.

Changes in fair value of NJNG's financial derivative instruments are recorded as a component of regulatory assets or liabilities on the Unaudited Condensed Consolidated Balance Sheets. NJNG has received regulatory approval to defer and to recover these amounts through future BGSS rates as an increase or decrease to the cost of natural gas in NJNG's tariff for gas service.

The Company elects NPNS accounting treatment on all physical commodity contracts at NJNG. These contracts are accounted for on an accrual basis. Accordingly, physical 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 amortized in current period earnings based on the current BPU BGSS factor and therm sales.

NJRCEV hedges certain of its expected production of SRECs through forward and futures contracts. The contracts require the Company to physically deliver the SRECs upon settlement. The Company elects NPNS accounting treatment on all SREC forward and futures contracts it enters into during the period. NJRCEV recognizes the related revenue upon transfer of the SREC certificate to the counterparty.

In an April 2014 BPU Order, NJNG received regulatory approval to enter into interest rate risk management transactions related to long-term debt securities. On June 1, 2015, NJNG entered into a treasury lock transaction to fix a benchmark interest rate of 3.26 percent associated with the forecasted $125 million debt issuance expected in May 2018. This forecasted debt issuance coincides with the maturity of NJNG's existing $125 million, 5.6 percent notes due May 15, 2018. The change in fair value of NJNG's treasury lock agreement is recorded as a component of regulatory assets or liabilities on the Unaudited Condensed Consolidated Balance Sheets since the Company believes that the market value upon settlement will be recovered in future rates. Upon settlement, any gain or loss will be amortized in earnings over the life of the future debt issuance.

Fair Value of Derivatives

The following table reflects the fair value of NJR's derivative assets and liabilities recognized on the Unaudited Condensed Consolidated Balance Sheets as of:

Fair Value

(Thousands)	Balance Sheet Location	June 30, 2015 Asset Derivatives	June 30, 2015 Liability Derivatives	September 30, 2014 Asset Derivatives	September 30, 2014 Liability Derivatives
Derivatives designated as hedging instruments:					
NJRES:					
Foreign currency contracts	Derivatives - current	$—	$—	$—	$155
Derivatives not designated as hedging instruments:					
NJNG:					
Financial commodity contracts	Derivatives - current	$775	$14,701	$2,525	$2,205
	Derivatives - noncurrent	545	—	82	25
Interest rate contracts	Derivatives - noncurrent	$2,905	$—	$—	$—
NJRES:					
Physical forward commodity contracts	Derivatives - current	11,007	16,900	15,391	30,778
	Derivatives - noncurrent	958	—	35	132
Financial commodity contracts	Derivatives - current	26,509	21,388	46,307	46,725
	Derivatives - noncurrent	3,569	2,415	5,537	6,533
Fair value of derivatives not designated as hedging instruments		$46,268	$55,404	$69,877	$86,398
Total fair value of derivatives		$46,268	$55,404	$69,877	$86,553

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Offsetting of Derivatives

NJR transacts under master netting arrangements or equivalent agreements that allow it to offset derivative assets and liabilities with the same counterparty, however NJR's policy is to present its derivative assets and liabilities on a gross basis in the Unaudited Condensed Consolidated Balance Sheets.

