NEW JERSEY RESOURCES CORP

FORM 10-Q
(Quarterly Report)

Filed 05/05/17 for the Period Ending 03/31/17

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Symbol	NJR
SIC Code	4924 - Natural Gas Distribution
Industry	Natural Gas Utilities
Sector	Utilities
Fiscal Year	09/30

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2017

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number 001-08359

NEW JERSEY RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

New Jersey	**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)

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

Yes: ☒ **No:** ☐

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

Yes: ☒ **No:** ☐

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

Large accelerated filer: ☒ **Accelerated filer:** ☐

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

Smaller reporting company : ☐

Emerging growth company : ☐

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

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

Yes: ☐ **No:** ☒

The number of shares outstanding of $2.50 par value Common Stock as of May 2, 2017 was 86,438,897 .

New Jersey Resources Corporation

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New Jersey Resources Corporation

GLOSSARY OF KEY TERMS

AFUDC	Allowance for Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bcf	Billion Cubic Feet
BGSS	Basic Gas Supply Service
BPU	New Jersey Board of Public Utilities
CIP	Conservation Incentive Program
CME	Chicago Mercantile Exchange
CR&R	Commercial Realty & Resources Corp.
DM	Dominion Midstream Partners, L.P., a master limited partnership
DM Common Units	Common units representing limited partnership interests in DM
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DRP	NJR Direct Stock Purchase and Dividend Reinvestment Plan
Dths	Dekatherms
FASB	Financial Accounting Standards Board
FCM	Futures Commission Merchant
FERC	Federal Energy Regulatory Commission
Financial margin	A non-GAAP financial measure, which represents revenues earned from the sale of natural gas less costs of natural gas sold including any transportation and storage costs, and excludes any accounting impact from the change in the fair value of certain derivative instruments
FMB	First Mortgage Bond
GAAP	Generally Accepted Accounting Principles of the United States
Home Services and Other	Home Services and Other Operations (formerly Retail and Other Operations)
ICE	Intercontinental Exchange
ISDA	The International Swaps and Derivatives Association
ITC	Federal Investment Tax Credit
LNG	Liquefied Natural Gas
MGP	Manufactured Gas Plant
Moody's	Moody's Investors Service, Inc.
Mortgage Indenture	The Amended and Restated Indenture of Mortgage, Deed of Trust and Security Agreement between NJNG and U.S. Bank National Association dated as of September 1, 2014
MW	Megawatts
MWh	Megawatt Hour
NAESB	The North American Energy Standards Board
NFE	Net Financial Earnings
NGV	Natural Gas Vehicles
NJ RISE	New Jersey Reinvestment in System Enhancement
NJCEP	New Jersey's Clean Energy Program
NJDEP	New Jersey Department of Environmental Protection
NJNG	New Jersey Natural Gas Company
NJNG Credit Facility	NJNG's $250 million unsecured committed credit facility expiring in May 2019
NJR Credit Facility	NJR's $425 million unsecured committed credit facility expiring in September 2020
NJR Energy	NJR Energy Corporation
NJR or The Company	New Jersey Resources Corporation
NJRCEV	NJR Clean Energy Ventures Corporation

GLOSSARY OF KEY TERMS (cont.)

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

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report, including, without limitation, statements as to management expectations, assumptions and beliefs presented in Part I, Item 2. “Management's Discussion and Analysis of Financial Condition and Results of Operations,” Part I, Item 3. “Quantitative and Qualitative Disclosures About Market Risk,” Part II, Item I. “Legal Proceedings” and in the notes to the financial statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements can also be identified by the use of forward-looking terminology such as “anticipate,” “estimate,” “may,” “could,” “might,” “intend,” “expect,” “believe,” “will” “plan,” or “should,” or comparable terminology and are made based upon management's current expectations, assumptions and beliefs as of this date concerning future developments and their potential effect on us. There can be no assurance that future developments will be in accordance with management's expectations, assumptions or beliefs, or that the effect of future developments on us will be those anticipated by management.

We caution readers that the expectations, assumptions and beliefs that form the basis for forward-looking statements regarding customer growth, customer usage, qualifications for ITCs, 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 2017 and thereafter include many factors that are beyond our ability to control or estimate precisely, such as estimates of future market conditions, the behavior of other market participants and changes in the debt and equity capital markets. The factors that could cause actual results to differ materially from our expectations, assumptions and beliefs include, but are not limited to, those discussed in Item 1A. *Risk Factors* of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 , as well as the following:

- weather and economic conditions;
- demographic changes in NJR's service territory and their effect on NJR's customer growth;
- volatility of natural gas and other commodity prices and their impact on NJNG customer usage, NJNG's BGSS incentive programs, NJRES operations and on our risk management efforts;
- changes in rating agency requirements and/or credit ratings and their effect on availability and cost of capital to our Company;
- the impact of volatility in the credit markets on our access to capital;
- the ability to comply with debt covenants;
- the impact to the asset values and resulting higher costs and funding obligations of 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;
- accounting effects and other risks associated with hedging activities and use of derivatives contracts;
- commercial and wholesale credit risks, including the availability of creditworthy customers and counterparties, and liquidity in the wholesale energy trading market;
- the ability to obtain governmental and regulatory approvals and land use rights, such as those necessary for the PennEast pipeline project, 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 the management of our joint ventures and partnerships, and investment in a master limited partnership;
- 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;
- timing of qualifying for ITCs and PTCs due to delays or failures to complete planned solar and wind energy projects and the resulting effect on our effective tax rate and earnings;
- the level and rate at which NJNG's costs and expenses are incurred and the extent to which they are allowed to be recovered from customers through the regulatory process, including through future base rate case filings;
- access to adequate supplies of natural gas and dependence on third-party storage and transportation facilities for natural gas supply;
- operating risks incidental to handling, storing, transporting and providing customers with natural gas;
- risks related to our employee workforce;
- the regulatory and pricing policies of federal and state regulatory agencies;
- the costs of compliance with present and future environmental laws, including potential climate change-related legislation;
- the impact of a disallowance of recovery of environmental-related expenditures and other regulatory changes;
- environmental-related and other litigation and other uncertainties;
- risks related to cyber-attack or failure of information technology systems; and
- the impact of natural disasters, terrorist activities and other extreme events on our operations and customers.

While we periodically reassess material trends and uncertainties affecting our results of operations and financial condition in connection with the preparation of management's discussion and analysis of results of operations and financial condition contained in our Quarterly and Annual Reports on Form 10-Q and Form 10-K, respectively, we do not, by including this statement, assume any obligation to review or revise any particular forward-looking statement referenced herein in light of future events.

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Thousands, except per share data)	Three Months Ended March 31, 2017	2016	Six Months Ended March 31, 2017	2016
OPERATING REVENUES				
Utility	**$ 295,546**	$ 242,536	**$ 481,102**	$ 394,142
Nonutility	**438,000**	331,657	**793,472**	624,309
Total operating revenues	**733,546**	574,193	**1,274,574**	1,018,451
OPERATING EXPENSES				
Gas purchases:				
Utility	**112,445**	82,374	**173,765**	129,039
Nonutility	**367,328**	287,883	**705,260**	541,971
Related parties	**2,072**	2,077	**4,183**	4,151
Operation and maintenance	**52,342**	53,125	**104,570**	99,358
Regulatory rider expenses	**19,893**	21,215	**32,494**	30,843
Depreciation and amortization	**20,328**	17,744	**39,588**	34,226
Energy and other taxes	**19,485**	15,842	**33,586**	25,479
Total operating expenses	**593,893**	480,260	**1,093,446**	865,067
OPERATING INCOME	**139,653**	93,933	**181,128**	153,384
Other income, net	**5,338**	2,202	**9,114**	4,126
Interest expense, net of capitalized interest	**11,436**	7,369	**22,051**	14,146
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	**133,555**	88,766	**168,191**	143,364
Income tax provision	**23,932**	17,815	**25,950**	24,537
Equity in earnings of affiliates	**5,079**	2,402	**7,390**	4,808
NET INCOME	**$ 114,702**	$ 73,353	**$ 149,631**	$ 123,635
EARNINGS PER COMMON SHARE				
Basic	**$1.33**	$0.85	**$1.74**	$1.44
Diluted	**$1.32**	$0.84	**$1.72**	$1.42
DIVIDENDS DECLARED PER COMMON SHARE	**$0.255**	$0.24	**$0.51**	$0.48
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	**86,275**	85,834	**86,182**	85,754
Diluted	**87,101**	86,858	**86,993**	86,778

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Thousands)	Three Months Ended March 31, 2017	2016	Six Months Ended March 31, 2017	2016
Net income	**$ 114,702**	$ 73,353	**$ 149,631**	$ 123,635
Other comprehensive income, net of tax				
Unrealized gain on available for sale securities, net of tax of $(670), $(3,154), $(4,456), and $(5,768), respectively	**$ 1,408**	$ 4,500	**6,923**	8,201
Net unrealized gain on derivatives, net of tax of $0, $(21), $0 and $(2), respectively *(1)*	**—**	38	**—**	5
Adjustment to postemployment benefit obligation, net of tax of $(217), $(175), $(434), and $(349) respectively	**318**	257	**635**	513
Other comprehensive income	**$ 1,726**	$ 4,795	**7,558**	8,719
Comprehensive income	**$ 116,428**	$ 78,148	**$ 157,189**	$ 132,354

(1) Effective January 1, 2016, the Company elected not to designate its foreign currency derivatives as accounting hedges and, as a result, changes in fair value of the effective portion of the hedges are no longer recorded in OCI. See Note 4 Derivative Instruments for more information on these transactions.

See Notes to Unaudited Condensed Consolidated Financial Statements

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended March 31,	
(Thousands)	**2017**	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 149,631**	$ 123,635
Adjustments to reconcile net income to cash flows from operating activities		
Unrealized (gain) loss on derivative instruments	**(26,553)**	2,035
Gain on sale of property and available for sale securities, net	**(7,287)**	—
Depreciation and amortization	**39,588**	34,226
Allowance for equity used during construction	**(1,586)**	(2,357)
Allowance for bad debt expense	**519**	873
Deferred income taxes	**32,202**	17,980
Manufactured gas plant remediation costs	**(3,704)**	(2,656)
Distributions received from equity investees, net of equity in earnings	**(463)**	2,261
Cost of removal - asset retirement obligations	**(242)**	(66)
Contributions to postemployment benefit plans	**(1,884)**	(32,167)
Tax benefit from stock-based compensation	**1,231**	1,660
Changes in:		
Components of working capital	**(31,231)**	(13,788)
Other noncurrent assets	**24,580**	(15,794)
Other noncurrent liabilities	**(2,997)**	2,163
Cash flows from operating activities	**171,804**	118,005
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for:		
Utility plant	**(58,761)**	(76,326)
Solar and wind equipment	**(89,905)**	(70,882)
Real estate properties and other	**(516)**	(1,069)
Cost of removal	**(14,838)**	(20,080)
Investments in equity investees	**(10,538)**	(5,948)
Distribution from equity investees in excess of equity in earnings	**1,273**	1,131
Withdrawal from restricted cash construction fund	**1,337**	1,007
Proceeds from sale of property, net of closing costs	**9,443**	748
Proceeds from sale of available for sale securities	**6,639**	—
Cash flows (used in) investing activities	**(155,866)**	(171,419)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from short-term debt	**116,200**	86,150
Payments of long-term debt	**(41,660)**	(5,807)
Proceeds from sale-leaseback transaction	**9,587**	7,107
Payments of common stock dividends	**(43,898)**	(41,115)
Proceeds from issuance of common stock	**9,731**	8,220
Purchases of treasury stock	**(6,355)**	(1,008)
Tax withholding payments related to net settled stock compensation	**(4,354)**	(3,181)
Cash flows from financing activities	**39,251**	50,366
Change in cash and cash equivalents	**55,189**	(3,048)
Cash and cash equivalents at beginning of period	**37,546**	4,928
Cash and cash equivalents at end of period	**$ 92,735**	$ 1,880
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	**$ (137,408)**	$ (16,750)
Inventories	**62,321**	43,479
Recovery of gas costs	**(9,616)**	(20,396)

Gas purchases payable		**21,156**		(31,324)
Gas purchases payable - related parties		**3**		(409)
Prepaid and accrued taxes		**25,829**		43,154
Accounts payable and other		**(10,027)**		(25,026)
Restricted broker margin accounts		**28,432**		(12,478)
Customers' credit balances and deposits		**(12,765)**		226
Other current assets		**844**		5,736
Total	**$**	**(31,231)**	$	(13,788)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION				
Cash paid (received) for:				
Interest (net of amounts capitalized)	**$**	**21,578**	$	15,647
Income taxes	**$**	**(6,431)**	$	688
Accrued capital expenditures	**$**	**23,284**	$	21,663

See Notes to Unaudited Condensed Consolidated Financial Statements

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

ASSETS

(Thousands)		**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
Solar and wind equipment, real estate properties and other, at cost		**758,864**		631,696
Construction work in progress		**31,464**		93,791
Total property, plant and equipment		**3,066,429**		2,955,130
Accumulated depreciation and amortization, utility plant		**(475,075)**		(467,702)
Accumulated depreciation and amortization, solar and wind equipment, real estate properties and other		**(95,050)**		(79,776)
Property, plant and equipment, net		**2,496,304**		2,407,652
CURRENT ASSETS				
Cash and cash equivalents		**92,735**		37,546
Customer accounts receivable				
Billed		**242,698**		142,658
Unbilled revenues		**42,657**		5,744
Allowance for doubtful accounts		**(4,929)**		(4,865)
Regulatory assets		**43,344**		54,286
Gas in storage, at average cost		**143,514**		206,251
Materials and supplies, at average cost		**11,194**		10,778
Prepaid and accrued taxes		**15,528**		34,179
Derivatives, at fair value		**32,103**		29,964
Restricted broker margin accounts		**23,604**		47,644
Asset held for sale		**—**		7,660
Other		**35,509**		35,419
Total current assets		**677,957**		607,264
NONCURRENT ASSETS				
Investments in equity method investees		**152,891**		141,148
Regulatory assets		**396,924**		441,294
Derivatives, at fair value		**6,347**		5,227
Available for sale securities		**65,884**		55,789
Other		**61,052**		60,196
Total noncurrent assets		**683,098**		703,654
Total assets	**$**	**3,857,359**	$	3,718,570

See Notes to Unaudited Condensed Consolidated Financial Statements

ITEM 1. FINANCIAL STATEMENTS (Continued)

CAPITALIZATION AND LIABILITIES

(Thousands)		**March 31, 2017**		September 30, 2016
CAPITALIZATION				
Common stock, $2.50 par value; authorized 150,000,000 shares; outstanding March 31, 2017 — 86,363,986; September 30, 2016 — 86,086,355	**$**	**222,235**	$	221,654
Premium on common stock		**219,074**		215,580
Accumulated other comprehensive loss, net of tax		**(7,597)**		(15,155)
Treasury stock at cost and other; shares March 31, 2017 — 2,529,817; September 30, 2016 — 2,575,139		**(78,616)**		(81,044)
Retained earnings		**931,184**		825,556
Common stock equity		**1,286,280**		1,166,591
Long-term debt		**1,023,968**		1,055,038
Total capitalization		**2,310,248**		2,221,629
CURRENT LIABILITIES				
Current maturities of long-term debt		**60,723**		61,452
Short-term debt		**237,900**		121,700
Gas purchases payable		**160,605**		139,452
Gas purchases payable to related parties		**1,156**		1,150
Accounts payable and other		**70,981**		107,184
Dividends payable		**22,023**		21,975
Accrued taxes		**8,258**		1,080
Regulatory liabilities		**5,747**		9,469
New Jersey clean energy program		**6,239**		14,232
Derivatives, at fair value		**32,559**		61,080
Customers' credit balances and deposits		**20,069**		32,834
Total current liabilities		**626,260**		571,608
NONCURRENT LIABILITIES				
Deferred income taxes		**507,111**		473,847
Deferred investment tax credits		**4,458**		4,619
Deferred gain		**28,121**		28,519
Derivatives, at fair value		**6,105**		25,252
Manufactured gas plant remediation		**165,849**		172,000
Postemployment employee benefit liability		**141,797**		141,604
Regulatory liabilities		**28,457**		41,411
Asset retirement obligation		**29,924**		28,379
Other		**9,029**		9,702
Total noncurrent liabilities		**920,851**		925,333
Commitments and contingent liabilities (Note 12)				
Total capitalization and liabilities	**$**	**3,857,359**	$	3,718,570

See Notes to Unaudited Condensed Consolidated Financial Statements

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF THE BUSINESS

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

New Jersey Natural Gas Company provides natural gas utility service to approximately 528,000 retail customers in central and northern New Jersey and is subject to rate regulation by the BPU. NJNG comprises the Natural Gas Distribution segment;

NJR Clean Energy Ventures Corporation, the Company's clean energy subsidiary, comprises the Clean Energy Ventures segment and consists of the Company's capital investments in commercial and residential solar projects located throughout New Jersey and onshore wind investments in Montana, Iowa, Kansas, Wyoming and Pennsylvania;

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

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, located in Pennsylvania, and NJR Pipeline Company, which holds the Company's 20 percent ownership interest in PennEast and NJNR Pipeline Company, which holds the Company's 1.84 million Common Units of Dominion Midstream Partners, L.P. The investments in Steckman Ridge, PennEast and DM comprise the Midstream segment; and

NJR Retail Holdings Corporation has two principal subsidiaries, NJR Home Services Company, which provides heating, central air conditioning, standby generators, solar and other indoor and outdoor comfort products to residential homes throughout New Jersey, and Commercial Realty & Resources Corporation, which owns commercial real estate. NJR Retail Holdings Corporation is included in Home Services and Other operations. NJR Energy Corporation, a subsidiary of CR&R, was dissolved on November 28, 2016, and all assets were moved to CR&R during the first quarter of fiscal 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared by NJR in accordance with the rules and regulations of the SEC and GAAP. The September 30, 2016 Balance Sheet data is derived from the audited financial statements of the Company. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and the notes thereto included in NJR's 2016 Annual Report on Form 10-K.

