
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 December 31, 2020
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
(State or other jurisdiction of incorporation or organization)

22-2376465
(I.R.S. Employer Identification Number)

1415 Wyckoff Road
Wall New Jersey 07719
(Address of principal executive offices)

(732) 938-1480
(Registrant's telephone number,
including area code)

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock - \$2.50 Par Value	NJR	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files).

Yes: ☒ No: ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 ☒

Non-accelerated filer ☐

Accelerated filer ☐

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 February 2, 2021 was 96,250,435.

New Jersey Resources Corporation

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New Jersey Resources Corporation

GLOSSARY OF KEY TERMS

Adelphia Gateway	Adelphia Gateway, LLC
AFUDC	Allowance for Funds Used During Construction
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bcf	Billion Cubic Feet
BGSS	Basic Gas Supply Service
BPU	New Jersey Board of Public Utilities
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CIP	Conservation Incentive Program
CME	Chicago Mercantile Exchange
COVID-19	Novel coronavirus disease
CR&R	Commercial Realty & Resources Corp.
DRP	NJR Direct Stock Purchase and Dividend Reinvestment Plan
Dths	Dekatherms
EE	Energy Efficiency
Energy Services	Energy Services segment
EPS	Earnings Per Share
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
Fitch	Fitch Ratings Company
FMB	First Mortgage Bond
GAAP	Generally Accepted Accounting Principles of the United States
Home Services and Other	Home Services and Other Operations
ICE	Intercontinental Exchange
IEC	Interstate Energy Company, LLC
IIP	Infrastructure Investment Program
IRS	Internal Revenue Service
ISDA	The International Swaps and Derivatives Association
ITC	Federal Investment Tax Credit
Leaf River	Leaf River Energy Center LLC
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
Natural Gas Act	The Natural Gas Act of 1938, as amended; the federal law regulating interstate natural gas pipeline and storage companies, among other things, codified beginning at 15 U.S.C. Section 717.
NFE	Net Financial Earnings
NJ RISE	New Jersey Reinvestment in System Enhancement
NJCEP	New Jersey's Clean Energy Program
NJDEP	New Jersey Department of Environmental Protection

New Jersey Resources Corporation

GLOSSARY OF KEY TERMS (cont.)

NJNG	New Jersey Natural Gas Company
NJNG Credit Facility	NJNG's \$250 million unsecured committed credit facility expiring in December 2023
NJR Credit Facility	NJR's \$425 million unsecured committed credit facility expiring in December 2023
NJR or The Company	New Jersey Resources Corporation
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
OASDI	Old Age, Survivors and Disability Insurance tax
O&M	Operation and Maintenance
OPEB	Other Postemployment Benefit Plans
PennEast	PennEast Pipeline Company, LLC
PPA	Power Purchase Agreement
RAC	Remediation Adjustment Clause
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
Talen	Talen Energy Marketing, LLC
TETCO	Texas Eastern Transmission
The Exchange Act	The Securities Exchange Act of 1934, as amended
The Tax Act	An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, previously known as The Tax Cuts and Jobs Act of 2017
Third Circuit	The United States Court of Appeals for the Third Circuit
TREC	Transition Renewable Energy Certificate
Trustee	U.S. Bank National Association
U.S.	The United States of America
USF	Universal Service Fund

New Jersey Resources Corporation

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 1. “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, RECs, 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 2021 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, 2020, as well as the following:

- risks related to the impact of COVID-19 on business operations, financial performance and condition and cash flows;
- our ability to obtain governmental and regulatory approvals, 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, pipeline transportation systems and NJNG and Storage and Transportation infrastructure projects, including PennEast and Adelphia Gateway, in a timely manner;
- risks associated with our investments in clean energy projects, including the availability of regulatory incentives and federal tax credits, the availability of viable projects, our eligibility for ITCs, the future market for SRECs and electricity prices, and operational risks related to projects in service;
- risks associated with acquisitions and the related integration of acquired assets with our current operations, including the acquisition of Adelphia Gateway and Leaf River;
- our ability to comply with current and future regulatory requirements;
- volatility of natural gas and other commodity prices and their impact on NJNG customer usage, NJNG’s BGSS incentive programs, our Energy Services segment operations and our risk management efforts;
- the performance of our subsidiaries;
- access to adequate supplies of natural gas and dependence on third-party storage and transportation facilities for natural gas supply;
- the level and rate at which NJNG’s costs and expenses are incurred and the extent to which they are approved for recovery from customers through the regulatory process, including through future base rate case filings;
- the impact of a disallowance of recovery of environmental-related expenditures and other regulatory changes;
- the regulatory and pricing policies of federal and state regulatory agencies;
- operating risks incidental to handling, storing, transporting and providing customers with natural gas;
- demographic changes in our service territory and their effect on our customer growth;
- timing of qualifying for ITCs due to delays or failures to complete planned solar projects and the resulting impact on our effective tax rate and earnings;
- changes in rating agency requirements and/or credit ratings and their effect on availability and cost of capital to the Company;
- the impact of volatility in the equity and credit markets on our access to capital;
- our ability to comply with debt covenants;
- the results of legal or administrative proceedings with respect to claims, rates, environmental issues, natural gas cost prudence reviews and other matters;
- risks related to cyberattacks or failure of information technology systems;
- 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;
- commercial and wholesale credit risks, including the availability of creditworthy customers and counterparties, and liquidity in the wholesale energy trading market;
- accounting effects and other risks associated with hedging activities and use of derivatives contracts;
- our ability to optimize our physical assets;
- weather and economic conditions;
- the costs of compliance with present and future environmental laws, potential climate change-related legislation or any legislation resulting from the 2019 New Jersey Energy Master Plan;
- uncertainties related to litigation, regulatory, administrative or environmental proceedings;
- changes to tax laws and regulations;
- any potential need to record a valuation allowance for our deferred tax assets;
- the impact of natural disasters, terrorist activities and other extreme events on our operations and customers;
- risks related to our employee workforce and succession planning;
- risks associated with the management of our joint ventures and partnerships; and
- risks associated with keeping pace with technological change.