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

(Thousands)	Amounts Presented in Balance Sheets (1)	Offsetting Derivative Instruments (2)	Financial Collateral Received/Pledged (3)	Net Amounts (4)
As of June 30, 2015:				
Derivative assets:				
NJRES				
Physical forward commodity contracts	$11,965	$(5,972)	$—	$5,993
Financial commodity contracts	30,078	(23,802)	—	6,276
Total NJRES	$42,043	$(29,774)	$—	$12,269
NJNG				
Financial commodity contracts	$1,320	$(1,320)	$—	$—
Interest rate contracts	$2,905	$—	$—	$2,905
Total NJNG	4,225	(1,320)	—	2,905
Derivative liabilities:				
NJRES				
Physical forward commodity contracts	$16,900	$(5,972)	$(1,200)	$9,728
Financial commodity contracts	23,803	(23,803)	—	—
Total NJRES	$40,703	$(29,775)	$(1,200)	$9,728
NJNG				
Financial commodity contracts	$14,701	$(1,320)	$(13,381)	$—
As of September 30, 2014:				
Derivative assets:				
NJRES				
Physical forward commodity contracts	$15,426	$(11,531)	$—	$3,895
Financial commodity contracts	51,844	(51,844)	—	—
Total NJRES	$67,270	$(63,375)	$—	$3,895
NJNG				
Financial commodity contracts	$2,607	$(2,230)	$(377)	$—
Derivative liabilities:				
NJRES				
Physical forward commodity contracts	$30,910	$(12,058)	$(1,200)	$17,652
Financial commodity contracts	53,258	(51,844)	(1,414)	—
Foreign currency contracts	155	—	—	155
Total NJRES	$84,323	$(63,902)	$(2,614)	$17,807
NJNG				

Financial commodity contracts	$2,230	$(2,230)	$—	$—

(1) Derivative assets and liabilities are presented on a gross basis in the balance sheet as the Company does not elect balance sheet offsetting under ASC 210-20.

(2) Offsetting derivative instruments include: transactions with NAESB netting election, transactions held by FCM's 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.

NJRES utilizes financial derivatives to economically hedge the gross margin associated with the purchase of physical gas for injection into storage and the subsequent sale of physical gas 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 sold. 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

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gas that is being economically hedged along with fair value changes in derivative instruments creates volatility in the results of NJRES, 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 June 30,		Nine Months Ended June 30,	
Derivatives not designated as hedging instruments:		2015	2014	2015	2014
NJRES:					
Physical commodity contracts	Operating revenues	$6,183	$5,496	$21,130	$(52,502)
Physical commodity contracts	Gas purchases	(11,988)	(7,728)	(21,781)	(87,202)
Financial commodity contracts	Gas purchases	2,264	2,293	92,781	(139,406)
Total unrealized and realized (losses) gains - NJRES		$(3,541)	$61	$92,130	$(279,110)

The table above does not include (losses) gains associated with NJNG's financial derivatives of $(199,000) and $1.5 million for the three months ended June 30, 2015 and 2014, respectively, and $(24.7) million and $14.3 million for the nine months ended June 30, 2015 and 2014, respectively, and the new treasury rate lock of $2.9 million for the three and nine months ended June 30, 2015. 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 guidance and at settlement the resulting gains and/or losses are payable to and/or recoverable from customers. Any changes in the value of NJNG's financial derivatives are deferred in regulatory assets or liabilities resulting in no impact to earnings.

As previously noted, NJRES had no open foreign currency hedge transactions as of June 30, 2015. However, previously NJRES designated its foreign exchange contracts as cash flow hedges, therefore, changes in fair value of the effective portion of the hedges are recorded in OCI and, upon settlement of the contracts, realized gains and (losses) are reclassified from OCI to gas purchases on the Unaudited Condensed Consolidated Statements of Operations. The following table reflects the effect of derivative instruments designated as cash flow hedges on OCI as of June 30:

(Thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Amount of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)		Amount of Gain or (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
Derivatives in cash flow hedging relationships:	2015	2014	2015	2014	2015	2014
Foreign currency contracts	$3	$213	$15	$44	$—	$—
	Nine Months Ended		Nine Months Ended		Nine Months Ended	

	June 30,		June 30,		June 30,	
Derivatives in cash flow hedging relationships:	2015	2014	2015	2014	2015	2014
Foreign currency contracts	$(402)	$(247)	$557	$209	$—	$—

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

		Volume (Bcf)	
		June 30, 2015	September 30, 2014
NJNG	Futures	26.2 [(1)]	17.3
NJRES	Futures	(57.4)	(62.1)
	Options	1.2	1.2
	Physical	58.4	28.6

(1) Not included is the notional amount of $125 million related to NJNG’s treasury lock agreement.