The Unaudited Condensed Consolidated Financial Statements include the accounts of NJR and its subsidiaries. In the opinion of management, the accompanying Unaudited Condensed Consolidated Financial Statements reflect all adjustments necessary for a fair presentation of the results of the interim periods presented. These adjustments are of a normal and recurring nature. Because of the seasonal nature of NJR's utility and wholesale energy services operations, in addition to other factors, the financial results for the interim periods presented are not indicative of the results that are to be expected for the fiscal year ending September 30, 2017 . Intercompany transactions and accounts have been eliminated.

Gas in Storage

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

	March 31, 2017		September 30, 2016	
($ in thousands)	**Gas in Storage**	**Bcf**	Gas in Storage	Bcf
NJRES	**$ 128,281**	**46.4**	$ 130,493	62.0
NJNG	**15,233**	**4.3**	75,758	21.3
Total	**$ 143,514**	**50.7**	$ 206,251	83.3

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Sales Tax Accounting

Sales tax that is collected from customers is presented in both operating revenues and operating expenses on the Unaudited Condensed Consolidated Statements of Operations was $16.9 million and $28.1 million during the three and six months ended March 31, 2017 , respectively, and $13.5 million and $20.7 million during the three and six months ended March 31, 2016 , respectively. Effective January 1, 2017, the New Jersey sales tax rate decreased from 7 percent to 6.875 percent .

Sale of Asset

On March 8, 2017 , CR&R sold an approximately 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 , which was recognized in O&M on the Unaudited Condensed Consolidated Statements of Operations.

Available for Sale Securities

Included in available for sale securities on the Unaudited Condensed Consolidated Balance Sheets are investments in two publicly traded energy companies. The Company's available for sale securities had a fair value of $65.9 million and $55.8 million as of March 31, 2017 and September 30, 2016 , respectively. Total unrealized gains associated with these investments are included as a part of accumulated other comprehensive income, a component of common stock equity and were $18.5 million , $11.1 million after tax, and $7.2 million , $4.2 million after tax, as of March 31, 2017 and September 30, 2016 , respectively.

During the three and six months ended March 31, 2017 , NJR received proceeds of approximately $3.4 million and $6.6 million , respectively, from the sale of available for sale securities and realized a pre-tax gain of $2.8 million and $5.4 million , respectively, which is included in other income, net in the Unaudited Condensed Consolidated Statements of Operations. Reclassifications of realized gains out of other comprehensive income into income are determined based on average cost.

Customer Accounts Receivable

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

(Thousands)		**March 31, 2017**			September 30, 2016	
NJRES	**$**	**135,199**	**56%**	$	102,884	72%
NJNG [(1)]		**100,449**	**41**		30,951	22
NJRCEV		**2,405**	**1**		1,807	1
NJRHS and other		**4,645**	**2**		7,016	5
Total	**$**	**242,698**	**100%**	$	142,658	100%

(1) Does not include unbilled revenues of $42.7 million and $5.7 million as of March 31, 2017 and September 30, 2016 , respectively.

Loans Receivable

NJNG provides loans, with terms ranging from two to 10 years, to customers that elect to purchase and install certain energy efficient equipment in accordance with its BPU-approved SAVEGREEN program. The loans are recognized at net present value on the Unaudited Condensed Consolidated Balance Sheets. The Company recorded $8.2 million and $7.8 million in other current assets and $40.7 million and $39.5 million in other noncurrent assets as of March 31, 2017 and September 30, 2016 , respectively, on the Unaudited Condensed Consolidated Balance Sheets, related to the loans.

NJNG's policy is to establish an allowance for doubtful accounts when loan balances are in arrears for more than 60 days . As of March 31, 2017 and September 30, 2016 , there was no allowance for doubtful accounts established for the SAVEGREEN loans.

Stock Based Compensation

Effective January 25, 2017, the shareholders of NJR approved the NJR 2017 Stock Award and Incentive Plan, which replaced the NJR 2007 Stock Award and Incentive Plan. The 2007 plan had 2,367,338 and 4,223 shares available for future issuance to employees and directors, respectively, which were transferred into the 2017 plan. In addition, the 2017 plan increases the total shares available for issuance to 3,135,000 .

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recently Adopted Updates to the Accounting Standards Codification

Stock Compensation

In March 2016, the FASB issued ASU 2016-09, an amendment to ASC 718, *Compensation - Stock Compensation* , which simplifies several aspects of the accounting for employee share-based compensation, including the accounting for income taxes and forfeitures. The new guidance also increased the threshold for tax withholding to the maximum statutory rate, as applicable, to maintain equity classification and amended the classification of certain tax transactions within the statement of cash flows.

The Company elected to early adopt the amended guidance during the third quarter of fiscal 2016 and applied the new provisions as of the beginning of the year of adoption on a retrospective or prospective basis depending on each amendment's transition requirements. As such, effective October 1, 2015, NJR is recognizing forfeitures as they occur and is recognizing excess tax benefits (deficiencies) as a component of income tax (benefit) provision in its Unaudited Condensed Consolidated Statements of Operations on a prospective basis. All related information for prior periods has been adjusted throughout this report on a retrospective basis to reflect the effects of the adoption. See *Note 11. Income Taxes* for more information on these transactions.

In addition, the following amounts on the Unaudited Condensed Consolidated Financial Statements have been adjusted retrospectively during the three and six months ended March 31, 2016 :

(Thousands)	As Previously Reported	Effect of Change	As Adjusted
Three Months Ended			
Statements of Operations			
Income tax provision	$ 17,840	$ (25)	$ 17,815
Net income	$ 73,328	$ 25	$ 73,353
Earnings per common share			
Basic	$ 0.85	$ —	$ 0.85
Diluted	$ 0.84	$ —	$ 0.84
Six Months Ended			
Statements of Operations			
Income tax provision	$ 26,197	$ (1,660)	$ 24,537
Net income	$ 121,975	$ 1,660	$ 123,635
Earnings per common share			
Basic	$ 1.42	$ 0.02	$ 1.44
Diluted	$ 1.41	$ 0.01	$ 1.42
Cash flows from operating activities			
Net income	$ 121,975	$ 1,660	$ 123,635
Tax benefit from stock based compensation	$ —	$ 1,660	$ 1,660
Other noncurrent liabilities	$ 2,302	$ (139)	$ 2,163
Net cash flows from operating activities	$ 114,824	$ 3,181	$ 118,005
Cash flows from financing activities			
Tax withholding payments related to net settled stock compensation	$ —	$ (3,181)	$ (3,181)
Cash flows from financing activities	$ 53,547	$ (3,181)	$ 50,366

There was no impact to the Unaudited Condensed Consolidated Balance Sheets upon adoption of the new guidance.

In June 2014, the FASB issued ASU No. 2014-12, an amendment to ASC 718, *Compensation - Stock Compensation* , which clarifies the accounting for performance awards when the terms of the award provide that a performance target could be achieved after the requisite service period. The Company adopted the new guidance in the first quarter of fiscal 2017 and applied the new provisions on a prospective basis, which did not impact its financial position, results of operations or cash flows upon adoption.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, an amendment to ASC 810, *Consolidation* , which changes the consolidation analysis required under GAAP and reevaluates whether limited partnerships and similar entities must be consolidated. The Company adopted the new guidance in the first quarter of fiscal 2017 and applied the new provisions on a full retrospective basis, which did not impact its financial position, results of operations or cash flows upon adoption.

Interest

In April 2015, the FASB issued ASU No. 2015-03, an amendment to ASC 835, *Interest - Imputation of Interest,* which simplifies the presentation of debt issuance costs by requiring them to be presented on the balance sheet as a deduction from the carrying amount of the liability. The amendment does not affect the recognition and measurement guidance for debt issuance costs. In August 2015, the FASB issued ASU No. 2015-15, which clarified that the amendment contained within ASU No. 2015-03 does not require companies to modify their accounting for costs incurred in obtaining revolving credit facilities. The Company adopted the new guidance in the first quarter of fiscal 2017 and applied the new provisions on a full retrospective basis.

In addition, the following amounts on the Unaudited Condensed Consolidated Balance Sheets have been adjusted, retrospectively, as of September 30, 2016.

(Thousands)	As Previously Reported	Effect of Change	As Adjusted
Assets			
Other noncurrent assets	$ 68,708	$ (8,512)	$ 60,196
Total noncurrent assets	$ 712,166	$ (8,512)	$ 703,654
Total assets	$ 3,727,082	$ (8,512)	$ 3,718,570
Capitalization and Liabilities			
Long-term debt	$ 1,063,550	$ (8,512)	$ 1,055,038
Total capitalization	$ 2,230,141	$ (8,512)	$ 2,221,629
Total capitalization and liabilities	$ 3,727,082	$ (8,512)	$ 3,718,570

Intangibles

In April 2015, the FASB issued ASU No. 2015-05, an amendment to ASC 350, *Intangibles - Goodwill and Other - Internal-Use Software,* which clarifies the accounting for fees in a cloud computing arrangement. The amendment provides guidance on how an entity should evaluate the accounting for fees paid in a cloud computing arrangement to determine whether an arrangement includes the sale or license of software. The Company adopted the new guidance in the first quarter of fiscal 2017 and applied the new provisions on a prospective basis, which did not impact its financial position, results of operations or cash flows upon adoption.

Other Recent Updates to the Accounting Standards Codification

Revenue

In May 2014, the FASB issued ASU No. 2014-09, and added Topic 606, *Revenue from Contracts with Customers* , to the ASC. ASC 606 supersedes ASC 605, *Revenue Recognition* , as well as most industry-specific guidance, and prescribes a single, comprehensive revenue recognition model designed to improve financial reporting comparability across entities, industries, jurisdictions and capital markets. In August 2015, the FASB issued ASU No. 2015-14, which defers the implementation of the new guidance for one year. The new guidance will become effective for the Company’s fiscal year ending September 30, 2019, and interim periods within that year. The Company continues to evaluate the provisions of ASC 606, however, based on the review of customer contracts to date, it is not anticipating a material impact to its financial position, results of operations or cash flows upon adoption. The Company anticipates significant new disclosures as a result of the new standard and currently expects to transition to the new guidance using the modified retrospective approach. The Company is also monitoring industry specific developments that may have an impact, including our ability to recognize revenue for contracts where collectability is uncertain.

Inventory

In July 2015, the FASB issued ASU No. 2015-11, an amendment to ASC 330, *Inventory* , which requires entities to measure most inventory "at the lower of cost or net realizable value," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The guidance is effective for the Company's fiscal year ending September 30, 2018, and interim periods within that year. Upon adoption, the amendment will be applied on a prospective basis. The Company is currently evaluating the amendment to understand the impact on its financial position, results of operations and cash flows upon adoption.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, an amendment to ASC 825, *Financial Instruments* , to address certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. The standard affects investments in equity securities that do not result in consolidation and are not accounted for under the equity method and the presentation of certain fair value changes for financial liabilities measured at fair value. It also simplifies the impairment assessment of equity investments without a readily determinable fair value by requiring a qualitative assessment. The guidance is effective for the Company's fiscal year ending September 30, 2019, and interim periods within that year. Upon adoption, the amendment will be applied on a modified-retrospective basis. The Company evaluated the amendment and noted that, upon adoption, subsequent changes to the fair value of the Company's available for sale securities will be recorded in the Consolidated Statement of Operations as opposed to other comprehensive income. The Company does not expect any other material impacts to its financial position, results of operations or cash flows upon adoption.

In June 2016, the FASB issued ASU 2016-13, an amendment to ASC 326, *Financial Instruments* - *Credit Losses,* which changes the impairment model for certain financial assets that have a contractual right to receive cash, including trade and loan receivables. The new model requires recognition based upon an estimation of expected credit losses rather than recognition of losses when it is probable that they have been incurred. The guidance is effective for the Company's fiscal year ending September 30, 2021, and interim periods within that year, with early adoption permitted. The Company is currently evaluating the amendment to understand the impact on its financial position, results of operations and cash flows upon adoption and will apply the new guidance to its trade and loan receivables on a modified retrospective basis.

Leases

In February 2016, the FASB issued ASU 2016-02, an amendment to ASC 842, *Leases* , which provides for a comprehensive overhaul of the lease accounting model and changes the definition of a lease within the accounting literature. Under the new standard, all leases with a term greater than one year will be recorded on the balance sheet. Amortization of the related asset will be accounted for using one of two approaches prescribed by the guidance. Additional disclosures will be required to allow the user to assess the amount, timing and uncertainty of cash flows arising from leasing activities. A modified retrospective transition approach is required for leases existing at the time of adoption. The guidance is effective for the Company's fiscal year ending September 30, 2020, and interim periods within that year, with early adoption permitted. The Company is currently evaluating the amendment to understand the impact on its financial position, results of operations and cash flows upon adoption.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, an amendment to ASC 230, Statement of Cash Flows, which addresses eight specific cash flow issues for which there has been diversity in practice. The guidance is effective for the Company's fiscal year ending September 30, 2019, and interim periods within that year with early adoption permitted. Upon adoption, the amendment will be applied on a retrospective basis. The Company is currently evaluating the amendment to understand the impact on its consolidated statements of cash flows upon adoption.

In November 2016, the FASB issued ASU No. 2016-18, an amendment to ASC 230, Statement of Cash Flows, which requires that any amounts that are deemed to be restricted cash or restricted cash-equivalents be included in cash and cash-equivalent balances on the cash flow statement and, therefore, transfers between cash and restricted cash accounts will no longer be recognized within the statement of cash flows. The guidance is effective for the Company's fiscal year ending September 30, 2019, with early adoption permitted. Upon adoption, the amendment will be applied on a retrospective basis. Based on the Company's historical restricted cash balances, it does not expect any material impacts to its financial position, results of operations or cash flows upon adoption.

Business Combinations

In January 2017, the FASB issued ASU No. 2017-01, an amendment to ASC 805, *Business Combinations* , clarifying the definition of a business in the ASC, which is intended to reduce the complexity surrounding the assessment of a transaction as an asset acquisition or business combination. The amendment provides an initial fair value screen to reduce the number of transactions that would fit the definition of a business, and when the screen threshold is not met, provides an updated model that further clarifies the characteristics of a business. The guidance is effective for the Company's fiscal year ending September 30, 2019, and interim periods within that year with early adoption permitted. Upon adoption, the amendment will be applied on a prospective basis. The amendment could potentially have material impacts on future transactions that the Company may enter into by altering the Company's conclusion on what accounting to apply to acquisitions.

Gains and Losses from the Derecognition of Nonfinancial Assets

In February 2017, the FASB issued ASU No. 2017-05, an amendment to ASC 610-20, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets* , which clarifies the scope and accounting related to the derecognition of nonfinancial assets, including partial sales and contributions of nonfinancial assets to a joint venture or other non-controlled investee. The guidance is effective concurrently with ASC 606, which is effective for the Company's fiscal year ending September 30, 2019, and interim periods within that year with early adoption permitted. ASU No. 2017-05 may be applied retrospectively for all periods presented or retrospectively with a cumulative-effect adjustment at the date of adoption. The Company is currently evaluating the amendment to understand the impact on its financial position, results from operations, and cash flows upon adoption.

Compensation - Retirement Benefits

In March 2017, the FASB issued ASU No. 2017-07, an amendment to ASC 715, *Compensation - Retirement Benefits* , which changes the presentation of net periodic benefit cost on the income statement by requiring companies to present all components of net periodic benefit cost, other than service cost, outside a subtotal of income from operations. The amendment also states that only the service cost component of net periodic benefits costs is eligible for capitalization, when applicable. The guidance is effective for the Company's fiscal year ending September 30, 2019, and interim periods within that year with early adoption permitted. Upon adoption, the amendment will be applied on a retrospective basis for presentation and changes to capitalization of costs will be applied on a prospective basis. The Company is continuing to evaluate the amendment to fully understand the impact on its financial position, results of operations and cash flows upon adoption. The Company is also monitoring industry specific developments on the new guidance to determine the appropriate treatment of these changes in a rate regulated environment.

3. REGULATION

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

NJNG's recovery of costs is facilitated through its base rates, BGSS and other regulatory tariff riders. NJNG is required to make an annual filing to the BPU by June 1 of each year for review of its BGSS, CIP and various other programs and related rates. Annual rate changes are requested to be effective at the beginning of the following fiscal year. In addition, NJNG is also permitted to request approval of certain rate or program changes on an interim basis. All rate and program changes are subject to proper notification and BPU review and approval.

