NEW JERSEY RESOURCES CORP
Form 10-K
November 21, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10 K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017
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 001 08359
NEW JERSEY RESOURCES CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Securities registered pursuant to Section 12 (g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes: x No: o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes: o No: x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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. 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 aggregate market value of the Registrant's Common Stock held by non-affiliates was $3,356,717,008 based on the closing price of $39.60 per share on March 31, 2017, as reported on the New York Stock Exchange.
The number of shares outstanding of $2.50 par value Common Stock as of November 17, 2017 was 86,866,461.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareowners (Proxy Statement) to be held on January 24, 2018, are incorporated by reference into Part I and Part III of this report.

New Jersey Resources Corporation

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* Portions of Item 10 and Items 11-14 are Incorporated by Reference from the Proxy Statement.

New Jersey Resources Corporation

GLOSSARY OF KEY TERMS

Adelphia	Adelphia Gateway, LLC
AFUDC	Allowance for Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income
ARO	Asset Retirement Obligations
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.
Degree-Day	The measure of the variation in the weather based on the extent to which the average daily temperature falls below 65 degrees Fahrenheit
DM	Dominion Midstream Partners, L.P., a master limited partnership
DM Common Units	Common units representing limited partnership interests in DM
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DRP	NJR Direct Stock Purchase and Dividend Reinvestment Plan
Dths	Dekatherms
EDA	New Jersey Economic Development Authority
EDA Bonds	Collectively, Series 2011A, Series 2011B and Series 2011C Bonds issued to NJNG by the EDA
EDECA	Electric Discount and Energy Competition Act
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
FMB	First Mortgage Bonds
FRM	Financial Risk Management
GAAP	Generally Accepted Accounting Principles of the United States
HCCTR	Health Care Cost Trend Rate
Home Services and Other	Home Services and Other Operations (formerly Retail and Other Operations)
ICE	Intercontinental Exchange
IEC	Interstate Energy Company, LLC
Iroquois	Iroquois Gas Transmission L.P.
IRS	Internal Revenue Service
ISDA	The International Swaps and Derivatives Association
ITC	Investment Tax Credit
LIBOR	London Inter-Bank Offered Rate
LNG	Liquefied Natural Gas
Loan Agreement	Loan Agreement between the EDA and NJNG

MetLife	Metropolitan Life Insurance Company
MetLife Facility	NJR’s unsecured, uncommitted $100 million private placement shelf note agreement with MetLife, Inc., which expired in September 2016
MGP	Manufactured Gas Plant
MLP	Master limited partnership
Moody’s	Moody’s Investors Service, Inc.
Mortgage Indenture	The Amended and Restated Indenture of Mortgage, Deed of Trust and Security Agreement between NJNG and U.S. Bank National Association dated as of September 1, 2014
MW	Megawatts
MWh	Megawatt Hour
NAESB	The North American Energy Standards Board
NFE	Net Financial Earnings
NGV	Natural Gas Vehicles

GLOSSARY OF KEY TERMS
(cont.)

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 or Natural Gas Distribution segment
NJNG Credit Facility	The $250 million unsecured committed credit facility expiring in May 2019
NJR Credit Facility	NJR's $425 million unsecured committed credit facility expiring in September 2020
NJR Energy	NJR Energy Corporation
NJR or The Company	New Jersey Resources Corporation
NJRCEV	NJR Clean Energy Ventures Corporation
NJRES	NJR Energy Services Company
NJRHS	NJR Home Services Company
NJRPS	NJR Plumbing Services, Inc.
NJRRS	NJR Retail Services Company
NJR Retail Holdings	NJR Retail Holdings Corporation
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
PBO	Projected Benefit Obligation
PennEast	PennEast Pipeline Company, LLC
PEP	Pension Equalization Plan
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	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
Sarbanes-Oxley	Sarbanes-Oxley Act of 2002
SAVEGREEN	The SAVEGREEN Project®
Savings Plan	Employees' Retirement Savings Plan
SBC	Societal Benefits Charge
SEC	Securities and Exchange Commission
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
Talen	Talen Energy Marketing, LLC or Talen Generation, LLC
Tetco	Texas Eastern Transmission
The Exchange Act	The Securities Exchange Act of 1934, as amended

Trustee	U.S. Bank National Association
TSR	Total Shareholder Return
U.S.	The United States of America
Union	International Brotherhood of Electrical Workers Local 1820
USF	Universal Service Fund

New Jersey Resources Corporation

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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 1. Business and Item 3. Legal Proceedings, and in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Quantitative and Qualitative Disclosures About Market Risk, 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 a 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, PTCs and SRECs, future rate case proceedings, financial condition, results of operations, cash flows, capital requirements, future capital expenditures, market risk, effective tax rate and other matters for fiscal 2018 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 Part I, Item 1A. Risk Factors, as well as the following:

- risks associated with our investments in clean energy projects, including the availability of regulatory and tax incentives, the availability of viable projects, our eligibility for ITCs and PTCs, 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 and NJNG's infrastructure projects in a timely manner;
- risks associated with acquisitions and the related integration of acquired assets with our current operations;
- 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 on our risk management efforts;
- 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 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 results of legal or administrative proceedings with respect to claims, rates, environmental issues, gas cost prudence reviews and other matters;
- risks related to cyberattacks or failure of information technology systems;

- changes in rating agency requirements and/or credit ratings and their effect on availability and cost of capital to our Company;
- our ability to comply with current and future regulatory requirements;
- 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 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;
- any potential need to record a valuation allowance for our deferred tax assets;
- changes to tax laws and regulations;
- weather and economic conditions;
- our ability to comply with debt covenants;
- demographic changes in NJR’s service territory and their effect on NJR’s 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 partnerships, and investment in a master limited 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.

ITEM 1.
BUSINESS

ORGANIZATIONAL STRUCTURE

New Jersey Resources Corporation is a New Jersey corporation formed in 1981 pursuant to a corporate reorganization. We are an energy services holding company whose principal business is the distribution of natural gas through a regulated utility, providing other retail and wholesale energy services to customers and investing in clean energy projects and midstream assets. We are an exempt holding company under section 1263 of the Energy Policy Act of 2005. Our subsidiaries include:

New Jersey Natural Gas Company provides regulated retail natural gas service to approximately 529,800 residential and commercial customers in central and northern New Jersey and participates in the off-system sales and capacity release markets. NJNG, a local natural gas distribution company, is regulated by the BPU and comprises the Company’s Natural Gas Distribution segment and is referred to herein as NJNG or Natural Gas Distribution.

NJR Clean Energy Ventures Corporation includes the results of operations and assets related to the Company’s unregulated capital investments in clean energy projects, including commercial and residential solar projects and onshore wind investments. NJRCEV comprises the Company’s Clean Energy Ventures segment and is referred to herein as Clean Energy Ventures.

NJR Energy Services Company maintains and transacts around a portfolio of physical assets consisting of natural gas storage and transportation contracts in the U.S. and Canada. NJRES also provides unregulated wholesale energy management services to other energy companies and natural gas producers.

NJR Retail Services Company provides unregulated retail natural gas supply and transportation services to commercial and industrial customers in Delaware, Maryland, Pennsylvania and New Jersey.

NJRES and NJRRS comprise our Energy Services segment and are referred to herein as Energy Services.

NJR Energy Investments Corporation is an unregulated affiliate that consolidates our unregulated energy-related 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, a natural gas storage facility, NJR Pipeline Company, which holds the Company’s 20 percent ownership interest in PennEast and NJNR Pipeline Company, which holds approximately 1.84 million DM Common Units in Dominion Midstream Partners, L.P. The investments in Steckman Ridge, PennEast and DM comprise the Company’s Midstream segment.

NJR Retail Holdings Corporation is an unregulated affiliate that consolidates our unregulated retail operations.

NJR Home Services Company provides heating, ventilation and cooling service, sales and installation of appliances to approximately 112,000 service contract customers, as well as solar installation projects.

Commercial Realty & Resources Corp., holds commercial real estate.

NJR Plumbing Services, Inc. provides plumbing repair and installation services.

NJR Service Corporation provides shared administrative services, including corporate communications, finance and accounting, internal audit, legal, human resources and information technology for NJR and all of its subsidiaries.

ITEM 1. BUSINESS
(Continued)

REPORTING SEGMENTS

We operate within four reporting segments: Natural Gas Distribution, Clean Energy Ventures, Energy Services and Midstream.

The Natural Gas Distribution segment consists of regulated natural gas services, off-system sales, capacity and storage management operations. The Energy Services segment consists of unregulated wholesale and retail energy operations. The Clean Energy Ventures segment consists of capital investments in clean energy projects. The Midstream segment consists of investments in the midstream natural gas market, such as natural gas transportation and storage facilities.

Net income by reporting segment and other operations for the years ended September 30, are as follows:
* Energy Services' net income for fiscal 2017 was $476,000 and does not show clearly in the above graph.

Assets by reporting segment and other operations at September 30, are as follows ($ in Thousands):

New Jersey Resources Corporation
Part I

ITEM 1. BUSINESS
(Continued)

Management uses NFE, a non-GAAP financial measure, when evaluating our operating results. 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. Energy Services economically hedges its natural gas inventory with financial derivative instruments and calculates the related tax effect based on the statutory rate.

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. The following is a reconciliation of consolidated net income, the most directly comparable GAAP measure, to NFE:

(Thousands)	2017	2016	2015
Net income	$132,065	$131,672	$180,960
Add:			
Unrealized (gain) loss on derivative instruments and related transactions	(11,241)	46,883	(38,681)
Tax effect	4,062	(17,018)	14,391
Effects of economic hedging related to natural gas inventory	38,470	(36,816)	(8,225)
Tax effect	(13,964)	13,364	3,058
NFE	$149,392	$138,085	$151,503
Basic earnings per share	$1.53	$1.53	$2.12
Add:			
Unrealized (gain) loss on derivative instruments and related transactions	(0.13)	0.55	(0.45)
Tax effect	0.05	(0.20)	0.17
Effects of economic hedging related to natural gas inventory	0.45	(0.43)	(0.10)
Tax effect	(0.17)	0.16	0.04
Basic NFE per share	$1.73	$1.61	$1.78

NFE by reporting segment and other operations for the years ended September 30, are as follows:
Additional financial information related to these reporting segments are set forth in Note 15. Reporting Segment and Other Operations Data in the accompanying Consolidated Financial Statements and Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

New Jersey Resources Corporation
Part I

ITEM 1. BUSINESS
(Continued)

Natural Gas Distribution

General

Our Natural Gas Distribution segment consists of regulated utility operations that provide natural gas service to approximately 529,800 customers. NJNG's service territory includes New Jersey's Monmouth and Ocean counties and parts of Burlington, Morris and Middlesex counties. It encompasses 1,516 square miles, covering 105 municipalities with an estimated population of 1.5 million people. It is primarily suburban, highlighted by approximately 100 miles of New Jersey coastline. It is in close proximity to New York City, Philadelphia and the metropolitan areas of northern New Jersey and is accessible through a network of major roadways and mass transportation.

NJNG's business is subject to various risks, such as those associated with adverse economic conditions, which can negatively impact customer growth, operating and financing costs, fluctuations in commodity prices, which can impact customer usage, customer conservation efforts, certain regulatory actions and environmental remediation. It is often difficult to predict the impact of trends associated with these risks. NJNG employs strategies to manage the challenges it faces, including pursuing customer conversions from other fuel sources and monitoring new construction markets through contact with developers, utilizing incentive programs through BPU-approved mechanisms to reduce gas costs, pursuing rate and other regulatory strategies designed to stabilize and decouple gross margin, and working actively with consultants and the NJDEP to manage expectations related to its obligations associated with its former MGP sites.

Operating Revenues/Throughput

For the fiscal year ended September 30, operating revenues and throughput by customer class are as follows:

	2017		2016		2015	
($ in thousands)	Operating Revenue	Bcf	Operating Revenue	Bcf	Operating Revenue	Bcf
Residential	$395,315	40.7	$345,597	36.9	$466,464	45.9
Commercial and other	98,777	8.7	80,994	7.3	106,505	9.6
Firm transportation	73,206	14.4	69,696	14.1	77,974	16.0
Total residential and commercial	567,298	63.8	496,287	58.3	650,943	71.5
Interruptible	7,970	55.0	8,867	61.5	10,049	47.1
Total system	575,268	118.8	505,154	119.8	660,992	118.6
BGSS incentive programs (1)	120,369	49.5	89,192	56.6	120,978	47.8
Total	$695,637	168.3	$594,346	176.4	$781,970	166.4

(1) Does not include 128.9, 160.1 and 174.6 Bcf for the capacity release program and related amounts of $6.5 million, $8.1 million and $8.9 million, which are recorded as a reduction of gas purchases on the Consolidated Statements of Operations for the fiscal years ended September 30, 2017, 2016 and 2015, respectively.

NJNG added 9,126 and 8,170 new customers and added natural gas heat and other services to another 662 and 644 existing customers in fiscal 2017 and 2016, respectively. NJNG expects its new customer annual growth rate to continue to be approximately 1.7 percent with projected additions in the range of approximately 26,000 to 28,000 new customers over the next three years. This anticipated customer growth represents approximately $5.3 million in new annual utility gross margin, a non-GAAP financial measure, as calculated under NJNG's current CIP tariff. For a definition of utility gross margin see Item 7. Management's Discussion and Analysis of Financial Condition and

Results of Operations - Natural Gas Distribution Segment.

In fiscal 2017, no single customer represented more than 10 percent of consolidated operating revenues.

Seasonality of Gas Revenues

Therm sales are significantly affected by weather conditions with customer demand being greatest during the winter months when natural gas is used for heating purposes. The relative measurement of the impact of weather is in degree-days. Degree-day data is used to estimate amounts of energy required to maintain comfortable indoor temperature levels based on each day’s average temperature. A degree-day is the measure of the variation in the weather based on the extent to which the average daily temperature falls below 65 degrees Fahrenheit. Each degree of temperature below 65 degrees Fahrenheit is counted as one heating degree-day. Normal heating degree-days are based on a 20-year average, calculated based on three reference areas representative of NJNG’s service territory.

New Jersey Resources Corporation
Part I

ITEM 1. BUSINESS
(Continued)

The CIP, a mechanism authorized by the BPU, stabilizes NJNG's utility gross margin, regardless of variations in weather. In addition, the CIP decouples the link between utility gross margin and customer usage, allowing NJNG to promote energy conservation measures. Recovery of utility gross margin is subject to additional conditions, including an earnings test, a revenue test and an evaluation of BGSS-related savings achieved over a 12-month period. In May 2014, the BPU approved the continuation of the CIP program with no expiration date.

Concurrent with its annual BGSS filing, NJNG files for an annual review of its CIP, during which time it can request rate changes, as appropriate. For additional information regarding the CIP, including rate actions and impact to margin, see Note 4. Regulation in the accompanying Consolidated Financial Statements and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Natural Gas Distribution Segment.

Gas Supply

Firm Natural Gas Supplies

In fiscal 2017, NJNG purchased natural gas from approximately 80 suppliers under contracts ranging from one day to one year and purchased over 10 percent of its natural gas from one supplier. NJNG believes the loss of this supplier would not have a material adverse impact on its results of operations, financial position or cash flows as an adequate number of alternative suppliers exist. NJNG believes that its supply strategy should adequately meet its expected firm load over the next several years.

Firm Transportation and Storage Capacity

NJNG maintains agreements for firm transportation and storage capacity with several interstate pipeline companies to take delivery of firm natural gas supplies, which ensures the ability to reliably service its customers. NJNG receives natural gas at 10 citygate stations located in Middlesex, Morris and Passaic counties in New Jersey.

The pipeline companies that provide firm transportation service to NJNG's citygate stations, the maximum daily deliverability of that capacity for the upcoming winter season and the contract expiration dates are as follows:

Pipeline	Dths(1)	Expiration
Texas Eastern Transmission, L.P.	300,738	Various dates between 2018 and 2023
Columbia Gas Transmission Corp.	50,000	Various dates between 2024 and 2030
Transcontinental Gas Pipe Line Corp.	42,531	Various dates between 2018 and 2032
Tennessee Gas Pipeline Co.	25,166	Various dates between 2018 and 2023
Algonquin Gas Transmission	12,000	2019
Total	430,435	

(1) Numbers are shown net of any capacity release contracted amounts.

Dominion Energy Transmission, Inc. provides NJNG firm contract transportation service and supplies the pipelines included in the table above.

In addition, NJNG has storage contracts that provide an additional 102,941 Dths of maximum daily deliverability to NJNG's citygate stations from storage fields in its Northeast market area. The storage suppliers, the maximum daily deliverability of that storage capacity and the contract expiration dates are as follows:

Pipeline	Dths	Expiration

Texas Eastern Transmission, L.P.	94,557	2019
Transcontinental Gas Pipe Line Corp.	8,384	2019
Total	102,941	

NJNG also has upstream storage contracts. The maximum daily deliverability and contract expiration dates are as follows:

Company	Dths	Expiration
Dominion Transmission Corporation	154,714	Various dates between 2020 and 2023
Steckman Ridge, L.P.	38,000	2020
Central New York Oil & Gas	25,337	2023
Total	218,051	

ITEM 1. BUSINESS
(Continued)

NJNG utilizes its transportation contracts to transport gas to NJNG's citygates from the Dominion Transmission Corporation, Steckman Ridge and Central New York Oil & Gas storage fields. NJNG has sufficient firm transportation, storage and supply capacity to fully meet its firm sales contract obligations.

Citygate Supplies from Energy Services

NJNG has several citygate supply agreements with Energy Services. NJNG and Energy Services have an agreement where NJNG releases 10,000 Dths/day of Texas Eastern Transmission capacity, 2,200 Dths/day of Dominion Energy Transmission, Inc. capacity, 10,728 Dths/day of Tennessee Gas Pipeline capacity and 1.6 million Dths of Central New York Oil & Gas storage capacity to Energy Services for the period of April 1, 2017 to March 31, 2018. NJNG can call upon a supply of up to 20,000 Dths/day delivered to NJNG's Texas Eastern citygate. Energy Services manages the storage inventory and NJNG can call on that storage supply as needed at NJNG's Tennessee citygate or storage point.

NJNG also has agreements where it releases 80,000 Dths/day of its Texas Eastern Transmission capacity to Energy Services for the period of April 1, 2016 to October 31, 2020. Under these agreements, NJNG can call upon a supply of up to 80,000 Dths/day delivered to its Texas Eastern citygate as needed. See Note 16. Related Party Transactions in the accompanying Consolidated Financial Statements for additional information regarding these transactions.

Peaking Supply

To manage its winter peak day demand, NJNG maintains two LNG facilities with a combined deliverability of approximately 170,000 Dths/day, which represents approximately 19 percent of its estimated peak day sendout. In June 2016, NJNG's liquefaction facility became operational and now allows NJNG to convert natural gas into LNG to fill NJNG's existing LNG storage tanks. See Item 2. Properties-Natural Gas Distribution for additional information regarding the LNG storage facilities.

Basic Gas Supply Service

BGSS is a BPU-approved clause designed to allow for the recovery of natural gas commodity costs on an annual basis. The clause requires all New Jersey natural gas utilities to make an annual filing by each June 1 for review of BGSS rates and to request a potential rate change effective the following October 1. The BGSS is also designed to allow each natural gas utility to provisionally increase residential and small commercial customer BGSS rates on December 1 and February 1 for up to a five percent increase to the average residential heat customer's bill on a self-implementing basis, after proper notice and BPU action on the June filing. Such increases are subject to subsequent BPU review and final approval.

In addition to making periodic rate adjustments to reflect changes in commodity prices, NJNG is also permitted to refund or credit back a portion of the commodity costs to customers when the natural gas commodity costs decrease in comparison to amounts projected or to amounts previously collected from customers. Decreases in the BGSS rate and BGSS refunds can be implemented with five days' notice to the BPU. Rate changes, as well as other regulatory actions related to BGSS, are discussed further in Note 4. Regulation in the accompanying Consolidated Financial Statements.