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)

	Three Months Ended December 31,	
<i>(Thousands, except per share data)</i>	2020	2019
OPERATING REVENUES		
Utility	\$ 195,729	\$ 219,623
Nonutility	258,576	395,413
Total operating revenues	454,305	615,036
OPERATING EXPENSES		
Natural gas purchases:		
Utility	56,145	91,814
Nonutility	173,247	317,356
Related parties	1,734	1,524
Operation and maintenance	73,636	63,345
Regulatory rider expenses	10,701	11,742
Depreciation and amortization	27,362	24,637
Total operating expenses	342,825	510,418
OPERATING INCOME	111,480	104,618
Other income, net	4,117	286
Interest expense, net of capitalized interest	19,786	16,070
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	95,811	88,834
Income tax provision	17,441	16,471
Equity in earnings of affiliates	2,675	3,389
NET INCOME	\$ 81,045	\$ 75,752
EARNINGS PER COMMON SHARE		
Basic	\$0.84	\$0.82
Diluted	\$0.84	\$0.82
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	96,114	91,911
Diluted	96,415	92,320

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended December 31,	
<i>(Thousands)</i>	2020	2019
Net income	\$ 81,045	\$ 75,752
Other comprehensive income, net of tax		
Reclassifications of losses to net income on derivatives designated as hedging instruments, net of tax of \$(112) and \$0, respectively	231	—
Adjustment to postemployment benefit obligation, net of tax of \$(245) and \$(217), respectively	812	759
Other comprehensive income	\$ 1,043	\$ 759
Comprehensive income	\$ 82,088	\$ 76,511

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation

Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended December 31,	
<i>(Thousands)</i>	2020	2019
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	\$ 81,045	\$ 75,752
Adjustments to reconcile net income to cash flows from operating activities		
Unrealized gain on derivative instruments	(37,491)	(41,766)
Depreciation and amortization	27,362	24,637
Amortization of acquired wholesale energy contracts	716	134
Allowance for equity used during construction	(4,931)	(2,732)
Allowance for doubtful accounts	3,970	430
Non cash lease expense	1,324	861
Deferred income taxes	17,667	19,976
Manufactured gas plant remediation costs	(1,274)	(2,974)
Equity in earnings, net of distributions received from equity investees	(1,189)	(1,332)
Cost of removal - asset retirement obligations	(256)	(61)
Contributions to postemployment benefit plans	(1,670)	(2,256)
Tax benefit from stock-based compensation	76	798
Changes in:		
Components of working capital	(74,434)	(117,241)
Other noncurrent assets	11,806	1,312
Other noncurrent liabilities	9,002	1,398
Cash flows from (used in) operating activities	31,723	(43,064)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Expenditures for:		
Utility plant	(64,481)	(69,861)
Solar equipment	(22,335)	(45,699)
Storage and Transportation and other	(8,299)	(2,687)
Cost of removal	(14,765)	(7,936)
Acquisition of assets, net of cash acquired of \$5.1 million	—	(368,126)
Distribution from equity investees in excess of equity in earnings	1,413	643
Investments in equity investees	(286)	(509)
Cash flows used in investing activities	(108,753)	(494,175)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from term loan	—	350,000
Payments of term loan	—	(212,900)
Payments of long-term debt	(5,203)	(3,853)
Proceeds from (payments of) short-term debt, net	9,000	228,159
Proceeds from sale leaseback transaction - solar	12,124	—
Proceeds from sale leaseback transaction	—	4,000
Payments of common stock dividends	(31,902)	(26,974)
Proceeds from issuance of common stock - public equity offering	—	212,900
Proceeds from issuance of common stock - DRP	3,911	3,572
Tax withholding payments related to net settled stock compensation	(5,534)	(3,543)
Cash flows (used in) from financing activities	(17,604)	551,361
Change in cash, cash equivalents and restricted cash	(94,634)	14,122
Cash, cash equivalents and restricted cash at beginning of period	119,423	4,063
Cash, cash equivalents and restricted cash at end of period	\$ 24,789	\$ 18,185
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$ (108,143)	\$ (164,622)
Inventories	5,792	(17,055)
Recovery of natural gas costs	(10,542)	7,951
Natural gas purchases payable	24,146	44,086
Natural gas purchases payable - related parties	74	—
Prepaid expenses	(5,045)	(12,482)
Prepaid and accrued taxes	10,568	15,390
Accounts payable and other	(39,232)	(27,080)
Restricted broker margin accounts	38,986	34,976
Customers' credit balances and deposits	7,014	2,457
Other current assets	1,948	(862)
Total	\$ (74,434)	\$ (117,241)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for:		
Interest (net of amounts capitalized)	\$ 11,298	\$ 14,938
Income taxes	\$ 230	\$ —
Accrued capital expenditures	\$ 4,205	\$ 14,864

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

ASSETS

(Thousands)

	December 31, 2020	September 30, 2020
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 2,846,982	\$ 2,800,052
Construction work in progress	401,393	379,846
Nonutility plant and equipment, at cost	1,117,839	1,108,512
Construction work in progress	204,152	176,556
Total property, plant and equipment	4,570,366	4,464,966
Accumulated depreciation and amortization, utility plant	(603,385)	(601,635)
Accumulated depreciation and amortization, nonutility plant and equipment	(148,666)	(140,562)
Property, plant and equipment, net	3,818,315	3,722,769
CURRENT ASSETS		
Cash and cash equivalents	22,358	117,012
Customer accounts receivable		
Billed	197,641	134,173
Unbilled revenues	53,794	9,226
Allowance for doubtful accounts	(11,105)	(7,242)
Regulatory assets	39,342	36,530
Natural gas in storage, at average cost	163,169	167,504
Materials and supplies, at average cost	18,949	20,406
Prepaid expenses	11,684	6,639
Prepaid and accrued taxes	12,858	24,301
Derivatives, at fair value	33,087	23,310
Restricted broker margin accounts	48,105	69,444
Other	19,322	21,029
Total current assets	609,204	622,332
NONCURRENT ASSETS		
Investments in equity method investees	211,581	208,375
Regulatory assets	521,337	527,459
Operating lease assets	138,633	131,769
Derivatives, at fair value	1,547	3,349
Intangible assets, net	9,397	10,060
Software costs	5,498	4,707
Other noncurrent assets	81,393	85,657
Total noncurrent assets	969,386	971,376
Total assets	\$ 5,396,905	\$ 5,316,477

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation

Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

CAPITALIZATION AND LIABILITIES

(Thousands, except share data)