In September 2016 , the BPU approved NJNG's base rate case, effective October 1, 2016, which included 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 a depreciation rate of 2.4 percent . The approval also included the five -year extension of SAFE II, rate recovery of NJ RISE capital investment costs through June 30, 2016, recovery of NJNG's SAFE I, NGV and LNG capital investments and recovery of other costs previously deferred in regulatory assets.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Thousands)	**March 31, 2017**	September 30, 2016
Regulatory assets-current		
Conservation Incentive Program	**$ 23,834**	$ 36,957
New Jersey Clean Energy Program	**6,239**	14,232
Underrecovered gas costs	**13,271**	—
Derivatives at fair value, net	**—**	3,097
Total current regulatory assets	**$ 43,344**	$ 54,286
Regulatory assets-noncurrent		
Environmental remediation costs		
Expended, net of recoveries	**$ 19,067**	$ 19,595
Liability for future expenditures	**165,849**	172,000
Deferred income taxes	**21,209**	20,273
Derivatives at fair value, net	**4,392**	23,384
SAVEGREEN	**15,604**	25,208
Postemployment and other benefit costs	**151,414**	157,027
Deferred Superstorm Sandy costs	**14,116**	15,201
Other noncurrent regulatory assets	**5,273**	8,606
Total noncurrent regulatory assets	**$ 396,924**	$ 441,294
Regulatory liability-current		
Derivatives at fair value, net	**$ 5,747**	$ —
Overrecovered gas costs	**—**	9,469
Total current regulatory liabilities	**$ 5,747**	$ 9,469
Regulatory liabilities-noncurrent		
Cost of removal obligation	**$ 17,224**	$ 30,549
New Jersey Clean Energy Program	**10,269**	10,657
Other noncurrent regulatory liabilities	**964**	205
Total noncurrent regulatory liabilities	**$ 28,457**	$ 41,411

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

- On March 31, 2017 , NJNG filed its annual petition with the BPU requesting a base rate change in the amount of $4.3 million for the recovery of NJ RISE and SAFE II capital investment costs related to the period ending June 30, 2017 , pursuant to the base rate case order dated September 23, 2016 . The filing will be updated to reflect actual results in July 2017, with changes to base rates effective October 1, 2017 .

4. DERIVATIVE INSTRUMENTS

The Company is subject to commodity price risk due to fluctuations in the market price of natural gas, SRECs and electricity. To manage this risk, the Company enters into a variety of derivative instruments including, but not limited to, futures contracts, physical forward contracts, financial options and swaps to economically hedge the commodity price risk associated with its existing and anticipated commitments to purchase and sell natural gas, SRECs and electricity. In addition, the Company may utilize foreign currency derivatives to hedge Canadian dollar denominated gas purchases and/or sales. Therefore, the Company's primary underlying risks include commodity prices, interest rates and foreign currency. These contracts are accounted for as derivatives. Accordingly, all of the financial and certain of the Company's physical derivative instruments are recorded at fair value on the Unaudited Condensed Consolidated Balance Sheets. For a more detailed discussion of the Company's fair value measurement policies and level disclosures associated with NJR's derivative instruments, see *Note 5. Fair Value* .

NJRES

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

NJRES also enters into natural gas transactions in Canada and, consequently, is exposed to fluctuations in the value of Canadian currency relative to the U.S. dollar. NJRES may utilize foreign currency derivatives to lock in the exchange rate associated with natural gas transactions denominated in Canadian currency. The derivatives may include currency forwards, futures, or swaps and are accounted for as derivatives. These derivatives are typically used to hedge demand fee payments on pipeline capacity, storage and gas purchase agreements. Accordingly, changes in the fair value of foreign exchange contracts are recognized in gas purchases on the Unaudited Condensed Consolidated Statements of Operations. For transactions occurring on or before December 31, 2015, NJRES' foreign exchange contracts were designated as cash flow hedges, and the effective portion of the hedges were recorded in OCI.

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

Expected production of SRECs is hedged through the use of forward and futures contracts. All contracts require the Company to physically deliver SRECs through the transfer of certificates as per contractual settlement schedules. The Company applies NPNS accounting to SREC forward and futures contracts entered into on or before December 31, 2015. Effective for contracts executed on or after January 1, 2016, NJRES no longer elects NPNS accounting treatment on all SREC forward sales contracts and recognizes changes in the fair value of these derivatives as a component of operating revenues. Upon settlement of the contract, the related revenue is recognized when the SREC is transferred to the counterparty.

NPNS is a contract-by-contract election and, where it makes sense to do so, we can and may elect normal accounting for certain contracts.

NJNG

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

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 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 . The change in fair value of NJNG's treasury lock agreement is recorded as a component of regulatory assets or liabilities on the Unaudited Condensed Consolidated Balance Sheets since NJNG believes that the market value upon settlement will be recovered in future rates. Upon settlement, any gain or loss will be amortized into earnings over the life of the future underlying debt issuance.

Fair Value of Derivatives

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

		Fair Value			
		March 31, 2017		September 30, 2016	
(Thousands)	Balance Sheet Location	**Asset Derivatives**	**Liability Derivatives**	Asset Derivatives	Liability Derivatives
Derivatives not designated as hedging instruments:					
NJNG:					
Physical commodity contracts	Derivatives - current	**$ 64**	**$ 17**	$ 235	$ 1,154
Financial commodity contracts	Derivatives - current	**2,240**	**928**	805	2,979
	Derivatives - noncurrent	**—**	**—**	75	386
Interest rate contracts	Derivatives - noncurrent	**—**	**4,392**	—	23,073
NJRES:					
Physical commodity contracts	Derivatives - current	**4,080**	**2,460**	5,994	11,660
	Derivatives - noncurrent	**6,084**	**588**	3,987	1,212
Financial commodity contracts	Derivatives - current	**25,717**	**29,127**	22,929	45,255
	Derivatives - noncurrent	**263**	**1,125**	1,165	581
Foreign currency contracts	Derivatives - current	**2**	**27**	1	32
Fair value of derivatives not designated as hedging instruments		**$ 38,450**	**$ 38,664**	$ 35,191	$ 86,332
Total fair value of derivatives		**$ 38,450**	**$ 38,664**	$ 35,191	$ 86,332

Offsetting of Derivatives

NJR transacts under master netting arrangements or equivalent agreements that allow it to offset derivative assets and liabilities with the same counterparty. However, NJR's policy is to present its derivative assets and liabilities on a gross basis at the contract level unit of account on the Unaudited Condensed Consolidated Balance Sheets. The following table summarizes the reported gross amounts, the amounts that NJR has the right to offset but elects not to, financial collateral, as well as the net amounts NJR could present on the Unaudited Condensed Consolidated Balance Sheets but elects not to.

(Thousands)	Amounts Presented in Balance Sheets (1)	Offsetting Derivative Instruments (2)	Financial Collateral Received/Pledged (3)	Net Amounts (4)
As of March 31, 2017:				
Derivative assets:				
NJRES				
Physical commodity contracts	**$ 10,164**	**$ (540)**	**$ (200)**	**$ 9,424**
Financial commodity contracts	**25,980**	**(25,068)**	**—**	**912**
Foreign currency contracts	**2**	**(2)**	**—**	**—**
Total NJRES	**$ 36,146**	**$ (25,610)**	**$ (200)**	**$ 10,336**
NJNG				
Physical commodity contracts	**$ 64**	**$ (2)**	**$ —**	**$ 62**
Financial commodity contracts	**2,240**	**(928)**	**(1,312)**	**—**
Total NJNG	**$ 2,304**	**$ (930)**	**$ (1,312)**	**$ 62**
Derivative liabilities:				
NJRES				
Physical commodity contracts	**$ 3,048**	**$ (540)**	**$ —**	**$ 2,508**
Financial commodity contracts	**30,252**	**(25,068)**	**(5,184)**	**—**
Foreign currency contracts	**27**	**(2)**	**—**	**25**
Total NJRES	**$ 33,327**	**$ (25,610)**	**$ (5,184)**	**$ 2,533**
NJNG				
Physical commodity contracts	**$ 17**	**$ (2)**	**$ —**	**$ 15**
Financial commodity contracts	**928**	**(928)**	**—**	**—**
Interest rate contracts	**4,392**	**—**	**—**	**4,392**
Total NJNG	**$ 5,337**	**$ (930)**	**$ —**	**$ 4,407**
As of September 30, 2016:				
Derivative assets:				
NJRES				
Physical commodity contracts	$ 9,981	$ (2,837)	$ (755)	$ 6,389
Financial commodity contracts	24,094	(17,945)	(6,149)	—
Foreign currency contracts	1	(1)	—	—
Total NJRES	$ 34,076	$ (20,783)	$ (6,904)	$ 6,389
NJNG				
Physical commodity contracts	$ 235	$ (31)	$ —	$ 204
Financial commodity contracts	880	(880)	—	—
Total NJNG	$ 1,115	$ (911)	$ —	$ 204
Derivative liabilities:				
NJRES				
Physical commodity contracts	$ 12,872	$ (2,837)	$ 1,200	$ 11,235
Financial commodity contracts	45,836	(17,945)	(27,891)	—
Foreign currency contracts	32	(1)	—	31
Total NJRES	$ 58,740	$ (20,783)	$ (26,691)	$ 11,266
NJNG				
Physical commodity contracts	$ 1,154	$ (31)	$ —	$ 1,123
Financial commodity contracts	3,365	(880)	(2,485)	—

Interest rate contracts		23,073		—		—		23,073
Total NJNG	$	27,592	$	(911)	$	(2,485)	$	24,196

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

(Thousands)	**Location of gain (loss) recognized in income on derivatives**	**Amount of gain (loss) recognized in income on derivatives**			
		Three Months Ended March 31,		**Six Months Ended March 31,**	
Derivatives not designated as hedging instruments:		**2017**	2016	**2017**	2016
NJRES:					
Physical commodity contracts	Operating revenues	**$ 4,982**	$ 9,128	**$ 6,725**	$ 21,002
Physical commodity contracts	Gas purchases	**(3,982)**	(5,583)	**(12,781)**	(26,820)
Financial commodity contracts	Gas purchases	**38,121**	21,820	**7,510**	63,096
Foreign currency contracts	Gas purchases	**53**	—	**(33)**	—
Total unrealized and realized gains (losses)		**$ 39,174**	$ 25,365	**$ 1,421**	$ 57,278

NJRES designated its foreign exchange contracts entered into prior to January 1, 2016, as cash flow hedges and, as a result, changes in fair value of the effective portion of the hedges were recorded in OCI and, upon settlement of the contracts, realized gains and (losses) were reclassified from AOCI to gas purchases on the Unaudited Condensed Consolidated Statements of Operations.

The following table reflects the effect of derivative instruments that were designated as cash flow hedges on OCI during the three and six months ended March 31, 2016 :

(Thousands)	**Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)**		**Amount of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)**	
March 31, 2016	**Three Months Ended**	**Six Months Ended**	**Three Months Ended**	**Six Months Ended**
Foreign currency contracts	$ 29	$ (35)	$ 30	$ 42

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

The following table reflects the gains (losses) associated with NJNG's derivative instruments as of:

	Three Months Ended March 31,		**Six Months Ended March 31,**	
(Thousands)	**2017**	2016	**2017**	2016
NJNG:				
Physical commodity contracts	**$ (3,780)**	$ (14,528)	**$ (2,730)**	$ (14,528)
Financial commodity contracts	**(418)**	(5,151)	**10,760**	(10,786)
Interest rate contracts	**(1,690)**	(11,071)	**18,681**	(8,705)
Total unrealized and realized (losses) gains	**$ (5,888)**	$ (30,750)	**$ 26,711**	$ (34,019)

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

		Volume (Bcf)	
		March 31, 2017	September 30, 2016
NJNG	Futures	**24.6**	23.6
	Physical	**5.7**	9.2
NJRES	Futures	**(64.2)**	(79.1)
	Options	**—**	1.2
	Physical	**64.0**	94.6

Not included in the previous table are NJRES' gross notional amount of foreign currency transactions of approximately $2.2 million , NJNG's treasury lock agreement as previously discussed and 314,500 SRECs at NJRES that are open as of March 31, 2017 .

Broker Margin

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

(Thousands)	Balance Sheet Location	**March 31, 2017**	September 30, 2016
NJNG	Broker margin - Current assets	**$ 3,354**	$ 4,822
NJRES	Broker margin - Current assets	**$ 20,250**	$ 42,822

Due to CME rulebook changes that took effect in January 2017, variation margin is being treated as a settlement payment, rather than collateral. As a result, the Company is now required to present variation margin net with the related derivative assets and/or liabilities on the Unaudited Condensed Consolidated Balance Sheets for any derivatives the Company clears through the CME. This change is being applied on a prospective basis. In September 30, 2016, prior to the rule change, the Company reported the variation margin as a separate unit of account within restricted broker margin on the Unaudited Condensed Consolidated Balance Sheets. There was no impact to the Company's derivative gains or losses in the Unaudited Condensed Consolidated Statements of Operations as a result of the CME rule amendment.

Wholesale Credit Risk

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

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The following is a summary of gross credit exposures grouped by investment and noninvestment grade counterparties, as of March 31, 2017 . The amounts presented below have not been reduced by any collateral received or netting and exclude accounts receivable for NJNG retail natural gas sales and services and NJRCEV residential solar installations.

(Thousands)		Gross Credit Exposure
Investment grade	**$**	**155,318**
Noninvestment grade		**35,381**
Internally rated investment grade		**8,974**
Internally rated noninvestment grade		**27,114**
Total	**$**	**226,787**

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

Collateral amounts associated with any of these conditions are determined based on a sliding scale and are contingent upon the degree to which the Company's credit rating and/or financial metrics deteriorate, and the extent to which liability amounts exceed applicable threshold limits. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on March 31, 2017 and September 30, 2016 , was $4.5 million and $23.1 million , respectively, for which the Company had not posted collateral. If all thresholds related to the credit-risk-related contingent features underlying these agreements had been invoked on March 31, 2017 and September 30, 2016 , the Company would have been required to post an additional $4.5 million and $23.1 million , respectively, to its counterparties. These amounts differ from the respective net derivative liabilities reflected on the Unaudited Condensed Consolidated Balance Sheets because the agreements also include clauses, commonly known as “Rights of Offset,” that would permit the Company to offset its derivative assets against its derivative liabilities for determining additional collateral to be posted, as previously discussed.

5. FAIR VALUE

Fair Value of Assets and Liabilities

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

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

(Thousands)		**March 31, 2017**		September 30, 2016
Carrying value [(1)]	**$**	**1,047,045**	$	1,082,845
Fair market value	**$**	**1,041,750**	$	1,131,077

(1) Excludes capital leases of $45.9 million and $42.2 million as of March 31, 2017 and September 30, 2016 , respectively.

NJR utilizes a discounted cash flow method to determine the fair value of its debt. Inputs include observable municipal and corporate yields, as appropriate for the maturity of the specific issue and the Company's credit rating. As of March 31, 2017 , NJR discloses its debt within Level 2 of the fair value hierarchy.

Fair Value Hierarchy

NJR applies fair value measurement guidance to its financial assets and liabilities, as appropriate, which include financial derivatives and physical commodity contracts qualifying as derivatives, available for sale securities and other financial assets and liabilities. In addition, authoritative accounting literature prescribes the use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the source of the data used to develop the price inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to inputs that are based on unobservable market data and include the following:

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

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

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

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

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

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

(Thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of March 31, 2017:				
Assets:				
Physical commodity contracts	**$ —**	**$ 10,228**	**$ —**	**$ 10,228**
Financial commodity contracts	**28,220**	**—**	**—**	**28,220**
Financial commodity contracts - foreign exchange	**—**	**2**	**—**	**2**
Available for sale equity securities - energy industry	**65,884**	**—**	**—**	**65,884**
Money market funds	**65,115**	**—**	**—**	**65,115**
Other	**1,249**	**—**	**—**	**1,249**
Total assets at fair value	**$ 160,468**	**$ 10,230**	**$ —**	**$ 170,698**
Liabilities:				
Physical commodity contracts	**$ —**	**$ 3,065**	**$ —**	**$ 3,065**
Financial commodity contracts	**31,180**	**—**	**—**	**31,180**
Financial commodity contracts - foreign exchange	**—**	**27**	**—**	**27**
Interest rate contracts	**—**	**4,392**	**—**	**4,392**
Total liabilities at fair value	**$ 31,180**	**$ 7,484**	**$ —**	**$ 38,664**
As of September 30, 2016:				
Assets:				
Physical commodity contracts	$ —	$ 10,216	$ —	$ 10,216
Financial commodity contracts	24,974	—	—	24,974
Financial commodity contracts - foreign exchange	—	1	—	1
Available for sale equity securities - energy industry	55,789	—	—	55,789
Money market funds	34,072	—	—	34,072
Other	1,444	—	—	1,444
Total assets at fair value	$ 116,279	$ 10,217	$ —	$ 126,496
Liabilities:				
Physical commodity contracts	$ —	$ 14,026	$ —	$ 14,026
Financial commodity contracts	49,201	—	—	49,201
Financial commodity contracts - foreign exchange	—	32	—	32
Interest rate contracts	—	23,073	—	23,073
Total liabilities at fair value	$ 49,201	$ 37,131	$ —	$ 86,332

6. INVESTMENTS IN EQUITY METHOD INVESTEES

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

(Thousands)	**March 31, 2017**	September 30, 2016
Steckman Ridge [(1)]	**$ 121,809**	$ 123,155
PennEast	**31,082**	17,993
Total	**$ 152,891**	$ 141,148

(1) Includes loans with a total outstanding principal balance of $70.4 million for both March 31, 2017 and September 30, 2016 . The loans accrue interest at a variable rate that resets quarterly and are due October 1, 2023.