Wholesale natural gas prices are, by their nature, volatile. NJNG mitigates the impact of volatile price changes on customers through the use of financial derivative instruments, which are part of its storage incentive program, its BGSS clause and was part of its FRM program. The FRM program was terminated effective November 2015.

Future Natural Gas Supplies

NJNG expects to meet the natural gas requirements for existing and projected firm customers into the foreseeable future. If NJNG’s long-term natural gas requirements change, NJNG expects to renegotiate and restructure its contract portfolio to better match the changing needs of its customers and changing natural gas supply landscape.

Regulation and Rates

State

NJNG is subject to the jurisdiction of the BPU with respect to a wide range of matters such as base rates and regulatory rider rates, the issuance of securities, the safety and adequacy of service, the manner of keeping its accounts and records, the sufficiency of natural gas supply, pipeline safety, environmental issues, compliance with affiliate standards and the sale or encumbrance of its properties. In September 2016, the BPU approved NJNG's filing for an increase to base rates in the amount of $45 million, effective October 2016. See Note 4. Regulation in the accompanying Consolidated Financial Statements for additional information regarding NJNG’s rate proceedings.

ITEM 1. BUSINESS
(Continued)

Federal

FERC regulates rates charged by interstate pipeline companies for the transportation and storage of natural gas. This affects NJNG’s agreements with several interstate pipeline companies for the purchase of such services. Costs associated with these services are currently recoverable through the BGSS.

Competition

Although its franchises are nonexclusive, NJNG is not currently subject to competition from other natural gas distribution utilities with regard to the transportation of natural gas in its service territory. Due to significant distances between NJNG’s current large industrial customers and the nearest interstate natural gas pipelines, as well as the availability of its transportation tariff, NJNG currently does not believe it has significant exposure to the risk that its distribution system will be bypassed. Competition does exist from suppliers of oil, coal, electricity and propane. At the present time, however, natural gas is used in over 95 percent of new construction due to its efficiency, reliability and price advantage. Natural gas prices are a function of market supply and demand. Although NJNG believes natural gas will remain competitive with alternate fuels, no assurance can be given in this regard.

The BPU, within the framework of the EDECA, fully opened NJNG’s residential markets to competition, including third-party suppliers, and restructured rates to segregate its BGSS and delivery (i.e., transportation) prices. New Jersey’s natural gas utilities must provide BGSS in the absence of a third-party supplier. On September 30, 2017, NJNG had 32,653 residential and 10,137 commercial and industrial customers utilizing the transportation service.

Clean Energy Ventures

Our Clean Energy Ventures segment invests in, owns and operates clean energy projects, including commercial and residential solar installations located in New Jersey, and wind farms located in Montana, Iowa, Kansas, Wyoming and Pennsylvania.

As of September 30, 2017, Clean Energy Ventures constructed a total of 189.1 MW of solar capacity in New Jersey that has qualified for ITCs, including a combination of residential and commercial net-metered and grid-connected solar systems. As part of its solar investment program, Clean Energy Ventures operates a residential lease program, The Sunlight Advantage®, which provides qualifying homeowners with 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 lease in exchange for monthly lease payments. In addition, certain qualified non-profit institutions are served under PPAs. The program is operated by Clean Energy Ventures using qualified contracting partners in addition to strategic suppliers for material standardization and sourcing. The residential solar lease and PPA market is highly competitive with various companies operating in New Jersey. Clean Energy Ventures competes on price, quality and brand reputation, leveraging its partner network and customer referrals.

Clean Energy Ventures’ commercial solar projects are sourced through various channels and include both net-metered and grid-connected systems. Net-metered projects involve the sale of energy to a host and grid-connected systems into the wholesale energy markets. Project construction is competitively sourced through third parties. New Jersey has the fifth largest solar market in the U.S. according to the Solar Energy Industries Association®, with a large number of firms competing in all facets of the market including development, financing and construction.

The solar systems are registered and certified with the BPU's Office of Clean Energy and qualified to produce SRECs. One SREC is created for every MWh of electricity produced by a solar generator. Clean Energy Ventures sells the SRECs it generates to a variety of counterparties, including electric load serving entities that serve electric customers in New Jersey and are required to comply with the solar carve-out of the Renewable Portfolio Standard. Solar projects are also currently eligible for federal ITCs in the year that they are placed into service.

In addition to its solar investments, Clean Energy Ventures invests in small to mid-size onshore wind projects that fit its investment profile. As of September 30, 2017, Clean Energy Ventures has a total of 126.6 MW of wind capacity. The wind projects are 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. An $89 million, 39.9 MW wind project in Somerset County, Pennsylvania was completed in December 2016.

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Clean Energy Ventures is subject to various risks including those associated with adverse federal and state legislation and regulatory policies, construction delays that can impact the timing or eligibility of tax incentives, technological changes and the future market of SRECs. See Item 1A. Risk Factors for additional information regarding these risks.

Energy Services

Our Energy Services segment consists of unregulated wholesale and retail natural gas operations and provides producer and asset management services to a diverse customer base across North America. Energy Services has acquired contractual rights to natural gas storage and transportation assets it utilizes to implement its strategic and opportunistic market strategies. The rights to these assets were acquired in anticipation of delivering natural gas, performing asset management services for customers or in conjunction with identifying strategic opportunities that exist in or between the market areas that it serves. These opportunities are driven by price differentials between market locations and/or time periods. Energy Services' activities are conducted in the market areas in which it has strong expertise, including the U.S. and Canada. Energy Services differentiates itself in the marketplace based on price, reliability and quality of service. Its competitors include wholesale marketing and trading companies, utilities, natural gas producers and financial institutions. Energy Services' portfolio of customers includes regulated natural gas distribution companies, industrial companies, electric generators, natural gas/liquids processors, retail aggregators, wholesale marketers and natural gas producers.

While focusing on maintaining a low-risk operating and counterparty credit profile, Energy Services' activities specifically consist of the following elements:

- Providing natural gas portfolio management services to nonaffiliated and affiliated natural gas utilities, electric generation facilities and natural gas producers;

- Managing strategies for new and existing natural gas storage and transportation assets to capture value from changes in price due to location or timing differences as a means to generate financial margin (as defined below);

- Managing transactional logistics to minimize the cost of natural gas delivery to customers while maintaining security of supply. Transactions utilize the most optimal and advantageous natural gas supply transportation routing available within its contractual asset portfolio and various market areas; and

- Managing economic hedging programs that are designed to mitigate the impact of changes in market prices on financial margin generated on its natural gas storage and transportation commitments.

On July 27, 2017, we acquired certain wholesale transportation and retail natural gas energy contracts from Talen, providing service to large industrial retail and commercial customers in Delaware, Maryland, New Jersey and Pennsylvania. Our competitors include other retail marketing companies that provide service in the same states.

In fiscal 2017, Energy Services purchased over 10 percent of its natural gas from one supplier. Energy Services believes the loss of this supplier would not have a material adverse impact on its results of operations, financial position or cash flows as an adequate number of alternative suppliers exist.

Transportation and Storage Transactions

Energy Services focuses on creating value from the use of its physical assets, which are typically amassed through contractual rights to natural gas storage and transportation capacity. These assets become more valuable when favorable price changes occur that impact the value between or within market areas and across time periods. On a forward basis, Energy Services may hedge these price differentials through the use of financial instruments. In addition, Energy Services may seek to optimize these assets on a daily basis, as market conditions warrant, by evaluating natural gas supply and transportation availability within its portfolio. This enables Energy Services to capture geographic pricing differences across various regions as delivered natural gas prices may change favorably as a result of market conditions. Energy Services may, for example, initiate positions when intrinsic financial margin is present, and then enhance that financial margin as prices change across regions or time periods.

Energy Services also engages in park-and-loan transactions with storage and pipeline operators, where Energy Services will either borrow (receive a loan of) natural gas with an obligation to repay the storage or pipeline operator at a later date or “park” natural gas with an obligation to withdraw at a later date. In these cases, Energy Services evaluates the economics of the transaction to determine if it can capture pricing differentials in the marketplace and generate financial margin. Energy Services evaluates

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deal attributes such as fixed fees, calendar spread value from deal inception until volumes are scheduled to be returned and/or repaid, as well as the time value of money. If this evaluation demonstrates that financial margin exists, Energy Services may enter into the transaction and hedge with natural gas futures contracts, thereby locking in financial margin.

Energy Services maintains inventory balances to satisfy existing or anticipated sales of natural gas to its counterparties and/or to create additional value, as described above. During fiscal 2017 and 2016, Energy Services managed and sold 521.6 Bcf and 551.1 Bcf of natural gas, respectively. In addition, as of September 30, 2017 and 2016, Energy Services had 53.9 Bcf or $122.9 million of gas in storage and 62 Bcf or $130.5 million of gas in storage, respectively.

Weather/Seasonality

Energy Services activities are typically seasonal in nature as a result of changes in the supply and demand for natural gas. Demand for natural gas is generally higher during the winter months when there may also be supply constraints; however, during periods of milder temperatures, demand can decrease. In addition, demand for natural gas can also be high during periods of extreme heat in the summer months, resulting from the need for additional natural gas supply for gas-fired electric generation facilities. Accordingly, Energy Services can be subject to variations in earnings and working capital throughout the year as a result of changes in weather.

Volatility

Energy Services' activities are also subject to price volatility or supply/demand dynamics within its wholesale markets, including in the Northeastern, Appalachian, West Coast and Mid-Continent regions. Changes in natural gas supply can affect capacity values and Energy Services' financial margin, described below, that is generated from the optimization of transportation and storage assets. With its focus on risk management, Energy Services continues to diversify its revenue stream by identifying new growth opportunities in producer and asset management services. Energy Services has added new counterparties and strategic storage and transportation assets to its portfolio, which currently includes an average of approximately 44.6 Bcf of firm storage and 1.1 Bcf/day of firm transportation capacity. Energy Services continues to expand its geographic footprint.

Financial Margin

To economically hedge the commodity price risk associated with its existing and anticipated commitments for the purchase and sale of natural gas, Energy Services enters into a variety of derivative instruments including, but not limited to, futures contracts, physical forward contracts, financial swaps and options. These derivative instruments are accounted for at fair value with changes in fair value recognized in earnings as they occur. Energy Services views "financial margin" as a key internal financial metric. Energy Services' financial margin, which is a non-GAAP financial measure, represents revenues earned from the sale of natural gas less costs of natural gas sold including any storage and transportation costs, and excluding any accounting impact from changes in the fair value of certain derivative instruments. For additional information regarding financial margin, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Energy Services Segment.

Risk Management

In conducting its business, Energy Services mitigates risk by following formal risk management guidelines, including transaction limits, segregation of duties and formal contract and credit review approval processes. Energy Services continuously monitors and seeks to reduce the risk associated with its counterparty credit exposures. The Risk Management Committee of the Company oversees compliance with these established guidelines.

Midstream

Our Midstream segment includes investments in FERC-regulated interstate natural gas transportation and storage assets and is comprised of the following subsidiaries:

- NJR Steckman Ridge Storage Company, which holds the Company’s 50 percent equity investment in Steckman Ridge. Steckman Ridge is a Delaware limited partnership, jointly owned and controlled by subsidiaries of the Company and subsidiaries of Enbridge Inc., that built, owns and operates a natural gas storage facility with up to 12 Bcf of working gas capacity in Bedford County, Pennsylvania. The facility has direct access to the Texas Eastern and Dominion Transmission pipelines and has access to the Northeast and Mid-Atlantic markets;

- NJR Pipeline Company, which consists of a 20 percent equity investment in PennEast. PennEast is expected to construct a 120-mile FERC-regulated interstate natural gas pipeline system that will extend from northern Pennsylvania to western New Jersey and is estimated to be completed and operational in 2019; and

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- NJR Midstream Holdings Corporation, which, through its subsidiary NJNR Pipeline Company, holds approximately 1.84 million DM Common Units.

OTHER BUSINESS OPERATIONS

Home Services and Other

Home Services and Other operations consist primarily of the following unregulated affiliates:

- NJRHS, which provides heating, ventilation and cooling service, sales and installation of appliances to approximately 112,000 service contract customers, as well as installation of solar equipment;

- NJRPS, which provides plumbing repair and installation services;

- CR&R, which holds commercial real estate;

- NJR Energy, which was dissolved on November 28, 2016, invested in energy-related ventures; and

- NJR Service Corporation, which provides shared administrative and financial services to the Company and all of its subsidiaries.

ENVIRONMENT

We along with our subsidiaries are subject to legislation and regulation by federal, state and local authorities with respect to environmental matters. We believe that we are, in all material respects, in compliance with all applicable environmental laws and regulations.

NJNG is responsible for the environmental remediation of five MGP sites, which contain contaminated residues from former gas manufacturing operations that ceased at these sites by the mid-1950s and, in some cases, had been discontinued many years earlier. NJNG periodically, and at least annually, performs an environmental review of the MGP sites, including a review of potential estimated liabilities related to the investigation and remedial action on these sites. Based on this review, NJNG estimated that the total future expenditures to remediate and monitor the MGP sites for which it is responsible will range from approximately $117.6 million to $205.2 million.

NJNG’s estimate of these liabilities is based upon known and measurable facts, existing technology and enacted laws and regulations in place when the review was completed in fiscal 2017. 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. As of September 30, 2017, NJNG recorded an MGP remediation liability and a corresponding regulatory asset of $149 million on the Consolidated Balance Sheets, which represents its most likely possible liability and recoverable regulatory asset; however, actual costs may differ from these estimates. NJNG currently recovers approximately $9.4 million annually through its SBC RAC. NJNG will continue to seek recovery of these costs through its remediation rider. On November 17, 2017, NJNG filed it's annual SBC application requesting a reduction in the RAC, which will decrease the annual recovery to $7 million, effective April 1, 2018.

EMPLOYEE RELATIONS

As of September 30, 2017, the Company and its subsidiaries employed 1,052 employees compared with 1,034 employees as of September 30, 2016. Of the total number of employees, NJNG had 444 and 441 and NJRHS had 104 and 106 Union or "Represented" employees as of September 30, 2017 and 2016, respectively. NJNG and NJRHS have collective bargaining agreements with the Union, which is affiliated with the American Federation of Labor and Congress of Industrial Organizations, that expire in December 2018 and April 2019, respectively. The labor agreements cover wage increases and other benefits, including the defined benefit pension (which was closed to all employees hired on or after January 1, 2012, with the exception of certain rehires who are eligible to resume active participation), the postemployment benefit plan (which was closed to all employees hired on or after January 1, 2012) and the enhanced 401(k) retirement savings plan. The Company considers its relationship with employees, including those covered by collective bargaining agreements, to be in good standing.

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AVAILABLE INFORMATION AND CORPORATE GOVERNANCE DOCUMENTS

The following reports and any amendments to those reports are available free of charge on our website at http://njr360.client.shareholder.com/sec.cfm as soon as reasonably possible after filing or furnishing them with the SEC:

- Annual reports on Form 10-K;
- Quarterly reports on Form 10-Q; and
- Current reports on Form 8-K.

The following documents are available free of charge on our website (http://njr360.client.shareholder.com/governance.cfm):

- Bylaws;
- Corporate Governance Guidelines;
- Wholesale Trading Code of Conduct;
- NJR Code of Conduct;
- Charters of the following Board of Directors Committees: Audit, Leadership Development and Compensation and Nominating/Corporate Governance;
- Audit Complaint Procedure;
- Communicating with Non-Management Directors Procedure; and
- Statement of Policy with Respect to Related Person Transactions.

In Part III of this Form 10-K, we incorporate certain information by reference from our Proxy Statement for our 2018 Annual Meeting of Shareowners. We expect to file that Proxy Statement with the SEC on or about December 14, 2017. We will make it available on our website as soon as reasonably possible following that filing date. Please refer to the Proxy Statement when it is available.

A printed copy of each document is available free of charge to any shareowner who requests it by contacting the Corporate Secretary at New Jersey Resources Corporation, 1415 Wyckoff Road, Wall, New Jersey 07719.

ITEM 1A. RISK
FACTORS

When considering any investment in our securities, investors should consider the following risk factors, as well as the information contained under the caption "Information Concerning Forward-Looking Statements," in analyzing our present and future business performance. While this list is not exhaustive, management also places no priority or likelihood based on their descriptions or order of presentation. Unless indicated otherwise or the content requires otherwise, references below to “we,” “us,” and “our” should be read to refer to the Company and its subsidiaries.

Our investments in clean energy projects are subject to substantial risks and competition.

Commercial and residential solar energy projects and onshore wind projects, such as those in which we invest, are dependent upon current regulatory and tax incentives and there is uncertainty about the extent to which such incentives will be available in the future. The potential return on investment of these solar projects is based substantially on our eligibility for ITCs and the future market for SRECs that are traded in a competitive marketplace in the State of New Jersey. As a result, these projects face the risk that the current regulatory regimes and tax laws may expire or be adversely modified during the life of the projects. Furthermore, a sustained decrease in the value of SRECs would negatively impact the return on investment of solar projects. Legislative changes or declines in the price of SRECs could also lead to an impairment of solar project assets. The market for such projects is also limited, which creates competition for customers and higher investment costs and could potentially result in lost investment opportunities.

ITEM 1A. RISK FACTORS
(Continued)

In addition, there are risks associated with our ability to develop and manage such projects profitably, including logistical risks and potential delays related to construction, permitting, regulatory approvals (including any approvals by the BPU required pursuant to recently enacted solar energy legislation in the State of New Jersey) and electric grid interconnection, as well as the operational risk that the projects in service will not perform according to expectations due to equipment failure, suboptimal weather conditions or other economic factors beyond our control. All of the aforementioned risks could reduce the availability of viable solar energy projects for development. Furthermore, at the development or acquisition stage, our ability to predict actual performance results may be hindered and the projects may not perform as predicted.

We may be unable to obtain governmental approvals, property rights and/or financing for the construction, development and operation of our proposed energy investments and projects in a timely manner or at all.

Construction, development and operation of energy investments, such as natural gas storage facilities, NJNG infrastructure improvements, such as SRL and NJ RISE, pipeline transportation systems, such as PennEast and IEC, solar energy projects and onshore wind projects are subject to federal and state regulatory oversight and require certain property rights, such as easements and rights-of-way from public and private property owners, as well as regulatory approvals, including environmental and other permits and licenses for such facilities and systems. We or our joint venture partnerships may be unable to obtain, in a cost-efficient or timely manner, all such needed property rights, permits and licenses to successfully construct and develop our energy facilities and systems. Successful financing of our energy investments requires participation by willing financial institutions and lenders, as well as acquisition of capital at favorable interest rates. If we do not obtain the necessary regulatory approvals, property rights and financing, our equity investments could be impaired. Such impairment could have a materially adverse effect on our financial condition, results of operations and cash flows.

Uncertainties associated with our planned acquisition of IEC could adversely affect our business, results of operations, financial condition and cash flows. Furthermore, any acquisitions that we undertake might involve risks and uncertainties. We may not realize the anticipated synergies, cost savings and growth opportunities as a result of these transactions.

In October 2017, we announced the entry into an agreement to purchase IEC, whose principle operations relate to the operation and maintenance of an oil and natural gas transmission pipeline extending approximately 90 miles into eastern Pennsylvania. As part of the acquisition we expect to convert the remaining sections of the southern mainline of the pipeline utilized to transport oil to transport natural gas. The completion of the acquisition is subject to various closing conditions, including, but not limited to, receipt of necessary permits and regulatory actions, such as those from the FERC and the Pennsylvania Public Utility Commission, and other pending regulatory determinations, such as compliance with anti-trust laws. There can be no assurance that we will receive the necessary approvals for the transaction or receive them within the expected timeframe. The announcement and pendency of the IEC acquisition, as well as any delays in the expected timeframe, could cause disruption and create uncertainties, which could have an adverse effect on our business, results of operations and financial condition, regardless of whether the acquisition is completed.