December 31, 2020 September 30, 2020

CAPITALIZATION

Common stock, \$2.50 par value; authorized 150,000,000 shares; outstanding December 31, 2020 — 96,139,436; September 30, 2020 — 95,949,183	\$ 240,367	\$ 240,243
Premium on common stock	492,890	491,982
Accumulated other comprehensive loss, net of tax	(43,272)	(44,315)
Treasury stock at cost and other; shares December 31, 2020 — 7,623; September 30, 2020 — 148,310	11,649	8,485
Retained earnings	996,580	947,501
Common stock equity	1,698,214	1,643,896
Long-term debt	2,264,972	2,259,466
Total capitalization	3,963,186	3,903,362

CURRENT LIABILITIES

Current maturities of long-term debt	26,864	27,236
Short-term debt	134,350	125,350
Natural gas purchases payable	120,091	95,945
Natural gas purchases payable to related parties	865	791
Accounts payable and other	110,456	141,500
Dividends payable	31,966	31,902
Accrued taxes	1,842	2,717
Regulatory liabilities	16,941	26,188
New Jersey Clean Energy Program	13,508	15,570
Derivatives, at fair value	24,444	33,865
Operating lease liabilities	4,397	6,724
Customers' credit balances and deposits	32,948	25,934
Total current liabilities	518,672	533,722

NONCURRENT LIABILITIES

Deferred income taxes	166,128	138,081
Deferred investment tax credits	3,251	3,332
Deferred gain	987	1,035
Derivatives, at fair value	14,933	13,352
Manufactured gas plant remediation	148,000	150,590
Postemployment employee benefit liability	235,845	237,221
Regulatory liabilities	195,282	196,450
Operating lease liabilities	104,970	95,030
Asset retirement obligation	33,906	33,723
Other	11,745	10,579
Total noncurrent liabilities	915,047	879,393
Commitments and contingent liabilities (Note 13)		
Total capitalization and liabilities	\$ 5,396,905	\$ 5,316,477

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation

Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF COMMON STOCK EQUITY (Unaudited)

<i>(Thousands)</i>	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, 2020	95,949	\$ 240,243	\$ 491,982	\$ (44,315)	\$ 8,485	\$ 947,501	\$ 1,643,896
Net income	—	—	—	—	—	81,045	81,045
Other comprehensive income	—	—	—	1,043	—	—	1,043
Common stock issued:							
Incentive compensation plan	50	124	5,410	—	—	—	5,534
Dividend reinvestment plan ⁽¹⁾	140	—	(4,502)	—	5,593	—	1,091
Cash dividend declared (\$.3325 per share)	—	—	—	—	—	(31,966)	(31,966)
Treasury stock and other	—	—	—	—	(2,429)	—	(2,429)
Balance at December 31, 2020	96,139	\$ 240,367	\$ 492,890	\$ (43,272)	\$ 11,649	\$ 996,580	\$ 1,698,214

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

<i>(Thousands)</i>	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, 2019	89,999	\$ 226,649	\$ 291,331	\$ (31,787)	\$ (10,436)	\$ 869,858	\$ 1,345,615
Net income	—	—	—	—	—	75,752	75,752
Other comprehensive income	—	—	—	759	—	—	759
Common stock issued:							
Common stock offering	5,333	13,333	199,567	—	—	—	212,900
Incentive compensation plan	96	239	3,053	—	—	—	3,292
Dividend reinvestment plan ⁽¹⁾	80	—	314	—	3,185	—	3,499
Cash dividend declared (\$.3125 per share)	—	—	—	—	—	(29,846)	(29,846)
Treasury stock and other	—	—	—	—	(3,879)	—	(3,879)
Balance at December 31, 2019	95,508	\$ 240,221	\$ 494,265	\$ (31,028)	\$ (11,130)	\$ 915,764	\$ 1,608,092

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

New Jersey Resources Corporation

Part I

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

1. NATURE OF THE BUSINESS

NJR provides regulated natural gas distribution services, transportation and storage services and operates certain unregulated businesses primarily through the following:

NJNG provides natural gas utility service to approximately 559,600 customers throughout Burlington, Middlesex, Monmouth, Morris and Ocean counties in New Jersey and is subject to rate regulation by the BPU. NJNG comprises the Natural Gas Distribution segment.

NJRCEV, 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.

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

NJR Midstream Holdings Corporation, which comprises the Storage and Transportation segment, formerly the Midstream segment, invests in energy-related ventures through its subsidiaries. The Company holds a 50 percent combined ownership interest in Steckman Ridge, located in Pennsylvania and 20 percent ownership interest in PennEast, which are accounted for under the equity method of accounting. The Company also operates natural gas storage and transmission assets through the wholly-owned subsidiaries of Leaf River, which was acquired on October 11, 2019 and Adelphia Gateway, which was acquired on January 13, 2020 and is subject to rate regulation by FERC. See *Note 17. Acquisitions and Dispositions* for more information regarding these acquisitions.

NJR Retail Holdings Corporation has two principal subsidiaries, NJRHS, which provides heating, central air conditioning, standby generators, solar and other indoor and outdoor comfort products to residential homes throughout New Jersey, and CR&R, which owns commercial real estate. NJRHS and CR&R are included in Home Services and Other operations.

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, 2020 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 2020 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, 2021. Intercompany transactions and accounts have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingencies during the reporting period. On a quarterly basis or more frequently whenever events or changes in circumstances indicate a need, the Company evaluates its estimates, including those related to the calculation of the fair value of derivative instruments, debt, equity method investments, unbilled revenues, allowance for doubtful accounts, provisions for depreciation and amortization, long-lived assets, regulatory assets and liabilities, income taxes, pensions and other postemployment benefits, contingencies related to environmental matters and litigation. ARO are evaluated as often as needed. The Company's estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

New Jersey Resources Corporation

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has legal, regulatory and environmental proceedings during the normal course of business that can result in loss contingencies. When evaluating the potential for a loss, the Company will establish a reserve if a loss is probable and can be reasonably estimated, in which case it is the Company's policy to accrue the full amount of such estimates. Where the information is sufficient only to establish a range of probable liability, and no point within the range is more likely than any other, it is the Company's policy to accrue the lower end of the range. In the normal course of business, estimated amounts are subsequently adjusted to actual results that may differ from estimates.