NJR, through a subsidiary, NJR Pipeline Company, formed PennEast with five other investors, and plans to construct and operate a 120 -mile pipeline that will extend from northeast Pennsylvania to western New Jersey, which is estimated to be in service by the first quarter of fiscal 2019 .

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

7. EARNINGS PER SHARE

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands, except per share amounts)	**2017**	2016	**2017**	2016
Net income, as reported	**$ 114,702**	$ 73,353	**$ 149,631**	$ 123,635
Basic earnings per share				
Weighted average shares of common stock outstanding-basic	**86,275**	85,834	**86,182**	85,754
Basic earnings per common share	**$1.33**	$0.85	**$1.74**	$1.44
Diluted earnings per share				
Weighted average shares of common stock outstanding-basic	**86,275**	85,834	**86,182**	85,754
Incremental shares (1)	**826**	1,024	**811**	1,024
Weighted average shares of common stock outstanding-diluted	**87,101**	86,858	**86,993**	86,778
Diluted earnings per common share (2)	**$1.32**	$0.84	**$1.72**	$1.42

(1) Incremental shares consist primarily of unvested stock awards and performance shares.
(2) There were no anti-dilutive shares excluded from the calculation of diluted earnings per share for the three and six months ended March 31, 2017 and 2016 .

8. COMMON STOCK EQUITY

Changes in common stock equity during the six months ended March 31, 2017 , were as follows:

(Thousands)	Number of Shares	Common Stock	Premium on Common Stock	Accumulated Other Comprehensive (Loss) Income	Treasury Stock And Other	Retained Earnings	Total
Balance at September 30, 2016	86,086	$ 221,654	$ 215,580	$ (15,155)	$ (81,044)	$ 825,556	$ 1,166,591
Net income						**149,631**	**149,631**
Other comprehensive income				**7,558**			**7,558**
Common stock issued:							
Incentive plan	**232**	**581**	**4,788**				**5,369**
Dividend reinvestment plan (1)	**279**		**(1,266)**		**10,994**		**9,728**
Cash dividend declared ($.51 per share)						**(44,003)**	**(44,003)**
Treasury stock and other	**(233)**		**(28)**		**(8,566)**		**(8,594)**
Balance at March 31, 2017	**86,364**	**$ 222,235**	**$ 219,074**	**$ (7,597)**	**$ (78,616)**	**$ 931,184**	**$ 1,286,280**

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

NJR satisfies its external common equity requirements, if any, through issuances of its common stock, including the proceeds from stock issuances under its DRP. The DRP allows NJR, at its option, to use treasury shares or newly issued shares to raise capital. In December 2015, NJR registered 5 million shares of NJR common stock for issuance under the DRP. NJR raised $9.7 million and $8.2 million of equity through the DRP, by issuing approximately 279,000 and 260,000 shares of treasury stock, during the six months ended March 31, 2017 and 2016 , respectively.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in the components of accumulated other comprehensive income (loss), net of related tax effects during the three months ended March 31, 2017 and 2016 :

(Thousands)	Available for Sale Securities	Cash Flow Hedges	Postemployment Benefit Obligation	Total
Balance at December 31, 2016	$ 9,713	$ —	$ (19,036)	$ (9,323)
Other comprehensive income (loss), net of tax				
Other comprehensive income, before reclassifications, net of tax of $(1,808), $0, $0, $(1,808)	**3,054**	**—**	**—**	**3,054**
Amounts reclassified from accumulated other comprehensive income, net of tax of $1,138, $0, $(217), $921	**(1,646)**	**—**	**318** (2)	**(1,328)**
Net current-period other comprehensive income, net of tax of $(670), $0, $(217), $(887)	**1,408**	**—**	**318**	**1,726**
Balance at March 31, 2017	**$ 11,121**	**$ —**	**$ (18,718)**	**$ (7,597)**
Balance as of December 31, 2015	$ 10,086	$ (33)	$ (15,523)	$ (5,470)
Other comprehensive income, net of tax				
Other comprehensive income (loss), before reclassifications, net of tax of $(3,154), $(10), $0, $(3,164)	4,500	19	—	4,519
Amounts reclassified from accumulated other comprehensive income, net of tax of $0, $(11), $(175), $(186)	—	19	257	276
Net current-period other comprehensive income, net of tax of ($3,154), $(21), $(175), $(3,350)	4,500	38	257	4,795
Balance as of March 31, 2016	$ 14,586	$ 5	$ (15,266)	$ (675)

The following table presents the changes in the components of accumulated other comprehensive income (loss), net of related tax effects during the six months ended March 31, 2017 and 2016 :

(Thousands)	Available for Sale Securities	Cash Flow Hedges	Postemployment Benefit Obligation	Total
Balance at September 30, 2016	$ 4,198	$ —	$ (19,353)	$ (15,155)
Other comprehensive income (loss), net of tax				
Other comprehensive income, before reclassifications, net of tax of $(6,648), $0, $0, $(6,648)	**10,096**	**—**	**—**	**10,096**
Amounts reclassified from accumulated other comprehensive income, net of tax of $2,192, $0, $(434), $1,758	**(3,173)**	**—**	**635** (2)	**(2,538)**
Net current-period other comprehensive income, net of tax of $(4,456), $0, $(434), $(4,890)	**6,923**	**—**	**635**	**7,558**
Balance at March 31, 2017	**$ 11,121**	**$ —**	**$ (18,718)**	**$ (7,597)**
Balance as of September 30, 2015	$ 6,385	$ —	$ (15,779)	$ (9,394)
Other comprehensive income (loss), net of tax				
Other comprehensive income (loss), before reclassifications, net of tax of $(5,768), $13, $0, $(5,755)	8,201	(22)	—	8,179
Amounts reclassified from accumulated other comprehensive income, net of tax of $0, $(15), $(349), $(364)	—	27 (1)	513 (2)	540
Net current-period other comprehensive income, net of tax of ($5,768), $(2), $(349), $(6,119)	8,201	5	513	8,719
Balance as of March 31, 2016	$ 14,586	$ 5	$ (15,266)	$ (675)

(1) Consists of realized losses related to foreign currency derivatives, which are reclassified to gas purchases on the Unaudited Condensed Consolidated Statements of Operations. Effective January 1, 2016, the Company elected not to designate its foreign currency derivatives as accounting hedges and, as a result, changes in fair value of the effective portion of the hedges are no longer recorded in OCI.

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

9. DEBT

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

Credit Facilities

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

(Thousands)		**March 31, 2017**		September 30, 2016	**Expiration Dates**
NJR					
Bank revolving credit facilities [(1)]	**$**	**425,000**	$	425,000	September 2020
Notes outstanding at end of period	**$**	**237,900**	$	121,700	
Weighted average interest rate at end of period		**1.75%**		1.43%	
Amount available at end of period [(2)]	**$**	**173,686**	$	288,910	
NJNG					
Bank revolving credit facilities [(3)]	**$**	**250,000**	$	250,000	May 2019
Commercial paper outstanding at end of period	**$**	**—**	$	—	
Weighted average interest rate at end of period		**—%**		—%	
Amount available at end of period [(4)]	**$**	**249,269**	$	249,269	

(1) Committed credit facilities, which require commitment fees on the unused amounts.
(2) Letters of credit outstanding total $13.4 million and $14.4 million for March 31, 2017 and September 30, 2016 , respectively, which reduces amount available by the same amount.
(3) Uncommitted credit facilities, which require no commitment fees.
(4) Letters of credit outstanding total $731,000 for both March 31, 2017 and September 30, 2016 , which reduces the amount available by the same amount.

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

Long-term Debt

NJNG

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.

NJNG received $9.6 million and $7.1 million in December 2016 and 2015 , respectively, in connection with the sale-leaseback of its natural gas meters. NJNG records a capital lease obligation that is paid over the term of the lease and has the option to purchase the meters back at fair value upon expiration of the lease. NJNG exercised early purchase options with respect to meter leases by making final principal payments of $1 million during the six months ended March 31, 2017 . NJNG did not exercise early purchase options during the six months ended March 31, 2016 .

10. EMPLOYEE BENEFIT PLANS

Pension and Other Postemployment Benefit Plans

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

	Pension				OPEB			
	Three Months Ended March 31,		Six Months Ended March 31,		Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Service cost	**$ 2,087**	$ 1,898	**$ 4,174**	$ 3,796	**$ 1,095**	$ 1,131	**$ 2,190**	$ 2,261
Interest cost	**2,442**	2,835	**4,885**	5,671	**1,387**	1,564	**2,773**	3,128
Expected return on plan assets	**(4,828)**	(5,030)	**(9,656)**	(10,059)	**(1,191)**	(1,211)	**(2,383)**	(2,422)
Recognized actuarial loss	**2,206**	1,821	**4,413**	3,641	**1,092**	818	**2,185**	1,637
Prior service cost amortization	**28**	27	**55**	55	**(91)**	(91)	**(182)**	(182)
Net periodic benefit cost	**$ 1,935**	$ 1,551	**$ 3,871**	$ 3,104	**$ 2,292**	$ 2,211	**$ 4,583**	$ 4,422

The Company 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. The Company does not expect to be required to make additional contributions to fund the pension plans during fiscal 2017 or 2018 based on current actuarial assumptions; however, funding requirements are uncertain and can depend significantly on changes in actuarial assumptions, returns on plan assets and changes in the demographics of eligible employees and covered dependents. In addition, as in the past, the Company may elect to make contributions in excess of the minimum required amount to the plans. There were no discretionary contributions made during the six months ended March 31, 2017 .

11. INCOME TAXES

NJR evaluates its tax positions to determine the appropriate accounting and recognition of potential future obligations associated with unrecognized tax benefits. During the six months ended March 31, 2017 and 2016 , based on its analysis, the Company determined there was no need to recognize any liabilities associated with uncertain tax positions.

To calculate the estimated annual effective tax rate, NJR considers forecasted pre-tax book income and estimated permanent book versus tax differences, as well as tax credits associated with solar and wind projects. For investment tax credits the estimate is based on solar projects that are probable of being completed and placed in service during the current fiscal year based on the best information available at each reporting period. For production tax credits, the estimate is based on the forecast of electricity produced during the current fiscal year based on the best information available at each reporting period. Adjustments to the effective tax rate and management's estimates will occur as information and assumptions change.

The forecasted effective tax rates for the six months ended March 31, 2017 and 2016 , were 15.6 percent and 17.7 percent , respectively. The decreased effective tax rate is due primarily to an increase in forecasted tax credits for the fiscal year ending September 30, 2017 , compared with the prior fiscal year. Forecasted tax credits, net of deferred taxes, were $34.6 million and $27.1 million for fiscal 2017 and 2016, respectively.

To the extent there are discrete tax items that are not included in the forecasted effective tax rate, the actual effective tax rate will differ from the estimated annual effective tax rate. The Company recognized $1.5 million and $1.7 million during the six months ended March 31, 2017 and 2016 , respectively, in additional tax benefits associated with the vesting of share-based awards and the release of a valuation allowance associated with state tax net operating losses, as a component of income tax provision in its Unaudited Condensed Consolidated Statements of Operations. Since the tax effects of the awards and the valuation allowance are treated as discrete items, NJR's actual effective tax rate was 14.8 percent and 16.6 percent as of March 31, 2017 and 2016 , respectively.

As of March 31, 2017 , the Company has federal and state income tax net operating losses of approximately $78.7 million and $344.7 million , respectively, which generally have a life of 20 years. The Company has recorded federal and state income tax receivables and deferred tax assets of approximately $27.5 million and $20.2 million , respectively, on the Unaudited Condensed Consolidated Balance Sheets, reflecting the tax benefits associated with these net operating losses. As of September 30, 2016 , the Company had federal and state income tax net operating losses of approximately $78.7 million and $310.6 million , respectively, deferred federal and state tax assets of approximately $27.5 million and $18.2 million , respectively.

As of September 30, 2016 , the Company recorded a valuation allowance in the amount of $262,000 associated with state net operating loss carryforwards at CR&R. As a result of taxable income generated from the sale of property and available for sale securities during the six months ended March 31, 2017 , the Company determined the benefits resulting from the state net operating loss carryforwards at CR&R are more likely than not to be realized prior to their expiration. Accordingly, the Company released the related valuation allowance against these state net operating loss carryforwards. There were no other valuation allowances needed for the Company as of March 31, 2017 .

In addition, as of March 31, 2017 and September 30, 2016 , the Company had an ITC/PTC carryforward of approximately $111 million and $74 million , respectively, which has a life of 20 years. The Company expects to utilize this entire carryforward, which would begin to expire in fiscal 2034.

In December 2015, the Consolidated Appropriations Act extended the 30 percent ITC for solar property that is under construction on or before December 31, 2019. The credit will decline to 26 percent for property under construction during 2020 and to 22 percent for property under construction during 2021. For any property that is under construction before 2022, but not placed in service before 2024, the ITC will be reduced to 10 percent. In addition, the PTC was extended for five years through December 31, 2019, with a gradual three year phase out for any project for which construction of the facility begins after December 31, 2016.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Cash Commitments

NJNG has entered into long-term contracts, expiring at various dates through October 2033 , for the supply, storage and transportation of natural gas. These contracts include fixed charges of approximately $40 million at current contract rates and volumes for the remainder of the fiscal year, which are recoverable through BGSS.

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

Commitments as of March 31, 2017 , for natural gas purchases and future demand fees for the next five fiscal year periods are as follows:

(Thousands)	2017	2018	2019	2020	2021	Thereafter
NJRES:						
Natural gas purchases	$ 179,517	$ 121,391	$ 55,395	$ —	$ —	$ —
Storage demand fees	19,525	28,869	16,195	12,913	8,822	8,580
Pipeline demand fees	38,347	48,509	19,057	8,137	7,605	10,403
Sub-total NJRES	$ 237,389	$ 198,769	$ 90,647	$ 21,050	$ 16,427	$ 18,983
NJNG:						
Natural gas purchases	$ 45,266	$ 11,250	$ —	$ —	$ —	$ —
Storage demand fees	14,568	29,187	25,772	14,476	7,802	11,705
Pipeline demand fees	25,400	81,229	116,976	112,555	90,106	732,538
Sub-total NJNG [(1)]	$ 85,234	$ 121,666	$ 142,748	$ 127,031	$ 97,908	$ 744,243
Total	**$ 322,623**	**$ 320,435**	**$ 233,395**	**$ 148,081**	**$ 114,335**	**$ 763,226**

(1) Does not include amounts related to intercompany asset management agreements between NJRES and NJNG.

Legal Proceedings

Manufactured Gas Plant Remediation

NJNG is responsible for the remedial cleanup of five MGP sites, dating back to gas operations in the late 1800s and early 1900s, which contain contaminated residues from former gas manufacturing operations. NJNG is currently involved in administrative proceedings with the NJDEP, and participating in various studies and investigations by outside consultants, to determine the nature and extent of any such contaminated residues and to develop appropriate programs of remedial action, where warranted, under Administrative Consent Orders or Memoranda of Agreement with the NJDEP.

NJNG may recover its remediation expenditures, including carrying costs, over rolling seven -year periods pursuant to a RA approved by the BPU. In June 2016 , the BPU approved NJNG's December 2015 filing, which requested approval of its MGP expenditures incurred through June 30, 2015 , with recovery of $9.4 million annually related to the SBC RA factor with rates effective July 9, 2016 . As of March 31, 2017 , $19.1 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in regulatory assets on the Unaudited Condensed Consolidated Balance Sheets.

NJNG 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 five MGP sites for which it is responsible, including potential liabilities for Natural Resource Damages that might be brought by the NJDEP for alleged injury to groundwater or other natural resources concerning these sites, will range from approximately $143.9 million to $231.6 million . NJNG's estimate of these liabilities is based upon known facts, existing technology and enacted laws and regulations in place when the review was completed. Where it is probable that costs will be incurred, and the information is sufficient to establish a range of possible liability, NJNG accrues the most likely amount in the range. If no point within the range is more likely than the other, it is NJNG's policy to accrue the lower end of the range. Accordingly, NJNG recorded an MGP remediation liability and a corresponding regulatory asset on the Unaudited Condensed Consolidated Balance Sheets of $172 million as of September 30, 2016 , based on the most likely amount at year end and $165.8 million as of March 31, 2017 , which includes adjustments for actual expenditures during fiscal 2017 . 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.