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Broker Margin

Generally, exchange-traded futures contracts require posted collateral, referred to as margin, usually in the form of cash. The amount of margin required is comprised of a fixed initial amount based on exchange requirements and a variable amount based on a daily mark-to-market. The Company maintains separate broker margin accounts for NJNG and NJRES. The balances by company, are as follows:

(Thousands)	Balance Sheet Location	June 30, 2015	September 30, 2014
NJNG	NJNG Broker margin - Current assets	$ 17,297	$ 1,057
NJRES	NJRES Broker margin - Current assets	$ 6,576	$ 26,282

Wholesale Credit Risk

NJNG and NJRES are exposed to credit risk as a result of their wholesale marketing activities. In addition, NJRCEV engages in sales of electricity, capacity and SRECs. As a result of the inherent volatility in the prices of natural gas commodities, derivatives 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 (e.g., failed to deliver or pay for natural gas or SRECs), then the Company could sustain a loss.

NJR monitors and manages the credit risk of its wholesale marketing operations through credit policies and procedures that management believes reduce overall credit risk. These policies include a review and evaluation of 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 or Moody's. In these cases, the Company's or guarantor's financial statements are reviewed, and similar methodologies and ratios used by S&P 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 June 30, 2015. 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.

(Thousands)	Gross Credit Exposure
Investment grade	$ 101,707
Noninvestment grade	11,977

Internally rated investment grade	11,598
Internally rated noninvestment grade	8,974
Total	$ 134,256

Conversely, certain of NJNG's and NJRES' 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.

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 June 30, 2015 and September 30, 2014, was $40,000 and $39,000, 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 June 30, 2015 and September 30, 2014, the Company would have been required to post an additional $37,000 and $7,000, 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.

5. FAIR VALUE

Fair Value of Assets and Liabilities

The fair value of cash and temporary investments, 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, including current maturities and excluding capital leases is as follows:

(Thousands)	June 30, 2015	September 30, 2014
Carrying value [(1)]	$832,845	$557,845
Fair market value	$839,710	$586,909

(1) Excludes capital leases of $50.7 million and $49.9 million as of June 30, 2015 and September 30, 2014, respectively.

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 June 30, 2015, 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, available for sale 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 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 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

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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 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 was considered to be a “model”, it would still be considered to be a Level 2 input as:

1) The data is widely accepted and public
2) The data is non-proprietary and sourced from an independent third party
3) The data is 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 June 30, 2015:				
Assets:				
Physical forward commodity contracts	$—	$ 11,965	$—	$ 11,965
Financial derivative contracts - natural gas	31,398	—	—	31,398
Interest rate contracts	—	2,905	—	2,905
Available for sale equity securities - energy industry (1)	9,892	—	—	9,892
Other (2)	47,513	—	—	47,513
Total assets at fair value	$ 88,803	$ 14,870	$—	$ 103,673
Liabilities:				
Physical forward commodity contracts	$—	$ 16,900	$—	$ 16,900
Financial commodity contracts - natural gas	38,504	—	—	38,504
Total liabilities at fair value	$ 38,504	$ 16,900	$—	$ 55,404
As of September 30, 2014:				
Assets:				
Physical forward commodity contracts	$—	$ 15,426	$—	$ 15,426
Financial derivative contracts - natural gas	54,451	—	—	54,451
Available for sale equity securities - energy industry (1)	10,672	—	—	10,672
Other (2)	1,299	—	—	1,299
Total assets at fair value	$ 66,422	$ 15,426	$—	$ 81,848
Liabilities:				
Physical forward commodity contracts	$—	$ 30,910	$—	$ 30,910
Financial commodity contracts - natural gas	55,488	—	—	55,488

Financial commodity contracts - foreign exchange	—	155	—	155
Total liabilities at fair value	$ 55,488	$ 31,065	$ —	$ 86,553

(1) Included in other noncurrent assets on the Unaudited Condensed Consolidated Balance Sheets.
(2) Includes various money market funds in Level 1.