Furthermore, the integration of any acquisition requires significant time and resources, which could result in significant ongoing operating expenses and may divert resources and management attention from other areas of our business. If we fail to successfully integrate assets and liabilities through the entities which we acquire, we may not realize the benefits expected from the transaction and, as a result, the fair value of assets acquired could be impaired and could have a material impact on our financial condition and results of operations.

The benefits that we expect to achieve from acquisitions will depend, in part, on our ability to realize anticipated growth opportunities and other synergies with our existing businesses. The success of these transactions will depend on our ability to integrate these transactions within our existing businesses timely and seamlessly. We may experience challenges when combining separate business cultures, information technology systems and employees. Even if we are able to complete the integration successfully, we may not fully realize all of the growth opportunities, cost savings and other synergies that we expect.

Major changes in the supply and price of natural gas may affect financial results.

While NJNG expects to meet the demand for natural gas from its customers for the foreseeable future, factors impacting suppliers and other third parties, including increased competition, further deregulation, transportation costs, possible climate change legislation, transportation availability and drilling for new natural gas resources, may impact the supply and price of natural gas. NJNG actively hedges against the fluctuation in the price of natural gas by entering into forward and financial contracts with third parties. Should these third parties fail to perform and regulators not allow the pass-through of expended funds to customers, it may result in a loss that could have a material impact on our financial condition, results of operations and cash flows.

ITEM 1A. RISK FACTORS
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Significant regulatory assets recorded by NJNG could be disallowed for recovery from customers in the future.

NJNG records regulatory assets on its financial statements to reflect the ratemaking and regulatory decision-making authority of the BPU as allowed by GAAP. The creation of a regulatory asset allows for the deferral of costs, which, absent a mechanism to recover such costs from customers in rates approved by the BPU, would be charged to expense on its income statement in the period incurred. Primary regulatory assets that are subject to BPU approval include the recovery of BGSS and USF costs, remediation costs associated with NJNG's MGP sites, CIP, NJCEP, economic stimulus plans, certain deferred income tax and pension and other postemployment benefit plans. If there were to be a change in regulatory positions surrounding the collection of these deferred costs there could be a material impact on NJNG’s financial condition, results of operations and cash flows.

NJR is a holding company and depends on its operating subsidiaries to meet its financial obligations.

NJR is a holding company with no significant assets other than possible cash investments and the stock of its operating subsidiaries. We rely exclusively on dividends from our subsidiaries, on intercompany loans from our unregulated subsidiaries, and on the repayments of principal and interest from intercompany loans and reimbursement of expenses from our subsidiaries for our cash flows. Our ability to pay dividends on our common stock and to pay principal and interest on our outstanding debt depends on the payment of dividends to us by our subsidiaries or the repayment of loans to us by our subsidiaries. The extent to which our subsidiaries are unable to pay dividends or repay funds to us may adversely affect our ability to pay dividends to holders of our common stock and principal and interest to holders of our debt.

NJNG’s regulated operations are subject to certain operating risks incidental to handling, storing, transporting and providing customers with natural gas.

NJNG’s regulated operations are subject to all operating hazards and risks incidental to handling, storing, transporting and providing customers with natural gas, including its NGV refueling stations and LNG facilities. These risks include explosions, pollution, release of toxic substances, fires, storms, safety issues and other adverse weather conditions and hazards, each of which could result in damage to or destruction of facilities or damage to persons and property. NJNG could suffer substantial losses should any of these events occur. Moreover, as a result, NJNG has been, and likely will be, a defendant in legal proceedings and litigation arising in the ordinary course of business. Although NJNG maintains insurance coverage, insurance may not be sufficient to cover all material expenses related to these risks.

NJNG and Energy Services rely on storage, transportation assets and suppliers, which they do not own or control, to deliver natural gas.

NJNG and Energy Services depend on natural gas pipelines and other storage and transportation facilities owned and operated by third parties to deliver natural gas to wholesale and retail markets and to provide retail energy services to customers. Their ability to provide natural gas for their present and projected sales will depend upon their suppliers’ ability to obtain and deliver additional supplies of natural gas, as well as NJNG’s ability to acquire supplies directly from new sources. Factors beyond the control of NJNG, its suppliers and the independent suppliers that have obligations to provide natural gas to certain NJNG customers, may affect NJNG’s ability to deliver such supplies. These factors include other parties’ control over the drilling of new wells and the facilities to transport natural gas to NJNG’s citygate stations, competition for the acquisition of natural gas, priority allocations, impact of severe weather disruptions to natural gas supplies, the regulatory and pricing policies of federal and state regulatory agencies, as well as the availability of Canadian reserves for export to the United States. Energy deregulation legislation may increase competition among natural gas utilities and impact the quantities of natural gas requirements needed for sales service. Energy Services also relies on a firm supply source to meet its energy management obligations to its customers. If supply, transportation or storage is disrupted, including for reasons of force majeure, the ability of NJNG and Energy Services to sell and deliver their products and services may be hindered. As a result, they may be responsible for damages incurred by their customers, such as the additional cost of acquiring alternative supply at then-current market rates. Particularly for Energy Services, these conditions could have a material impact on our financial condition, results of operations and cash flows.

Risks related to the regulation of NJNG could affect the rates it is able to charge, its costs and its profitability.

NJNG is subject to regulation by federal, state and local authorities. These authorities regulate many aspects of NJNG’s distribution and transmission operations, including construction and maintenance of facilities, operations, safety, tariff rates that NJNG can charge customers, rates of return, the authorized cost of capital, recovery of pipeline replacement, environmental remediation costs and relationships with its affiliates. NJNG’s ability to obtain rate increases, including base rate increases, extend its BGSS incentive and CIP programs and maintain its currently authorized rates of return may be impacted by events, including regulatory or legislative actions. There can be no assurance that NJNG will be able to obtain rate increases and continue its BGSS incentive, CIP, RAC and SAVEGREEN programs or continue the opportunity to earn its currently authorized rates of return.

A change in our effective tax rate as a result of a failure to qualify for ITCs and PTCs or being delayed in qualifying for ITCs due to delays or failures to complete planned solar energy projects and wind projects within the safe harbor period may have a material impact on our earnings.

GAAP requires that we apply an effective tax rate to interim periods that is consistent with our estimated annual effective tax rate. As a result, we project quarterly the annual effective tax rate and then adjust the tax expense recorded in that quarter to reflect the projected annual effective tax rate. The amount of the quarterly adjustment is based on information and assumptions, which are subject to change and may have a material impact on our quarterly and annual NFE. Factors we consider in estimating the probability of projects being completed during the fiscal year include, but are not limited to, Board of Directors approval, construction logistics, permitting, interconnection completion and execution of various contracts, including PPAs. If we fail to qualify for ITCs or are delayed in qualifying for some ITCs during the fiscal year due to delays or failures to complete planned solar energy projects as scheduled, our quarterly and annual net income and NFE may be materially impacted. This could have a material adverse impact on our financial condition, results of operations and cash flows.

For a wind facility to be considered a qualified facility for purposes of the PTCs, the construction of the facility must have begun prior to January 1, 2020, and placed in service before January 1, 2024. A taxpayer may establish that construction has begun by starting “physical work of a significant nature.” Only physical work of a significant nature on tangible personal property used as an integral part of the activity performed by the facility is considered for purposes of determining when construction begins. Alternatively, a taxpayer may establish that construction has begun by paying or incurring five percent of eligible project costs (the “five percent safe harbor”).

We are involved in legal or administrative proceedings before various courts and governmental bodies that could adversely affect our results of operations, cash flows and financial condition.

We are involved in legal or administrative proceedings before various courts and governmental bodies with respect to general claims, rates, taxes, environmental issues, gas cost prudence reviews and other matters. Adverse decisions regarding these matters, to the extent they require us to make payments in excess of amounts provided for in our financial statements or covered by insurance, could adversely affect our results of operations, cash flows and financial condition.

Cyberattacks or failure of information technology systems could adversely affect our business operations, financial condition and results of operations.

We continue to place greater reliance on technological tools that support our business operations and corporate functions, including tools that help us manage our natural gas distribution operations and infrastructure. The failure of, or security breaches related to, these technologies could materially adversely affect our business operations, our financial position, results of operations and cash flows.

We rely on information technology to manage our natural gas distribution and other corporate operations, maintain customer, employee, Company and vendor data, prepare our financial statements and perform other critical business processes. This technology may fail due to cyberattack, physical disruption, design and implementation defects or human error. Disruption or failure of business operations and information technology systems could harm our facilities or otherwise adversely impact our ability to safely deliver natural gas to our customers, serve our customers effectively or manage our assets. Additionally, an attack on, or failure of information technology systems, could result in the unauthorized release of customer, employee or other confidential or sensitive data. Any of the foregoing events could adversely affect our business reputation, diminish customer confidence, disrupt operations, subject us to financial liability or increased regulation, increase our costs and expose us to material legal claims and liability.

There is no guarantee that redundancies built into our networks and technology, or the procedures we have implemented to protect against cyberattack and other unauthorized access to secured data, are adequate to safeguard against all failures of technology or security breaches.

ITEM 1A. RISK FACTORS
(Continued)

Credit rating downgrades could increase financing costs, limit access to the financial markets and negatively affect NJR and its subsidiaries.

Rating agencies Moody's and S&P currently rate NJNG's debt as investment grade. If such ratings are downgraded below investment grade, borrowing costs could increase, as will the costs of maintaining certain contractual relationships and obtaining future financing. Even if ratings are downgraded without falling below investment grade, NJR and NJNG could face increased borrowing costs under their current credit facilities. Our ability to borrow and costs of borrowing have a direct impact on our subsidiaries' ability to execute their operating strategies, particularly in the case of NJNG, which relies heavily upon capital expenditures financed by its credit facility.

If we suffer a reduction in our credit and borrowing capacity or in our ability to issue parental guarantees, the business prospects of Energy Services, Clean Energy Ventures and Midstream, which rely on our creditworthiness, would be adversely affected. Energy Services could possibly be required to comply with various margin or other credit enhancement obligations under its trading and marketing contracts, and it may be unable to continue to trade or be able to do so only on less favorable terms with certain counterparties. Clean Energy Ventures could be required to seek alternative financing for its projects, and may be unable to obtain such financing or able to do so only on less favorable terms. In addition, NJNR Pipeline may not be able to finance its capital obligations to PennEast.

Additionally, lower credit ratings could adversely affect relationships with NJNG's state regulators, who may be unwilling to allow NJNG to pass along increased costs to its natural gas customers.

We are subject to governmental regulation. Compliance with current and future regulatory requirements and procurement of necessary approvals, permits and certificates may result in substantial costs to us.

We are subject to substantial regulation from federal, state and local regulatory authorities. We are required to comply with numerous laws and regulations and to obtain numerous authorizations, permits, approvals and certificates from governmental agencies. These agencies regulate various aspects of our business, including customer rates, services, construction and natural gas pipeline operations.

The FERC has regulatory authority over some of our operations, including sales of natural gas in the wholesale and retail markets and the purchase and sale of interstate pipeline and storage capacity. Any Congressional legislation or agency regulation that would alter these or other similar statutory and regulatory structures in a way to significantly raise costs that could not be recovered in rates from customers, that would reduce the availability of supply or capacity or that would reduce our competitiveness could negatively impact our earnings. In addition, changes in and compliance with laws such as the Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011 could increase federal regulatory oversight and administrative costs that may not be recovered in rates from customers, which could have an adverse impact on our earnings.

We cannot predict the impact of any future revisions or changes in interpretations of existing regulations or the adoption of new laws and applicable regulations. Changes in regulations or the imposition of additional regulations could influence our operating environment and may result in substantial costs to us.

Adverse economic conditions, including inflation, increased natural gas costs, foreclosures and business failures, could adversely impact NJNG's customer collections and increase our level of indebtedness.

Inflation may cause increases in certain operating and capital costs. We continually review the adequacy of NJNG's base tariff rates in relation to the increasing cost of providing service and the inherent regulatory lag in adjusting those rates. The ability to control operating expenses is an important factor that will influence future results.

Rapid increases in the price of purchased gas may cause NJNG to experience a significant increase in short-term debt because it must pay suppliers for gas when it is purchased, which can be significantly in advance of when these costs may be recovered through the collection of monthly bills for gas delivered to customers. Increases in purchased gas costs also slow collection efforts as customers are more likely to delay the payment of their gas bills, leading to higher-than-normal accounts receivable.

If we are unable to access the financial markets or there are adverse conditions in the equity or credit markets, it could affect management's ability to execute our business plans.

We rely on access to both short-term and long-term credit markets as significant sources of liquidity for capital requirements not satisfied by our cash flow from operations. Any deterioration in our financial condition could hamper our ability to access the equity or credit markets or otherwise obtain debt financing on terms favorable to us or at all. In addition, because certain state regulatory approvals may be necessary for NJNG to incur debt, NJNG may be unable to access credit markets on a timely basis. External events could also increase the cost of borrowing or adversely affect our ability to access the financial markets. Such external events could include the following:

- economic weakness and/or political instability in the United States or in the regions where we operate;
- political conditions, such as a shutdown of the U.S. federal government;
- financial difficulties of unrelated energy companies;
- capital market conditions generally;
- volatility in the equity markets;
- market prices for natural gas;
- the overall health of the natural gas utility industry; and
- fluctuations in interest rates, particularly with respect to NJNG's variable rate debt instruments.

Our ability to secure short-term financing is subject to conditions in the credit markets. A prolonged constriction of credit availability could affect management's ability to execute our business plan. An inability to access capital may limit our ability to pursue improvements or acquisitions that we may otherwise rely on for both current operations and future growth.

Energy Services and NJNG execute derivative transactions with financial institutions as a part of their economic hedging strategy and could incur losses associated with the inability of a financial counterparty to meet or perform under its obligations as a result of adverse conditions in the credit markets or their ability to access capital or post collateral.

The cost of providing pension and postemployment health care benefits to eligible former employees is subject to changes in pension fund values, interest rates and changing demographics and may have a material adverse effect on our financial results.

We have two defined benefit pension plans and two OPEB plans for the benefit of eligible full-time employees and qualified retirees, which were closed to all employees hired on or after January 1, 2012. The cost of providing these benefits to eligible current and former employees is subject to changes in the market value of the pension and OPEB fund assets, changing discount rates and changing actuarial assumptions based upon demographics, including longer life expectancy of beneficiaries, an expected increase in the number of eligible former employees over the next five years, impacts from healthcare legislation and increases in health care costs.

Significant declines in equity markets and/or reductions in bond yields can have a material adverse effect on the funded status of our pension and OPEB plans. In these circumstances, we may be required to recognize increased pension and OPEB expenses and/or be required to make additional cash contributions into the plans.

The funded status of these plans, and the related cost reflected in our financial statements, are affected by various factors that are subject to an inherent degree of uncertainty. Under the Pension Protection Act of 2006, losses of asset values may necessitate increased funding of the plans in the future to meet minimum federal government requirements. A significant decrease in the asset values of these plans can result in funding obligations earlier than we had originally planned, which would have a negative impact on cash flows from operations, decrease our borrowing capacity and increase our interest expense.

We are exposed to market risk and may incur losses in our wholesale business.

Our storage and transportation portfolios consist of contracts to transport and store natural gas. The value of our storage and transportation portfolio could be negatively impacted if the value of these contracts change in a direction or manner that we do not anticipate. In addition, upon expiration of these storage and transportation contracts, to the extent that they are renewed or replaced at less favorable terms, our results of operations and cash flows could be negatively impacted.

ITEM 1A. RISK FACTORS
(Continued)

Our economic hedging activities that are designed to protect against commodity and financial market risks, including the use of derivative contracts in the normal course of Energy Services' business, may cause fluctuations in reported financial results and financial losses that negatively impact results of operations and our stock price.

We use derivatives, including futures, forwards, options, swaps and foreign exchange contracts to manage commodity, financial market and foreign currency risks. The timing of the recognition of gains or losses associated with our economic hedges in accordance with GAAP does not always coincide with the gains or losses on the items being hedged. The difference in accounting can result in volatility in reported results, even though the expected profit margin is essentially unchanged from the dates the transactions were consummated.

In addition, Energy Services could recognize financial losses on these contracts as a result of volatility in the market values of the underlying commodities or if a counterparty fails to perform under a contract. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these financial instruments can involve management's judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could adversely affect the value of the reported fair value of these contracts.

Energy Services' earnings and cash flows are dependent upon optimization of its physical assets.

Energy Services' earnings and cash flows are based, in part, on its ability to optimize its portfolio of contractual-based natural gas storage and pipeline assets. The optimization strategy involves utilizing its physical assets to take advantage of differences in natural gas prices between geographic locations and/or time periods. Any change among various pricing points could affect these differentials. In addition, significant increases in the supply of natural gas in Energy Services' market areas, including as a result of increased production along the Marcellus Shale, can reduce Energy Services' ability to take advantage of pricing fluctuations in the future. Changes in pricing dynamics and supply could have an adverse impact on Energy Services' optimization activities, earnings and cash flows. Energy Services incurs fixed demand fees to acquire its contractual rights to storage and transportation assets. Should commodity prices at various locations or time periods change in such a way that Energy Services is not able to recoup these costs from its customers, the cash flows and earnings at Energy Services, and ultimately the Company, could be adversely impacted.

A valuation allowance may be required for our deferred tax assets.

A valuation allowance may need to be recorded against our net deferred tax assets, which are predominantly related to net operating losses, based on available evidence, including cumulative and forecasted taxable income at the time the estimate is made. A valuation allowance related to deferred tax assets can be affected by changes to tax laws, statutory tax rates and future taxable income levels. In the event that we determine that we would not be able to realize all or a portion of our net deferred tax assets in the future, we would reduce such amounts accordingly through a charge to income tax expense in the period in which that determination was made, which could have a material adverse impact on our financial condition and results of operations.

Changes in tax laws or regulations may negatively affect our results of operations, net income, financial condition and cash flows.

We are subject to taxation by various taxing authorities at the federal, state and local levels. The current administration has made federal corporate tax reform one of its priorities and the possibility of such reform is thought to be increased in light of the Republican-led Congress. While such reform is likely to be favorable to corporations generally, the structure of any such reform is unknown and a change in tax laws or rates could in fact adversely affect our results of operations, net income, financial condition and cash flows. We cannot predict the timing or structure of such tax-related developments.

Changes in weather conditions may affect earnings and cash flows.

Weather conditions and other natural phenomena can have an adverse impact on our earnings and cash flows. Severe weather conditions can impact suppliers and the pipelines that deliver gas to NJNG’s distribution system. Extended mild weather, during either the winter period or summer period, can have a significant impact on demand for and the cost of natural gas. While we believe the CIP mitigates the impact of weather variations on NJNG’s gross margin, severe weather conditions may have an impact on the ability of suppliers and pipelines to deliver the natural gas to NJNG, which can negatively affect our earnings. The CIP does not mitigate the impact of severe weather conditions on our cash flows.

ITEM 1A. RISK FACTORS
(Continued)

Future results at Energy Services are subject to volatility in the natural gas market due to weather. Variations in weather may affect earnings and working capital needs throughout the year. During periods of milder temperatures, demand and volatility in the natural gas market may decrease, which can negatively impact Energy Services' earnings and cash flows.

Failure by NJR and/or NJNG to comply with debt covenants may impact our financial condition.

Our long-term debt obligations contain financial covenants related to debt-to-capital ratios and, in the case of NJNG, an interest coverage ratio. These debt obligations also contain provisions that put limitations on our ability to finance future operations or capital needs or to expand or pursue certain business activities. For example, certain of these agreements contain provisions that, among other things, put limitations on our ability to make loans or investments, make material changes to the nature of our businesses, merge, consolidate or engage in asset sales, grant liens or make negative pledges. Furthermore, the debt obligations contain covenants and other provisions requiring us to provide timely delivery of accurate financial statements prepared in accordance with GAAP. The failure to comply with any of these covenants could result in an event of default, which, if not cured or waived, could result in the acceleration of outstanding debt obligations and/or the inability to borrow under existing revolving credit facilities. We have relied, and continue to rely, upon short-term bank borrowings or commercial paper supported by our revolving credit facilities to finance the execution of a portion of our operating strategies. NJNG is dependent on these capital sources to purchase its natural gas supply and maintain its properties. The acceleration of our outstanding debt obligations and our inability to borrow under the existing revolving credit facilities would cause a material adverse change in NJR’s and NJNG’s financial condition.