In March 2020, COVID-19 was declared a pandemic by the World Health Organization and the Centers for Disease Control and Prevention and has spread globally, including throughout the United States. The Company's Unaudited Condensed Consolidated Financial Statements reflect estimates and assumptions made by management that affect the reported amounts of assets and liabilities at the balance sheet date and reported amounts of revenue and expenses during the reporting periods presented. The Company considered the impacts of COVID-19 on the assumptions and estimates used and determined that there have been no material adverse impacts on the Company's results of operations as of December 31, 2020.

Acquisitions

The Company follows the guidance in ASC 805, *Business Combinations*, for determining the appropriate accounting treatment for acquisitions. ASU No. 2017-01, *Clarifying the Definition of a Business*, provides an initial fair value screen to determine if substantially all of the fair value of the assets acquired is concentrated in a single asset or group of similar assets. If the initial screening test is not met, the set is considered a business based on whether there are inputs and substantive processes in place. Based on the results of this analysis and conclusion on an acquisition's classification of a business combination or an asset acquisition, the accounting treatment is derived.

If the acquisition is deemed to be a business, the acquisition method of accounting is applied. Identifiable assets acquired and liabilities assumed at the acquisition date are recorded at fair value. If the transaction is deemed to be an asset purchase, the cost accumulation and allocation model is used whereby the assets and liabilities are recorded based on the purchase price and allocated to the individual assets and liabilities based on relative fair values.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed are based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates and the number of years on which to base the cash flow projections, as well as other assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates based on the risk inherent in the acquired assets, specific risks, industry beta and capital structure of guideline companies. The valuation of an acquired business is based on available information at the acquisition date and assumptions that are believed to be reasonable. However, a change in facts and circumstances as of the acquisition date can result in subsequent adjustments during the measurement period, but no later than one year from the acquisition date.

Revenues

Revenues from the sale of natural gas to NJNG customers are recognized in the period that natural gas is delivered and consumed by customers, including an estimate for unbilled revenue. NJNG records unbilled revenue for natural gas services. Natural gas sales to individual customers are based on meter readings, which are performed on a systematic basis throughout the month. At the end of each month, the amount of natural gas delivered to each customer after the last meter reading through the end of the respective accounting period is estimated, and recognizes unbilled revenues related to these amounts. The unbilled revenue estimates are based on estimated customer usage by customer type, weather effects, unaccounted-for natural gas and the most current tariff rates.

Clean Energy Ventures recognizes revenue when SRECs are transferred to counterparties. SRECs are physically delivered through the transfer of certificates as per contractual settlement schedules. The Clean Energy Act of 2018 established guidelines for the closure of the SREC registration program to new applicants in New Jersey. The SREC program officially closed to new qualified solar projects on April 30, 2020.

In December 2019, the BPU established the TREC as the successor to the SREC program. TRECs provide a fixed compensation base multiplied by an assigned project factor in order to determine their value. The project factor is determined by the type and location of the project, as defined. All TRECs generated are required to be purchased monthly by a TREC program administrator as appointed by the BPU.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In June 2020, Clean Energy Ventures began generating TRECs for qualified new residential and commercial solar projects placed into service following the close of the SREC program. TREC revenue is recognized when TRECs are generated and are transferred monthly based upon metered solar electricity activity.

Revenues for Energy Services are recognized when the natural gas is physically delivered to the customer. In addition, changes in the fair value of derivatives that economically hedge the forecasted sales of the natural gas are recognized in operating revenues as they occur, as noted above. Energy Services also recognizes changes in the fair value of SREC derivative contracts as a component of operating revenues.

The Storage and Transportation segment generates revenues from firm storage contracts and transportation contracts, related usage fees and hub services for the use of storage space, injections and withdrawals from their natural gas storage facility and the delivery of natural gas to customers. Demand fees are recognized as revenue over the term of the related agreement while usage fees and hub services revenues are recognized as services are performed.

Revenues from all other activities are recorded in the period during which products or services are delivered and accepted by customers, or over the related contractual term. See *Note 3. Revenue* for further information.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and temporary investments with maturities of three months or less, and excludes restricted cash related to escrow balances for utility plant projects at NJNG and irrevocable letters of credit at Leaf River, which is recorded in other current and noncurrent assets on the Unaudited Condensed Consolidated Balance Sheets, respectively.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported in the Unaudited Condensed Consolidated Balance Sheets to the total amounts in the Unaudited Condensed Consolidated Statements of Cash Flows as follows:

<i>(Thousands)</i>	December 31, 2020	September 30, 2020	December 31, 2019	September 30, 2019
Balance Sheet				
Cash and cash equivalents	\$ 22,358	\$ 117,012	\$ 15,666	\$ 2,676
Restricted cash in other noncurrent assets	\$ 2,431	\$ 2,411	\$ 2,519	\$ 1,387
Statements of Cash Flow				
Cash, cash equivalents and restricted cash	\$ 24,789	\$ 119,423	\$ 18,185	\$ 4,063

Loans Receivable

NJNG currently 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 fair value on the Unaudited Condensed Consolidated Balance Sheets. The Company recorded \$14.4 million and \$13.7 million in other current assets and \$34.7 million and \$35.3 million in other noncurrent assets as of December 31, 2020 and September 30, 2020, respectively, on the Unaudited Condensed Consolidated Balance Sheets, related to the loans. The Company regularly evaluates the credit quality and collection profile of its customers. If NJNG determines a loan is impaired, the basis of the loan would be subject to regulatory review for recovery. As of December 31, 2020 and September 30, 2020, the Company has not recorded any impairments for SAVEGREEN loans.

Natural Gas in Storage

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

<i>(\$ in thousands)</i>	December 31, 2020		September 30, 2020	
	Natural Gas in Storage	Bcf	Natural Gas in Storage	Bcf
Natural Gas Distribution	\$ 98,434	25.1	\$ 110,037	27.2
Energy Services	64,688	30.8	57,352	34.3
Storage and Transportation	47	—	115	0.02
Total	\$ 163,169	55.9	\$ 167,504	61.52

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Software Costs

The Company capitalizes certain costs, such as software design and configuration, coding, testing and installation, that are incurred to purchase or create and implement computer software for internal use. Capitalized costs include external costs of materials and services utilized in developing or obtaining internal-use software and payroll and payroll-related costs for employees who are directly associated with and devote time to the internal-use software project. Maintenance costs are expensed as incurred. Upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality.

