



QUARTERLY FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIOD ENDED MARCH 31, 2017

(Unaudited)

New Jersey Natural Gas Company

STATEMENTS OF OPERATIONS (Unaudited)

<i>(Thousands)</i>	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
OPERATING REVENUES	\$ 295,546	\$ 242,536	\$ 481,102	\$ 394,142
OPERATING EXPENSES				
Gas purchases	115,723	86,266	179,909	131,509
Operation and maintenance	33,768	33,882	66,986	63,510
Regulatory rider expenses	19,893	21,215	32,494	30,843
Depreciation and amortization	12,263	11,598	24,293	22,836
Energy and other taxes	17,938	14,496	30,087	22,658
Total operating expenses	199,585	167,457	333,769	271,356
OPERATING INCOME	95,961	75,079	147,333	122,786
Other income	1,163	1,282	1,850	2,596
Interest expense, net of capitalized interest	6,392	4,690	13,216	9,278
INCOME BEFORE INCOME TAXES	90,732	71,671	135,967	116,104
Income tax provision	30,499	22,704	45,386	36,211
NET INCOME	\$ 60,233	\$ 48,967	\$ 90,581	\$ 79,893

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

STATEMENTS OF CASH FLOWS (Unaudited)

<i>(Thousands)</i>	Six Months Ended	
	March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 90,581	\$ 79,893
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	24,293	22,836
Allowance for funds used during construction	(1,586)	(2,357)
Amortization of deferred charges	268	256
Allowance for bad debt expense	380	703
Deferred income taxes	21,471	23,294
Manufactured gas plant remediation costs	(3,704)	(2,656)
Cost of removal – asset retirement obligation	(242)	(66)
Contributions to postemployment benefit plans	(1,858)	(32,145)
Tax benefit from stock based compensation	182	363
Changes in:		
Components of working capital	27,445	5,439
Other noncurrent assets	21,479	(10,756)
Other noncurrent liabilities	2,274	633
Cash flows from operating activities	180,983	85,437
CASH FLOWS USED IN INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(58,761)	(76,326)
Cost of removal	(14,838)	(20,080)
Withdrawal from restricted cash construction fund	1,337	1,007
Cash flows used in investing activities	(72,262)	(95,399)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Payments of long-term debt	(41,021)	(5,769)
Proceeds from short-term debt, net of payments	—	10,000
Proceeds from sale-leaseback transaction	9,587	7,107
Payments of common stock dividends to parent	(22,023)	—
Tax withholding payments related to net settled stock compensation	(638)	(606)
Cash flows (used in) from financing activities	(54,095)	10,732
Change in cash and cash equivalents	54,626	770
Cash and cash equivalents at beginning of period	35,172	434
Cash and cash equivalents at end of period	\$ 89,798	\$ 1,204
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$ (106,771)	\$ (47,751)
Inventories	60,219	39,646
Recovery of gas costs	(9,616)	(20,396)
Accounts payable and other	14,646	(19,145)
Gas purchases payable	14,580	3,324
Prepaid and accrued taxes, net	61,555	49,049
Customers' credit balances and deposits	(12,680)	225
Restricted broker margin accounts	5,860	(7,252)
Other current assets	(348)	7,739
Total	\$ 27,445	\$ 5,439
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid (received) for:		
Interest (net of amounts capitalized)	\$ 13,008	\$ 10,668
Income taxes	\$ (16,568)	\$ —
Accrued capital expenditures	\$ 7,979	\$ 4,043

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

BALANCE SHEETS (Unaudited)

ASSETS

<i>(Thousands)</i>	March 31, 2017	September 30, 2016
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 2,167,728	\$ 2,107,375
Construction work in progress	108,373	122,268
Total property, plant and equipment	2,276,101	2,229,643
Accumulated depreciation and amortization	(475,075)	(467,702)
Property, plant and equipment, net	1,801,026	1,761,941
CURRENT ASSETS		
Cash and cash equivalents	89,798	35,172
Customer accounts receivable:		
Billed	100,449	30,951
Unbilled	42,657	5,744
Allowance for doubtful accounts	(4,647)	(4,627)
Regulatory assets	43,344	54,286
Gas in storage, at average cost	15,233	75,758
Materials and supplies, at average cost	9,391	9,085
Prepaid taxes	3,659	34,602
Derivatives, at fair value	2,304	1,040
Restricted broker margin account	3,354	4,822
Other	24,290	23,943
Total current assets	329,832	270,776
NONCURRENT ASSETS		
Regulatory assets	396,924	441,294
Derivatives, at fair value	—	75
Other	44,794	43,315
Total noncurrent assets	441,718	484,684
Total assets	\$ 2,572,576	\$ 2,517,401

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	March 31, 2017	September 30, 2016
CAPITALIZATION		
Common stock equity	\$ 921,443	\$ 852,885
Long-term debt	699,771	730,891
Total capitalization	1,621,214	1,583,776
CURRENT LIABILITIES		
Current maturities of long-term debt	10,752	11,452
Gas purchases payable	33,403	18,823
Accounts payable and other	60,181	42,874
Accrued taxes	30,673	61
Regulatory liabilities	5,747	9,469
New Jersey clean energy program	6,239	14,232
Derivatives, at fair value	945	4,133
Customers' credit balances and deposits	20,064	32,745
Total current liabilities	168,004	133,789
NONCURRENT LIABILITIES		
Deferred income taxes	470,059	448,427
Deferred investment tax credits	4,458	4,619
Manufactured gas plant remediation	165,849	172,000
Postemployment benefit liability	80,493	80,855
Regulatory liabilities	28,457	41,411
Asset retirement obligation	23,916	23,521
Derivatives, at fair value	4,392	23,459
Other	5,734	5,544
Total noncurrent liabilities	783,358	799,836
Total capitalization and liabilities	\$ 2,572,576	\$ 2,517,401

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

1. GENERAL

New Jersey Natural Gas (the Company) is a local natural gas distribution company that provides regulated retail natural gas service to approximately 528,000 residential and commercial customers in central and northern New Jersey, and participates in the off-system sales and capacity release markets. The Company is the regulated utility subsidiary of New Jersey Resources Corporation. The Company maintains its accounts in accordance with the Federal Energy Regulatory Commission Uniform System of Accounts as prescribed by the New Jersey Board of Public Utilities (BPU) and in accordance with the *Regulated Operations* Topic of the Financial Accounting Standards Board Accounting Standards Codification. As a result of the impact of the ratemaking process and regulatory actions of the BPU, the Company is required to recognize the economic effects of rate regulation. Accordingly, the Company capitalizes or defers certain costs that are expected to be recovered from its customers as regulatory assets and recognizes certain obligations representing probable future expenditures as regulatory liabilities on the Balance Sheets.

Because of the seasonal nature of the the Company's utility operations and other factors, the results of operations for the interim periods presented are not indicative of the results to be expected for the entire year.