General

In February 2015, a natural gas fire and explosion occurred in Stafford Township, New Jersey as a result of a natural gas leak emanating from an underground pipe. There were no fatalities, although several employees of NJNG were injured and several homes were damaged. NJNG notified its insurance carrier and believes that any costs associated with the incident, including attorneys' fees, property damage and other losses, will be substantially covered by insurance. The Company believes the resolution of any potential claims associated with the incident will not have a material effect on its financial condition, results of operations or cash flows. As of March 31, 2017 , NJNG estimates that liabilities associated with claims will range between $600,000 and $3.2 million and has accrued the lower end of the range, as we do not believe there is an amount within the range that is more probable than any other.

The Company is party to various other claims, legal actions and complaints arising in the ordinary course of business. In the Company's opinion, the ultimate disposition of these matters will not have a material effect on its financial condition, results of operations or cash flows.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. BUSINESS SEGMENT AND OTHER OPERATIONS DATA

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Operating revenues				
Natural Gas Distribution				
External customers	**$ 295,546**	$ 242,536	**$ 481,102**	$ 394,142
Clean Energy Ventures				
External customers	**12,943**	7,662	**20,510**	15,456
Energy Services				
External customers [(1)]	**417,608**	316,703	**756,538**	592,885
Intercompany	**2,679**	3,255	**930**	5,766
Subtotal	**728,776**	570,156	**1,259,080**	1,008,249
Home Services and Other				
External customers	**7,449**	7,292	**16,424**	15,968
Intercompany	**1,055**	639	**2,086**	1,536
Eliminations	**(3,734)**	(3,894)	**(3,016)**	(7,302)
Total	**$ 733,546**	$ 574,193	**$ 1,274,574**	$ 1,018,451
Depreciation and amortization				
Natural Gas Distribution	**$ 12,263**	$ 11,598	**$ 24,293**	$ 22,836
Clean Energy Ventures	**7,923**	5,876	**14,964**	10,986
Energy Services	**17**	23	**33**	46
Midstream	**2**	2	**3**	3
Subtotal	**20,205**	17,499	**39,293**	33,871
Home Services and Other	**199**	237	**420**	464
Eliminations	**(76)**	8	**(125)**	(109)
Total	**$ 20,328**	$ 17,744	**$ 39,588**	$ 34,226
Interest income [(2)]				
Natural Gas Distribution	**$ 97**	$ 60	**$ 172**	$ 128
Energy Services	**—**	—	**—**	72
Midstream	**512**	450	**974**	714
Subtotal	**609**	510	**1,146**	914
Home Services and Other	**132**	123	**253**	160
Eliminations	**(633)**	(580)	**(1,216)**	(951)
Total	**$ 108**	$ 53	**$ 183**	$ 123

(1) Includes sales to Canada, which accounted for 1.5 and 2.9 percent of total operating revenues during the six months ended March 31, 2017 and 2016 .
(2) Included in other income, net on the Unaudited Condensed Consolidated Statements of Operations.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Interest expense, net of capitalized interest				
Natural Gas Distribution	**$ 6,392**	$ 4,690	**$ 13,216**	$ 9,278
Clean Energy Ventures	**4,055**	2,552	**7,379**	4,605
Energy Services	**716**	168	**1,287**	376
Midstream	**414**	130	**470**	172
Subtotal	**11,577**	7,540	**22,352**	14,431
Home Services and Other	**123**	105	**197**	105
Eliminations	**(264)**	(276)	**(498)**	(390)
Total	**$ 11,436**	$ 7,369	**$ 22,051**	$ 14,146
Income tax provision (benefit)				
Natural Gas Distribution	**$ 30,499**	$ 22,704	**$ 45,386**	$ 36,211
Clean Energy Ventures	**(24,756)**	(13,916)	**(36,643)**	(25,650)
Energy Services	**16,277**	7,805	**13,101**	12,710
Midstream	**1,502**	1,530	**3,151**	3,170
Subtotal	**23,522**	18,123	**24,995**	26,441
Home Services and Other	**1,066**	(1,474)	**821**	(2,604)
Eliminations	**(656)**	1,166	**134**	700
Total	**$ 23,932**	$ 17,815	**$ 25,950**	$ 24,537
Equity in earnings of affiliates				
Midstream	**$ 6,119**	$ 3,508	**$ 9,450**	$ 7,053
Eliminations	**(1,040)**	(1,106)	**(2,060)**	(2,245)
Total	**$ 5,079**	$ 2,402	**$ 7,390**	$ 4,808
Net financial earnings				
Natural Gas Distribution	**$ 60,233**	$ 48,967	**$ 90,581**	$ 79,893
Clean Energy Ventures	**22,743**	11,807	**25,585**	19,459
Energy Services	**15,746**	17,005	**19,233**	27,309
Midstream	**4,948**	2,228	**7,335**	4,572
Subtotal	**103,670**	80,007	**142,734**	131,233
Home Services and Other	**708**	(2,022)	**2,250**	(1,763)
Eliminations	**(272)**	(80)	**(495)**	(298)
Total	**$ 104,106**	$ 77,905	**$ 144,489**	$ 129,172
Capital expenditures				
Natural Gas Distribution	**$ 34,744**	$ 47,366	**$ 73,599**	$ 96,406
Clean Energy Ventures	**43,120**	25,876	**89,905**	70,882
Subtotal	**77,864**	73,242	**163,504**	167,288
Home Services and Other	**345**	272	**516**	1,069
Total	**$ 78,209**	$ 73,514	**$ 164,020**	$ 168,357
Investments in equity investees				
Midstream	**$ 5,902**	$ 3,102	**$ 10,538**	$ 5,948
Total	**$ 5,902**	$ 3,102	**$ 10,538**	$ 5,948

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Net financial earnings	**$ 104,106**	$ 77,905	**$ 144,489**	$ 129,172
Less:				
Unrealized (gain) loss on derivative instruments and related transactions	**(54,855)**	3,170	**(26,553)**	2,035
Tax effect	**19,679**	(1,152)	**9,922**	(739)
Effects of economic hedging related to natural gas inventory	**34,328**	(1,054)	**16,389**	2,759
Tax effect	**(12,334)**	384	**(6,130)**	(1,001)
Net income to NFE tax adjustment	**2,586**	3,204	**1,230**	2,483
Net income	**$ 114,702**	$ 73,353	**$ 149,631**	$ 123,635

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

- Unrealized gains and losses on derivatives are recognized in reported earnings in periods prior to physical gas inventory flows; and
- Unrealized gains and losses of prior periods are reclassified as realized gains and losses when derivatives are settled in the same period as physical gas inventory movements occur.

NFE is a measure of the earnings based on eliminating these timing differences, to effectively match the earnings effects of the economic hedges with the physical sale of gas, SRECs and foreign currency contracts. Consequently, to reconcile between net income and NFE, current period unrealized gains and losses on the derivatives are excluded from NFE as a reconciling item. Additionally, realized derivative gains and losses are also included in current period net income. However, NFE includes only realized gains and losses related to natural gas sold out of inventory, effectively matching the full earnings effects of the derivatives with realized margins on physical gas flows. NJR also calculates a quarterly tax adjustment based on an estimated annual effective tax rate for NFE purposes.

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

(Thousands)	**March 31, 2017**	September 30, 2016
Assets at end of period:		
Natural Gas Distribution	**$ 2,572,576**	$ 2,517,401
Clean Energy Ventures	**709,289**	665,696
Energy Services	**328,372**	327,626
Midstream	**212,439**	186,259
Subtotal	**3,822,676**	3,696,982
Home Services and Other	**126,255**	109,487
Intercompany assets [(1)]	**(91,572)**	(87,899)
Total	**$ 3,857,359**	$ 3,718,570

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. RELATED PARTY TRANSACTIONS

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

NJRES may periodically enter into storage or park and loan agreements with its affiliated FERC-jurisdictional natural gas storage facility, Steckman Ridge. As of March 31, 2017 , NJRES has entered into transactions with Steckman Ridge for varying terms, all of which expire by October 2020 .

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
NJNG	**$ 1,383**	$ 1,385	**$ 2,793**	$ 2,774
NJRES	**689**	692	**1,390**	1,377
Total	**$ 2,072**	$ 2,077	**$ 4,183**	$ 4,151

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

(Thousands)	**March 31, 2017**	September 30, 2016
NJNG	**$ 780**	$ 775
NJRES	**376**	375
Total	**$ 1,156**	$ 1,150

NJNG and NJRES have entered into various asset management agreements, the effects of which are eliminated in consolidation. Under the terms of these agreements, NJNG releases certain transportation and storage contracts to NJRES. As of March 31, 2017 , NJNG and NJRES had three asset management agreements with expiration dates ranging from October 2017 through March 2018 .

NJNG has entered into a 15 -year transportation precedent agreement for committed capacity of 180,000 Dths per day with PennEast, which is estimated to be in service by the first quarter of fiscal 2019 .

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

Critical Accounting Policies

A summary of our critical accounting policies is included in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report on Form 10-K for the period ended September 30, 2016 . Our critical accounting policies have not changed from those reported in the 2016 Annual Report on Form 10-K.

Recently Issued Accounting Standards

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

Management's Overview

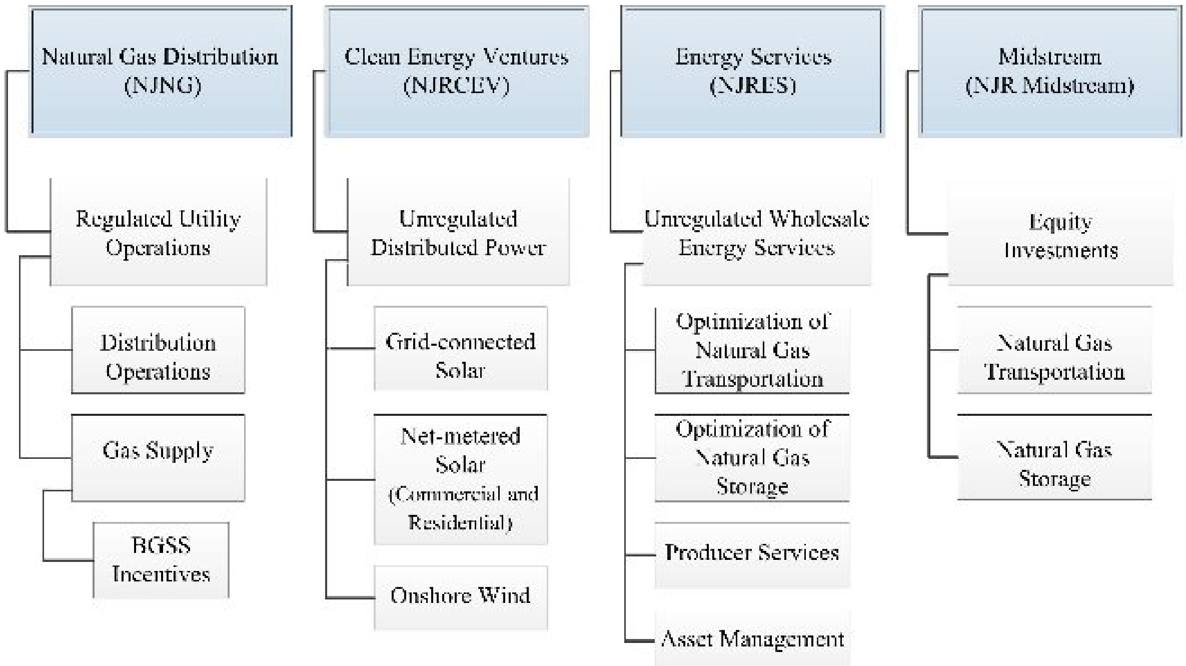
Consolidated

NJR is an energy services holding company providing retail natural gas service in New Jersey and wholesale natural gas and related energy services to customers in the United States and Canada, through its subsidiaries NJNG and NJRES. In addition, we invest in clean energy projects, midstream assets and provide various repair, sales and installations services. A more detailed description of our organizational structure can be found in *Item 1. Business* of our 2016 Annual Report on Form 10-K.

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

Business Segments

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



In addition to the four business segments noted above, we have non-utility operations that either provide corporate support services or do not meet management's criteria to be treated as a separate business 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.

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

	Three Months Ended March 31,				Six Months Ended March 31,			
(Thousands)	**2017**		2016		**2017**		2016	
Net Income (Loss)								
Natural Gas Distribution	**$ 60,233**	**52 %**	$ 48,967	66 %	**$ 90,581**	**61%**	$ 79,893	65 %
Clean Energy Ventures	**20,157**	**18**	8,603	12	**24,355**	**16**	16,976	14
Energy Services	**30,032**	**26**	13,578	19	**25,242**	**17**	22,974	18
Midstream	**4,948**	**4**	2,228	3	**7,335**	**5**	4,572	4
Home Services and Other	**708**	**1**	(2,022)	(3)	**2,250**	**1**	(1,763)	(2)
Eliminations [(1)]	**(1,376)**	**(1)**	1,999	3	**(132)**	**—**	983	1
Total	**$ 114,702**	**100 %**	$ 73,353	100 %	**$ 149,631**	**100%**	$ 123,635	100 %

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

The increase in net income during the three and six months ended March 31, 2017 , compared with the three and six months ended March 31, 2016 , was driven primarily by increases in gross margin at NJNG due primarily to increased base rates resulting from the settlement of the base rate case, tax credits recognized at NJRCEV and gross margin at NJRES related to increased natural gas prices and an increase in unrealized gains on derivative instruments. The primary drivers of the changes noted above are described in more detail in the individual segment discussions.

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

Assets by business segment and operations are as follows:

(Thousands)		**March 31, 2017**			September 30, 2016	
Assets						
Natural Gas Distribution	**$**	**2,572,576**	**67 %**	$	2,517,401	68 %
Clean Energy Ventures		**709,289**	**18**		665,696	18
Energy Services		**328,372**	**9**		327,626	9
Midstream		**212,439**	**5**		186,259	5
Home Services and Other		**126,255**	**3**		109,487	3
Intercompany assets [(1)]		**(91,572)**	**(2)**		(87,899)	(3)
Total	**$**	**3,857,359**	**100 %**	$	3,718,570	100 %

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

The increase in assets during the six months ended March 31, 2017 , was due primarily to increased cash and receivables due to seasonality and additional utility plant expenditures at NJNG, additional wind and solar expenditures at NJRCEV and an increase in the market value of the DM Common Units along with increased PennEast capital contributions at Midstream.

Non-GAAP Financial Measures

Management of the Company uses NFE, a non-GAAP financial measure, when evaluating the operating results of the Company. NJRES 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 the Company utilizes forwards, futures, or other derivatives to hedge forecasted SREC production, unrealized gains and losses are also eliminated for NFE purposes.

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

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

	Three Months Ended March 31,				**Six Months Ended March 31,**			
($ in Thousands)		**2017**		2016		**2017**		2016
Net income	**$**	**114,702**	$	73,353	**$**	**149,631**	$	123,635
Add:								
Unrealized (gain) loss on derivative instruments and related transactions		**(54,855)**		3,170		**(26,553)**		2,035
Tax effect		**19,679**		(1,152)		**9,922**		(739)
Effects of economic hedging related to natural gas inventory		**34,328**		(1,054)		**16,389**		2,759
Tax effect		**(12,334)**		384		**(6,130)**		(1,001)
NFE tax adjustment		**2,586**		3,204		**1,230**		2,483
Net financial earnings	**$**	**104,106**	$	77,905	**$**	**144,489**	$	129,172
Basic earnings per share	**$**	**1.33**	$	.85	**$**	**1.74**	$	1.44
Add:								
Unrealized (gain) loss on derivative instruments and related transactions		**(0.64)**		0.04		**(0.31)**		0.03
Tax effect		**0.23**		(0.01)		**0.12**		(0.01)
Effects of economic hedging related to natural gas inventory		**0.40**		(0.01)		**0.19**		0.03
Tax effect		**(0.14)**		—		**(0.07)**		(0.01)
NFE tax adjustment		**0.03**		0.04		**0.01**		0.03
Basic NFE per share	**$**	**1.21**	$	0.91	**$**	**1.68**	$	1.51

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

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

	Three Months Ended March 31,						Six Months Ended March 31,					
($ in Thousands)		**2017**			2016			**2017**			2016	
Net Financial Earnings												
Natural Gas Distribution	**$**	**60,233**	**58%**	$	48,967	63 %	**$**	**90,581**	**63%**	$	79,893	62 %
Clean Energy Ventures		**22,743**	**22**		11,807	15		**25,585**	**18**		19,459	15
Energy Services		**15,746**	**15**		17,005	22		**19,233**	**13**		27,309	21
Midstream		**4,948**	**4**		2,228	3		**7,335**	**5**		4,572	4
Home Services and Other		**708**	**1**		(2,022)	(3)		**2,250**	**1**		(1,763)	(2)
Eliminations [(1)]		**(272)**	**—**		(80)	—		**(495)**	**—**		(298)	—
Total	**$**	**104,106**	**100%**	$	77,905	100 %	**$**	**144,489**	**100%**	$	129,172	100 %

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

The increase in NFE during the three and six months ended March 31, 2017 , compared with the three and six months ended March 31, 2016 , was due primarily to increased gross margin at NJNG as previously discussed, an increase in tax credits recognized at NJRCEV, an increase at Home Services and Other due primarily to the gain on sale of available for sale securities and property, partially offset by lower financial margin at NJRES due primarily to fewer market opportunities related to transportation assets and timing of certain transactions related to storage withdrawals along with warmer than normal weather during the six months ended March 31, 2017 .