Amortization is recorded on the straight-line basis over the estimated useful lives. The following table presents the software costs included in the Unaudited Condensed Consolidated Financial Statements:

<i>(Thousands)</i>	December 31, 2020	September 30, 2020
Balance Sheets		
Utility plant, at cost	\$ 13,894	\$ 13,452
Nonutility plant and equipment, at cost	\$ 330	\$ 316
Construction work in progress	\$ 2	\$ —
Accumulated depreciation and amortization, utility plant	\$ (517)	\$ (279)
Accumulated depreciation and amortization, nonutility plant and equipment	\$ (11)	\$ (5)
Software costs	\$ 5,498	\$ 4,707

	Three Months Ended December 31, 2020	2019
Statements of Operations		
Operation and maintenance ⁽¹⁾	\$ 1,924	\$ 1,487
Depreciation and amortization	\$ 253	\$ —

(1) During the three months ended December 31, 2020, \$77,000 was amortized into O&M. There were no amounts amortized into O&M for the three months ended December 31, 2019.

Sale Leasebacks

NJNG utilizes sale leaseback arrangements as a financing mechanism to fund certain of its capital expenditures related to natural gas meters, whereby the physical asset is sold concurrent with an agreement to lease the asset back. These agreements include options to renew the lease or repurchase the asset at the end of the term. Proceeds from sale leaseback transactions are accounted for as financing arrangements and are included in long-term debt on the Unaudited Condensed Consolidated Balance Sheets. NJNG received \$4.0 million in December 2019, in connection with the sale leaseback of its natural gas meters. There were no natural gas meter sale leasebacks recorded during the three months ended December 31, 2020.

In addition, for certain of its commercial solar energy projects, the Company enters into lease agreements that provide for the sale of commercial solar energy assets to third parties and the concurrent leaseback of the assets. For sale leaseback transactions where the Company has concluded that the terms of the arrangement does not qualify as a sale as the Company retains control of the underlying assets and, as such, the Company uses the financing method to account for the transaction. Under the financing method, the Company recognizes the proceeds received from the buyer-lessor that constitute a payment to acquire the solar energy asset as a financing arrangement, which is recorded as a component of debt on the Unaudited Condensed Consolidated Balance Sheets.

The Company continues to operate the solar assets and is responsible for related expenses and entitled to retain the revenue generated from SRECs and energy sales. The ITCs and other tax benefits associated with these solar projects transfer to the buyer; however, the payments are structured so that Clean Energy Ventures is compensated for the transfer of the related tax attributes. Accordingly, Clean Energy Ventures recognizes the equivalent value of the tax attributes in other income on the Unaudited Condensed Consolidated Statements of Operations over the respective five-year ITC recapture periods, starting with the second year of the lease.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2020, Clean Energy Ventures received proceeds of \$12.1 million in connection with the sale leaseback of two commercial solar projects. Clean Energy Ventures did not receive proceeds related to the sale leaseback of commercial solar assets during fiscal 2020. The proceeds received were recognized as a financing obligation on the Unaudited Condensed Consolidated Balance Sheets. Clean Energy Ventures did not enter into any sale leaseback transactions for its commercial solar assets during fiscal 2019. Clean Energy Ventures simultaneously entered into agreements to lease the assets back over a term of five- to 15-years.

Accumulated Other Comprehensive Loss

The following table presents the changes in the components of accumulated other comprehensive (loss) income, net of related tax effects during the three months ended December 31, 2020 and 2019:

(Thousands)	Cash Flow Hedges	Postemployment Benefit Obligation	Total
Balance at September 30, 2020	\$ (10,397)	\$ (33,918)	\$ (44,315)
Other comprehensive income, net of tax			
Amounts reclassified from accumulated other comprehensive income, net of tax of \$(112), \$(245), \$(357), respectively	231	812 ⁽¹⁾	1,043
Balance at December 31, 2020	\$ (10,166)	\$ (33,106)	\$ (43,272)
Balance at September 30, 2019	\$ —	\$ (31,787)	\$ (31,787)
Other comprehensive income, net of tax			
Amounts reclassified from accumulated other comprehensive income, net of tax of \$0, \$(217) and \$(217)	—	759 ⁽¹⁾	759
Balance at December 31, 2019	\$ —	\$ (31,028)	\$ (31,028)

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

Change in Accounting Policy

Effective October 1, 2020, the Company changed its method of accounting for ITCs at Clean Energy Ventures from the flow through method to the deferral method. Prior to the change, the Company recognized ITCs as a reduction of income tax expense in the period that the qualified solar energy property, to which it relates, was placed in service. Effective with the accounting change, the Company recorded ITCs as a reduction to the carrying value of the related asset when placed in service and recognizes ITCs in earnings as a reduction to depreciation expense over the productive life of the related property. The deferral method is considered the preferred method per the authoritative guidance as described in *ASC 740 - Income Taxes*. The change to the deferral method is also consistent with the application of authoritative accounting guidance throughout other reporting segments and promotes proper matching of the benefits of the recognition of the ITC with the expected use of the asset.

The Company applied the change in accounting method retrospectively to all prior periods presented.

The impact of the change in accounting policy on the Unaudited Condensed Consolidated Statements of Operations during the three months ended December 31, 2019 is as follows:

(Thousands)	As Previously Reported	Effect of Change	As Adjusted
Depreciation and amortization	\$ 27,758	(3,121)	\$ 24,637
Total operating expenses	\$ 513,539	(3,121)	\$ 510,418
Operating income	\$ 101,497	3,121	\$ 104,618
Income before income taxes and equity in earnings of affiliates	\$ 85,713	3,121	\$ 88,834
Income tax (benefit) expense	\$ (259)	16,730	\$ 16,471
Net income	\$ 89,361	(13,609)	\$ 75,752
Earnings per common share			
Basic	\$ 0.97	(0.15)	\$ 0.82
Diluted	\$ 0.97	(0.15)	\$ 0.82

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The cumulative effect of the change in accounting policy on the Unaudited Condensed Consolidated Balance Sheets as of September 30, 2020 is as follows:

(Thousands)	As Previously Reported	Effect of Change	As Adjusted
Assets			
Nonutility plant and equipment, at cost	\$ 1,430,723	(322,211)	\$ 1,108,512
Accumulated depreciation and amortization, nonutility plant and equipment	\$ (202,507)	61,945	\$ (140,562)
Property, plant and equipment, net	\$ 3,983,035	(260,266)	\$ 3,722,769
Other noncurrent assets	\$ 78,716	6,941	\$ 85,657
Total noncurrent assets	\$ 964,435	6,941	\$ 971,376
Total assets	\$ 5,569,802	(253,325)	\$ 5,316,477
Capitalization			
Retained earnings	\$ 1,148,297	(200,796)	\$ 947,501
Common stock equity	\$ 1,844,692	(200,796)	\$ 1,643,896
Total capitalization	\$ 4,104,158	(200,796)	\$ 3,903,362
Liabilities			
Deferred income taxes	\$ 190,610	(52,529)	\$ 138,081
Total noncurrent liabilities	\$ 931,922	(52,529)	\$ 879,393
Total capitalization and liabilities	\$ 5,569,802	(253,325)	\$ 5,316,477

The impact of the change in accounting policy on the Unaudited Condensed Consolidated Statements of Cash Flows as of December 31, 2019 is as follows:

(Thousands)	As Previously Reported	Effect of Change	As Adjusted
Depreciation and amortization	\$ 27,758	(3,121)	\$ 24,637
Deferred income taxes	\$ 3,246	16,730	\$ 19,976

The impact of the change in accounting policy on the Unaudited Condensed Consolidated Statements of Common Stock Equity as of December 31, 2019 is as follows:

(Thousands)	As Previously Reported	Effect of Change	As Adjusted
Retained Earnings			
Balance at September 30, 2019	\$ 1,075,960	(206,102)	\$ 869,858
Net income	\$ 89,361	(13,609)	\$ 75,752
Balance at December 30, 2019	\$ 1,135,475	(219,711)	\$ 915,764
Total			
Balance at September 30, 2019	\$ 1,551,717	(206,102)	\$ 1,345,615
Net income	\$ 89,361	(13,609)	\$ 75,752
Balance at December 30, 2019	\$ 1,827,803	(219,711)	\$ 1,608,092

Recently Adopted Updates to the Accounting Standards Codification

Financial Instruments

In June 2016, the FASB issued ASU No. 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. An entity will apply the amendment through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company assessed the impact of the guidance on NJR's reserve methodologies and credit policies and procedures for any assets that could be impacted, noting the majority of NJR's financial assets are short-term in nature, such as trade receivables and unbilled revenues.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company completed its evaluation of ASU No. 2016-13 and subsequent amendments related to this topic and adopted this new guidance beginning October 1, 2020, using the modified retrospective method. The adoption did not result in a cumulative effect adjustment to retained earnings as the current expected lifetime loss estimates were not materially different from the reserves already in place.

The Company segregates financial assets that fall within the scope of ASC 326, primarily trade receivables and unbilled revenues due in one year or less, into portfolio segments based on shared risk characteristics, such as geographical location and regulatory environment, for evaluation of expected credit losses. Historical and current information, such as average write-offs, are applied to each portfolio segment to estimate the allowance for losses on uncollectible receivables. Additionally, the allowance for losses on uncollectible receivables is adjusted for reasonable and supportable forecasts of future economic conditions, which can include changing weather, commodity prices, regulations, and macroeconomic factors, such as unemployment rates among others.

Fair Value

In August 2018, the FASB issued ASU No. 2018-13, an amendment to ASC 820, *Fair Value Measurement*, which removes, modifies and adds to certain disclosure requirements of fair value measurements. Disclosure requirements removed include the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. Modifications include considerations around the requirement to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse. The additions include the requirement to disclose changes in unrealized gains and losses for the period in other comprehensive income for recurring Level 3 fair value measurements held and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The guidance is effective for the Company beginning October 1, 2020, with early adoption permitted. Upon adoption, the amendments were applied on a prospective or retrospective basis depending on the specific amendments' transition requirements. The Company does not have either Level 3 fair value measurements or transfers between Level 1 or Level 2 in its current portfolios, and therefore, this ASU did not have an impact on the Company's financial statements and disclosures.

Compensation - Retirement Benefits

In August 2018, the FASB issued ASU No. 2018-14, an amendment to ASC 715, *Compensation - Retirement Benefits*, which removes disclosures that no longer are considered cost-beneficial, clarifies the specific requirements of certain disclosures and adds new disclosure requirements identified as relevant. The guidance was effective for the Company beginning October 1, 2020, with early adoption permitted. Upon adoption, the amended presentation and disclosure requirements guidance did not have an impact on the Company's disclosures.

Other Recent Updates to the Accounting Standards Codification

Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, an amendment to ASC 740, *Income Taxes*, which is intended to simplify the accounting for income taxes and changes the accounting for certain income tax transactions, among other minor improvements. The guidance is effective for the Company beginning October 1, 2021, with early adoption permitted. Upon adoption, the amendments will be applied on a prospective basis. The Company is currently evaluating the amendments to understand the impact on its financial position, results of operations, cash flows and disclosures upon adoption.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investments - Equity Method and Derivatives and Hedging

In January 2020, the FASB issued ASU No. 2020-01, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. The update states that an entity is required to evaluate observable transactions that necessitate applying or discontinuing the equity method of accounting, when applying the measurement alternative in Topic 321. This evaluation occurs prior to applying or upon ceasing the equity method. The update also states that when applying paragraph 815-10-15-141(a) for forward contracts and purchased options, an entity is not required to assess whether the underlying securities will be accounted for under the equity method in accordance with Topic 323 or fair value method under Topic 825 upon settlement or exercise. The guidance is effective for the Company beginning October 1, 2021, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this ASU but does not expect that its pending adoption will have a material effect on its consolidated financial statements.

Other

In October 2020, the FASB issued ASU 2020-10, which clarifies application of various provisions in the ASC by amending and adding new headings, cross referencing to other guidance, and refining or correcting terminology. It also improves the consistency by amending the ASC to include all disclosure guidance in the appropriate section. The guidance is effective for public business entities in the fiscal year beginning after December 15, 2020. This ASU will be effective for the Company on October 1, 2021.