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6. INVESTMENTS IN EQUITY INVESTEES

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

(Thousands)	June 30, 2015	September 30, 2014
Steckman Ridge [1]	$ 126,037	$ 128,413
Iroquois	23,006	24,042
PennEast	2,880	555
Total	$ 151,923	$ 153,010

(1) Includes loans with a total outstanding principal balance of $70.4 million for both June 30, 2015 and September 30, 2014. The loans accrue interest at a variable rate that resets quarterly and are due October 1, 2023.

NJR, through a subsidiary, NJR Pipeline Company, formed PennEast with five other investors, and plans to construct and operate a 115-mile pipeline that will extend from northeast Pennsylvania to western New Jersey.

NJRES and NJNG have entered into transportation, storage and park and loan agreements with Steckman Ridge and Iroquois. In addition, NJNG has entered into a precedent capacity agreement with PennEast with an estimated service date of November 1, 2017. See Note 14. Related Party Transactions for more information on these intercompany transactions.

7. EARNINGS PER SHARE

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands, except per share amounts)	2015	2014	2015	2014
Net (loss) income, as reported	$ (7,460)	$ (14,274)	$ 176,763	$ 166,390
Basic earnings per share				
Weighted average shares of common stock outstanding-basic	85,449	84,234	85,110	84,144
Basic (loss) earnings per common share	$(0.09)	$(0.17)	$2.08	$1.98
Diluted earnings per share				
Weighted average shares of common stock outstanding-basic	85,449	84,234	85,110	84,144
Incremental shares [1]	—	—	1,018	768
Weighted average shares of common stock outstanding-diluted	85,449	84,234	86,128	84,912
Diluted (loss) earnings per common share [2]	$(0.09)	$(0.17)	$2.05	$1.96

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

(2) Since there was a net loss for the three months ended June 30, 2015, and 2014, incremental shares of 1,018 and 768, respectively, were not included in the computation of diluted loss per common share, as their effect would have been anti-dilutive. There were no anti-dilutive shares excluded from the calculation of diluted earnings per share for the nine months ended June 30, 2015, and 2014.

8. COMMON STOCK EQUITY

Changes in common stock equity during the nine months ended June 30, 2015, are as follows:

(Thousands)	Number of Shares	Common Stock	Premium on Common Stock	Accumulated Other Comprehensive (Loss) Income	Treasury Stock And Other	Retained Earnings	Total
Balance as of September 30, 2014	84,356	$218,223	$199,739	$(5,594)	$(121,031)	$674,829	$966,166
Net income						176,763	176,763
Other comprehensive income				364			364
Common stock issued under stock plans	1,378	2,607	12,972		13,784		29,363
Tax benefits from stock plans			(1,386)				(1,386)
Cash dividend declared ($.68 per share)						(57,517)	(57,517)
Treasury stock and other	(333)				9,559		9,559
Balance as of June 30, 2015	85,401	$220,830	$211,325	$(5,230)	$(97,688)	$794,075	$1,123,312

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NJR satisfies its external common equity requirements, if any, through issuances of its common stock, including the proceeds from stock issuances under its DRP. The DRP allows NJR, at its option, to use treasury shares or newly issued shares to raise capital. NJR raised $13.1 million and $10.9 million of equity through the DRP, by issuing approximately 330,000 and 235,000 shares of treasury stock, during the nine months ended June 30, 2015 and 2014, respectively. During the nine months ended June 30, 2015, NJR also raised approximately $19.8 million of equity by issuing approximately 344,000 new shares through the waiver discount feature of the DRP. NJR issued no new shares through the waiver discount feature during the nine months ended June 30, 2014.

Accumulated Other Comprehensive Income

The following table presents the changes in the components of accumulated other comprehensive income, net of related tax effects:

(Thousands)	Available for Sale Securities	Cash Flow Hedges	Postemployment Benefit Obligation	Total
Balance as of September 30, 2014	$4,782	$(93)	$(10,283)	$(5,594)
Other comprehensive income, net of tax				
Other comprehensive (loss), before reclassifications, net of tax of $319, $146, $0, $465	(461)	(256)	—	(717)
Amounts reclassified from accumulated other comprehensive income, net of tax of $0, $(202), $(506), $(708)	—	349 (1)	732 (2)	1,081
Net current-period other comprehensive (loss) income, net of tax of $319, $(56), $(506), $(243)	(461)	93	732	364
Balance as of June 30, 2015	$4,321	$—	$(9,551)	$(5,230)
Balance as of September 30, 2013	$5,400	$12	$(7,033)	$(1,621)
Other comprehensive income, net of tax				
Other comprehensive income (loss), before reclassifications, net of tax of $(150), $91, $0, $(59)	216	(156)	—	60
Amounts reclassified from accumulated other comprehensive income, net of tax of $0, $(77), $(334), $(411)	—	132 (1)	483 (2)	615
Net current-period other comprehensive income (loss), net of tax of $(150), $14, $(334), $(470)	216	(24)	483	675
Balance as of June 30, 2014	$5,616	$(12)	$(6,550)	$(946)

(1) Consists of realized losses related to foreign currency derivatives, which are reclassified to gas purchases in the Unaudited Condensed Consolidated Statements of Operations.

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

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, committed unsecured credit facilities and private placement debt shelf facilities.

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Credit Facilities

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

(Thousands)	June 30, 2015	September 30, 2014	Expiration Dates
NJR			
Bank revolving credit facilities [1]	$425,000	$425,000	August 2017
Notes outstanding at end of period	$—	$148,000	
Weighted average interest rate at end of period	— %	1.08 %	
Amount available at end of period [2]	$412,345	$256,484	
Bank revolving credit facilities [3]	$100,000	$—	October 2015
Amount available at end of period	$100,000	$—	
NJNG			
Bank revolving credit facilities [1]	$250,000	$250,000	May 2019
Commercial paper outstanding at end of period	$—	$153,000	
Weighted average interest rate at end of period	— %	0.12 %	
Amount available at end of period [4]	$249,269	$96,269	

(1) Committed credit facilities, which require commitment fees on the unused amounts.
(2) Letters of credit outstanding total $12.7 million and $20.5 million as of June 30, 2015 and September 30, 2014, respectively, which reduces amount available by the same amount.
(3) Uncommitted credit facilities, which require no commitment fees.
(4) Letters of credit outstanding total $731,000 and $731,000 as of June 30, 2015 and September 30, 2014, respectively, which reduces the amount available by the same amount.

On October 24, 2014, NJR entered into a $100 million uncommitted line of credit agreement, with Santander Bank, N.A., expiring on October 24, 2015.

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.

NJR Long-term Debt

Under the Prudential Facility, as of June 30, 2015, NJR had $50 million in notes outstanding at 3.25 percent due on September 17, 2022, and on November 7, 2014, NJR issued an additional $100 million in notes at 3.48 percent due on November 7, 2024.

On September 26, 2013, NJR entered into an unsecured, uncommitted $100 million private placement shelf note agreement allowing NJR to issue senior notes during a three-year issuance period ending September 26, 2016. As of June 30, 2015, $100 million remains available for borrowing under this facility.

As of June 30, 2015, NJR had two series of notes outstanding under an unsecured, uncommitted private placement shelf note agreement, which expired in May 2013, in the amounts of $25 million at 1.94 percent, which will mature on

September 15, 2015 and $25 million at 2.51 percent, which will mature on September 15, 2018.

NJNG Long-term Debt

On April 15, 2015, NJNG issued $50 million of 2.82 percent senior notes due April 15, 2025, and $100 million of 3.66 percent senior notes due April 15, 2045, secured by FMB in the private placement market pursuant to a note purchase agreement entered into on February 12, 2015. The proceeds of the notes will be used for general corporate purposes, to refinance or retire debt and to fund capital expenditure requirements.

On March 13, 2014, NJNG issued $70 million of 3.58 percent senior notes due March 13, 2024, and $55 million of 4.61 percent senior notes due March 13, 2044, secured by FMB in the private placement market pursuant to a note purchase agreement entered into on February 7, 2014.

NJNG received $7.2 million and $7.6 million in December 2014 and 2013, 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.

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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 June 30,	Nine Months Ended June 30,	Three Months Ended June 30,	Nine Months Ended June 30,
(Thousands)				