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 528,000 residential and commercial customers in its service territory and also participates in the off-system sales and capacity release markets. The business is subject to various risks, which can negatively impact customer growth, operating and financing costs, fluctuations in commodity prices and customer conservation efforts. These risks include, but are not limited to, adverse economic conditions, customer usage, certain regulatory actions, environmental remediation and severe weather conditions. It is often difficult to predict the impact of events or trends associated with these risks.

In addition, NJNG's business is seasonal by nature, as weather conditions directly influence the volume of natural gas delivered. 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 3. Regulation* in the accompanying Unaudited Condensed Consolidated Financial Statements for a more detailed discussion on regulatory actions, including filings related to programs and associated expenditures, as well as rate requests related to recovery of capital investments and operating costs.

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

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

- 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.

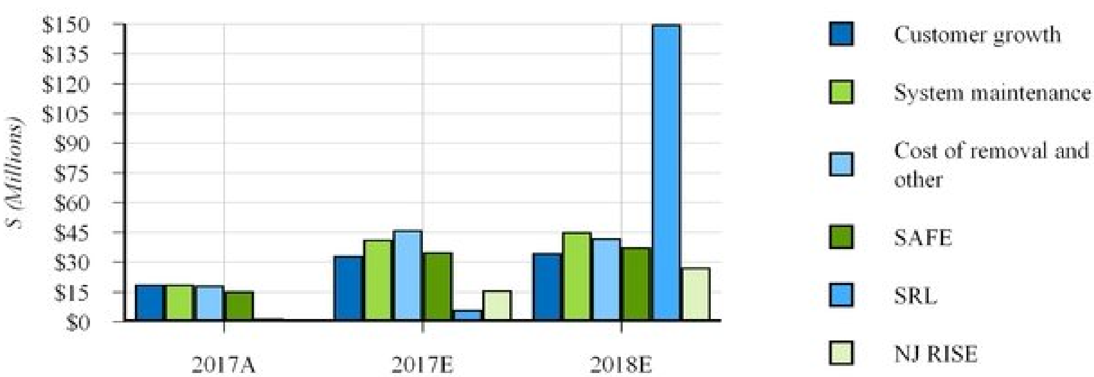
Base Rate Case

In September 2016 , the BPU approved NJNG's base rate case, effective October 1, 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 five-year extension of SAFE II and estimated cost, excluding AFUDC, is approximately $200 million and related costs to be recovered on an accelerated basis are approximately $157.5 million . The remaining $42.5 million in capital expenditures will be requested for recovery in a future base rate case. 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 to be 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, for the six months ended March 31, 2017 , and estimates of expected investments for fiscal 2017 and 2018:



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.

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

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 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 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 31, 2017 , NJNG filed its annual petition with the BPU requesting a base rate change in the amount of $4.3 million 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 , pursuant to the base rate case order dated September 23, 2016 . The filing will be updated to reflect actual results in July 2017, with changes to base rates effective October 1, 2017 .

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 $175 million and $180 million . In January 2016 , the BPU issued an order approving NJNG's proposed SRL pipeline installation, operation and route selection, as modified by NJNG, including specific requirements regarding permitting, safety and integrity assessment. 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. The two BPU orders have been appealed by third parties. As construction has not yet commenced, rate treatment for SRL was not included in NJNG's new base rates. NJNG expects to request rate treatment in a future rate proceeding.

Customer growth

In conducting NJNG's business, management focuses on factors it believes may have significant influence on its future financial results. NJNG's policy is to work with all stakeholders, including customers, regulators and policymakers, to achieve favorable results. These factors include the rate of NJNG's customer growth in its service territory, which can be influenced by political and regulatory policies, the delivered cost of natural gas compared with competing fuels, interest rates and general economic and business conditions.

NJNG's total customers include the following:

	March 31, 2017	March 31, 2016
Firm customers		
Residential	**454,464**	443,932
Commercial, industrial & other	**28,623**	27,722
Residential transport	**35,019**	37,146
Commercial transport	**9,818**	10,227
Total firm customers	**527,924**	519,027
Other	**48**	65
Total customers	**527,972**	519,092

During the six months ended March 31, 2017 and 2016 , respectively, NJNG added 4,130 and 3,655 new customers and converted 406 and 400 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 $2.6 million annually to utility gross margin.

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

In addition, NJNG currently expects to add approximately 26,000 to 28,000 new customers during the three-year period of fiscal 2017 to 2019 . Based on information from municipalities and developers, as well as external industry analysts and management's experience, NJNG estimates that approximately 55 percent of the growth will come from new construction markets and 45 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 $5.2 million annually, as calculated under NJNG's CIP tariff. See the *Natural Gas Distribution Operating Results* section of *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations* that follows for a definition and further discussion of utility gross margin .

SAVEGREEN

SAVEGREEN conducts home energy audits and provides various grants, incentives and financing alternatives, that 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, the BPU has approved total SAVEGREEN investments of approximately $219.3 million , of which $143.5 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 . On October 31, 2016 , the BPU approved NJNG's filing to maintain the existing SAVEGREEN recovery rate. 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; however, it is subject to review in the 2017 rate filing. In June 2016 , NJNG filed a petition with the BPU to increase its CIP rates effective October 1, 2016 , resulting in an 8.2 percent increase to the average residential heat customer's bill.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Weather [(1)]	**$ 12,943**	$ 9,431	**$ 15,928**	$ 27,593
Usage	**(575)**	1,806	**(700)**	6,098
Total	**$ 12,368**	$ 11,237	**$ 15,228**	$ 33,691

(1) Compared with the CIP 20-year average, weather was 11.1 percent and 11.9 percent warmer -than-normal during the three months ended March 31, 2017 and 2016 , respectively, and 9.1 percent and 20.4 percent warmer -than-normal during the six months ended March 31, 2017 and 2016 , respectively.

As of March 31, 2017 , NJNG has $23.8 million in regulatory assets related to CIP to be collected from customers in future periods on the Unaudited Condensed Consolidated Balance Sheets. As of September 30, 2016 , NJNG had $37 million in regulatory assets related to CIP to be collected from customers in future periods on the Unaudited Condensed 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.

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

The graph below, which illustrates the daily natural gas prices, [(1)] shows the change in natural gas commodity prices for the six months ended March 31, 2017 and 2016 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 at Tetco M-3 was $8.71 and $4.74 and the minimum daily price was $0.36 and $0.74 for the six months ended March 31, 2017 and 2016 , respectively. A more detailed discussion of the impacts of the price of natural gas on operating revenues, gas purchases and cash flows can be found in the *Results of Operations* and *Cash Flow* sections of *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.*

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 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.

In June 2016 , NJNG filed a petition to decrease its BGSS rate for residential and small commercial customers effective October 1, 2016 , resulting in a 5.5 percent decrease to the average residential heat customer's bill. When combined with the proposed CIP increase, the impact of these rate changes would result in an approximate 2.7 percent increase to the average residential heat customer's bill. This petition included proposed bill credits to be issued during the months of November 2016 through February 2017, as a result of a decline in the wholesale price of natural gas. In September 2016 , NJNG notified the BPU that the estimated bill credits would be approximately $48 million . Due to weather being approximately 9.1 percent warmer than normal during the months of November 2016 through February 2017, a total of $42 million in bill credits were issued during fiscal 2017, compared with $61.6 million issued during fiscal 2016.

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

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 its 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 $6.7 million and $8.3 million during the six months ended March 31, 2017 and 2016 , respectively. A more detailed discussion of the impacts to utility gross margin can be found in the *Natural Gas Distribution Operating Results* section of *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations* .

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, significant changes in interest rates can impact NJNG's results. NJNG entered into a treasury lock transaction to fix a benchmark treasury rate associated with debt issuance expected in May 2018. The fair value of NJNG's treasury lock agreement is recorded as a component of regulatory assets or liabilities on the Unaudited Condensed Consolidated Balance Sheets since the Company believes that the market value upon settlement will be 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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations* .

Societal Benefits Charge

USF

On September 23, 2016 , the BPU approved NJNG's annual USF compliance filing proposing to increase the statewide USF rate, resulting in a .2 percent increase to the average residential heat customer's bill, effective October 1, 2016 .

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 quarterly 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 $165.8 million as of March 31, 2017 , a decrease of $6.2 million , compared with September 30, 2016 .

Other regulatory filings and a more detailed discussion of the filings in this section can be found in *Note 3. Regulation* in the accompanying Unaudited Condensed Consolidated Financial Statements.

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

Operating Results

NJNG's operating results are as follows:

(Thousands)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Six Months Ended March 31, 2017	Six Months Ended March 31, 2016
Operating revenues	**$ 295,546**	$ 242,536	**$ 481,102**	$ 394,142
Less:				
Gas purchases [(1)]	**115,723**	86,266	**179,909**	131,509
Energy and other taxes	**17,938**	14,496	**30,087**	22,658
Regulatory rider expense	**19,893**	21,215	**32,494**	30,843
Operation and maintenance	**33,768**	33,882	**66,986**	63,510
Depreciation and amortization	**12,263**	11,598	**24,293**	22,836
Operating income	**95,961**	75,079	**147,333**	122,786
Other income, net	**1,163**	1,282	**1,850**	2,596
Interest expense, net of capitalized interest	**6,392**	4,690	**13,216**	9,278
Income tax provision	**30,499**	22,704	**45,386**	36,211
Net income	**$ 60,233**	$ 48,967	**$ 90,581**	$ 79,893

(1) Includes related party transactions of approximately $3.3 million and $3.9 million for the three months ended March 31, 2017 and 2016 , respectively, and $6.1 million and $2.5 million for the six months ended March 31, 2017 and 2016 , respectively, a portion of which is eliminated in consolidation.

Operating Revenues and Gas Purchases

During the three and six months ended March 31, 2017 , compared with the three and six months ended March 31, 2016 , operating revenues increased by 21.9 percent and 22.1 percent , respectively, and gas purchases increased 34.1 percent and 36.8 percent , respectively. The factors contributing to the increases (decreases) in operating revenues and gas purchases are as follows:

(Millions)	Three Months Ended March 31, 2017 v. 2016 Operating revenues	Three Months Ended March 31, 2017 v. 2016 Gas purchases	Six Months Ended March 31, 2017 v. 2016 Operating revenues	Six Months Ended March 31, 2017 v. 2016 Gas purchases
Firm sales	**$ 5.6**	**$ 3.9**	**$ 47.9**	**$ 23.3**
Base rate impact	**21.9**	**—**	**30.0**	**—**
Bill credits [(1)]	**19.3**	**18.0**	**19.6**	**18.3**
Off-system sales	**8.3**	**8.4**	**13.5**	**13.7**
CIP adjustments	**1.1**	**—**	**(18.5)**	**—**
Average BGSS rates [(2)]	**(5.9)**	**(5.4)**	**(12.3)**	**(11.5)**
Other [(3)]	**2.7**	**4.6**	**6.8**	**4.6**
Total increase	**$ 53.0**	**$ 29.5**	**$ 87.0**	**$ 48.4**

(1) Operating revenues includes changes in sales tax of $1.3 million during both the three and six months ended March 31, 2017 , compared with the three and six months ended March 31, 2016 , respectively.
(2) Operating revenues includes changes in sales tax of $(500,000) and $(800,000) during the three and six months ended March 31, 2017 , compared with the three and six months ended March 31, 2016 , respectively.
(3) Other includes changes in rider rates, including those related to NJCEP and other programs.

The increase s in operating revenues and gas purchases during the three and six months ended March 31, 2017 , compared with the three and six months ended March 31, 2016 were due primarily to:

- increased firm sales due primarily to customer growth and higher usage during the six months ended March 31, 2017 , related to weather being 11.7 percent colder ;
- increased base rates resulting from the settlement of the base rate case;
- 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;

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

- higher off-system sales due primarily to an increase of 66.7 percent and 58.4 percent , respectively, in the average price of gas sold, partially offset by a reduction in volumes of 24.2 percent and 21 percent , respectively ; 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.

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:

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Operating revenues	**$ 295,546**	$ 242,536	**$ 481,102**	$ 394,142
Less:				
Gas purchases	**115,723**	86,266	**179,909**	131,509
Energy and other taxes	**16,706**	13,246	**27,588**	20,154
Regulatory rider expense	**19,893**	21,215	**32,494**	30,843
Utility gross margin	**$ 143,224**	$ 121,809	**$ 241,111**	$ 211,636

Utility gross margin consists of three components:

- utility firm gross margin generated from only the delivery component of either a sales tariff or a transportation tariff from residential and commercial customers who receive natural gas service from NJNG;
- BGSS incentive programs, where revenues generated or savings achieved from BPU-approved off-system sales, capacity release or storage incentive programs are shared between customers and NJNG; and
- utility gross margin generated from off-tariff customers, as well as interruptible customers.

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

	Three Months Ended March 31,				Six Months Ended March 31,			
	2017		2016		**2017**		2016	
($ in thousands)	**Margin**	**Bcf**	Margin	Bcf	**Margin**	**Bcf**	Margin	Bcf
Utility gross margin/throughput								
Residential	**$ 96,599**	**19.7**	$ 78,673	19.3	**$ 159,097**	**32.3**	$ 133,749	28.2
Commercial, industrial and other	**21,119**	**4.4**	18,238	3.7	**34,815**	**6.8**	31,517	5.4
Firm transportation	**21,165**	**5.6**	19,984	6.2	**37,450**	**10.1**	35,531	9.6
Total utility firm gross margin/throughput	**138,883**	**29.7**	116,895	29.2	**231,362**	**49.2**	200,797	43.2
BGSS incentive programs	**2,924**	**42.5**	3,748	55.8	**6,708**	**86.1**	8,283	111.7
Interruptible/off-tariff agreements	**1,417**	**11.6**	1,166	12.5	**3,041**	**24.9**	2,556	28.5
Total utility gross margin/throughput	**$ 143,224**	**83.8**	$ 121,809	97.5	**$ 241,111**	**160.2**	$ 211,636	183.4

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

Utility Firm Gross Margin

Utility firm gross margin increased $22 million and $30.6 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to the base rate increase of $20.5 million and $28.1 million , respectively. The remaining increase was due to customer growth.

BGSS Incentive Programs

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

(Thousands)	Three Months Ended March 31, 2017 v. 2016	Six Months Ended March 31, 2017 v. 2016
Capacity release	$ (517)	$ (1,015)
Storage	(185)	(395)
Off-system sales	(122)	(165)
Total decrease	$ (824)	$ (1,575)

The decrease during the three and six months ended March 31, 2017 , compared with the three and six months ended March 31, 2016 , was due primarily to a decrease in the value and volume of capacity release.

Operation and Maintenance Expense

The factors contributing to the (decreases) increases in O&M expense is as follows:

(Thousands)	Three Months Ended March 31, 2017 v. 2016	Six Months Ended March 31, 2017 v. 2016
Compensation and benefits	$ 936	$ 2,231
Base rate amortization	782	1,528
Shared corporate costs	10	1,201
Donations	(1,000)	(1,000)
Other	(842)	(484)
Total (decrease) increase	$ (114)	$ 3,476

O&M expense remained relatively flat during the three months ended March 31, 2017 , compared with the three months ended March 31, 2016 . The increase in O&M expense during the six months ended March 31, 2017 , compared with the six months ended March 31, 2016 , was due primarily to:

- increased compensation costs due primarily to increases in headcount, incentives, as well as the timing of capitalized labor, healthcare premiums 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;
- an increase due to the additional amortization of regulatory assets resulting from the settlement of the base rate case; and
- increased shared corporate costs resulting primarily from increases in headcount, incentives and healthcare premiums; partially offset by
- decreased charitable donations.

Depreciation Expense

Depreciation expense increased $665,000 and $1.5 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 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.

Operating Income

Operating income increased $20.9 million and $24.5 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to the increase in total utility gross margin of $21.4 million and $29.5 million , respectively, partially offset by the increase in depreciation for the three and six months ended March 31, 2017 , along with the increase in O&M for the six months ended March 31, 2017 , as previously discussed.

Income Tax Provision

Income tax provision increased $7.8 million and $9.2 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to an increase in pre-tax income, as well as an increase in the forecasted effective tax rate resulting from an increase in forecasted pre-tax income.

Net Income

Net income increased $11.3 million and $10.7 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to the increase in operating income, as previously discussed, partially offset by an increase in the tax provision, as previously discussed, an increase in interest expense associated with higher long-term debt outstanding and a decrease in other income related to AFUDC interest earned on infrastructure projects.

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 placed a total of 156 MW of solar capacity into service and as of March 31, 2017 , had 25.5 MW under construction. We estimate total solar-related capital expenditures for ITC eligible projects during fiscal 2017 to be between $97 million and $110 million . There were no commercial projects placed into service during the six months ended March 31, 2017 or 2016 .

As part of its solar investment portfolio, NJRCEV 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. NJRCEV owns, operates and maintains the system over the life of the contract in exchange for monthly lease payments. NJRCEV's residential solar leasing program installed approximately 3.5 MW of capacity on 374 homes and 1.8 MW of capacity on 207 homes during the three months ended March 31, 2017 and 2016 , respectively, and 6.3 MW of capacity on 688 homes and 2.5 MW of capacity on 291 homes during the six months ended March 31, 2017 and 2016 , respectively.

