



QUARTERLY FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2016

(Unaudited)

New Jersey Natural Gas Company

STATEMENTS OF OPERATIONS (Unaudited)

**Three Months Ended
December 31,
2016 2015**

(Thousands)

OPERATING REVENUES	\$ 185,556	\$ 151,606
OPERATING EXPENSES		
Gas purchases	64,186	45,243
Operation and maintenance	33,218	29,628
Regulatory rider expenses	12,601	9,628
Depreciation and amortization	12,030	11,238
Energy and other taxes	12,149	8,162
Total operating expenses	134,184	103,899
OPERATING INCOME	51,372	47,707
Other income	687	1,314
Interest expense, net of capitalized interest	6,824	4,588
INCOME BEFORE INCOME TAXES	45,235	44,433
Income tax provision	14,887	13,507
NET INCOME	\$ 30,348	\$ 30,926

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

STATEMENTS OF CASH FLOWS (Unaudited)

<i>(Thousands)</i>	Three Months Ended	
	December 31,	
	2016	2015
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	\$ 30,348	\$ 30,926
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	12,030	11,238
Allowance for funds used during construction	(584)	(1,215)
Amortization of deferred charges	134	128
Allowance for bad debt expense	111	267
Deferred income taxes	11,013	17,089
Manufactured gas plant remediation costs	(1,619)	(1,520)
Cost of removal – asset retirement obligation	(198)	(33)
Contributions to postemployment benefit plans	(1,701)	(30,126)
Tax benefit from stock based compensation	197	356
Changes in:		
Components of working capital	(21,915)	(14,745)
Other noncurrent assets	9,334	(18,643)
Other noncurrent liabilities	2,839	2,051
Cash flows from (used in) operating activities	39,989	(4,227)
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(31,396)	(42,465)
Cost of removal	(7,459)	(6,575)
Withdrawal from restricted cash construction fund	—	1,001
Cash flows (used in) investing activities	(38,855)	(48,039)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of long-term debt	(2,089)	(2,679)
Proceeds from short-term debt, net of payments	—	49,000
Proceeds from sale-leaseback transaction	9,587	7,107
Tax withholding payments related to net settled stock compensation	(625)	(578)
Cash flows from financing activities	6,873	52,850
Change in cash and cash equivalents	8,007	584
Cash and cash equivalents at beginning of period	35,172	434
Cash and cash equivalents at end of period	\$ 43,179	\$ 1,018
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$ (82,448)	\$ (22,807)
Inventories	19,082	(773)
Recovery of gas costs	(2,472)	(11,882)
Accounts payable and other	(6,661)	(12,244)
Gas purchases payable	12,205	5,302
Prepaid and accrued taxes, net	28,163	15,807
Customers' credit balances and deposits	617	10,056
Restricted broker margin accounts	10,123	(4,502)
Other current assets	(524)	6,298
Total	\$ (21,915)	\$ (14,745)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid (received) for:		
Interest (net of amounts capitalized)	\$ 5,817	\$ 3,538
Income taxes	\$ (3,690)	\$ —
Accrued capital expenditures	\$ 6,702	\$ 5,408

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

BALANCE SHEETS (Unaudited)

ASSETS

<i>(Thousands)</i>	December 31, 2016	September 30, 2016
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 2,123,926	\$ 2,107,375
Construction work in progress	131,576	122,268
Total property, plant and equipment	2,255,502	2,229,643
Accumulated depreciation and amortization	(470,444)	(467,702)
Property, plant and equipment, net	1,785,058	1,761,941
CURRENT ASSETS		
Cash and cash equivalents	43,179	35,172
Customer accounts receivable:		
Billed	71,404	30,951
Unbilled	47,648	5,744
Allowance for doubtful accounts	(4,647)	(4,627)
Regulatory assets	43,140	54,286
Gas in storage, at average cost	56,704	75,758
Materials and supplies, at average cost	9,057	9,085
Prepaid taxes	10,642	34,602
Derivatives, at fair value	15,112	1,040
Restricted broker margin account	—	4,822
Other	24,466	23,943
Total current assets	316,705	270,776
NONCURRENT ASSETS		
Regulatory assets	408,481	441,294
Derivatives, at fair value	—	75
Other	44,684	43,315
Total noncurrent assets	453,165	484,684
Total assets	\$ 2,554,928	\$ 2,517,401

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	December 31, 2016	September 30, 2016
CAPITALIZATION		
Common stock equity	\$ 883,233	\$ 852,885
Long-term debt	702,510	730,891
Total capitalization	1,585,743	1,583,776
CURRENT LIABILITIES		
Current maturities of long-term debt	46,832	11,452
Gas purchases payable	31,028	18,823
Accounts payable and other	36,612	42,874
Accrued taxes	4,264	61
Regulatory liabilities	12,120	9,469
New Jersey clean energy program	13,180	14,232
Derivatives, at fair value	2,995	4,133
Restricted broker margin account	5,294	—
Customers' credit balances and deposits	33,361	32,745
Total current liabilities	185,686	133,789
NONCURRENT LIABILITIES		
Deferred income taxes	459,520	448,427
Deferred investment tax credits	4,538	4,619
Manufactured gas plant remediation	168,506	172,000
Postemployment benefit liability	79,952	80,855
Regulatory liabilities	38,726	41,411
Asset retirement obligation	23,718	23,521
Derivatives, at fair value	2,702	23,459
Other	5,837	5,544
Total noncurrent liabilities	783,499	799,836
Total capitalization and liabilities	\$ 2,554,928	\$ 2,517,401

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

1. GENERAL

New Jersey Natural Gas (the Company) is a local natural gas distribution company that provides regulated retail natural gas service to approximately 525,500 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.