On January 7, 2021, the FASB issued ASU 2021-01, which refines the scope of ASC 848 and clarifies some of its guidance of global reference rate reform activities. The ASU permits entities to elect certain optional expedients and exceptions when accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, for computing variation margin settlements, and for calculating price alignment interest in connection with reference rate reform activities under way in global financial markets (the “discounting transition”). This Accounting Standards Update is the final version of Proposed Accounting Standards Update 2020-900—Reference Rate Reform (Topic 848): Scope Refinement, which has since been deleted.

3. REVENUE

Revenue is recognized when a performance obligation is satisfied by transferring control of a product or service to a customer. Revenue is measured based on consideration specified in a contract with a customer using the output method of progress. The Company elected to apply the invoice practical expedient for recognizing revenue, whereby the amounts invoiced to customers represent the value to the customer and the Company’s performance completion as of the invoice date. Therefore, the Company does not disclose related unsatisfied performance obligations. The Company also elected the practical expedient to exclude from the transaction price all sales taxes that are assessed by a governmental authority and therefore presents sales tax net in operating revenues on the Unaudited Condensed Consolidated Statements of Operations.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Below is a listing of performance obligations that arise from contracts with customers, along with details on the satisfaction of each performance obligation, the significant payment terms and the nature of the goods and services being transferred, by reporting segment and other business operations:

Revenue Recognized Over Time:

Segment	Performance Obligation	Description
Natural Gas Distribution	Natural gas utility sales	NJNG's performance obligation is to provide natural gas to residential, commercial and industrial customers as demanded, based on regulated tariff rates, which are established by the BPU. Revenues from the sale of natural gas are recognized in the period that gas is delivered and consumed by customers, including an estimate for quantities consumed but not billed during the period. Payment is due each month for the previous month's deliveries. Natural gas sales to individual customers are based on meter readings, which are performed on a systematic basis throughout the billing period. The unbilled revenue estimates are based on estimated customer usage by customer type, weather effects and the most current tariff rates. NJNG is entitled to be compensated for performance completed until service is terminated. Customers may elect to purchase the natural gas commodity from NJNG or may contract separately to purchase natural gas directly from third-party suppliers. As NJNG is acting as an agent on behalf of the third-party supplier, revenue is recorded for the delivery of natural gas to the customer.
Clean Energy Ventures	Commercial solar electricity	Clean Energy Ventures operates wholly-owned solar projects that recognize revenue as electricity is generated and transferred to the customer. The performance obligation is to provide electricity to the customer in accordance with contract terms or the interconnection agreement and is satisfied upon transfer of electricity generated. Revenue is recognized as invoiced and the payment is due each month for the previous month's services.
Clean Energy Ventures	Residential solar electricity	Clean Energy Ventures provides access to residential rooftop and ground-mount solar equipment to customers who then pay the Company a monthly fee. The performance obligation is to provide electricity to the customer based on generation from the underlying residential solar asset and is satisfied upon transfer of electricity generated. Revenue is derived from the contract terms and is recognized as invoiced, with the payment due each month for the previous month's services.
Clean Energy Ventures	Transition renewable energy certificates	Clean Energy Ventures generates TRECs, which are created for every MWh of electricity produced by a solar generator. The performance obligation of Clean Energy Ventures is to generate electricity and TRECs, which are purchased monthly by a REC Administrator. Revenue is recognized upon generation.
Energy Services	Natural gas services	The performance obligation of Energy Services is to provide the customer transportation, storage and asset management services on an as-needed basis. Energy Services generates revenue through management fees, demand charges, reservation fees and transportation charges centered around the buying and selling of the natural gas commodity, representing one series of distinct performance obligations. Revenue is recognized based upon the underlying natural gas quantities physically delivered and the customer obtaining control. Energy Services invoices customers on a monthly basis in line with the terms of the contract and based on the services provided. Payment is due each month for the previous month's invoiced services.
Storage and Transportation	Natural gas services	The performance obligation of the Storage and Transportation segment is to provide the customer with storage and transportation services. The Storage and Transportation segment generates revenues from firm storage contracts and transportation contracts, related usage fees for the use of storage space, injection and withdrawal at the storage facility and the delivery of natural gas to customers. Revenue is recognized over time as customers receive the benefits of service as it is performed on their behalf using an output method based on actual deliveries. Demand fees are recognized as revenue over the term of the related agreement.
Home Services and Other	Service contracts	Home Services enters into service contracts with homeowners to provide maintenance and replacement services of applicable heating, cooling or ventilation equipment. All services provided relate to a distinct performance obligation which is to provide services for the specific equipment over the term of the contract. Revenue is recognized on a straight-line basis over the term of the contract and payment is due upon receipt of the invoice.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue Recognized at a Point in Time:

Storage and Transportation	Natural gas services	The performance obligation of the Storage and Transportation segment is to provide the customer with storage and transportation services. The Storage and Transportation segment generates revenues from hub services for the use of storage space, injection and withdrawal from the storage facility. Hub services include park and loan transactions and wheeling.
		Hub services revenues are recognized as services are performed.
Home Services and Other	Installations	Home Services installs appliances, including but not limited to, furnaces, air conditioning units, boilers and generators to customers. The distinct performance obligation is the installation of the contracted appliance, which is satisfied at the point in time the item is installed.
		The transaction price for each installation differs accordingly. Revenue is recognized at a point in time upon completion of the installation, which is when the customer is billed.

Disaggregated revenues from contracts with customers by product line and by reporting segment and other business operations during the three months ended December 31, 2020 and 2019, is as follows:

(Thousands)	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Storage and Transportation	Home Services and Other	Total
2020						
Natural gas utility sales	\$ 189,364	—	—	—	—	\$ 189,364
Natural gas services	—	—	6,428	13,104	—	19,532
Service contracts	—	—	—	—	8,259	8,259
Installations and maintenance	—	—	—	—	4,318	4,318
Renewable energy certificates	—	690	—	—	—	690
Electricity sales	—	4,388	—	—	—	4,388
Eliminations ⁽¹⁾	—	—	—	(657)	(167)	(824)
Revenues from contracts with customers	189,364	5,078	6,428	12,447	12,410	225,727
Alternative revenue programs ⁽²⁾	1,568	—	—	—	—	1,568
Derivative instruments	4,797	1,292 ⁽³⁾	223,049	—	—	229,138
Eliminations ⁽¹⁾	—	—	(2,128)	—	—	(2,128)
Revenues out of scope	6,365	1,292	220,921	—	—	228,578
Total operating revenues	\$ 195,729	6,370	227,349	12,447	12,410	\$ 454,305
2019						
Natural gas utility sales	\$ 219,894	—	—	—	—	\$ 219,894
Natural gas services	—	—	7,321	9,072	—	16,393
Service contracts	—	—	—	—	8,038	8,038
Installations and maintenance	—	—	—	—	4,869	4,869
Electricity sales	—	4,018	—	—	—	4,018
Eliminations ⁽¹⁾	—	—	—	(667)	(415)	(1,082)
Revenues from contracts with customers	219,894	4,018	7,321	8,405	12,492	252,130
Alternative revenue programs ⁽²⁾	(1,943)	—	—	—	—	(1,943)
Derivative instruments	1,672	2,194 ⁽³⁾	363,094	—	—	366,960
Eliminations ⁽¹⁾	—	—	(2,111)	—	—	(2,111)
Revenues out of scope	(271)	2,194	360,983	—	—	362,906
Total operating revenues	\$ 219,623	6,212	368,304	8,405	12,492	\$ 615,036