Changes in customer growth may affect earnings and cash flows.

NJNG’s ability to increase its utility firm gross margin is dependent upon the new construction housing market, as well as the conversion of customers to natural gas from other fuel sources. During periods of extended economic downturns, prolonged weakness in housing markets or slowdowns in the conversion market, there could be an adverse impact on NJNG’s utility firm gross margin, earnings and cash flows. Furthermore, while our estimate regarding customer growth is based in part upon information from third parties, the estimate has not been verified by an independent source and is subject to the aforementioned risks and uncertainties, which could cause actual results to materially deviate from the estimate.

We may be adversely impacted by natural disasters, pandemic illness, terrorist activities and other extreme events to which we may be unable to promptly respond.

Local or national natural disasters, pandemic illness, terrorist activities and other extreme events are a threat to our assets and operations. Companies in our industry that are located in our service territory may face a heightened risk due to exposure to acts of terrorism that could target or impact our natural gas distribution, transmission and storage facilities and disrupt our operations and ability to meet customer requirements. In addition, the threat of terrorist activities could lead to increased economic instability and volatility in the price of natural gas that could affect our operations. Natural disasters or actual or threatened terrorist activities may also disrupt capital markets and our ability to raise capital, or may impact our suppliers or our customers directly. A local disaster or pandemic illness could result in part of our workforce being unable to operate or maintain our infrastructure or perform other tasks necessary to conduct our business. In addition, these risks could result in loss of human life, significant damage to property, environmental damage, impairment of our operations and substantial loss to the Company. Our regulators may not allow us to recover from our customers part or all of the increased cost related to the foregoing events, which could negatively affect our financial condition, results of operations and cash flows.

We maintain emergency planning and training programs to readily respond to events that could cause business interruption. However, a slow or inadequate response to events may have an adverse impact on operations and earnings. We may be unable to obtain sufficient insurance to cover all risks associated with local and national disasters, pandemic illness, terrorist activities and other events, which could increase the risk that an event adversely affects our financial condition, results of operations and cash flows.

Our costs of compliance with present and future environmental laws are significant and could adversely affect our cash flows and profitability.

Our operations are subject to extensive federal, state and local environmental statutes, rules and regulations relating to air quality, water quality, waste management, natural resources and site remediation. Compliance with these laws and regulations may require us to expend significant financial resources to, among other things, conduct site remediation and perform environmental

ITEM 1A. RISK FACTORS
(Continued)

monitoring. If we fail to comply with applicable environmental laws and regulations, even if we are unable to do so due to factors beyond our control, we may be subject to civil liabilities or criminal penalties and may be required to incur significant expenditures to come into compliance. Additionally, any alleged violations of environmental laws and regulations may require us to expend significant resources in our defense against alleged violations.

Furthermore, the U.S. Congress has for some time been considering various forms of climate change legislation. There is a possibility that, when and if enacted, the final form of such legislation could impact our costs and put upward pressure on natural gas prices. Higher cost levels could impact the competitive position of natural gas and negatively affect our growth opportunities, cash flows and earnings.

Failure to attract and retain an appropriately qualified employee workforce could adversely affect operations.

Our ability to implement our business strategy and serve our customers is dependent upon our continuing ability to attract and retain talented professionals and a technically skilled workforce, and being able to transfer the knowledge and expertise of our workforce to new employees as our aging employees retire. Failure to hire and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor could adversely affect the ability to manage and operate our business. Furthermore, the majority of our natural gas distribution segment workforce is represented by the Union and is covered by a collective bargaining agreement that will expire in December 2018. Disputes with the Union over terms and conditions of the agreement could result in instability in our labor relationship and work stoppages that could impact the timely delivery of gas and other services from our utility, which could strain relationships with customers and state regulators and cause a loss of revenues that could adversely affect our results of operations. Our collective bargaining agreement may also increase the cost of employing our natural gas distribution segment workforce, affect our ability to continue offering market-based salaries and employee benefits, limit our flexibility in dealing with our workforce, and limit our ability to change work rules and practices and implement other efficiency-related improvements to successfully compete in today’s challenging marketplace.

Investing through partnerships, joint ventures or in an MLP decreases our ability to manage risk.

We have utilized joint ventures through partnerships for certain midstream investments, including Steckman Ridge and PennEast, and we own a minority interest in DM, an MLP, through our investment in DM Common Units. Although we currently have no specific plans to do so, we may acquire interests in other joint ventures or partnerships in the future. In these joint ventures or partnerships, we may not have the right or power to direct the management and policies of the joint ventures or partnerships, and other participants or investors may take action contrary to our instructions or requests and against our policies and objectives. In addition, the other participants may become bankrupt or have economic or other business interests or goals that are inconsistent with those of NJR and our subsidiaries. Our financial condition, results of operations or cash flows could be harmed if a joint venture participant acts contrary to our interests.

Additionally, our investment in DM has risks that are unique to investments in MLPs. Holders of MLP common units have limited control and voting rights on matters affecting the MLP, and investments in MLPs may have limited liquidity. Additionally, if DM is treated as a corporation for federal income tax purposes as a result of a change in current law or a change in DM’s business, such treatment would result in a reduction in the after-tax return to us and may cause a reduction in the value of our investment in DM Common Units.

Our certificate of incorporation and bylaws may delay or prevent a transaction that stockholders would view as favorable.

Our certificate of incorporation and bylaws, as well as New Jersey law, contain provisions that could delay, defer or prevent an unsolicited change in control of NJR, which may negatively affect the market price of our common stock or the ability of stockholders to participate in a transaction in which they might otherwise receive a premium for their shares over the then current market price. These provisions may also prevent changes in management. In addition, our Board of Directors is authorized to issue preferred stock without stockholder approval on such terms as our Board of Directors may determine. Our common stockholders will be subject to, and may be negatively affected by, the rights of any preferred stock that may be issued in the future. In addition, we are subject to the New Jersey Shareholders' Protection Act, which could delay or prevent a change of control of NJR.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Natural Gas Distribution Segment

NJNG owns approximately 7,197 miles of distribution main, 7,424 miles of service main, 226 miles of transmission main and approximately 549,000 meters. Mains are primarily located under public roads. Where mains are located under private property, NJNG has obtained easements from the owners of record.

Additionally, NJNG owns and operates two LNG storage plants in Stafford Township, Ocean County; and Howell Township, Monmouth County. The two LNG plants have an aggregate estimated maximum capacity of approximately 170,000 Dths per day and 1 Bcf of total capacity. These facilities are used for peaking natural gas supply and for emergencies. NJNG's Liquefaction facility is also located on the Howell Township property and allows NJNG to convert natural gas into LNG to fill NJNG's existing LNG storage tanks.

NJNG owns four service centers located in Rockaway Township, Morris County; Atlantic Highlands and Wall Township, Monmouth County; and Lakewood, Ocean County. These service centers house storerooms, garages, gas distribution and administrative offices. NJNG leases its headquarters and customer service facilities in Wall Township, Monmouth County, a customer service office in Asbury Park, Monmouth County and a service center in Manahawkin, Ocean County. These customer service offices support customer contact, marketing, economic development and other functions.

Substantially all of NJNG's properties, not expressly excepted or duly released, are subject to the lien of the Mortgage Indenture as security for NJNG's mortgage bonds, which totaled $672 million as of September 30, 2017. In addition, under the terms of the Mortgage Indenture, NJNG could have issued up to $960 million of additional first mortgage bonds as of September 30, 2017.

Clean Energy Ventures Segment

Clean Energy Ventures has various solar contracts, including lease agreements and easements, allowing the installation, operation and maintenance of solar equipment and access to the various properties, including commercial and residential rooftops. In addition to the lease agreements and easements, Clean Energy Ventures owns solar panels with a total of 189.1 MW of capacity throughout New Jersy and owns 79.5 acres of land in Vineland, New Jersey.

Clean Energy Ventures is also party to various land lease agreements and easements, which allow for the installation, operation and maintenance of wind turbines, associated electric collection facilities, substations, operation and maintenance buildings and access to the various properties. Clean Energy Ventures has a total of 126.6 MW of wind capacity and owns wind projects in Two Dot, Montana, Carroll County, Iowa, Rush County, Kansas, Carbon County, Wyoming and Somerset County, Pennsylvania. In addition to the lease agreements and easements, Clean Energy Ventures owns 1.8 acres and 7.1 acres of land for its Carroll County and Rush County wind projects, respectively. Clean Energy Ventures also owns a building on .16 acres in Rush County, Kansas that is used for operation and maintenance purposes.

Clean Energy Ventures leases office space in Wall Township, New Jersey.

Energy Services Segment

As of September 30, 2017, Energy Services leases office space in Wall Township, New Jersey, Houston, Texas, and Allentown, Pennsylvania.

Midstream Segment

As of September 30, 2017, Steckman Ridge owned and/or leased storage rights on approximately 6,300 acres of land in Bedford County, Pennsylvania, with a FERC-regulated natural gas storage facility with up to 12 Bcf of working gas capacity. Equipment on the property includes a compressor station, gathering pipelines and pipeline interconnections. As of September 30, 2017, PennEast owned 74 acres of land in Carbon County, Pennsylvania and 58.7 acres of land in Mercer County, New Jersey.

ITEM 2. PROPERTIES
(Continued)

All Other Business Operations

As of September 30, 2017, CR&R’s real estate portfolio consisted of 35 acres of undeveloped land in Atlantic County with a net book value of $1.4 million.

NJRHS leases service centers in Dover, Morris County and Wall, Monmouth County, New Jersey.

Capital Expenditure Program

See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of anticipated fiscal 2018 and 2019 capital expenditures, as applicable to the Company’s reporting segments and business operations.

ITEM 3. 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 is 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 Administrative Consent Orders or a Memoranda of Agreement with the NJDEP.

NJNG may recover its remediation expenditures, including carrying costs, over rolling seven-year periods pursuant to a RAC approved by the BPU. NJNG currently recovers approximately $9.4 million annually through it's SBC RAC. On November 17, 2017, NJNG filed it's annual SBC application requesting a reduction in the RAC, which will decrease the annual recovery to $7 million, effective April 1, 2018. As of September 30, 2017, $28.5 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in regulatory assets on the Consolidated Balance Sheets.

NJNG periodically, and at least annually, performs an environmental review of the MGP sites, 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 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 $117.6 million to $205.2 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, as of September 30, 2017, NJNG recorded an MGP remediation liability and a corresponding regulatory asset of $149 million on the Consolidated Balance Sheets, based on the most likely amount. This was reduced from $172 million in fiscal 2016, due to the completion of remediation work at certain sites and a reduction to the remediation scope at another site. The actual costs to be incurred by NJNG are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay and any insurance recoveries.

NJNG will continue to seek recovery of MGP-related costs through the RA. 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.

Litigation

We are 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 connection with the conduct of its business, certain of which litigation matters are described in Note 14. Commitments and Contingent Liabilities in the accompanying Consolidated Financial Statements. 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, we 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.

New Jersey Resources Corporation
Part I

ITEM 3. LEGAL PROCEEDINGS

In accordance with applicable accounting guidance, we establish reserves 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. Based upon currently available information, we believe that the results of litigation that is currently pending, taken together, will not have a materially adverse effect on our financial condition, results of operations or cash flows. The actual results of resolving the pending litigation matters may be substantially higher than the amounts reserved.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

The Company’s Executive Officers and their age, position and business experience during the past five years are set forth below.

Name	Age	Officer since	Office held during last five years
Laurence M. Downes	60	1986	Chairman of the Board (September 1996 - present) President and Chief Executive Officer (July 1995 - present)
Patrick J. Migliaccio	43	2013	Senior Vice President (January 2016 - present) Chief Financial Officer (January 2016 - present) Vice President, Finance and Accounting (November 2014 - December 2015) Treasurer (August 2013 - May 2015) Corporate Controller (January 2012 - August 2013)
Stephen D. Westhoven	49	2004	Executive Vice President and Chief Operating Officer (November 2017 - present) Senior Vice President and Chief Operating Officer, NJRES and NJRCEV (October 2016 - October 2017) Senior Vice President, NJRES (May 2010 - September 2016)
Kathleen T. Ellis	64	2004	Executive Vice President, Policy and Strategic Development, NJR (October 2016 - present) Executive Vice President and Chief Operating Officer, NJNG (February 2008 - September 2016) Senior Vice President, Corporate Affairs (December 2004 - present)
Amanda E. Mullan	51	2015	Senior Vice President and Chief Human Resources Officer (January 2017 - present) Vice President and Chief Human Resources Officer (April 2015 - December 2016) Senior Vice President of HR, N. America, Willis Group Holdings, a risk management and insurance intermediary (April 2012 - April 2015)
Jacqueline K. Shea	53	2016	Vice President and Chief Information Officer (June 2016 - present) Chief Information Officer, Godiva Chocolatier, a manufacturer of premium fine

			chocolates and related products (March 2011 - May 2016)
Nancy A. Washington	53	2017	Senior Vice President and General Counsel (March 2017 - present) Senior Vice President and Chief Litigation Counsel, CIT Group Inc., a Livingston, NJ-based financial services firm (September 2010 - March 2017)

New Jersey Resources Corporation
Part II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
ISSUER PURCHASES OF EQUITY
SECURITIES

NJR's Common Stock is traded on the New York Stock Exchange under the ticker symbol NJR. As of September 30, 2017, NJR had 48,784 holders of record of its common stock.

NJR's common stock high and low sales prices and dividends paid per share were as follows:

	2017		2016		Dividends Paid	
	High	Low	High	Low	2017	2016
Fiscal Quarter						
First	$37.30	$30.46	$34.07	$28.02	$0.255	$0.240
Second	$39.95	$33.70	$36.85	$32.32	$0.255	$0.240
Third	$43.50	$38.95	$38.56	$33.91	$0.255	$0.240
Fourth	$44.30	$39.50	$38.92	$32.27	$0.255	$0.240

In 1996, the Board of Directors authorized the Company to implement a share repurchase program, which has been expanded seven times since the inception of the program. The Share Repurchase Plan allows the Company to purchase its outstanding shares on the open market or in negotiated transactions, based on market and other conditions. The Company is not required to purchase any specific number of shares and may discontinue or suspend the program at any time. The Share Repurchase Plan will expire when we have repurchased all shares authorized for repurchase thereunder, unless it is earlier terminated by action of our Board of Directors or additional shares are authorized for repurchase.

The following table sets forth NJR's repurchase activity for the quarter ended September 30, 2017:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of 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
7/01/17 - 7/31/17	—	$	—	2,431,053
8/01/17 - 8/31/17	—	$	—	2,431,053
9/01/17 - 9/30/17	—	$	—	2,431,053
Total	—	$	—	2,431,053

New Jersey Resources Corporation
Part II

ITEM 6. SELECTED FINANCIAL DATA

CONSOLIDATED FINANCIAL STATISTICS
(Thousands, except per share data)

Fiscal Years Ended September 30,	2017	2016	2015	2014	2013
SELECTED FINANCIAL DATA					
Operating revenues	$2,268,617	$1,880,905	$2,733,987	$3,738,145	$3,198,068
Gas purchases	$1,703,767	$1,352,686	$2,085,645	$3,139,525	$2,712,223
Net income	$132,065	$131,672	$180,960	$141,970	$114,809
Total assets	$3,928,507	$3,718,570	$3,284,357	$3,125,388	$3,001,414
Common stock equity	$1,236,643	$1,166,591	$1,106,956	$966,166	$887,384
Long-term debt (1) (2)	$997,080	$1,055,038	$843,595	$598,209	$512,886
COMMON STOCK DATA					
Earnings per share-basic	$1.53	$1.53	$2.12	$1.69	$1.38
Earnings per share-diluted	$1.52	$1.52	$2.10	$1.67	$1.37
Dividends declared per share	$1.038	$0.975	$0.915	$0.855	$0.810
NON-GAAP RECONCILIATION					
Net income	$132,065	$131,672	$180,960	$141,970	$114,809
Add:					
Unrealized (gain) loss on derivative instruments and related transactions	(11,241)	46,883	(38,681)	28,534	(9,418)
Tax effect	4,062	(17,018)	14,391	(10,492)	3,462
Effects of economic hedging related to natural gas inventory	38,470	(36,816)	(8,225)	26,639	7,635
Tax effect	(13,964)	13,364	3,058	(9,794)	(2,807)
Net financial earnings (3)	$149,392	$138,085	$151,503	$176,857	$113,681
Basic earnings per share	$1.53	$1.53	$2.12	$1.69	$1.38
Add:					
Unrealized (gain) loss on derivative instruments and related transactions	(0.13)	0.55	(0.45)	0.34	(0.11)
Tax effect	0.05	(0.20)	0.17	(0.13)	0.04
Effects of economic hedging related to natural gas inventory	0.45	(0.43)	(0.10)	0.32	0.09
Tax effect	(0.17)	0.16	0.04	(0.12)	(0.04)
Net financial earnings per share-basic (3)	$1.73	$1.61	$1.78	$2.10	$1.36
Diluted earnings per share	$1.52	$1.52	$2.10	$1.67	$1.37
Add:					
Unrealized (gain) loss on derivative instruments and related transactions	(0.13)	0.54	(0.45)	0.34	(0.11)
Tax effect	0.05	(0.20)	0.17	(0.12)	0.04
Effects of economic hedging related to natural gas inventory	0.44	(0.42)	(0.10)	0.31	0.09
Tax effect	(0.17)	0.15	0.04	(0.12)	(0.03)

Net financial earnings per share-diluted [3]	$1.71	$1.59	$1.76	$2.08	$1.36

(1) Includes long-term capital leases of $28.9 million, $30.7 million, $35.7 million, $40.4 million and $43 million, respectively.

(2) Includes long-term solar asset financing obligation of $28.2 million in fiscal 2017.

(3) NFE is a non-GAAP financial measure that eliminates the timing differences surrounding the recognition of certain derivative gains or losses, to effectively match the earnings effects of economic hedges associated with the physical sale or purchase of gas and, therefore, eliminate the impact of volatility to GAAP earnings associated with the related derivative instruments. For further discussion of this financial measure, see the Energy Services segment in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 6. SELECTED FINANCIAL DATA
(Continued)

NJNG OPERATING STATISTICS

Fiscal Years Ended September 30,	2017	2016	2015	2014	2013
Operating revenues ($ in thousands)					
Residential	$395,315	$345,597	$466,464	$469,831	$467,269
Commercial, industrial and other	98,777	80,994	106,505	110,740	99,736
Firm transportation	73,206	69,696	77,974	86,131	73,745
Total residential and commercial	567,298	496,287	650,943	666,702	640,750
Interruptible	7,970	8,867	10,049	9,384	9,066
Total system	575,268	505,154	660,992	676,086	649,816
BGSS incentive programs	120,369	89,192	120,978	143,329	138,171
Total operating revenues	$695,637	$594,346	$781,970	$819,415	$787,987
Throughput (Bcf)					
Residential	40.7	36.9	45.9	43.1	38.3
Commercial, industrial and other	8.7	7.3	9.6	8.2	7.5
Firm transportation	14.4	14.1	16.0	17.7	15.2
Total residential and commercial	63.8	58.3	71.5	69.0	61.0
Interruptible	55.0	61.5	47.1	10.5	10.9
Total system	118.8	119.8	118.6	79.5	71.9
BGSS incentive programs	178.4	216.7	222.4	180.8	141.5
Total throughput	297.2	336.5	341.0	260.3	213.4
Customers at year-end					
Residential	460,013	448,273	437,979	422,742	408,399
Commercial, industrial and other	26,947	26,218	25,541	24,684	24,302
Firm transportation	42,790	46,608	48,673	56,777	64,651
Total residential and commercial	529,750	521,099	512,193	504,203	497,352
Interruptible	33	34	35	37	41
BGSS incentive programs	27	30	24	34	38
Total customers at year-end	529,810	521,163	512,252	504,274	497,431
Interest coverage ratio (1)	7.96	8.97	9.57	10.24	10.82
Average therm use per customer					
Residential	885	824	1,049	1,020	937
Commercial, industrial and other	11,183	11,378	9,799	4,466	3,773
Degree days	4,129	3,867	5,015	5,080	4,664
Weather as a percent of normal (2)	90.0 %	82.5 %	108.3 %	109.6 %	99.9 %
Number of employees	680	670	649	626	611

(1) NJNG's income from operations divided by interest expense.

