



QUARTERLY FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2019 and 2018

(Unaudited)

New Jersey Natural Gas Company

CONDENSED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended December 31,	
<i>(Thousands)</i>	2019	2018
OPERATING REVENUES	\$ 219,623	\$ 199,965
OPERATING EXPENSES		
Gas purchases	95,822	92,178
Operation and maintenance	36,185	38,227
Regulatory rider expense	11,742	12,632
Depreciation and amortization	16,817	13,896
Total operating expenses	160,566	156,933
OPERATING INCOME	59,057	43,032
Other income, net	1,266	614
Interest expense, net of capitalized interest	7,832	6,103
INCOME BEFORE INCOME TAXES	52,491	37,543
Income tax provision	8,635	5,830
NET INCOME	\$ 43,856	\$ 31,713

See Note to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended December 31,	
<i>(Thousands)</i>	2019	2018
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net income	\$ 43,856	\$ 31,713
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	16,817	13,896
Allowance for equity used during construction	(2,732)	(1,751)
Amortization of deferred charges	170	146
Allowance for doubtful accounts	275	450
Non cash lease expense	44	—
Deferred income taxes	876	1,867
Manufactured gas plant remediation costs	(2,974)	(2,593)
Cost of removal – asset retirement obligation	(61)	(65)
Contributions to postemployment benefit plans	(2,106)	(1,634)
Tax benefit from stock based compensation	87	79
Changes in:		
Components of working capital	(82,430)	(88,471)
Other noncurrent assets	2,974	8,264
Other noncurrent liabilities	2,458	4,512
Cash flows used in operating activities	(22,746)	(33,587)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(69,861)	(51,359)
Cost of removal	(7,936)	(8,396)
Cash flows used in investing activities	(77,797)	(59,755)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contribution from parent	50,000	60,000
Payments of long-term debt	(2,686)	(2,311)
Proceeds from short-term debt, net of payments	49,600	27,700
Proceeds from sale-leaseback transaction	4,000	9,895
Tax withholding payments related to net settled stock compensation	(235)	(299)
Cash flows from financing activities	100,679	94,985
Change in cash, cash equivalents and restricted cash	136	1,643
Cash, cash equivalents and restricted cash at beginning of period	2,475	894
Cash, cash equivalents and restricted cash at end of period	\$ 2,611	\$ 2,537
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$ (99,312)	\$ (82,956)
Inventories	14,583	666
Recovery of gas costs	7,951	(1,142)
Accounts payable and other	(25,059)	(30,594)
Gas purchases payable	635	6,810
Prepaid expenses	(2,614)	(2,769)
Prepaid and accrued taxes, net	21,144	18,153
Customers' credit balances and deposits	2,459	2,304
Restricted broker margin accounts	(2,574)	4,108
Other	357	(3,051)
Total	\$ (82,430)	\$ (88,471)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for:		
Interest (net of amounts capitalized)	\$ 8,308	\$ 9,248
Accrued capital expenditures	\$ 3,016	\$ 4,186

See Note to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CONDENSED BALANCE SHEETS (Unaudited)

ASSETS

<i>(Thousands)</i>	December 31, 2019	September 30, 2019
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 2,638,798	\$ 2,625,730
Construction work in progress	267,774	232,233
Total property, plant and equipment	2,906,572	2,857,963
Accumulated depreciation and amortization	(572,144)	(585,160)
Property, plant and equipment, net	2,334,428	2,272,803
CURRENT ASSETS		
Cash and cash equivalents	1,220	1,088
Customer accounts receivable:		
Billed	78,365	36,302
Unbilled	63,656	6,510
Allowance for doubtful accounts	(5,010)	(4,838)
Regulatory assets	24,246	32,871
Gas in storage, at average cost	102,987	117,413
Materials and supplies, at average cost	12,044	12,201
Prepaid expenses	7,757	5,143
Prepaid and accrued taxes	8,565	21,989
Derivatives, at fair value	26	449
Restricted broker margin account	4,140	1,982
Other	15,939	16,297
Total current assets	313,935	247,407
NONCURRENT ASSETS		
Regulatory assets	490,283	496,637
Other	51,583	47,462
Total noncurrent assets	541,866	544,099
Total assets	\$ 3,190,229	\$ 3,064,309