Once a solar installation has received the proper certifications and commences operations, each MWh of electricity produced creates an SREC that represents the renewable energy attribute of the solar-electricity generated that can be sold to third parties, predominantly load-serving entities that are required to comply with the solar requirements under New Jersey's renewable portfolio standard. NJRCEV hedges a portion of its expected SREC production through the use of forward sales contracts. 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 March 31, 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. A $88.9 million , 39.9 MW wind project in Somerset County, Pennsylvania was completed in December 2016.

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

Clean Energy Ventures' investments are subject to a variety of factors, such as timing of construction schedules, permitting and regulatory processes, uncertainty of energy prices, as well as solar and wind equipment 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 and changes in prices 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 also significantly affect earnings.

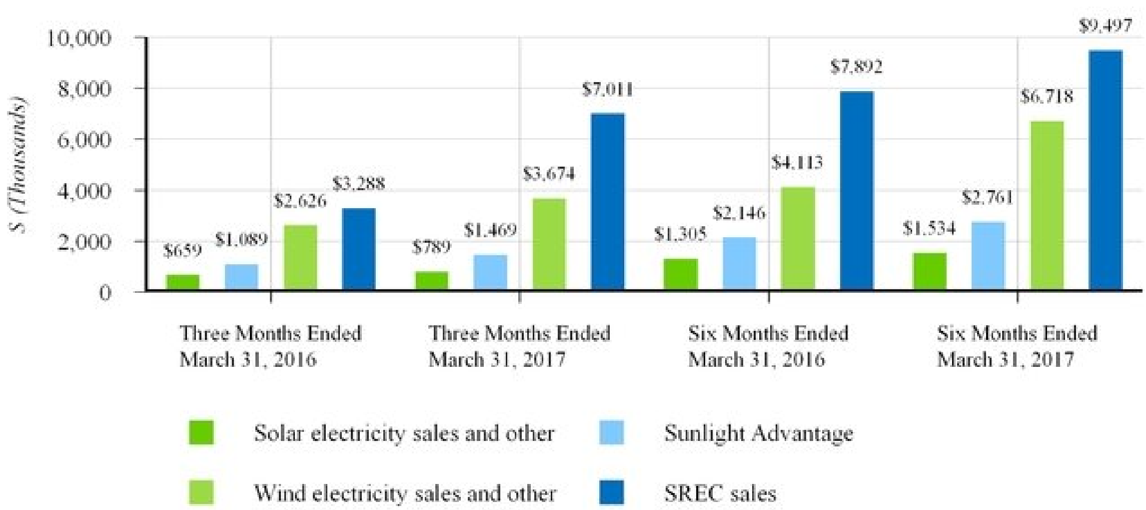
Operating Results

The financial results of NJRCEV are summarized as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Operating revenues	**$ 12,943**	$ 7,662	**$ 20,510**	$ 15,456
Less:				
Operation and maintenance	**6,145**	4,775	**10,549**	8,632
Depreciation and amortization	**7,923**	5,876	**14,964**	10,986
Other taxes	**234**	203	**649**	456
Operating loss	**(1,359)**	(3,192)	**(5,652)**	(4,618)
Other income, net	**815**	431	**743**	549
Interest expense, net	**4,055**	2,552	**7,379**	4,605
Income tax benefit	**(24,756)**	(13,916)	**(36,643)**	(25,650)
Net income	**$ 20,157**	$ 8,603	**$ 24,355**	$ 16,976

Operating Revenues

Operating revenues increased $5.3 million and $5.1 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , and is comprised of the following:



SREC activity consisted of the following:

	Six Months Ended March 31,	
	2017	2016
Beginning balance as of October 1,	**24,135**	33,203
SRECs generated	**69,436**	57,595
SRECs delivered	**(42,669)**	(37,232)
Ending balance as of March 31,	**50,902**	53,566

During the six months ended March 31, 2017 , SRECs generated increased 20.6 percent , compared with the six months ended March 31, 2016 . The average SREC sales price was $217 and $205 during the three months ended March 31, 2017 , and 2016 , respectively, and $223 and $212 during the six months ended March 31, 2017 , and 2016 , respectively.

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
2017	95%
2018	88%

(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 Unaudited Condensed Consolidated Statements of Operations, including such expenses as facility maintenance and various fees.

Operation and Maintenance Expense

O&M expense increased $1.4 million and $1.9 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to additional maintenance and administrative costs associated with wind and solar projects placed in service and higher shared corporate costs resulting primarily from increases in headcount, incentives and healthcare premiums.

Depreciation Expense

Depreciation expense increased $2 million and $4 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , as a result of increases in solar and wind capital additions.

Income Tax (Benefit)

Our effective tax rate is significantly impacted by the amount of tax credits forecast to be earned during the fiscal year. GAAP requires us to estimate our annual effective tax rate and use this rate to calculate its year-to-date tax provision. Based on NJRCEV's forecast of solar projects to be completed and wind production during the fiscal year, our estimated annual effective tax rate for fiscal 2017 is 15.6 percent and $22.4 million and $29.8 million related to tax credits, net of deferred taxes, were recognized during the three and six months ended March 31, 2017 , respectively. The annual effective tax rate as of March 31, 2016 , was 17.7 percent and $11.7 million and $21.9 million related to tax credits, net of deferred taxes, were recognized during the three and six months ended March 31, 2016 , respectively.

Net Income

Net income increased $11.6 million and $7.4 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to an increase in tax benefits recognized due primarily to a lower estimated annual effective tax rate, as well as higher consolidated pre-tax income, an increase in operating revenues as described above, partially offset by increased costs related to depreciation and O&M as discussed above and an increase in interest expense due to higher debt associated with capital expenditures.

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

Non-GAAP Financial Measures

Management of the Company uses NFE, a non-GAAP financial measure, when evaluating the operating results of Clean Energy Ventures. GAAP requires us, during the interim periods, to estimate our annual effective tax rate and use this rate to calculate the year-to-date tax provision. We also determine an annual estimated effective tax rate for NFE purposes and calculate a quarterly tax adjustment based on the differences between our forecasted net income and our forecasted NFE for the fiscal year. This adjustment is applied to NJRCEV, as such adjustment is primarily related to tax credits generated by NJRCEV. Since this adjustment is made to reflect the forecasted tax rate, no adjustment is needed at year end.

Accordingly, for NFE purposes, the annual estimated effective tax rate for fiscal 2017 is 12.7 percent and $32.7 million and $39.8 million of tax credits, net of deferred taxes, were recognized during the three and six months ended March 31, 2017 , respectively. During the three and six months ended March 31, 2016 , the annual estimated effective tax rate for fiscal 2016 was 16.6 percent and $14.9 million and $24.5 million of tax credits, net of deferred taxes, were recognized during the three and six months ended March 31, 2016 , respectively.

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Net income	**$ 20,157**	$ 8,603	**$ 24,355**	$ 16,976
Add:				
Net income to NFE tax adjustment	**2,586**	3,204	**1,230**	2,483
Net financial earnings	**$ 22,743**	$ 11,807	**$ 25,585**	$ 19,459

Energy Services Segment

Overview

NJRES markets and sells natural gas to wholesale customers and manages natural gas storage and transportation assets throughout major market areas across North America. NJRES 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 from a time and location perspective allows NJRES to generate market opportunities by capturing price differentials over specific time horizons and between geographic market locations.

NJRES also provides management of storage and transportation assets for natural gas producers and regulated utilities, as well as commodity supply for various end-users. 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, NJRES 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, NJRES 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 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, NJRES is able to implement strategies that allow them to capture margin by improving the respective time or geographic spreads on a forward basis.

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

NJRES accounts for its physical and financial derivative instruments at fair value on the Unaudited Condensed Consolidated Balance Sheets. Changes in fair value are included in earnings as a component of operating revenue and/or gas purchases, and gas purchases, respectively, on the Unaudited Condensed Consolidated Statements of Operations. Volatility in reported net income at NJRES 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 compared with the market price of natural gas at each reporting date. Volatility in earnings can also occur as a result of timing differences between derivative settlements and the sale of the underlying physical commodity. For example, when a financial instrument settles and the physical natural gas is injected into storage, 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, at which time NJRES realizes the entire margin on the transaction.

Operating Results

The financial results of NJRES are summarized as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Operating revenues [1]	**$ 420,287**	$ 319,958	**$ 757,468**	$ 598,651
Less:				
Gas purchases (including demand charges [2][3])	**368,482**	293,994	**707,569**	554,233
Operation and maintenance	**4,451**	4,174	**9,469**	7,931
Depreciation and amortization	**17**	23	**33**	46
Other taxes	**312**	216	**767**	453
Operating income	**47,025**	21,551	**39,630**	35,988
Other income	**—**	—	**—**	72
Interest expense, net	**716**	168	**1,287**	376
Income tax provision	**16,277**	7,805	**13,101**	12,710
Net income	**$ 30,032**	$ 13,578	**$ 25,242**	$ 22,974

(1) Includes related party transactions of approximately $2.7 million and $3.3 million for the three months ended March 31, 2017 and 2016 , respectively, and $930,000 and $5.8 million for the six months ended March 31, 2017 and 2016 , 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 ten years.
(3) Includes related party transactions of approximately $1.2 million and $6.1 million for the three months ended March 31, 2017 and 2016 , respectively, and $2.3 million and $12.3 million for the six months ended March 31, 2017 and 2016 , respectively, a portion of which is eliminated in consolidation.

NJRES' portfolio of financial derivative instruments are composed of:

	Six Months Ended March 31,	
(in Bcf)	**2017**	2016
Net short futures contracts	**64.2**	88.6
Net long options	**—**	3.6

Operating Revenues and Gas Purchases

Operating revenues increased $100.3 million and gas purchases increased $74.5 million during the three months ended March 31, 2017 , compared with the three months ended March 31, 2016 , due primarily to an approximate 58.9 percent increase in the average price of natural gas, as well as an increase of $63 million in unrealized gains on derivative instruments, partially offset by an increase of $35.4 million related to changes in the economic hedging of natural gas inventory and a 12.4 percent decrease in sales volumes.

Operating revenues increased $158.8 million and gas purchases increased $153.3 million during the six months ended March 31, 2017 , compared with the six months ended March 31, 2016 , due primarily to an approximate 44.5 percent increase in the average price of natural gas and an increase of $30 million in unrealized gains on derivative instruments, partially offset by a decrease of $13.6 million related to changes in the economic hedging of natural gas inventory and a 8.9 percent decrease in sales volumes.

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

Future results at NJRES 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 NJRES' earnings. See *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Natural Gas Distribution Segment* for Tetco M-3 Daily Prices, which illustrates the daily natural gas prices in the Northeast market region.

Operation and Maintenance Expense

O&M expense increased $277,000 and $1.5 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to increases in compensation and shared corporate costs.

Net Income

Net income increased $16.5 million and $2.3 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to higher gross margin as previously discussed, partially offset by an increase in the tax provision related primarily to the increase in unrealized gains on derivative instruments, an increase in interest expense due primarily to increased borrowing and higher O&M as previously discussed.

Non-GAAP Financial Measures

Management uses financial margin and NFE, non-GAAP financial measures, when evaluating the operating results of NJRES. 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 NJRES' 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, NJRES' 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 NJRES 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 NJRES' financial margin:

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Operating revenues [(1)]	**$ 420,287**	$ 319,958	**$ 757,468**	$ 598,651
Less: Gas purchases	**368,482**	293,994	**707,569**	554,233
Add:				
Unrealized (gain) loss on derivative instruments and related transactions	**(56,581)**	6,432	**(25,989)**	4,045
Effects of economic hedging related to natural gas inventory [(2)]	**34,328**	(1,054)	**16,389**	2,759
Financial margin	**$ 29,552**	$ 31,342	**$ 40,299**	$ 51,222

(1) Includes unrealized (gains) related to an intercompany transaction between NJNG and NJRES that have been eliminated in consolidation of approximately $1.7 million and $(3.3) million for the three months ended March 31, 2017 and 2016 , respectively, and $(564,000) and $(2) million for the six months ended March 31, 2017 and 2016 , respectively.

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

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Operating income	**$ 47,025**	$ 21,551	**$ 39,630**	$ 35,988
Add:				
Operation and maintenance	**4,451**	4,174	**9,469**	7,931
Depreciation and amortization	**17**	23	**33**	46
Other taxes	**312**	216	**767**	453
Subtotal	**51,805**	25,964	**49,899**	44,418
Add:				
Unrealized (gain) loss on derivative instruments and related transactions	**(56,581)**	6,432	**(25,989)**	4,045
Effects of economic hedging related to natural gas inventory	**34,328**	(1,054)	**16,389**	2,759
Financial margin	**$ 29,552**	$ 31,342	**$ 40,299**	$ 51,222

Financial margin decreased $1.8 million and $10.9 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to fewer market opportunities related to transportation assets and timing of certain transactions related to storage withdrawals along with warmer than normal weather during the six months ended March 31, 2017 .

Net Financial Earnings

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Net income	**$ 30,032**	$ 13,578	**$ 25,242**	$ 22,974
Add:				
Unrealized (gain) loss on derivative instruments and related transactions	**(56,581)**	6,432	**(25,989)**	4,045
Tax effect (1)	**20,301**	(2,335)	**9,721**	(1,468)
Effects of economic hedging related to natural gas inventory	**34,328**	(1,054)	**16,389**	2,759
Tax effect	**(12,334)**	384	**(6,130)**	(1,001)
Net financial earnings	**$ 15,746**	$ 17,005	**$ 19,233**	$ 27,309

(1) Includes taxes related to an intercompany transaction between NJNG and NJRES that have been eliminated in consolidation of approximately $622,000 and $1.2 million during the three months ended March 31, 2017 and 2016 , respectively, and $201,000 and $729,000 for the six months ended March 31, 2017 and 2016 , respectively.

NFE decreased $1.3 million and $8.1 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to lower financial margin and higher O&M, as previously discussed, partially offset by a decrease in the tax provision related to the decrease in financial margin.

Future results are subject to NJRES' 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 a growth opportunity for us. 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 is estimated to be in service by the first quarter of fiscal 2019 . As of March 31, 2017 , our net investments in Steckman Ridge and PennEast were $121.8 million and $31.1 million , respectively.

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

Operating Results

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Equity in earnings of affiliates	**$ 6,119**	$ 3,508	**$ 9,450**	$ 7,053
Other income, net	**$ 991**	$ 843	**$ 1,908**	$ 1,475
Income tax provision	**$ 1,502**	$ 1,530	**$ 3,151**	$ 3,170
Net income	**$ 4,948**	$ 2,228	**$ 7,335**	$ 4,572

Equity in earnings of affiliates increased $2.6 million and $2.4 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to the AFUDC interest earned at PennEast.

Other income increased $148,000 and $433,000 for the three and six months ended March 31, 2017 , compared with the three and six months ended March 31, 2016 , respectively, due primarily to increased dividend income from the DM Common Units.

Net income increased $2.7 million and $2.8 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to the increase in equity in earnings of affiliates, as discussed above.

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 113,000 service contract customers and has been focused on growing its installation business and expanding its service contract customer base. CR&R seeks additional opportunities to enhance the value of its undeveloped land. 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 are summarized as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	**2017**	2016	**2017**	2016
Operating revenues	**$ 8,504**	$ 7,931	**$ 18,510**	$ 17,504
Operation and maintenance	**$ 8,417**	$ 10,383	**$ 18,581**	$ 19,776
Energy and other taxes	**$ 993**	$ 927	**$ 2,069**	$ 1,910
Other income, net	**$ 3,001**	$ 225	**$ 5,828**	$ 384
Income tax provision (benefit)	**$ 1,066**	$ (1,474)	**$ 821**	$ (2,604)
Net income (loss)	**$ 708**	$ (2,022)	**$ 2,250**	$ (1,763)

Operating revenue increased $573,000 and $1 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to increased furnace/air conditioner combination installations at NJRHS related to increased marketing promotions as well as increased solar installations.

O&M expense decreased $2 million and $1.2 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to a pre-tax gain of $1.9 million , associated with the sale of a 56,400 square foot office building on five acres of land located in Monmouth County in March 2017, partially off set by increased labor costs resulting from higher headcount and incentives as well as increased healthcare premiums.

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

Other income increased $2.8 million and $5.4 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to the sale of available for sale securities, which resulted in a pre-tax gain of $2.8 million and $5.4 million , respectively.

The income tax provision increased $2.5 million and $3.4 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to the increase in other income as described above.

Net income increased $2.7 million and $4 million during the three and six months ended March 31, 2017 , respectively, compared with the three and six months ended March 31, 2016 , due primarily to the increase in other income and operating revenue along with the decrease in O&M, partially offset by the increase in the income tax provision discussed above.