(2) Normal heating degree days are based on a 20-year average, calculated based upon three reference areas representative of NJNG's service territory.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking and Cautionary Statements

From time to time, we may make statements that constitute "forward-looking statements" within the meaning of the "safe-harbor" provisions of Section 27A of the Securities and Exchange Act of 1933, as amended, Section 21E of the Securities and Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These statements are based on our then-current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those addressed in the forward-looking statements. Information concerning forward-looking statements is set forth on page 3 of this annual report and is incorporated herein. A detailed discussion of risk and uncertainties that could cause actual results to differ materially from such forward-looking statements is included in Item 1A. Risk Factors and are incorporated herein. We undertake no obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

Critical Accounting Policies

We prepare our financial statements in accordance with GAAP. Application of these accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingencies during the reporting period. We regularly evaluate our estimates, including those related to the calculation of the fair value of derivative instruments, regulatory assets, income taxes, pension and postemployment benefits other than pensions, asset retirement obligations and contingencies related to environmental matters and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. In the normal course of business, estimated amounts are subsequently adjusted to actual results that may differ from estimates.

Regulatory Accounting

NJNG maintains its accounts in accordance with the FERC Uniform System of Accounts as prescribed by the BPU and recognizes the impact of regulatory decisions on its financial statements. As a result of the ratemaking process, NJNG is required to apply the accounting principles in ASC 980, Regulated Operations, which differ in certain respects from those applied by unregulated businesses. Specifically, NJNG records assets when it is probable that certain operating costs will be recoverable from customers in future periods and records liabilities associated with probable future obligations to customers.

NJNG's BGSS requires it to project its annual natural gas costs and provides the ability, subject to BPU approval, to recover or refund the difference, if any, of such actual costs compared with the projected costs included in prices through a BGSS charge to customers. Any underrecovery or overrecovery is recorded as a regulatory asset or liability on the Consolidated Balance Sheets and reflected in the BGSS charge to customers in subsequent years.

As recovery of regulatory assets is subject to BPU approval, if there are any changes in future regulatory positions that indicate recovery of all or a portion of a regulatory asset is not probable, the related cost would be charged to income in the period of such determination. In September 2016, the BPU approved an increase in base tariff rates in the amount of $45 million, effective October 2016. There were no changes to the amounts NJNG has recognized in regulatory assets as a result of the settlement of its base rate petition.

Derivative Instruments

We record our derivative instruments held as assets and liabilities at fair value on the Consolidated Balance Sheets. In addition, since we choose not to designate any of our physical and financial natural gas commodity derivatives as accounting hedges, changes in the fair value of Energy Services' commodity derivatives are recognized in earnings, as they occur, as a component of operating revenues or gas purchases on the Consolidated Statements of Operations. Changes in the fair value of foreign exchange contracts are recognized in gas purchases on the Consolidated Statements of Operations.

The fair value of derivative instruments is determined by reference to quoted market prices of listed exchange-traded contracts, published price quotations, pipeline tariff information and/or a combination of those items. Energy Services' portfolio is valued using the most current and reasonable market information. If the price underlying a physical commodity transaction does not represent a visible and liquid market, Energy Services may utilize additional published pipeline tariff information and/or other services to determine an equivalent market price. As of September 30, 2017, fair value of its derivative assets and liabilities reported on the Consolidated Balance Sheets that is based on such pricing is immaterial.

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Should there be a significant change in the underlying market prices or pricing assumptions, Energy Services may experience a significant impact on its financial position, results of operations and cash flows. Refer to Item 7A. Quantitative and Qualitative Disclosures About Market Risks for a sensitivity analysis related to the impact to derivative fair values resulting from changes in commodity prices. The valuation methods we use to determine fair values remained consistent for fiscal 2017, 2016 and 2015. We apply a discount to our derivative assets to factor in an adjustment associated with the credit risk of its physical natural gas counterparties and to our derivative liabilities to factor in an adjustment associated with its own credit risk. We determine this amount by using historical default probabilities corresponding to the appropriate S&P issuer ratings. Since the majority of our counterparties are rated investment grade, this results in an immaterial credit risk adjustment.

Gains and losses associated with derivatives utilized by NJNG to manage the price risk inherent in its natural gas purchasing activities are recoverable through its BGSS, subject to BPU approval. Accordingly, the offset to the change in fair value of these derivatives is recorded as either a regulatory asset or liability on the Consolidated Balance Sheets.

Clean Energy Ventures hedges certain of its expected production of SRECs through forward and futures contracts. Clean Energy Ventures intends to physically deliver all SRECs it sells and recognizes SREC revenue as operating revenue on the Consolidated Statements of Operations upon delivery of the underlying SREC.

We have not designated any derivatives as fair value or cash flow hedges as of September 30, 2017 and 2016.

Business Combinations

We account for business combinations by applying the acquisition method of accounting. Identifiable assets acquired and liabilities assumed are measured separately at their fair value as of the acquisition date and associated transactions costs are expensed as incurred.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed are based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as other assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates based on the risk inherent in the acquired assets and related cash flows. Terminal values are based on the expected life of assets acquired, forecasted life cycles and expected cash flows over that period. Our valuation of an acquired business is based on available information at the acquisition date and assumptions that we believe are reasonable, however a change in facts and circumstances as of the acquisition date can result in subsequent adjustments during the measurement period, but no later than one year from the acquisition date. See Note 3. Acquisition for information related to our acquisition of a gas marketing business on July 27, 2017.

Income Taxes and Credits

The determination of our provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. We use the asset and liability method to determine and record deferred tax assets, representing future tax benefits, and deferred tax liabilities, representing future taxes payable, resulting from the differences between the financial reporting amount and the corresponding tax basis of the assets and liabilities using the enacted rates expected to be in effect at the time the differences are settled. An offsetting valuation allowance is recorded when it is more likely than not that some or all of the deferred income tax assets won’t be realized. We had net deferred tax liabilities of $506.3 million and $464.6 million, and a valuation allowance of approximately $1 million and $262,000 related to certain deferred state tax assets, as of September 30, 2017 and 2016, respectively. Any significant changes to the estimates and judgments with respect to the interpretations, timing or deductibility could result in a material change to earnings and cash flows. For a more detailed description of Income Taxes see Note 13. Income Taxes in the accompanying Consolidated Financial Statements.

For state income tax and other taxes, estimates and judgments are required with respect to the apportionment among the various jurisdictions. In addition, we operate within multiple tax jurisdictions and are subject to audits in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. We maintain a liability for the estimate of potential income tax exposure and, in our opinion, adequate provisions for income taxes have been made for all years reported. Any significant changes to the estimates and judgments with respect to the apportionment factor could result in a material change to earnings and cash flows.

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Accounting guidance requires that we establish reserves for uncertain tax positions when it is more likely than not that the positions will not be sustained when challenged by taxing authorities. We have no reason to believe that we have any future obligations associated with unrecognized tax benefits, therefore, as of September 30, 2017 and 2016, we have not recorded any liabilities related to uncertain tax positions. Any significant changes to the estimates and judgments with respect to the interpretations, timing or deductibility could result in a material change to earnings and cash flows.

To the extent that NJNG invests in property that qualifies for ITCs, the ITC is deferred and amortized to income over the life of the equipment in accordance with regulatory treatment. For our unregulated subsidiaries, we recognize ITCs as a reduction to income tax expense when the property is placed in service.

To the extent that the Company invests in property that qualifies for PTCs, the PTC is recognized as a reduction to current federal income tax expense as the PTCs are generated through the production activities of the assets.

Changes to the federal statutes related to ITCs and PTCs, which have the effect of reducing or eliminating the credits, could have a negative impact on earnings and cash flows.

Environmental Costs

At the end of each fiscal year, NJNG, with the assistance of an independent consulting firm, updates the environmental review of its MGP sites, including its potential liability for investigation and remedial action. From this review, NJNG estimates expenditures necessary to remediate and monitor these MGP sites. As of September 30, 2017, NJNG estimated these expenditures will range from approximately $117.6 million to $205.2 million. NJNG's estimate of these liabilities is developed from then currently available facts, existing technology and current laws and regulations.

In accordance with accounting standards for contingencies, NJNG's policy is to record a liability when it is probable that the cost will be incurred and can be reasonably estimated. NJNG will determine a range of liabilities and will record the most likely amount. If no point within the range is more likely than any other, NJNG will accrue the lower end of the range. Since we believe that recovery of these expenditures, as well as related litigation costs, is possible through the regulatory process, we have recorded a regulatory asset corresponding to the related accrued liability. Accordingly, NJNG recorded an MGP remediation liability and a corresponding regulatory asset of $149 million on the Consolidated Balance Sheets, which is based on the most likely amount. This was reduced from $172 million in fiscal 2016, due to the completion of remediation work at certain sites and a reduction to the remediation scope of work at another site.

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, as well as the potential impact of any litigation and any insurance recoveries. As of September 30, 2017 and 2016, $28.5 million and $19.6 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds received, are included in regulatory assets on the Consolidated Balance Sheets, respectively.

If there are changes in the regulatory position surrounding these costs, or should actual expenditures vary significantly from estimates in that these costs are disallowed for recovery by the BPU, such costs would be charged to income in the period of such determination.

Postemployment Employee Benefits

Our costs of providing postemployment employee benefits are dependent upon numerous factors, including actual plan experience and assumptions of future experience. Postemployment employee benefit costs are impacted by actual employee demographics including age, compensation levels and employment periods, the level of contributions made to the plans, changes in long-term interest rates and the return on plan assets. Changes made to the provisions of the plans or healthcare legislation may also impact current and future postemployment employee benefit costs. Postemployment employee benefit costs may also be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets, changes in mortality tables, health care cost trends and discount rates used in determining the PBO. In determining the PBO and cost amounts, assumptions can change from period to period and could result in material changes to net postemployment employee benefit periodic costs and the related liability recognized by us.

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Our postemployment employee benefit plan assets consist primarily of U.S. equity securities, international equity securities and fixed-income investments, with a targeted allocation of 40 percent, 20 percent and 40 percent, respectively. Fluctuations in actual market returns, as well as changes in interest rates, may result in increased or decreased postemployment employee benefit costs in future periods. Postemployment employee benefit expenses are included in O&M expense on the Consolidated Statements of Operations.

The following is a summary of a sensitivity analysis for each actuarial assumption:

Pension Plans

Actuarial Assumptions	Increase/ (Decrease)	Estimated Increase/(Decrease) on PBO (Thousands)	Estimated Increase/(Decrease) to Expense (Thousands)
Discount rate	1.00 %	$ (38,398)	$ (3,875)
Discount rate	(1.00) %	$ 48,110	$ 4,720
Rate of return on plan assets	1.00 %	n/a	$ (2,493)
Rate of return on plan assets	(1.00) %	n/a	$ 2,493

Other Postemployment Benefits

Actuarial Assumptions	Increase/ (Decrease)	Estimated Increase/(Decrease) on PBO (Thousands)	Estimated Increase/(Decrease) to Expense (Thousands)
Discount rate	1.00 %	$ (25,977)	$ (2,447)
Discount rate	(1.00) %	$ 33,412	$ 3,072
Rate of return on plan assets	1.00 %	n/a	$ (615)
Rate of return on plan assets	(1.00) %	n/a	$ 615

Actuarial Assumptions	Increase/ (Decrease)	Estimated Increase/(Decrease) on PBO (Thousands)	Estimated Increase/(Decrease) to Expense (Thousands)
Health care cost trend rate	1.00 %	$ 32,019	$ 4,353
Health care cost trend rate	(1.00) %	$ (25,466)	$ (3,624)

On October 1, 2016, we changed our approach used to measure the service and interest cost components of its net periodic benefit costs. Previously, the Company estimated service cost and interest cost based on a single weighted-average discount rate from the yield curve used to measure its projected benefit obligation. Effective October 1, 2016, we determine our service and interest cost based upon duration specific spot rates that are aligned to each year's future benefit payments. Under the new approach, net periodic benefit costs will be lower during periods of low interest rates and upward-sloping yield curves. Conversely, in a downward sloping-yield curve environment, costs could increase. Refer to Note 11. Employee Benefit Plans in the accompanying Consolidated Financial Statements for further discussion of our change in method.

Asset Retirement Obligations

We recognize AROs related to the costs associated with cutting and capping NJNG's main and service gas distribution mains, which is required by New Jersey law when taking such gas distribution mains out of service. We also recognize AROs associated with Clean Energy Ventures' solar and wind assets when there are decommissioning provisions in lease agreements that require removal of the asset at the end of the lease term.

AROs are initially recognized when the legal obligation to retire an asset has been incurred and a reasonable estimate of fair value can be made. The discounted fair value is recognized as an ARO liability with a corresponding amount capitalized as part of the carrying cost of the underlying asset. The obligation is subsequently accreted to the future value of the expected retirement cost and the corresponding asset retirement cost is depreciated over the life of the related asset. Accretion expense associated with Clean Energy Ventures' ARO is recognized as a component of operations and maintenance expense on our Consolidated Statements of Operations. Prior to October 1, 2016, accretion amounts associated with NJNG's ARO were not reflected as an expense, but rather were deferred as a regulatory asset and netted against NJNG's regulatory liabilities for presentation purposes. Through NJNG's new base rates settlement, effective October 1, 2016, accretion is recognized as part of its depreciation expense and the corresponding regulatory asset and liability will be shown gross on the Consolidated Balance Sheets.

Estimating future removal costs requires management to make significant judgments because most of the removal obligations span long time frames and removal may be conditioned upon future events. Asset removal technologies are also constantly changing, which makes it difficult to estimate removal costs. Accordingly, inherent in the estimate of our AROs are various assumptions including the ultimate settlement date, expected cash outflows, inflation rates, credit-adjusted risk-free rates and consideration of potential outcomes where settlement of the ARO can be conditioned upon events. In the latter case, we develop possible retirement scenarios and assign probabilities based on management's reasonable judgment and knowledge of industry practice. Accordingly, AROs are subject to change.

Recently Issued Accounting Standards

Refer to Note 2. Summary of Significant Accounting Policies in the accompanying Consolidated Financial Statements 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.

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.

A summary of our consolidated results in net income and assets by reporting segment and operations for the fiscal years ended September 30, is as follows:

($ in thousands)	2017		2016		2015	
	Net Income	Assets	Net Income	Assets	Net Income	Assets
Natural Gas Distribution	$86,930	$2,519,578	$76,104	$2,517,401	$76,287	$2,305,293
Clean Energy Ventures	24,873	771,340	28,393	665,696	20,101	504,885
Energy Services	476	398,277	14,265	327,626	72,044	260,021
Midstream	12,857	232,806	9,406	186,259	9,780	182,007
Home Services and Other	6,811	114,801	2,882	109,487	3,420	88,880
Intercompany [1]	118	(108,295)	622	(87,899)	(672)	(56,729)
Total	$132,065	$3,928,507	$131,672	$3,718,570	$180,960	$3,284,357

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

Net Income

The primary drivers of the changes noted above, which are described in more detail in the individual segment discussions, are discussed below.

The increase in net income of $393,000 during fiscal 2017, compared with fiscal 2016, was primarily driven by increased gross margin at our Natural Gas Distribution segment due primarily to increased base rates which were effective October 1, 2016, increased other income at Home Services and Other due to the sale of available for sale securities and increased equity in earnings of affiliates at Midstream. These increases were partially offset by decreased operating income at Energy Services due primarily to a decrease of $16.4 million related to changes in the value of financial hedges and a decrease at Clean Energy Ventures due primarily to increased depreciation, operating and interest expenses, partially offset by increased revenues and increased PTCs.

The decrease in net income of $49.3 million during fiscal 2016, compared with fiscal 2015, was primarily driven by a decrease at Energy Services related to lower operating income due primarily to a decrease of $59.7 million related to changes in the value of financial hedges. The decrease was partially offset by an increase of $8.3 million at Clean Energy Ventures due primarily to operating revenue related to higher SREC and electricity sales, partially offset by increased costs related to depreciation, O&M and interest expense.

Assets

The increase in assets during fiscal 2017, compared with fiscal 2016, was due primarily to additional solar expenditures at Clean Energy Ventures, the acquisition of Talen's wholesale and retail energy contract assets at Energy Services, increased PennEast capital contributions and an increase in the market value of our DM Common

Units at Midstream, along with additional utility plant expenditures at our Natural Gas Distribution segment. The increase in assets during fiscal 2016, compared with fiscal 2015, was due primarily to additional utility plant expenditures at Natural Gas Distribution and additional solar expenditures at Clean Energy Ventures, as well as increased broker margin and gas in storage at Energy Services.

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. 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.

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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. The following is a reconciliation of consolidated net income, the most directly comparable GAAP measure, to NFE:

(Thousands)	2017	2016	2015
Net income	$132,065	$131,672	$180,960
Add:			
Unrealized (gain) loss on derivative instruments and related transactions	(11,241)	46,883	(38,681)
Tax effect	4,062	(17,018)	14,391
Effects of economic hedging related to natural gas inventory (1)	38,470	(36,816)	(8,225)
Tax effect	(13,964)	13,364	3,058
Net financial earnings	$149,392	$138,085	$151,503
Basic earnings per share	$1.53	$1.53	$2.12
Add:			
Unrealized (gain) loss on derivative instruments and related transactions	(0.13)	0.55	(0.45)
Tax effect	0.05	(0.20)	0.17
Effects of economic hedging related to natural gas inventory (1)	0.45	(0.43)	(0.10)
Tax effect	(0.17)	0.16	0.04
Basic net financial earnings per share	$1.73	$1.61	$1.78

(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 for the fiscal years ended September 30, discussed in more detail within the operating results sections of each segment, is summarized as follows:

(Thousands)	2017		2016		2015	
Natural Gas Distribution	$86,930	58 %	$76,104	55 %	$76,287	51 %
Clean Energy Ventures	24,873	17	28,393	20	20,101	13
Energy Services	18,554	12	21,934	16	42,122	28
Midstream	12,857	9	9,406	7	9,780	6
Home Services and Other	6,811	4	2,882	2	3,420	2
Eliminations (1)	(633)	—	(634)	—	(207)	—
Total	$149,392	100%	$138,085	100%	$151,503	100%

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

The increase in NFE during fiscal 2017, compared with fiscal 2016, was due primarily to increases at our Natural Gas Distribution segment, Midstream and Home Services and Other, as previously discussed, partially offset by lower financial margin at Energy Services due primarily to lower sales volumes and fewer market opportunities and the decrease at Clean Energy Ventures, as previously discussed.

The decrease in NFE during fiscal 2016, compared with fiscal 2015, was driven primarily by decreased financial margin at Energy Services due primarily to lower volatility and narrower price spreads resulting from the record warm winter weather primarily across the eastern United States, partially offset by lower taxes and O&M, partially offset by higher NFE at Clean Energy Ventures due primarily to increase in SREC and energy sales.

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 529,800 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.

