



**QUARTERLY FINANCIAL STATEMENTS**

FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2015

(Unaudited)

# New Jersey Natural Gas Company

## STATEMENTS OF OPERATIONS (Unaudited)

**Three Months Ended  
December 31,  
2015      2014**

*(Thousands)*

<b>OPERATING REVENUES</b>	<b>\$ 151,606</b>	<b>\$ 208,727</b>
<b>OPERATING EXPENSES</b>		
Gas purchases	45,243	88,568
Operation and maintenance	29,628	29,980
Regulatory rider expenses	9,628	21,463
Depreciation and amortization	11,238	10,545
Energy and other taxes	8,162	12,607
<b>Total operating expenses</b>	<b>103,899</b>	<b>163,163</b>
<b>OPERATING INCOME</b>	<b>47,707</b>	<b>45,564</b>
Other income	1,314	1,397
Interest expense, net of capitalized interest	4,588	4,609
<b>INCOME BEFORE INCOME TAXES</b>	<b>44,433</b>	<b>42,352</b>
Income tax provision	13,863	14,166
<b>NET INCOME</b>	<b>\$ 30,570</b>	<b>\$ 28,186</b>

See Notes to Unaudited Condensed Financial Statements

# New Jersey Natural Gas Company

## STATEMENTS OF CASH FLOWS (Unaudited)

<i>(Thousands)</i>	<b>Three Months Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES</b>		
Net income	\$ 30,570	\$ 28,186
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	11,238	10,545
Allowance for funds used during construction	(1,215)	(1,253)
Amortization of deferred charges	128	117
Allowance for bad debt expense	267	888
Deferred income taxes	17,089	(502)
Manufactured gas plant remediation costs	(1,520)	(1,008)
Cost of removal – asset retirement obligation	(33)	(105)
Contributions to postemployment benefit plans	(30,126)	(48)
Changes in:		
Components of working capital	(14,745)	(37,487)
Other noncurrent assets	(18,643)	9,933
Other noncurrent liabilities	2,185	686
Cash flows (used in) from operating activities	(4,805)	9,952
<b>CASH FLOWS (USED IN) INVESTING ACTIVITIES</b>		
Expenditures for		
Utility plant	(42,465)	(34,114)
Cost of removal	(6,575)	(2,634)
Withdrawal from (payment to) restricted cash construction fund	1,001	(25)
Cash flows (used in) investing activities	(48,039)	(36,773)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Tax benefit from stock options exercised	—	273
Payments of long-term debt	(2,679)	(1,650)
Proceeds from short-term debt, net of payments	49,000	21,196
Proceeds from sale-leaseback transaction	7,107	7,216
Cash flows from financing activities	53,428	27,035
Change in cash and cash equivalents	584	214
Cash and cash equivalents at beginning of period	434	272
Cash and cash equivalents at end of period	\$ 1,018	\$ 486
<b>CHANGES IN COMPONENTS OF WORKING CAPITAL</b>		
Receivables	\$ (22,807)	\$ (74,925)
Inventories	(773)	18,967
Recovery of gas costs	(11,882)	2,015
Accounts payable and other	(12,244)	(18,373)
Gas purchases payable	5,302	15,359
Prepaid and accrued taxes, net	15,807	30,243
Customers' credit balances and deposits	10,056	14,346
Restricted broker margin accounts	(4,502)	(18,717)
Other current assets	6,298	(6,402)
Total	\$ (14,745)	\$ (37,487)
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>		
Cash paid for		
Interest (net of amounts capitalized)	\$ 3,538	\$ 971
Income taxes	\$ —	\$ 1,640
Accrued capital expenditures	\$ 5,408	\$ 2,956

See Notes to Unaudited Condensed Financial Statements

# New Jersey Natural Gas Company

## BALANCE SHEETS (Unaudited)

### ASSETS

<i>(Thousands)</i>	December 31, 2015	September 30, 2015
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Utility plant, at cost	\$ 1,937,686	\$ 1,908,024
Construction work in progress	161,686	155,553
Total property, plant and equipment	2,099,372	2,063,577
Accumulated depreciation and amortization	(446,133)	(437,097)
Property, plant and equipment, net	1,653,239	1,626,480
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	1,018	434
Customer accounts receivable:		
Billed	49,664	41,130
Unbilled	19,883	6,372
Allowance for doubtful accounts	(4,559)	(5,054)
Regulatory assets	26,739	24,258
Gas in storage, at average cost	70,506	70,209
Materials and supplies, at average cost	6,291	5,815
Prepaid taxes	17,381	33,333
Derivatives, at fair value	820	207
Restricted broker margin account	17,487	12,990
Other	23,628	30,926
Total current assets	228,858	220,620
<b>NONCURRENT ASSETS</b>		
Regulatory assets	423,332	410,155
Other	51,634	48,038
Total noncurrent assets	474,966	458,193
Total assets	\$ 2,357,063	\$ 2,305,293

See Notes to Unaudited Condensed Financial Statements

# New Jersey Natural Gas Company

## CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	December 31, 2015	September 30, 2015
<b>CAPITALIZATION</b>		
Common stock equity	\$ 807,351	\$ 776,781
Long-term debt	623,206	618,595
Total capitalization	1,430,557	1,395,376
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	10,958	11,138
Short-term debt	76,000	27,000
Gas purchases payable	25,891	20,589
Accounts payable and other	40,486	59,640
Accrued taxes	110	255
Regulatory liabilities	1,091	12,154
New Jersey clean energy program	12,907	14,293
Derivatives, at fair value	13,819	10,163
Customers' credit balances and deposits	30,757	20,701
Total current liabilities	212,019	175,933
<b>NONCURRENT LIABILITIES</b>		
Deferred income taxes	383,307	366,138
Deferred investment tax credits	4,859	4,940
Derivatives, at fair value	1,861	5,153
Manufactured gas plant remediation	180,400	180,400
Postemployment benefit liability	58,745	88,028
Regulatory liabilities	63,311	67,533
Asset retirement obligation	17,002	16,773
Other	5,002	5,019
Total noncurrent liabilities	714,487	733,984
Total capitalization and liabilities	\$ 2,357,063	\$ 2,305,293

See Notes to Unaudited Condensed Financial Statements

# New Jersey Natural Gas Company

## 1. GENERAL

New Jersey Natural Gas (the Company) is a local natural gas distribution company that provides regulated retail natural gas service to approximately 516,300 residential and commercial customers in central and northern New Jersey, and participates in the off-system sales and capacity release markets. The Company is the regulated utility subsidiary of New Jersey Resources Corporation. The Company maintains its accounts in accordance with the Uniform System of Accounts as prescribed by the New Jersey Board of Public Utilities (BPU). As a result of the impact of the ratemaking process and regulatory actions of the BPU, the Company is required to recognize the economic effects of rate regulation. Accordingly, the Company capitalizes or defers certain costs that are expected to be recovered from its customers as regulatory assets and recognizes certain obligations representing probable future expenditures as regulatory liabilities in the Balance Sheets.

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