See Note to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	December 31, 2019	September 30, 2019
CAPITALIZATION		
Common stock equity	\$ 1,277,877	\$ 1,184,021
Long-term debt	909,727	908,779
Total capitalization	2,187,604	2,092,800
CURRENT LIABILITIES		
Current maturities of long-term debt	10,714	10,420
Short-term debt	49,600	—
Gas purchases payable	27,667	27,032
Accounts payable and other	46,847	75,214
Accrued taxes	11,604	3,884
New Jersey Clean Energy Program	13,757	15,468
Derivatives, at fair value	525	815
Customers' credit balances and deposits	29,573	27,114
Total current liabilities	190,287	159,947
NONCURRENT LIABILITIES		
Deferred income taxes	290,534	288,247
Deferred investment tax credits	3,573	3,653
Manufactured gas plant remediation	129,241	131,080
Postemployment benefit liability	154,058	155,456
Regulatory liabilities	203,313	202,435
Asset retirement obligation	27,248	26,944
Other	4,371	3,747
Total noncurrent liabilities	812,338	811,562
Total capitalization and liabilities	\$ 3,190,229	\$ 3,064,309

See Note to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

Note to Unaudited Condensed Financial Statements

1. GENERAL

New Jersey Natural Gas (the Company) is a natural gas distribution company that provides regulated retail natural gas service to approximately 552,100 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 wholly-owned regulated utility subsidiary of New Jersey Resources Corporation. The Company maintains its accounts in accordance with the Federal Energy Regulatory Commission Uniform System of Accounts as prescribed by the New Jersey Board of Public Utilities (BPU) and in accordance with the *Regulated Operations* Topic of the Financial Accounting Standards Board Accounting Standards Codification. As a result of the impact of the ratemaking process and regulatory actions of the BPU, the Company is required to recognize the economic effects of rate regulation. Accordingly, the Company capitalizes or defers certain costs that are expected to be recovered from its customers as regulatory assets and recognizes certain obligations representing probable future expenditures as regulatory liabilities on its 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.

Reclassification

Certain prior period amounts related to energy and other taxes on the Statements of Operations and prepaid expenses on the Balance Sheets and Statements of Cash Flows have been reclassified to conform to the current period presentation.

Recently Adopted Updates to the Accounting Standards Codification

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, an amendment to Accounting Standards Codification (ASC) 842, *Leases*, which, along with other ASU's containing minor amendments and technical corrections, 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 an original term greater than one year are recorded on the balance sheet. The related asset is amortized straight-line over the term of the lease.

In January 2018, the FASB issued ASU No. 2018-01, a further amendment to ASC 842, *Leases*, which was introduced by ASU No. 2016-02, as discussed above. This update provides an optional practical expedient that allows companies to not evaluate existing or expired land easements that were not previously accounted for under Topic 840 as leases as of October 1, 2019. The Company adopted this practical expedient. In July 2018, the FASB issued ASU No. 2018-11, which provides an optional transition method to ASC 842 that allows the Company to recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption, if any. The Company elected this transition method and did not have any cumulative impact to the opening balance of retained earnings.

The Company's other practical expedient elections include the package of practical expedients whereby the Company was not required to reassess all of its leases identified, lease classifications and initial direct costs associated with leases. The Company also elected to not separate non-lease components from lease components and elected to exclude short-term leases from the recognition requirements of ASC 842. The Company did not elect the portfolio approach for the application of the discount rate and therefore applies a discount rate individually to each lease in its population.

New Jersey Natural Gas Company

Note to Unaudited Condensed Financial Statements

The Company adopted ASC 842 and all related amendments on October 1, 2019, using the modified retrospective transition method.

The Company's lease agreements primarily consist of equipment and real property leases, including land and office facility leases and office equipment and the sale-leaseback of its natural gas meters. The total right-of-use assets upon adoption were approximately \$800,000, which were recorded in other noncurrent assets on the Balance Sheets.