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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 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 through several key initiatives, including:

- earning a reasonable rate of return on the investments in its natural gas distribution and transmission businesses, as well as timely recovery of all prudently incurred costs to provide safe and reliable service throughout NJNG's territory;
- continuing to invest in the safety and integrity of its infrastructure;
- managing its customer growth rate, which NJNG expects will be approximately 1.7 percent annually through fiscal 2019;
- maintaining a collaborative relationship with the BPU on regulatory initiatives, including:
  - planning and authorization of infrastructure investments;
  - pursuing rate and regulatory strategies to stabilize and decouple margin, including CIP;
  - utilizing BGSS incentive programs through BPU-approved mechanisms to reduce gas costs and generate margin; and
  - administering and promoting NJNG's BPU-approved SAVEGREEN Project;
- managing the volatility of wholesale natural gas prices through a hedging program designed to keep customers' BGSS rates as stable as possible; and
- working with the NJDEP and BPU to manage its financial obligations related to remediation activities associated with its former MGP sites.

Base Rate Case

In September 2016, the BPU approved NJNG's base rate case, effective October 2016, which included the following:

- an increase in base rates in the amount of $45 million. The base rate increase includes a return on common equity of 9.75 percent, a common equity ratio of 52.5 percent and an increase in the overall depreciation rate from 2.34 percent to 2.4 percent;
- the recovery of SAFE I capital investments and the rate mechanism and five-year extension of SAFE II. The estimated cost for SAFE II extension, excluding AFUDC, is approximately $200 million and related costs to be recovered on an accelerated basis are approximately $157.5 million. As a condition of the extension approval, NJNG is required to file a base rate case no later than November 2019;
- rate recovery of NJ RISE capital investment costs through June 30, 2016, and the filing for recovery of future NJ RISE capital investment costs to be recovered, will occur in conjunction with SAFE II, commencing with the rate recovery filing submitted in March 2017;
- recovery of NJNG’s NGV and LNG plant investments; and
- recovery of other costs previously deferred in regulatory assets over seven years.

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 PIM and infrastructure programs.

Below is a summary of NJNG's capital expenditures, including accruals and estimates for expected investments over the next two fiscal years:
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.

SAFE 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 recovery of SAFE I capital investments through September 30, 2016, and approved the rate mechanism and extension of SAFE II for an additional five years to replace the remaining unprotected steel mains and services from its 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 new base rates. The remaining $42.5 million in capital expenditures will be requested for recovery in a future base rate case.

The BPU approved the recovery of 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 that live in the most storm prone areas of NJNG's service territory. Recovery of NJ RISE investments through June 30, 2016, is included in NJNG's base rates.

On March 30, 2017, NJNG filed its annual petition with the BPU requesting a base rate increase for the recovery of NJ RISE and SAFE II capital investment costs, with a weighted cost of capital of 6.9 percent including a return on equity of 9.75 percent, related to the period ending June 30, 2017, based on estimates, pursuant to the September 2016 base rate case. On July 20,

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2017, NJNG filed an update to this petition with actuals, requesting a $4.1 million annual increase in recoveries, which was approved by the BPU, effective October 1, 2017.

NGV Advantage

In June 2012, the BPU approved a pilot program for NJNG to invest up to $10 million to build NGV refueling stations. The NGV program was authorized by the BPU to earn an overall weighted average cost of capital of 7.1 percent, including a return on equity of 10.3 percent. A portion of the proceeds from the utilization of the compressed natural gas equipment, along with any available federal and state incentives, will be credited back to customers to offset a portion of the cost of the NGV investment. All three of the NGV stations are open to the public and NJNG is recovering its costs through base rates effective October 2016.

Liquefaction/LNG

In June 2016, NJNG's Liquefaction facility became operational and allows NJNG to convert natural gas into LNG to fill its existing LNG storage tanks. Costs for this project along with other plant upgrades were approximately $36.5 million and are being recovered through NJNG's new base rates effective October 2016.

Southern Reliability Link

The SRL is an approximate 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 $180 million and $200 million. In January 2016, the BPU issued an order approving NJNG's modified, proposed SRL pipeline installation, operation and route selection. In March 2016, the BPU issued an order designating the SRL route and exempting the SRL from municipal land use ordinances, regulations, permits and license requirements. In February 2017, the New Jersey Department of Environmental Protection issued a permit authorizing construction of the SRL within the jurisdiction of the Coastal Area Facility Review Act, as well as a Freshwater Wetlands permit. On September 14, 2017, the NJ Pinelands Commission approved construction of the SRL as being compliant with the Commission's Comprehensive Management Plan. All approvals and permits have been appealed by third parties. Once the final road opening permits and easements are secured, construction is expected to begin, with an estimated in-service date during the first quarter of fiscal 2019.

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 as of September 30, include the following:

	2017	2016	2015
Firm customers			

Residential	460,013	448,273	437,979
Commercial, industrial & other	26,947	26,218	25,541
Residential transport	32,653	36,292	38,424
Commercial transport	10,137	10,316	10,249
Total firm customers	529,750	521,099	512,193
Other	60	64	59
Total customers	529,810	521,163	512,252

During fiscal 2017, NJNG added 9,126 new customers, which represents a new customer growth rate of approximately 1.7 percent. During that same time period, NJNG converted 662 existing customers to natural gas heat and other services. This customer growth, as well as commercial customers who switched from interruptible to firm natural gas service, will contribute approximately $5.5 million, on an annualized basis, to utility gross margin. NJNG also added 8,170 and 7,858 new customers and converted 644 and 636 existing customers to natural gas heat and other services during the fiscal years ended September 30, 2016 and 2015, respectively.

In addition, NJNG currently expects to add approximately 26,000 to 28,000 new customers during the three-year period of fiscal 2018 to 2020. NJNG's estimates are based on information from municipalities and developers, as well as external industry analysts and management's experience. NJNG estimates that approximately 60 percent of the growth will come from new construction markets and 40 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 that follows for a definition and further discussion of utility gross margin.

SAVEGREEN

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.

Since inception, $149.7 million in grants, rebates and loans has been provided to customers, with a total annual recovery of approximately $20 million. In June 2016, the BPU approved NJNG's extension of SAVEGREEN through December 31, 2018. In October 2016, the BPU approved NJNG's filing to maintain the existing SAVEGREEN recovery rate. On October 20, 2017, the BPU approved NJNG's filing to decrease its EE recovery rate, which would result in an annual decrease of $3.9 million, effective November 1, 2017. 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

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 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. Refer to Note 4. Regulation - BGSS and CIP in the accompanying Consolidated Financial Statements, for a discussion of CIP rate actions.

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

(Thousands)	2017	2016	2015
Weather [(1)]	$19,261	$27,547	$(9,268)
Usage	(2,309)	10,420	3,132
Total	$16,952	$37,967	$(6,136)

(1) Compared with the CIP 20-year average, weather was 10 percent and 17.5 percent warmer-than-normal during fiscal 2017 and 2016, respectively, and 8.3 percent colder-than-normal during 2015.

As of September 30, 2017 and 2016, NJNG has $17.7 million and $37 million, respectively, in regulatory assets related to CIP to be collected from customers in future periods on the Consolidated Balance Sheets.

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.

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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 Tetco M-3.
(1) Data source from Platts, a division of McGraw Hill Financial.

The maximum daily price was $8.71, $4.74 and $21.09 and the minimum daily price was $0.36, $0.67 and $0.77 for the fiscal years ended September 30, 2017, 2016 and 2015, 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 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

BGSS

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.

On September 22, 2017, the BPU provisionally approved NJNG's petition to maintain its BGSS rate for residential and small commercial customers, and increase its balancing charge rate, which will result in a $3.7 million increase to the annual revenues credited to BGSS, effective October 2017. During fiscal 2017 and 2016, NJNG issued bill credits of $42 million and $61.6 million, respectively, as a result of a decline in the wholesale price of natural gas. Refer to Note 4. Regulation - BGSS and CIP in the accompanying Consolidated Financial Statements, for a further discussion of NJNG's periodic BGSS rate adjustments and bill credits.

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. Should performance of the existing incentives or market conditions warrant, NJNG is permitted to propose a process to re-evaluate and discuss alternative incentive programs annually. Utility gross margin from incentive programs was $13.7 million, $15 million and $17.7 million during the fiscal years ended September 30, 2017, 2016 and 2015, respectively. A more detailed discussion of the impacts to utility gross margin can be found in the Natural Gas Distribution Segment Operating Results section that follows.

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 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.

Due to the capital-intensive nature of NJNG's operations and the seasonal nature of its working capital requirements, significant changes in interest rates can impact NJNG's results. 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 treasury rate of 3.26 percent associated with the forecasted-year, $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 on May 15, 2018. The fair value of NJNG's treasury lock agreement is recorded as a component of regulatory assets or liabilities on the Consolidated Balance Sheets since the Company believes that the market value upon settlement will be reflected in future rates. Upon settlement, any gain or loss will be amortized in earnings over the life of the future debt issuance.

A more detailed discussion of NJNG's debt can be found in the Liquidity and Capital Resources and Cash Flow sections of Item 7. 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 2016, the BPU approved NJNG's annual USF compliance filing proposing to increase the statewide USF rate, resulting in a $1.3 million annual increase in USF recoveries, effective October 2016. Refer to Note 4. Regulation - Societal Benefits Clause in the accompanying Consolidated Financial Statements, for a further discussion of NJNG's USF rates.

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 $149 million as of September 30, 2017, a decrease of $23 million, compared with the prior fiscal period. The reduction was due to the completion of remediation work at certain sites and a reduction to the remediation scope of work at another site.

Other

In May 2016, NJNG included a proposal in its base rate case to recover certain capital costs and incremental operation and maintenance costs related to a March 2016 BPU Order regarding new cybersecurity requirements. This proposal was updated in July 2016, and the associated costs were approved for recovery through NJNG's new base rates, effective October 2016.

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Interest Rate Risk

Due to the capital-intensive nature of NJNG’s operations and the seasonal nature of its working capital requirements, significant changes in interest rates can impact NJNG’s results. A more detailed discussion can be found in the Liquidity and Capital Resources and Cash Flow sections of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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

Commodity Service to Customers

The EDECA, which was enacted in 1999, provides the framework for New Jersey’s retail energy markets, which are open to competition from other electric and natural gas suppliers. NJNG’s residential and commercial markets are currently open to competition, and its rates are segregated between BGSS (i.e., natural gas commodity) and delivery (i.e., transportation) components. NJNG does not earn utility gross margin on the commodity portion of its natural gas sales. NJNG earns utility gross margin through the delivery of natural gas to its customers and, therefore, is not negatively affected by customers who use its transportation service and purchase natural gas from another supplier. Under an existing order from the BPU, BGSS can be provided by suppliers other than the state’s natural gas utilities, however, customers who purchase natural gas from another supplier continue to use NJNG for transportation service.

Operating Results

NJNG’s operating results for the fiscal years ended September 30, are as follows:

(Thousands)	2017	2016	2015
Operating revenues	$695,637	$594,346	$781,970
Operating expenses			
Gas purchases (1) (2)	269,480	215,849	355,779
Operation and maintenance	142,509	130,575	129,774
Regulatory rider expense (3)	40,243	39,300	75,779
Depreciation and amortization	49,347	47,828	43,085
Energy and other taxes (4)	42,417	34,561	47,506
Total operating expenses	543,996	468,113	651,923
Operating income	151,641	126,233	130,047
Other income, net	4,592	4,752	4,318
Interest expense, net of capitalized interest	25,818	19,930	18,534
Income tax provision	43,485	34,951	39,544
Net income	$86,930	$76,104	$76,287

(1) Includes the purchased cost of the natural gas, fees paid to pipelines and storage facilities, adjustments as a result of BGSS incentive programs and hedging transactions. These expenses are passed through to customers and are offset by corresponding revenues.

(2) Includes related party transactions of approximately $10.8 million, $10.8 million and $50.8 million during fiscal 2017, 2016 and 2015, respectively, a portion of which are eliminated in consolidation.

(3) Consists of expenses associated with state-mandated programs, the RAC and energy efficiency programs, and are calculated on a per-therm basis. These expenses are passed through to customers and offset by corresponding revenues.

(4) Consists primarily of sales tax, which is passed through to customers and offset by corresponding revenues.

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Operating Revenues and Gas Purchases

Operating revenues increased 17 percent during fiscal 2017 and decreased 24 percent during fiscal 2016. Gas purchases increased 24.8 percent during fiscal 2017 and decreased 39.3 percent during fiscal 2016. The factors contributing to the increases (decreases) in operating revenues and gas purchases during fiscal 2017 and 2016, are as follows:

	2017 v. 2016		2016 v. 2015	
(Millions)	Operating revenue	Gas purchases	Operating revenue	Gas purchases
Firm sales	$44.4	$ 21.6	$(116.1)	$(50.4)
Rate impact [1]	37.4	—	—	—
Bill credits [2]	19.6	18.3	(61.6)	(57.6)
Off-system sales	29.2	29.1	(32.1)	(31.8)
Average BGSS rates [3]	(17.9)	(16.5)	(2.7)	(2.5)
CIP adjustments	(21.0)	—	44.1	—
Other [4]	9.6	1.1	(19.2)	2.4
Total increase (decrease)	$101.3	$ 53.6	$(187.6)	$(139.9)

(1) Includes rate adjustments for the base rate case, CIP and demand charges.
(2) Operating revenues include changes in sales tax of $1.3 million and $4 million during during fiscal 2017 and 2016, respectively.
(3) Operating revenues include changes in sales tax of $1.4 million and $200,000 during fiscal 2017 and 2016, respectively.
(4) Other includes changes in rider rates, including those related to NJCEP and other programs.

Fiscal 2017 compared with fiscal 2016

The changes in operating revenues and gas purchases during fiscal 2017 were due primarily to:

- increased firm sales due primarily to customer growth and higher usage, related to weather being 6.8 percent colder;
- increased base rates resulting from the settlement of the base rate case;
- higher off-system sales due primarily to a 49.8 percent increase in the average price of gas sold, partially offset by a 12.2 percent reduction in volumes;
- a decrease in bill credits issued to residential and small commercial customers during the months of November 2016 through February 2017 compared with the same period last year; partially offset by
- a decrease in CIP due primarily to weather, partially offset by changes in the CIP as a result of the settlement of the base rate case.

Fiscal 2016 compared with fiscal 2015

The decreases in operating revenues and gas purchases during fiscal 2016 were due primarily to:

- decreased firm sales due primarily to lower usage related to weather being 22.9 percent warmer;
- bill credits issued to residential and small commercial customers effective November 1, 2015, which were not issued during fiscal 2015;
- lower off-system sales due primarily to a 38.3 percent decrease in the average price of gas sold, partially offset by a 18.4 percent increase in volumes;
- a decrease in rider revenues, categorized in other, due primarily to a 36.3 percent decrease in rates and a 18.5 percent decrease in usage; partially offset by
- an increase in CIP adjustments of $36.8 million related to weather and $7.3 million related to usage.

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 for the fiscal years ended September 30:

(Thousands)	2017	2016	2015
Operating revenues	$695,637	$594,346	$781,970
Less:			
Gas purchases	269,480	215,849	355,779
Energy taxes	37,917	29,832	42,929
Regulatory rider expense	40,243	39,300	75,779
Utility gross margin	$347,997	$309,365	$307,483

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:

	2017		2016		2015	
($ in thousands)	Margin	Bcf	Margin	Bcf	Margin	Bcf
Utility gross margin/throughput						
Residential	$218,093	40.7	$187,762	36.9	$182,407	45.9
Commercial, industrial and other	51,510	8.7	46,878	7.3	47,162	9.6
Firm transportation	58,172	14.4	54,841	14.1	55,614	16.0
Total utility firm gross margin/throughput	327,775	63.8	289,481	58.3	285,183	71.5
BGSS incentive programs	13,724	178.4	14,978	216.7	17,707	222.4

Interruptible/off-tariff agreements	6,498	55.0	4,906	61.5	4,593	47.1
Total utility gross margin/throughput	$347,997	297.2	$309,365	336.5	$307,483	341.0

Utility Firm Gross Margin

A description of the factors contributing to the increases in utility firm gross margin during fiscal 2017 and 2016, are as follows:

(Thousands)	2017 v. 2016	2016 v. 2015
Rate impact	$35,019	$—
Customer growth	3,619	3,436
SAVEGREEN	(345)	862
Total increase	$38,293	$4,298

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BGSS Incentive Programs

A description of the factors contributing to the (decreases) increases in utility gross margin generated by NJNG's BGSS incentive programs during fiscal 2017 and 2016, are as follows:

(Thousands)	2017 v. 2016	2016 v. 2015
Capacity release	$(1,672)	$(758)
Storage	378	(1,184)
Off-system sales	39	(278)
FRM	—	(509)
Total (decrease) increase	$(1,255)	$(2,729)

Fiscal 2017 compared with fiscal 2016

The increase in utility gross margin was due primarily to the base rate increase and customer growth, along with an increase in interruptible/off-tariff agreements, partially offset by decreased margins related to capacity release due to lower volumes and lower value of capacity.

Fiscal 2016 compared with fiscal 2015

The increase in utility gross margin was due primarily to customer growth, partially offset by decreased BGSS incentives. BGSS incentives were lower due primarily to decreases in the storage incentive program due primarily to higher cost at injection point, as well as decreases in capacity release and off system sales due primarily to the lower capacity value. The decrease in off-system sales was also driven by a decrease in the average price of gas sold, partially offset by an increase in volumes. The FRM program was terminated effective November 2015.

Operation and Maintenance Expense

A summary and description of the factors contributing to the increases (decreases) in O&M expense during fiscal 2017 and 2016, are as follows:

(Thousands)	2017 v. 2016	2016 v. 2015
Compensation and benefits	$5,412	$ 898
Base rate amortization of regulatory assets	3,264	—
Shared corporate costs	3,061	2,378
Other	197	(2,475)
Total increase	$11,934	$ 801

Fiscal 2017 compared with fiscal 2016

The increase in O&M expense during fiscal 2017 was due primarily to:

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increased compensation costs due primarily to increases in headcount, incentives, healthcare premiums, lower capitalized labor and increased pension/OPEB benefit costs related to changes in actuarial assumptions, partially offset by implementation of the spot rate method to measure interest and service cost components;

- additional amortization of regulatory assets that are being recovered as a result of the settlement of the base rate case; and

- increased shared corporate costs resulting primarily from increased software maintenance, incentives, postemployment costs and healthcare premiums.

Fiscal 2016 compared with fiscal 2015

The increase in O&M expense during fiscal 2016 was due primarily to:

- increased shared corporate costs resulting primarily from increased head count and healthcare premiums, as well as increased temporary staffing and consulting services;

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- increased compensation costs at NJNG due primarily to increased head count and healthcare premiums, partially offset by reduced pension expense due to an increase in expected return on assets associated with a $30 million discretionary contribution in November 2015; partially offset by

- lower consulting costs due primarily to reduced software maintenance and tax audit expenses, lower bad debt expense due primarily to a decrease in write-offs of customer receivables and lower maintenance and repairs due primarily to the much warmer winter weather in fiscal 2016.

Depreciation Expense

Depreciation expense increased $1.5 million in fiscal 2017, compared with fiscal 2016, as a result of additional utility plant being placed into service, as well as an increase in the overall depreciation rate from 2.34 percent to 2.4 percent resulting from the settlement of the base rate case. Depreciation expense increased $4.7 million in fiscal 2016, compared with fiscal 2015, as a result of additional utility plant being placed into service.

Operating Income

Operating income increased $25.4 million, or 20.1 percent, in fiscal 2017, compared with fiscal 2016, due primarily to the increase in total utility gross margin of $38.6 million, partially offset by the increase in O&M, as previously discussed. Operating income decreased $3.8 million, or 2.9 percent, in fiscal 2016, compared with fiscal 2015, due primarily to the increase in depreciation, partially offset by the increase in total utility gross margin of $1.9 million, as previously discussed.

Income Tax Provision

Income tax provision increased $8.5 million during fiscal 2017, compared with fiscal 2016, due primarily to an increase in pre-tax income, partially offset by increased costs associated with the removal of distribution main that was placed in service before 1981, for which the tax benefit is passed on to customers in base rates.