Liquidity and Capital Resources

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

Our consolidated capital structure was as follows:

	March 31, 2017	September 30, 2016
Common stock equity	**50%**	48%
Long-term debt	**39**	44
Short-term debt	**11**	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. On December 14, 2015, we registered an additional 5 million shares of our common stock for issuance under the DRP. We raised $9.7 million and $8.2 million of equity through the DRP, by issuing approximately 279,000 and 260,000 shares of treasury stock, during the six months ended March 31, 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 March 31, 2017 , we repurchased a total of approximately 17 million of those shares and may repurchase an additional 2.4 million shares under the approved program. There were 105,000 and 34,700 shares repurchased during the six months ended March 31, 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-life assets through the issuance of long-term debt securities.

We believe that our existing borrowing availability, equity proceeds and cash flow from operations will be sufficient to satisfy our and our subsidiaries' working capital, capital expenditures and dividend requirements for the next 12 months. NJR, NJNG, NJRCEV and NJRES 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 sale-leasebacks and proceeds from our DRP, including utilizing the waiver discount feature.

We believe that as of March 31, 2017 , NJR and NJNG were, and currently are, in compliance with all existing debt covenants, both financial and non-financial.

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

Short-Term Debt

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

As of March 31, 2017 , NJR had a revolving credit facility totaling $425 million , as described below, with $173.7 million available under the facility.

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.

NJNG's commercial paper is sold through several commercial banks under an issuing and paying agency agreement and is supported by the $250 million NJNG Credit Facility. As of March 31, 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 $249.3 million .

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.

Short-term borrowings were as follows:

(Thousands)	Three Months Ended March 31, 2017	Six Months Ended March 31, 2017
NJR		
Notes Payable to banks:		
Balance at end of period	**$ 237,900**	**$ 237,900**
Weighted average interest rate at end of period	**1.75%**	**1.75%**
Average balance for the period	**$ 253,768**	**$ 227,466**
Weighted average interest rate for average balance	**1.70%**	**1.58%**
Month end maximum for the period	**$ 258,500**	**$ 284,600**

NJR

As noted above, based on its average borrowings during the six months ended March 31, 2017 , NJR's average interest rate was 1.58 percent , resulting in interest expense of $1.8 million .

As of March 31, 2017 , NJR had six letters of credit outstanding totaling $13.4 million , which reduced the amount available under the NJR Credit Facility by the same amount. NJR does not anticipate that these letters of credit will be drawn upon by the counterparties.

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

NJNG

NJNG had no outstanding short-term borrowings during the six months ended March 31, 2017 .

As of March 31, 2017 , NJNG had two letters of credit outstanding for $731,000 , which reduced the amount available under NJNG's committed credit facility by the same amount. NJNG does not anticipate that these letters of credit will be drawn upon by the counterparties.

Short-Term Debt Covenants

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

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

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

Default Provisions

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

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

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

Long-Term Debt

NJR

As of March 31, 2017 , NJR has the following outstanding:

- $50 million of 6.05 percent senior notes due September 2017 ;
- $25 million of 2.51 percent senior notes due September 15, 2018 ;
- $50 million of 3.25 percent senior notes due September 2022 ;
- $100 million of 3.48 percent senior notes due November 7, 2024 ;
- $50 million of 3.2 percent senior notes due August 18, 2023 ; and
- $100 million of 3.54 percent senior notes due August 18, 2026 .

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

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

NJNG

As of March 31, 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 $34.2 million in capital leases with various maturities ranging from 2017 to 2025 .

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.

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

Long-Term Debt Covenants and Default Provisions

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

- incur additional debt (including a covenant that limits the amount of consolidated total debt of the borrower at the end of a fiscal quarter to 65 percent of the consolidated total capitalization of the borrower, as those terms are defined in the applicable agreements, and a covenant limiting priority debt to 20 percent of the borrower's consolidated total capitalization, as those terms are defined in the applicable agreements);
- incur liens and encumbrances;
- make loans and investments;
- make dispositions of assets;
- make dividends or restricted payments;
- enter into transactions with affiliates; and
- merge, consolidate, transfer, sell or lease substantially all of the borrower's assets.

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

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

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

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

Sale-Leaseback

NJNG received $9.6 million and $7.1 million in December 2016 and 2015 , respectively, in connection with the sale-leaseback of its natural gas meters. NJNG exercised early purchase options with respect to meter leases by making final principal payments of $1 million during the six months ended March 31, 2017 . NJNG did not exercise early purchase options during the six months ended March 31, 2016 . NJNG continues to evaluate this sale-leaseback program based on current market conditions.

Contractual Obligations

NJNG's total capital expenditures are projected to be $177.6 million and $337.2 million , in fiscal 2017 and 2018 , respectively. Total capital expenditures spent or accrued during the six months ended March 31, 2017 were $74.1 million . 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 March 31, 2017 , NJNG's future MGP expenditures are estimated to be $165.8 million . For a more detailed description of MGP expenditures see *Note 12. Commitments and Contingent Liabilities* in the accompanying Unaudited Condensed Consolidated Financial Statements .

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

NJRCEV's expenditures include clean energy projects that support our goal to promote renewable energy. Accordingly, NJRCEV enters into agreements to install solar equipment involving both residential and commercial projects. During the six months ended March 31, 2017 , capital expenditures related to the purchase and installation of solar equipment were $57.6 million . An additional $40.7 million has been committed for solar projects to be placed into service during fiscal 2017 and beyond. We estimate solar-related capital expenditures for ITC eligible projects in fiscal 2017 to be between $97 million and $110 million .

During the first quarter of fiscal 2017, NJRCEV completed construction of a $88.9 million , 39.9 MW onshore wind project in Somerset County, Pennsylvania. NJRCEV continues to seek additional wind investment opportunities.

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.

We expect our expenditures related to our investment in the PennEast pipeline project to total between $25 million and $35 million in fiscal 2017 .

NJRES does not currently anticipate any significant capital expenditures in fiscal 2017 and 2018 .

More detailed information regarding contractual obligations is contained in *Liquidity and Capital Resources - Contractual Obligations* section of *Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report on Form 10-K for the period ended September 30, 2016 .

Off-Balance-Sheet Arrangements

Our off-balance-sheet arrangements consist of guarantees covering approximately $268.8 million of natural gas purchases, SREC sales and demand fee commitments and outstanding letters of credit totaling $14.1 million .

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

Cash Flow

Operating Activities

Cash flows from operating activities during the six months ended March 31, 2017 , totaled $171.8 million compared with $118 million during the six months ended March 31, 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 $53.8 million in operating cash flows during the six months ended March 31, 2017 , compared with the six months ended March 31, 2016 , was due primarily to a discretionary contribution of $30 million to our pension plan during fiscal 2016 that did not recur in fiscal 2017 and increased recovery of regulatory assets versus the timing of expenditures, partially offset by increased working capital at NJNG due primarily to colder weather and increased customer usage.

Investing Activities

Cash flows used in investing activities totaled $155.9 million during six months ended March 31, 2017 , compared with $171.4 million during the six months ended March 31, 2016 . The decrease of $15.6 million was due primarily to a decrease in utility plant expenditures of $22.8 million , proceeds of $6.6 million from the sale of available for sale securities and $9.4 million from the sale of an office building, net of closing costs along with a decrease in wind investment expenditures of $6.9 million , partially offset by an increase of $26 million in solar expenditures and $4.6 million for its investment in PennEast.

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 NJRES and clean energy investments at NJRCEV.

Cash flows from financing activities totaled $39.3 million during the six months ended March 31, 2017 , compared with $50.4 million during the six months ended March 31, 2016 . The decrease of $11.1 million is due primarily to the call and purchase of three FMBs in lieu of redemption totaling $35.8 million , along with an increase in treasury shares repurchased, partially offset by an increase in short-term borrowings at NJR.

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

Credit Ratings

The table below summarizes NJNG's current credit ratings issued by two rating entities, S&P and Moody's:

	Standard and Poor's	Moody's
Corporate Rating	A	N/A
Commercial Paper	A-1	P-1
Senior Secured	A+	Aa2
Ratings Outlook	Stable	Stable

These ratings were reaffirmed by S&P on July 19, 2016 and by Moody's on October 4, 2016. NJNG's S&P and Moody's ratings are investment-grade ratings. NJR is not a rated entity.

Although NJNG is not party to any lending agreements that would accelerate the maturity date of any obligation caused by a failure to maintain any specific credit rating, if such ratings are downgraded below investment grade, borrowing costs could increase, as would the costs of maintaining certain contractual relationships and future financing and our access to capital markets would be reduced. Even if ratings are downgraded without falling below investment grade, NJR and NJNG could face increased borrowing costs under their credit facilities. A rating set forth above is not a recommendation to buy, sell or hold NJR's or NJNG's securities and may be subject to revision or withdrawal at any time. Each rating set forth above should be evaluated independently of any other rating.

The timing and mix of any external financings will target a common equity ratio that is consistent with maintaining NJNG's current short-term and long-term credit ratings.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Risk Management

Commodity Market Risks

Natural gas is a nationally traded commodity. Its prices are determined effectively by the NYMEX, ICE and over-the-counter markets. The prices on the NYMEX, CME, ICE and over-the-counter markets generally reflect the national balance of natural gas supply and demand, but are also significantly influenced from time to time by other events.

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

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

(Thousands)	Balance September 30, 2016	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance March 31, 2017
NJNG	$ (2,485)	$ 6,831	$ 3,034	$ 1,312
NJRES	(21,742)	5,262	(12,208)	(4,272)
Total	$ (24,227)	$ 12,093	$ (9,174)	**$ (2,960)**

There were no changes in methods of valuations during the six months ended March 31, 2017 .

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

The following is a summary of fair market value of financial derivatives at March 31, 2017 , excluding foreign exchange contracts discussed below, by method of valuation and by maturity for each fiscal year period:

(Thousands)	2017	2018	2019 - 2021	After 2021	Total Fair Value
Price based on ICE	(326)	(2,257)	(377)	—	(2,960)
Total	$ (326)	$ (2,257)	$ (377)	$ —	**$ (2,960)**

The following is a summary of financial derivatives by type as of March 31, 2017 :

		Volume Bcf	Price per MMBtu [(1)]	Amounts included in Derivatives (Thousands)
NJNG	Futures	24.6	$2.26-$3.36	$ 1,312
NJRES	Futures	(64.2)	$1.63-$4.76	(4,272)
Total				**$ (2,960)**

(1) Million British thermal unit

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

(Thousands)	Balance September 30, 2016	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance March 31, 2017
NJNG - Prices based on other external data	$ (919)	(961)	(1,927)	**$ 47**
NJRES - Prices based on other external data	(2,891)	(2,280)	(12,287)	**7,116**
Total	$ (3,810)	(3,241)	(14,214)	**$ 7,163**

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

(Thousands)	Balance September 30, 2016	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance March 31, 2017
NJNG - Prices based on other external data	$ (23,073)	18,681	—	**$ (4,392)**

Our market price risk is predominately linked with changes in the price of natural gas at the Henry Hub, the delivery point for the NYMEX natural gas futures contracts. Based on price sensitivity analysis, an illustrative 10 percent movement in the natural gas futures contract price, for example, increases (decreases) the reported derivative fair value of all open, unadjusted Henry Hub natural gas futures and fixed price swap positions by approximately $13.9 million . This analysis does not include potential changes to reported credit adjustments embedded in the $(7.1) million reported fair value.

Derivative Fair Value Sensitivity Analysis

(Thousands)	Henry Hub Futures and Fixed Price Swaps				
Percent increase in NYMEX natural gas futures prices	0%	5%	10%	15%	20%
Estimated change in derivative fair value	$ —	$ (6,935)	$ (13,871)	$ (20,806)	$ (27,742)
Ending derivative fair value	$ (7,081)	$ (14,016)	$ (20,952)	$ (27,887)	$ (34,823)
Percent decrease in NYMEX natural gas futures prices	0%	(5)%	(10)%	(15)%	(20)%
Estimated change in derivative fair value	$ —	$ 6,935	$ 13,871	$ 20,806	$ 27,742
Ending derivative fair value	$ (7,081)	$ (146)	$ 6,790	$ 13,725	$ 20,661

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

Wholesale Credit Risk

The following is a summary of gross and net credit exposures, grouped by investment and non-investment grade counterparties, as of March 31, 2017 . Gross credit exposure is defined as the unrealized fair value of derivative and energy trading contracts plus any outstanding wholesale receivable for the value of natural gas or power delivered and/or financial derivative commodity contract that has settled for which payment has not yet been received. Net credit exposure is defined as gross credit exposure reduced by collateral received from counterparties and/or payables, where netting agreements exist. The amounts presented below exclude accounts receivable for NJNG retail natural gas sales and services.

NJRES' & NJRCEV's counterparty credit exposure as of March 31, 2017 , is as follows:

(Thousands)	Gross Credit Exposure	Net Credit Exposure
Investment grade	$ 148,951	$ 122,365
Noninvestment grade	35,145	16,767
Internally rated investment grade	8,892	2,432
Internally rated noninvestment grade	11,877	2,926
Total	**$ 204,865**	**$ 144,490**

NJNG's counterparty credit exposure as of March 31, 2017 , is as follows:

(Thousands)	Gross Credit Exposure	Net Credit Exposure
Investment grade	$ 6,367	$ 5,501
Noninvestment grade	236	—
Internally rated investment grade	82	—
Internally rated noninvestment grade	15,237	3,829
Total	**$ 21,922**	**$ 9,330**

Due to the inherent volatility in the market price for natural gas, electricity and SRECs, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If a counterparty failed to perform the obligations under its contract (for example, failed to make payment for natural gas received), we could sustain a loss. This loss would comprise the loss on natural gas delivered but not paid for and/or the cost of replacing natural gas not delivered or received at a price that exceeds the original contract price. Any such loss could have a material impact on our financial condition, results of operations or cash flows.

Information regarding NJR's interest rate risk can be found in *Item 7A.* Quantitative and Qualitative Disclosures About Market Risks and the *Liquidity and Capital Resources - Debt* section of *Item 7.* Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the period ended September 30, 2016 .

Effects of Interest Rate and Foreign Currency Rate Fluctuations

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

Effects of Inflation

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of end of the period covered by this report, our disclosure controls and procedures are effective, to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended March 31, 2017 , that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

ITEM 1. LEGAL PROCEEDINGS

Information regarding reportable legal proceedings is contained in *Part I, Item 3. Legal Proceedings* in our Annual Report on Form 10-K for the year ended September 30, 2016 , and is set forth in *Part I, Item 1, Note 12. Commitment and Contingent Liabilities-Legal Proceedings* on the Unaudited Condensed Consolidated Financial Statements. No legal proceedings became reportable during the quarter ended March 31, 2017 , and there have been no material developments during such quarter regarding any previously reported legal proceedings, which have not been previously disclosed.

ITEM 1A. RISK FACTORS

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical, under the circumstances, some level of risk and uncertainty will always be present. *Part I, Item 1A. Risk Factors* of our 2016 Annual Report on Form 10-K includes a detailed discussion of our risk factors. Those risks and uncertainties have the potential to materially affect our financial condition and results of operations. There have been no material changes in our risk factors from those previously disclosed in *Part I, Item 1A* , of our 2016 Annual Report on Form 10-K.

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

The following table sets forth our repurchase activity for the quarter ended March 31, 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
1/01/17 - 1/31/17	—	$ —	—	2,431,053
2/01/17 - 2/28/17	—	—	—	2,431,053
3/01/17 - 3/31/17	—	—	—	2,431,053
Total	**—**	**$ —**	**—**	**2,431,053**

The stock repurchase plan, which was authorized by our Board of Directors, became effective in September 1996 and as of March 31, 2017 , included 19.5 million shares of common stock for repurchase, of which, approximately 2.4 million shares remained available for repurchase. The stock repurchase plan will expire when we have repurchased all shares authorized for repurchase thereunder, unless the repurchase plan is earlier terminated by action of our Board of Directors or further shares are authorized for repurchase.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
31.1+	Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Certification of the Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1+ †	Certification of the Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2+ †	Certification of the Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002
101+	Interactive Data File (Form 10-Q, for the fiscal period ended March 31, 2017, furnished in XBRL (eXtensible Business Reporting Language)).

\+ Filed herewith.
† This certificate accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by NJR for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEW JERSEY RESOURCES CORPORATION
(Registrant)

Date: May 5, 2017

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

EXHIBIT 31.1

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Laurence M. Downes, certify that:

1) I have reviewed this report on Form 10-Q of New Jersey Resources Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2017

By: /s/ Laurence M. Downes
Laurence M. Downes
Chairman, President & Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Patrick Migliaccio, certify that:

1) I have reviewed this report on Form 10-Q of New Jersey Resources Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2017

By: /s/ Patrick Migliaccio

Patrick Migliaccio

Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Laurence M. Downes hereby certifies as follows:

(a) I am the Chief Executive Officer of New Jersey Resources Corporation (the "Company");

(b) To the best of my knowledge, this quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2017 , fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(c) To the best of my knowledge, based upon a review of this report, the information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2017

By: /s/ Laurence M. Downes

Laurence M. Downes

Chairman, President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Patrick Migliaccio hereby certifies as follows:

(a) I am the Chief Financial Officer of New Jersey Resources Corporation (the "Company");

(b) To the best of my knowledge, this quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2017 , fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(c) To the best of my knowledge, based upon a review of this report, the information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2017

By: /s/ Patrick Migliaccio

Patrick Migliaccio

Senior Vice President and Chief Financial Officer