Income tax provision decreased $4.6 million during fiscal 2016, compared with fiscal 2015, due primarily to:

- a decrease in pre-tax income;

- the revaluation of the deferred tax liability in fiscal 2015;

- a change in the method of accounting for equity compensation due to the adoption of ASU 2016-09, which resulted in the recognition of excess tax benefits related to vested stock compensation for which the tax deduction exceeded the associated expense. See Note 2. Summary of Significant Accounting Policies - Recently Adopted Updates to the Accounting Standards Codification in the accompanying Consolidated Financial Statements for a more detailed discussion; and

- an increase in costs of retiring assets placed into service prior to 1981.

Net Income

Net income increased $10.8 million to $86.9 million in fiscal 2017, compared with fiscal 2016, due primarily to an increase in operating income as discussed above, partially offset by an increase in the income tax provision as discussed above and interest expense associated with debt issued in June 2016.

Net income decreased $183,000 to $76.1 million in fiscal 2016, compared with fiscal 2015, due primarily to a decrease in operating income as discussed above, an increase in interest expense associated with higher long-term debt outstanding, partially offset by a decrease in the income tax provision as discussed above and an increase in other income related to AFUDC interest earned on infrastructure projects.

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Clean Energy Ventures Segment

Overview

Our Clean Energy Ventures segment actively pursues opportunities in the clean energy markets, including solar and onshore wind. Clean Energy Ventures has entered 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 has entered into various long-term agreements, including PPAs, to supply energy from wind and solar projects.

Solar

Since its inception, Clean Energy Ventures has constructed a total of 189.1 MW of solar capacity and has an additional 11.2 MW under construction.

Solar expenditures for the fiscal years ended September 30, are as follows:

($ in Thousands)	2017			2016			2015		
Placed in service	Projects	MW	Costs	Projects	MW	Costs	Projects	MW	Costs
Grid-connected [1]	2	20.0	$62,700	5	21.8	$51,240	4	26.1	$66,424
Net-metered:									
Commercial [1]	3	7.1	19,714	—	—	3	1	0.4	1,382
Residential	1,300	12.4	37,901	1,123	10.4	34,318	829	7.8	24,973
Total placed in service	1,305	39.5	$120,315	1,128	32.2	$85,561	834	34.3	$92,779

(1) Includes projects subject to sale-leaseback arrangements.

During fiscal 2017, Clean Energy Ventures entered into sale-leaseback arrangements for two of its commercial solar projects, for which the ITCs and other tax benefits associated with these solar projects were transferred to the buyer. During fiscal 2017, excluding those cost related to the commercial solar projects of $31.1 million that were included in the sale-leaseback transactions, $89.2 million of solar-related capital expenditures were ITC eligible. During fiscal 2016 and 2015, all solar-related capital expenditures were ITC eligible. We estimate total solar-related capital expenditures for ITC eligible projects during fiscal 2018 to be between $132 million and $140 million.

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 lease payments.

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. In addition, under the recently updated federal tax guidelines, 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.

Onshore Wind

Clean Energy Ventures invests in small to mid-size onshore wind projects that fit its investment profile and has a total of 126.6 MW of wind capacity as of September 30, 2017. The wind projects are 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. An $89 million, 39.9 MW wind project in Somerset County, Pennsylvania was completed in December 2016.

Clean Energy Ventures' investments are subject to a variety of factors, such as timing of construction schedules, permitting and regulatory processes, volatility of energy prices, the ability to secure PPAs, delays related to electric grid interconnection, which can affect our ability to commence operations on a timely basis or at all, economic trends, the ability to access capital or allocation of capital to other investments or business opportunities and other unforeseen events. Solar projects not placed in service, as originally planned prior to the end of a reporting period, may result in a failure to qualify for ITCs. Further, changes in prices

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(Continued)

on the unhedged portion of SREC production could have a significant adverse impact on earnings with some offset expected from higher wind energy market prices due to the PTC phase out and/or improved efficiencies from lower costs for related turbine technology.

Wind projects for which construction of a facility begins after December 31, 2016 through December 31, 2019, will be subject to reduced PTCs and could have a significant adverse impact on 10 years of forward earnings. PTCs will be phased out from 100 percent in 2016 to 80 percent in 2017, 60 percent in 2018, 40 percent in 2019 and zero thereafter. In addition, since 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 PTC or in the marketplace and/or relevant legislation surrounding renewable clean energy credits, could significantly affect earnings.

Operating Results

Clean Energy Ventures' financial results for the fiscal years ended September 30, are summarized as follows:

(Thousands)	2017	2016	2015
Operating revenues	$64,394	$53,540	$32,513
Operating expenses			
Operation and maintenance	23,448	18,897	15,248
Depreciation and amortization	31,834	23,971	17,297
Other taxes	1,209	900	726
Total operating expenses	56,491	43,768	33,271
Operating income (loss)	7,903	9,772	(758)
Other income, net	2,072	2,333	1,526
Interest expense, net	16,263	10,304	7,635
Income tax (benefit)	(31,161)	(26,592)	(26,968)
Net income	$24,873	$28,393	$20,101

Operating Revenues

Operating revenues increased $10.9 million and $21 million during fiscal 2017 and 2016, respectively, compared with the previous fiscal years, and is comprised of the following:

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

SREC activity for the fiscal years ended September 30, is as follows:

	2017	2016	2015
Inventory balance as of October 1,	24,135	33,203	29,970
SRECs generated	197,521	160,009	126,133
SRECs delivered	(173,299)	(169,077)	(122,900)
Inventory balance as of September 30,	48,357	24,135	33,203

SRECs generated increased 23.4 percent and 26.9 percent, for the fiscal years ended September 30, 2017 and 2016, respectively, compared with the previous fiscal years. The average SREC sales price was $233 in fiscal 2017, $214 in fiscal 2016 and $183 in fiscal 2015.

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

Energy Year [1]	Percent of SRECs Hedged
2018	90%
2019	70%
2020	11%

(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/RECs by our solar and wind assets. All related costs are included as a component of O&M expenses on the Consolidated Statements of Operations, including such expenses as facility maintenance and various fees.

Operation and Maintenance Expense

O&M expense increased $4.6 million in fiscal 2017 and $3.6 million in fiscal 2016, due primarily to additional maintenance, leasing and administrative costs associated with wind and solar projects placed in service, as well as increased shared corporate costs.

Depreciation Expense

Depreciation expense increased $7.9 million in fiscal 2017 and $6.7 million in fiscal 2016, as a result of increases in wind and solar projects placed in service.

Income Tax (Benefit)

Income tax benefit during fiscal 2017, 2016 and 2015, includes $24.6 million, $25.7 million and $27.8 million respectively, of ITCs associated with solar projects, that were completed and placed into service during the corresponding fiscal year. Income tax benefit during fiscal 2017, 2016 and 2015 includes $9.9 million and $6.7 million, and $2 million respectively, of PTCs associated with wind projects. Clean Energy Ventures recognized $29.2

million, $27 million, and $24.1 million related to tax credits, net of deferred taxes, during fiscal 2017, 2016 and 2015, respectively.

Net Income

Net income in fiscal 2017 decreased $3.5 million, compared with fiscal 2016, due primarily to increased costs related to depreciation and O&M as previously discussed, as well as an increase in interest expense related to higher debt associated with capital expenditures, partially offset by an increase in operating revenues, as well as an increase in tax benefits recognized due primarily to an increase PTCs, as previously discussed.

Net income during fiscal 2016 increased $8.3 million, compared with fiscal 2015, due primarily to the factors described above, partially offset by an increase in interest expense due to higher debt associated with capital expenditures.

Energy Services Segment

Overview

Energy Services markets and sells natural gas to wholesale and retail 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.

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.

On July 27, 2017, we acquired certain retail and wholesale natural gas energy contract assets from Talen. The acquisition included sales agreements with large commercial and industrial retail customers in Delaware, Maryland, New Jersey and Pennsylvania, pipeline and storage capacity agreements on various pipelines and various wholesale transportation contracts.

Energy Services accounts for its physical commodity contracts and its financial derivative instruments at fair value on the 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 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

Operating Results

Energy Services' financial results for the fiscal years ended September 30, are summarized as follows:

(Thousands)	2017	2016	2015
Operating revenues [1]	$1,462,681	$1,197,253	$1,934,307
Operating expenses			
Gas purchases (including demand charges [2][3])	1,441,310	1,153,911	1,795,719
Operation and maintenance	20,313	20,025	25,403
Depreciation and amortization	63	88	90
Other taxes	1,788	937	1,237
Total operating expenses	1,463,474	1,174,961	1,822,449
Operating (loss) income	(793)	22,292	111,858
Other income	1	98	438
Interest expense, net	2,747	1,095	1,209
Income tax (benefit) provision	(4,015)	7,030	39,043
Net income	$476	$14,265	$72,044

(1) Includes related party transactions of approximately $316,000, $9.5 million and $61.5 million during fiscal 2017, 2016 and 2015, respectively, which is 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 10 years.

(3) Includes related party transactions of approximately $4.6 million, $14.6 million and $27.9 million during fiscal 2017, 2016 and 2015, respectively, a portion of which are eliminated in consolidation.

As of September 30, Energy Services' portfolio of financial derivative instruments are composed of:

(in Bcf)	2017	2016	2015
Net short futures contracts	16.4	79.1	91.1
Net long options	—	1.2	1.2

Operating Revenues and Gas Purchases

During fiscal 2017, operating revenues increased $265.4 million and gas purchases increased $287.4 million, due primarily to an approximate 36.8 percent increase in the average price of natural gas and the acquisition of Talen's sales, pipeline and storage capacity agreements, as well as various wholesale transactions, partially offset by a 5.4 percent decrease in wholesale volumes. Gas purchases also include a decrease due to the changes in the economic hedging of natural gas inventory of $75.3 million, partially offset by an increase of $63.4 million in unrealized gains on derivative instruments.

During fiscal 2016, operating revenues decreased $737.1 million and gas purchases decreased $641.8 million due primarily to a decrease of $59.7 million related to changes in the value of financial hedges, as well as a decrease of approximately 26.5 percent in average gas prices, as well as a 12.1 percent decrease in sales volumes. The price decreases were related to the warm winter weather, primarily across the eastern United States, during fiscal 2016, compared with fiscal 2015.

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 7. 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 remained relatively flat during fiscal 2017, compared with fiscal 2016. O&M expense decreased $5.4 million, or 21.2 percent, during fiscal 2016, compared with fiscal 2015, due primarily to decreases in incentive compensation, charitable donations and shared services costs.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

Net Income

Net income decreased $13.8 million during fiscal 2017, compared with fiscal 2016, due primarily to the decrease in operating income, partially offset by the related decrease in income tax expense. Net income decreased $57.8 million during fiscal 2016, compared with fiscal 2015, due primarily to lower operating income, partially offset by the related decrease in income tax expense.

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. 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.

Financial Margin

The following table is a computation of Energy Services' financial margin for the fiscal years ended September 30.

(Thousands)	2017	2016	2015
Operating revenues	$1,462,681	$1,197,253	$1,934,307
Less: Gas purchases	1,441,310	1,153,911	1,795,719
Add:			
Unrealized (gain) loss on derivative instruments and related transactions [(1)]	(10,063)	48,855	(39,408)
Effects of economic hedging related to natural gas inventory [(2)]	38,470	(36,816)	(8,225)
Financial margin	$49,778	$55,381	$90,955

(1) Includes unrealized (gains) losses related to an intercompany transaction between NJNG and Energy Services that have been eliminated in consolidation of approximately $(751,000), $(1.3) million and $465,000 for the fiscal years ended September 30, 2017, 2016 and 2015, 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 for the fiscal years ended September 30:

(Thousands)	2017	2016	2015
Operating (loss) income	$(793)	$22,292	$111,858
Add:			
Operation and maintenance	20,313	20,025	25,403
Depreciation and amortization	63	88	90
Other taxes	1,788	937	1,237
Subtotal	21,371	43,342	138,588
Add:			
Unrealized (gain) loss on derivative instruments and related transactions	(10,063)	48,855	(39,408)
Effects of economic hedging related to natural gas inventory	38,470	(36,816)	(8,225)
Financial margin	$49,778	$55,381	$90,955

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

Financial margin decreased $5.6 million during fiscal 2017, compared with fiscal 2016, due primarily to fewer market opportunities related to transportation assets and timing of certain transactions related to storage withdrawals along with a warmer than normal winter and a milder than normal spring. Financial margin decreased $35.6 million during fiscal 2016, compared with fiscal 2015, due primarily to lower volatility and narrower price spreads resulting from the warmer weather and fewer market opportunities, as previously discussed.

Net Financial Earnings

A reconciliation of Energy Services' net income (loss), the most directly comparable GAAP financial measure to NFE, is as follows for the fiscal years ended September 30:

(Thousands)	2017	2016	2015
Net income	$476	$14,265	$72,044
Add:			
Unrealized (gain) loss on derivative instruments and related transactions	(10,063)	48,855	(39,408)
Tax effect [(1)]	3,635	(17,734)	14,653
Effects of economic hedging related to natural gas inventory	38,470	(36,816)	(8,225)
Tax effect	(13,964)	13,364	3,058
Net financial earnings	$18,554	$21,934	$42,122

(1) Includes taxes related to an intercompany transaction between NJNG and Energy Services that have been eliminated in consolidation of approximately $427,000 and $716,000 and $(262,000) for the fiscal years ended September 30, 2017, 2016 and 2015, respectively.

NFE decreased $3.4 million during fiscal 2017, compared with fiscal 2016, due primarily to a decrease in financial margin, as previously discussed, and higher interest expense related to increased borrowing, partially offset by a reduction in income tax expense related to the decrease in NFE. NFE decreased $20.2 million during fiscal 2016, compared with fiscal 2015, due primarily to a decrease in financial margin, partially offset by lower O&M.

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, which we estimate to be completed and operational in 2019. PennEast may revise the project timeline further upon receipt of a Certificate of Public Convenience and Necessity from FERC. As of September 30, 2017, our net investments in Steckman Ridge and PennEast were $120.3 million and $52.3 million, respectively.

In September 2015, Midstream exchanged its 5.53 percent ownership interest in Iroquois with Dominion Midstream Partners, L.P. for 1.84 million DM Common Units. As of September 30, 2017, the market value of the DM Common Units was $58.8 million. See Note 2. Summary of Significant Accounting Policies - Available for Sale Securities in the accompanying Consolidated Financial Statements for a more detailed discussion.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
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Operating Results

The financial results of our Midstream segment for the fiscal years ended September 30, are summarized as follows:

(Thousands)	2017	2016	2015
Equity in earnings of affiliates	$17,797	$13,936	$17,487
Operation and maintenance	$2,302	$1,197	$1,136
Other income	$4,162	$3,130	$977
Interest expense, net	$960	$287	$717
Income tax provision	$5,820	$6,130	$6,849
Net income	$12,857	$9,406	$9,780

Equity in earnings of affiliates are driven primarily by storage revenues generated by Steckman Ridge and, through September 29, 2015, transportation revenues generated by Iroquois.

Equity in earnings of affiliates is as follows for the fiscal years ended September 30:

(Thousands)	2017	2016	2015
Steckman Ridge	$13,351	$14,050	$12,330
Iroquois [(1)]	—	—	5,164
PennEast	4,446	(114)	(7)
Total equity in earnings of affiliates	$17,797	$13,936	$17,487

(1) Transportation revenues generated by Iroquois ended September 29, 2015.

Equity in earnings of affiliates increased $3.9 million during fiscal 2017, compared with fiscal 2016, due primarily to the AFUDC earned at PennEast. Equity in earnings of affiliates decreased $3.6 million during fiscal 2016, compared with fiscal 2015, due primarily to the exchange of our ownership interest in Iroquois during the fourth quarter of fiscal 2015, partially offset by increases in storage service revenue and demand for hub services at Steckman Ridge.

O&M expense increased $1.1 million during fiscal 2017, compared with fiscal 2016, due primarily to increased consulting expenses, charitable donations and shared services costs. O&M expense remained relatively flat during fiscal 2016, compared with fiscal 2015.

Other income increased $1 million during fiscal 2017, compared with fiscal 2016, due primarily to increased interest income and dividend income from our investment in DM Common Units. Other income increased $2.2 million during fiscal 2016, compared with fiscal 2015, due primarily to dividend income from the DM Common Units.

Interest expense, net increased $673,000 during fiscal 2017, compared with fiscal 2016, due primarily to increased intercompany borrowing related to our PennEast investment and decreased $430,000 during fiscal 2016, compared with fiscal 2015, due primarily to proceeds generated by our investments that are being used to reduce intercompany loans.

The income tax provision remained relatively unchanged during fiscal 2017, compared with fiscal 2016. Equity in earnings increased, however, the tax benefits associated with AFUDC reduced the overall tax expense. The income tax provision decreased $719,000 during fiscal 2016, compared with fiscal 2015, due primarily to the decrease in equity in earnings of affiliates, as discussed above.

Net income in fiscal 2017 increased $3.5 million, compared with fiscal 2016, due primarily to the increase in equity in earnings of affiliates, as discussed above. Net income decreased $374,000 in fiscal 2016, compared with fiscal 2015, due primarily to the decrease in equity in earnings of affiliates, partially offset by the increase in other income and the decreases in the income tax provision and net interest expense.

Home Services and Other Operations

Overview

The financial results of Home Services and Other consist primarily of the operating results of NJRHS and CR&R. NJRHS provides service, sales and installation of appliances to approximately 112,000 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. NJR Energy, a subsidiary of CR&R, which invested in other energy-related ventures, was dissolved on November 28, 2016, and all assets were moved to CR&R during the first quarter of fiscal 2017.

Operating Results

The consolidated financial results of Home Services and Other for the fiscal years ended September 30, are summarized as follows:

(Thousands)	2017	2016	2015
Operating revenues	$49,591	$48,497	$48,703
Operation and maintenance	$40,245	$40,106	$39,601
Energy and other taxes	$3,938	$3,777	$3,815
Other income, net	$6,467	$869	$685
Income tax provision	$3,857	$1,387	$1,551
Net income	$6,811	$2,882	$3,420

Operating revenue increased $1.1 million during fiscal 2017, compared with fiscal 2016, due primarily to increased furnace/air conditioner combination installations at NJRHS related to increased marketing promotions, along with increased contract revenue, partially offset by decreased operating revenue at CR&R due to the sale of a 56,400 square foot office building.

Operating revenue decreased $206,000 during fiscal 2016, compared with fiscal 2015, due primarily to a decrease in heating equipment installations and generator sales at NJRHS resulting from warmer weather, partially offset by increased solar installations and increased contract revenue as a result of existing customers upgrading to enhanced plans and expanded service contract product lines.

Other income, net increased $5.6 million during fiscal 2017, compared with fiscal 2016, due primarily to the sale of available for sale securities, which resulted in a pre-tax gain during fiscal 2017 of $5.4 million. Other income, net remained relatively flat during fiscal 2016, compared with fiscal 2015.

Income taxes increased $2.5 million during fiscal 2017, compared with fiscal 2016, due primarily to the increase in other income, as previously discussed. Income taxes decreased $164,000 during fiscal 2016, compared with fiscal 2015, due primarily to the decrease in operating revenues and the increase in O&M at NJRHS.

Net income increased $3.9 million during fiscal 2017, compared with fiscal 2016, due primarily to the increases in other income and operating revenue, partially offset by the increase in the income tax provision, as discussed above.

Net income during fiscal 2016 decreased $538,000, compared with fiscal 2015, due primarily to the decrease in operating revenues and the increase in O&M, partially offset by the decrease in income taxes, as discussed above.

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Liquidity and Capital Resources

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

Our consolidated capital structure as of September 30, was as follows:

	2017		2016	
Common stock equity	46	%	48	%
Long-term debt	38		44	
Short-term debt	16		8	
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. In December 2015, we registered an additional 5 million shares of our common stock for issuance under the DRP. We raised $17.5 million and $16 million of equity through the DRP by issuing approximately 472,000 and 471,000 shares of treasury stock during fiscal 2017 and 2016, 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 September 30, 2017, we have repurchased a total of approximately 17.1 million shares and may repurchase an additional 2.4 million shares under the approved program. There were 105,000 and 126,600 shares of common stock shares repurchased during fiscal 2017 and 2016, respectively.

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-lived assets through the issuance of long-term debt securities.

As of September 30, 2017, we had a working capital deficit of $223.5 million, net income of $132.1 million and cash flows from operations of $248 million. The working capital deficit was primarily caused by the reclassification of approximately $150 million of long-term debt to current maturities. We believe that our existing borrowing availability, equity proceeds and cash flows from operations will be sufficient to satisfy our 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 months will be met primarily through the issuance of short and long-term debt, meter and solar sale-leasebacks and proceeds from our DRP, including utilizing the waiver discount feature.

We believe that as of September 30, 2017, 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 segment's 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.

NJNG satisfies its debt needs by issuing short- 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.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

As of September 30, 2017, NJR and NJNG, respectively, had revolving credit facilities totaling $425 million and $250 million, and letters of credit outstanding totaling $13.4 million and $731,000, which reduced the amounts available under the facilities along with short-term borrowings to $157 million and $238 million. Short-term borrowings were as follows:

($ in thousands)	Three Months Ended September 30, 2017	Twelve Months Ended September 30, 2017
NJR		
Notes Payable to banks:		
Balance at end of period	$255,000	$255,000
Weighted average interest rate at end of period	2.14 %	2.14 %
Average balance for the period	$259,672	$239,591
Weighted average interest rate for average balance	2.11 %	1.80 %
Month end maximum for the period	$299,400	$299,400
NJNG		
Commercial Paper and Notes Payable to banks:		
Balance at end of period	$11,000	$11,000
Weighted average interest rate at end of period	— %	1.13 %
Average balance for the period	$889	$222
Weighted average interest rate for average balance	0.38 %	0.09 %
Month end maximum for the period	$11,000	$11,000

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 November and December.

NJR

On September 28, 2015, NJR entered into a $425 million Amended and Restated Credit Agreement, which refinanced an earlier $425 million revolving credit facility that was scheduled to expire on August 22, 2017. The NJR Credit Facility is scheduled to terminate on September 28, 2020, subject to two mutual options for a one-year extension beyond that date. Certain of NJR's unregulated subsidiaries have guaranteed to the lenders all of NJR's obligations under the NJR Credit Facility.

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 $5 million increments up to a maximum of $100 million. In addition, borrowings under the NJR Credit Facility are conditioned upon compliance with a maximum leverage ratio (consolidated total indebtedness to consolidated total capitalization as defined in the NJR Credit Facility) of not more than .65 to 1.00 at any time. As of September 30, 2017, the consolidated total indebtedness to total capitalization ratio, as defined in the NJR Credit Facility, was 54 percent.

As of September 30, 2017, NJR had $255 million outstanding under the NJR Credit Facility. Neither NJNG nor its assets are obligated or pledged to support the NJR Credit Facility.

During fiscal 2017, NJR's average interest rate under the NJR Credit Facility was 1.8 percent, resulting in interest expense of $4.4 million. Based on average borrowings under the facilities of $239.6 million during the period, a 100 basis point change in the underlying average interest rate would have caused a change in interest expense of approximately $2.5 million during fiscal 2017.

As of September 30, 2017, NJR has six letters of credit outstanding totaling $13.4 million. Three letters of credit totaling $10.4 million are on behalf of Energy Services and three letters of credit totaling $3 million are on behalf of Clean Energy Ventures. These letters of credit reduce the amount available under NJR's committed credit facility by the same amount. NJR does not anticipate that these letters of credit will be drawn upon by the counterparties and they will be renewed as necessary.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

Energy Services' letters of credit are used for margin requirements for natural gas transactions and expire on dates ranging from December 2017 to September 2018. Clean Energy Ventures' letters of credit are used to secure construction of ground-mounted solar projects and to secure obligations pursuant to an Interconnection Services Agreement. They expire on dates ranging from May 2018 to August 2018.

NJNG

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. The NJNG Credit Facility permits the borrowing of revolving loans and swing loans, as well as the issuance of letters of credit. It also permits an increase to the facility, from time to time, with the existing or new lenders, in a minimum of $15 million increments up to a maximum of $50 million at the lending banks' discretion. Borrowings under NJNG's credit facility are conditioned upon compliance with a maximum leverage ratio (consolidated total indebtedness to consolidated total capitalization as defined in the NJNG Credit Facility) of not more than .65 to 1.00 at any time. As of September 30, 2017, NJNG's consolidated total indebtedness to total capitalization ratio was 45 percent. As of September 30, 2017, 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 $238 million. During fiscal 2017, NJNG's weighted average interest rate on outstanding commercial paper was .09 percent, resulting in interest expense of $2,500. Based on average borrowings under the facility of $222,169 during the period, a 100 basis point change in the underlying average interest rate would have caused a change in interest expense of approximately $2,200 during fiscal 2017.

As of September 30, 2017, NJNG has two letters of credit outstanding for $731,000. These letters of credit reduce 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. These letters of credit are used as collateral for soil remediation systems and expire on August 2018.

Short-Term Debt Covenants

Borrowings under the NJR Credit Facility and 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 borrowers' or guarantors' assets.

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

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

The MetLife Facility, an unsecured, uncommitted $100 million private placement shelf note agreement with MetLife, allowed NJR to issue senior notes to MetLife or certain of MetLife's affiliates during a three-year issuance period that ended September 26, 2016, and was not renewed. There were no notes outstanding under the expired facility.

NJR has outstanding $25 million of 2.51 percent senior notes due September 15, 2018, which were issued under a now-expired facility with MetLife and as of September 30, 2017, were classified as a current maturity of long-term debt.

NJR has $50 million of 3.25 percent senior notes due September 2022, issued under a private placement debt shelf facility.

On November 7, 2014, NJR issued $100 million in 3.48 percent senior notes due November 7, 2024, under the Prudential Facility, which fully utilized the remaining capacity under the facility. The notes issued under the Prudential Facility are guaranteed by certain unregulated subsidiaries of NJR.

On March 22, 2016, NJR entered into a Note Purchase Agreement under which we issued, on August 18, 2016, $50 million of the Company's 3.2 percent senior notes due August 18, 2023, and $100 million of the Company's 3.54 percent senior notes due August 18, 2026. The notes are guaranteed by certain unregulated subsidiaries of the Company. The notes are unsecured. The proceeds of the notes were used for general corporate purposes, including working capital and capital expenditures.

On August 18, 2017, NJR entered into a $100 million credit agreement due August 16, 2019. The term loan will accrue interest at a variable rate determined monthly, which is LIBOR plus 70 basis points. The weighted average interest rate on the on the term loan as of September 30, 2017, was 1.95 percent. Proceeds from the term loan will be used for general corporate purposes and working capital.

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

NJNG

NJNG and the Trustee are parties to the Mortgage Indenture, which secures all of NJNG's outstanding FMB. The Mortgage Indenture provides a direct first mortgage lien upon substantially all of the operating properties and franchises of NJNG (other than excepted property, such as cash on hand, choses-in-action, securities, rent, natural gas meters and certain materials, supplies, appliances and vehicles), subject only to certain permitted encumbrances. The Mortgage Indenture contains provisions subjecting after-acquired property (other than excepted property and subject to pre-existing liens, if any, at the time of acquisition) to the lien thereof.

As of September 30, 2017, NJNG’s long-term debt consisted of $575 million in fixed-rate debt issuances secured by the Mortgage Indenture, with maturities ranging from 2018 to 2046, $97 million in secured variable rate debt with maturities ranging from 2027 to 2041 and $28.9 million in capital leases with various maturities ranging from 2017 to 2025.

On May 31, 2017, the BPU approved a petition filed by NJNG requesting authorization over a three-year period to issue up to $400 million of medium-term notes with a maturity of not more than 40 years, for up to five years with an option for two additional one-year extensions; enter into interest rate risk management transactions related to debt securities and redeem and refinance or defease any of NJNG’s outstanding long-term debt securities.

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, in the private placement market pursuant to a note purchase agreement entered into on February 12, 2015. The notes are secured by an equal principal amount of NJNG's FMB (Series SS and TT, respectively) issued under NJNG's Mortgage Indenture. The proceeds of the notes were used for general corporate purposes, to refinance or retire debt and to fund capital expenditure requirements. The notes are subject to required prepayments upon the occurrence of certain events. NJNG may at any time prepay all or a portion of the notes at a make-whole prepayment price.

On June 1, 2015, NJNG entered into a treasury lock transaction to fix a benchmark treasury rate of 3.26 percent associated with a 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, which as of September 30, 2017, were classified as a current maturity of long-term debt on the Consolidated Balance Sheets.

On June 21, 2016, NJNG entered into a Note Purchase Agreement, under which NJNG issued $125 million of its 3.63 percent senior notes due June 21, 2046. The notes are secured by an equal principal amount of NJNG's FMB (series UU) issued under NJNG's Mortgage Indenture. The proceeds of the notes will be used for general corporate purposes, including, but not limited to, refinancing or retiring short-term debt and funding capital expenditures. The notes are subject to required prepayments upon the occurrence of certain events. NJNG may prepay all or any part of the notes in amounts not less than $1 million in aggregate principal amount of the notes then outstanding at 100 percent of the aggregate principal amount, plus accrued interest and a make-whole amount, if applicable.

On January 17, 2017, the Company completed the purchase of three FMBs in lieu of redemption with an aggregate principal amount totaling $35.8 million. The FMBs bore interest at rates ranging from 4.5 percent to 4.9 percent. The bonds purchased in lieu of redemption are being held by the Company to provide an opportunity to evaluate remarketing alternatives.

In August 2011, NJNG completed a refunding of its outstanding Auction-Rate Securities whereby the EDA issued a total of $97 million of Natural Gas Facilities Refunding Revenue Bonds (New Jersey Natural Gas Company Project) composed of three series of bonds. EDA Bonds are special, limited obligations of the EDA payable solely from payments made by NJNG pursuant to a Loan Agreement and are secured by the pledge of $97 million principal amount of the FMB issued by the Company.

EDA Bonds accrue interest at a variable rate determined monthly, which was initially calculated as a rate of .55 percent, plus 70 percent of one month LIBOR, subject to earlier redemption or conversion to another interest rate mode. The maximum interest rate on the EDA Bonds is 12 percent per annum. NJNG's obligations under the Loan Agreement, and its corresponding obligations under the FMB, match the respective principal amounts, interest rates and maturity dates of the EDA Bonds. The weighted average interest rate on the EDA Bonds as of September 30, 2017, was 1.42 percent.

The interest rates on variable rate debt may vary based upon market conditions. Sudden increases in the interest rate could cause a change in interest expense and cash flow for the Company in the future.

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

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);

•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 FMB 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 of the Mortgage Indenture. The interest rate on defaulted principal and interest, to the extent permitted by law, on the FMB 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 $9.6 million, $7.1 million and $7.2 million in fiscal 2017, 2016 and 2015, respectively, in connection with the sale-leaseback of its natural gas meters. During fiscal 2017, 2016 and 2015, NJNG exercised early purchase options with respect to meter leases by making final principal payments of $2.4 million, $1.9 million and $768,000, respectively. 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

During September 2017, Clean Energy Ventures entered into transactions to sell two of its commercial solar assets concurrent with agreements to lease the assets back over seven year periods. 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. Clean Energy Ventures received proceeds of $32.9 million in connection with these sale-leasebacks.

Contractual Obligations

The following table is a summary of NJR, NJNG, Energy Services and Clean Energy Ventures contractual cash obligations and financial commitments and their applicable payment due dates as of September 30, 2017:

(Thousands)	Total	Up to 1 Year	2-3 Years	4-5 Years	After 5 Years
Long-term debt (1)	$1,548,726	$184,769	$157,472	$105,694	$1,100,791
Capital lease obligations (1)	44,154	12,436	18,524	8,380	4,814
Solar asset financing obligations (1)	18,866	2,719	5,438	5,438	5,271
Operating leases (1)	51,073	2,387	5,239	5,156	38,291
Short-term debt	266,000	266,000	—	—	—
New Jersey Clean Energy Program (1)	14,202	14,202	—	—	—
Construction obligations	23,120	23,120	—	—	—
Remediation expenditures (2)	149,000	19,300	37,000	27,600	65,100
Natural gas supply purchase obligations-NJNG	94,720	51,050	43,670	—	—
Demand fee commitments-NJNG	1,187,054	98,586	244,959	197,125	646,384
Natural gas supply purchase obligations-Energy Services	445,066	296,491	137,087	11,488	—
Demand fee commitments-Energy Services	259,195	88,786	92,204	56,148	22,057
Total contractual cash obligations	$4,101,176	$1,059,846	$741,593	$417,029	$1,882,708

(1) These obligations include an interest component, as defined under the related governing agreements or in accordance with the applicable tax statute.

(2) Expenditures are estimated, see Note 14. Commitments and Contingent Liabilities in the accompanying Consolidated Financial Statements.

We made a discretionary contribution of $30 million during the first quarter of fiscal 2016, to improve the funded status of the pension plans based on then current actuarial assumptions, which included the adoption of the most recent mortality table. We do not expect to be required to make additional contributions to fund the pension plans over the following two fiscal years 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, we may elect to make discretionary contributions to the plans in excess of the minimum required amount. We made no discretionary contributions to the pension plans in fiscal 2017. There are no Federal requirements to pre-fund OPEB benefits. However, we are required to fund certain amounts due to regulatory agreements with the BPU. We anticipate that the annual funding level to the OPEB plans will range from $4 million to $7 million annually over each of the next five years. Additional contributions may vary based on market conditions and various assumptions.

As of September 30, 2017, there were NJR guarantees covering approximately $331.4 million of natural gas purchases and Energy Services demand fee commitments not yet reflected in accounts payable on the Consolidated Balance Sheets.

NJNG's incurs significant capital expenditures consisting primarily of its construction program to support customer growth, maintenance of its distribution and transmission system and replacement needed under pipeline safety regulations. During fiscal 2017, committed and spent capital expenditures totaled $177.6 million. In fiscal 2018 and

2019, NJNG's total capital expenditures are projected to be $399.8 million and $235 million, respectively.

In November 2012, NJNG filed a petition with the BPU requesting deferral accounting for incurred uninsured incremental O&M costs associated with Superstorm Sandy. As of September 30, 2017, NJNG deferred $13 million in regulatory assets that was approved for recovery through NJNG's new base rates, effective October 2016.

NJNG expects to fund its obligations with a combination of cash flow from operations, cash on hand, issuance of commercial paper, available capacity under its revolving credit facility and the issuance of long-term debt.

As of September 30, 2017, NJNG's future MGP expenditures are estimated to be $149 million. For a more detailed description of MGP see Note 14. Commitments and Contingent Liabilities in the accompanying 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's 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 fiscal 2017, capital expenditures related to the purchase and installation of the solar equipment were $115.1 million. An additional $13.3 million has been committed or accrued for solar projects to be placed into service during fiscal 2018 and beyond. We estimate solar-related capital expenditures placed in service in fiscal 2018 to be between $132 million and $140 million.

During the first quarter of fiscal 2017, Clean Energy Ventures completed construction of a $89 million, 39.9 MW onshore wind project in Somerset County, Pennsylvania.

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 fiscal 2017, Midstream had a total of $27.1 million of expenditures related to our investment in the PennEast pipeline project. Expenditures in the PennEast pipeline are expected to total between $220 million and $280 million.

Energy Services does not currently anticipate any significant capital expenditures in fiscal 2018 and 2019.

Off-Balance-Sheet Arrangements

Our off-balance-sheet arrangements consist of guarantees covering approximately $331.4 million of natural gas purchases, SREC sales and demand fee commitments, see Note 14. Commitments and Contingent Liabilities, and eight outstanding letters of credit totaling $14.1 million, as noted above, see Note 9. Debt.

Cash Flows

Operating Activities

Cash flows from operating activities during fiscal 2017, totaled $248 million compared with $142.6 million during fiscal 2016. 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;
- timing of the collections of receivables and payments of current liabilities;
- volumes of natural gas purchased and sold; and
- timing of SREC deliveries.

The increase of $105.4 million in operating cash flows during fiscal 2017, compared with fiscal 2016, was due primarily to increased base rates, increased working capital due primarily to lower broker margin requirements, a decrease in bill credits issued, and a discretionary contribution of $30 million to our pension plan during fiscal 2016 that did not recur in fiscal 2017.

The decrease of $248.3 million in operating cash flows during fiscal 2016, compared with fiscal 2015, was impacted by a decrease in market volatility related to the warm winter weather primarily across the eastern United States, which contributed to a lower profitability and decrease in working capital at Energy Services, including a reduction in natural gas sold out of storage and an increase in broker margin due to decreases in the fair value of derivatives and higher initial margin requirements. Also contributing to the decrease in operating cash flows were bill credits of $61.6 million issued to NJNG's customers during fiscal 2016, for overrecovered gas costs and a discretionary contribution of $30 million to our pension plan during fiscal 2016.

Investing Activities

Cash flows used in investing activities totaled $390.7 million during fiscal 2017, compared with $363.2 million during fiscal 2016. The increase of $27.5 million was due primarily to our acquisition of Talen's retail and wholesale energy contract assets totaling $55.7 million and increased investments in solar projects and PennEast of $39.4 million and $15.9 million, respectively, partially offset by a decrease in capital expenditures in wind investments of $39.1 million and utility plant of $32 million, along with net proceeds of $9.4 million from the sale of an office building and $6.6 million from the sale of available for sale securities.

Cash flows used in investing activities totaled $363.2 million during fiscal 2016, compared with $321.7 million during fiscal 2015. The increase of $41.5 million was due primarily to an increase in utility plant of $36.3 million and an increase in capital expenditures at Clean Energy Ventures of $14.5 million related to solar projects. We also contributed an additional $5.4 million for the investment in PennEast during fiscal 2016. The increases were partially offset by a decrease of $16.5 million in capital expenditures related to solar projects at Clean Energy Ventures.

NJNG's capital expenditures result primarily from the need for services, mains and meters to support its continued customer growth, mandated pipeline safety rulemaking, general system improvements and approved infrastructure programs. NJNG's capital expenditures, including cost of removal, totaled $176.2 million and $205.1 million in fiscal 2017 and fiscal 2016, respectively.

The Company enters into various agreements to install, own and operate solar equipment, including both residential and commercial projects and onshore wind projects. During fiscal 2017 and fiscal 2016, capital expenditures on these projects totaled $149.4 million and $149.1 million, respectively.

Home Services and Other capital expenditures in past years were made primarily in connection with investments made to preserve the value of real estate holdings. On March 8, 2017, CR&R sold a 56,400 square foot office building on five acres of land located in Monmouth County for $9.4 million, net of closing costs, generating a pre-tax gain of $1.9 million.

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 from financing activities during fiscal 2017 totaled $107.3 million, compared with cash flows used in financing activities of $253.2 million during fiscal 2016. The decrease of $145.9 million is due primarily to the issuance of $100 million of long-term debt compared with $275 million in the previous year, the purchase of three FMBs in lieu of redemption totaling $35.8 million at NJNG and $50 million redemption of long-term debt at NJR, partially offset by an increase in short-term borrowings at NJR and proceeds of $32.9 million from the solar sale-leasebacks at Clean Energy Ventures.

Cash flows used in financing activities during fiscal 2016 totaled $253.2 million, compared with $66.4 million during fiscal 2015. The decrease of $319.6 million was due primarily to increased short-term borrowings at NJR. This was partially offset by the issuance of $100 million in long-term debt for NJR during fiscal 2015, along with a decrease of $25 million in long-term debt at NJNG, which issued $125 million during fiscal 2016, compared with $150 million during fiscal 2015. There was also a decrease in proceeds from the issuance of common stock when compared with fiscal 2015