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

(2) Includes CIP revenue.

(3) Includes SREC revenue.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Disaggregated revenues from contracts with customers by customer type and by reporting segment and other business operations during the three months ended December 31, 2020 and 2019, is as follows:

(Thousands)	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Storage and Transportation	Home Services and Other	Total
2020						
Residential	\$ 137,224	2,722	—	—	12,204	\$ 152,150
Commercial and industrial	29,229	2,356	6,428	12,447	206	50,666
Firm transportation	21,104	—	—	—	—	21,104
Interruptible and off-tariff	1,807	—	—	—	—	1,807
Revenues out of scope	6,365	1,292	220,921	—	—	228,578
Total operating revenues	\$ 195,729	6,370	227,349	12,447	12,410	\$ 454,305
2019						
Residential	\$ 153,222	2,460	—	—	12,279	\$ 167,961
Commercial and industrial	45,422	1,558	7,321	8,405	213	62,919
Firm transportation	19,589	—	—	—	—	19,589
Interruptible and off-tariff	1,661	—	—	—	—	1,661
Revenues out of scope	(271)	2,194	360,983	—	—	362,906
Total operating revenues	\$ 219,623	6,212	368,304	8,405	12,492	\$ 615,036

Customer Accounts Receivable/Credit Balances and Deposits

The following table provides information about receivables, which are included within accounts receivable, billed and unbilled, and customers' credit balances and deposits, respectively, on the Unaudited Condensed Consolidated Balance Sheets as of December 31, 2020:

(Thousands)	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Storage and Transportation	Home Services and Other	Total
Customer accounts receivable						
Billed	\$ 79,146	4,436	108,544	3,559	1,956	\$ 197,641
Unbilled	51,720	2,074	—	—	—	53,794
Customers' credit balances and deposits	(32,948)	—	—	—	—	(32,948)
Total	\$ 97,918	6,510	108,544	3,559	1,956	\$ 218,487

4. 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 annual filings to the BPU for review of its BGSS, CIP and various other programs and related rates. Annual rate changes are typically requested to be effective at the beginning of the following fiscal year. All rate and program changes are subject to proper notification and BPU review and approval. In addition, NJNG is permitted to implement certain BGSS rate changes on a provisional basis with proper notification to the BPU.

New Jersey Resources Corporation
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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

<i>(Thousands)</i>	December 31, 2020	September 30, 2020
Regulatory assets-current		
New Jersey Clean Energy Program	\$ 13,508	\$ 15,570
Conservation Incentive Program	20,689	19,120
Derivatives at fair value, net	3,194	—
Other current regulatory assets	1,622	1,682
Total current regulatory assets	\$ 39,013	\$ 36,372
Regulatory assets-noncurrent		
Environmental remediation costs:		
Expended, net of recoveries	\$ 36,892	\$ 36,516
Liability for future expenditures	148,002	150,590
Deferred income taxes	32,406	28,241
Derivatives at fair value, net	8	1
SAVEGREEN	21,825	21,281
Postemployment and other benefit costs	184,265	188,170
Deferred storm damage costs	5,972	6,515
Cost of removal	73,237	75,080
Other noncurrent regulatory assets	17,517	20,068
Total noncurrent regulatory assets	\$ 520,124	\$ 526,462
Regulatory liability-current		
Overrecovered natural gas costs	\$ 16,941	\$ 25,914
Derivatives at fair value, net	—	274
Total current regulatory liabilities	\$ 16,941	\$ 26,188
Regulatory liabilities-noncurrent		
Tax Act impact ⁽¹⁾	\$ 194,155	\$ 195,425
Derivatives at fair value, net	—	352
Other noncurrent regulatory liabilities	961	509
Total noncurrent regulatory liabilities	\$ 195,116	\$ 196,286

(1) Reflects the re-measurement and subsequent amortization of NJNG's net deferred tax liabilities as a result of the change in federal tax rates enacted in the Tax Act.

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

<i>(Thousands)</i>	December 31, 2020	September 30, 2020
Total current regulatory assets	\$ 329	\$ 158
Total noncurrent regulatory assets	\$ 1,213	\$ 997
Total-noncurrent regulatory liabilities	\$ 166	\$ —

The assets are comprised primarily of the tax benefit associated with the equity component of AFUDC and the liability consists primarily of scheduling penalties. Recovery of regulatory assets is subject to FERC approval.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

- On October 28, 2020, the BPU approved the Company's transmission and distribution component of the IIP for \$150 million over five years, effective November 1, 2020. The recovery of information technology replacement and enhancements, that was included in the original IIP filing, will be included as part of base rate filings as projects are placed in service.
- On November 20, 2020, NJNG notified the BPU of its intent to provide BGSS bill credits to residential and small commercial sales customers effective December 1, 2020 to December 31, 2020. The December bill credits were estimated to be \$10.0 million, \$9.4 million net of tax. On December 22, 2020, NJNG notified the BPU of the extension of the BGSS bill credits through January 31, 2021. The January 2021 bill credits are estimated to be \$12.5 million, \$11.7 million net of tax.

5. DERIVATIVE INSTRUMENTS

The Company is subject primarily 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 is exposed to foreign currency and interest rate risk and may utilize foreign currency derivatives to hedge Canadian dollar denominated natural gas purchases and/or sales and interest rate derivatives to reduce exposure to fluctuations in interest rates. All of these types of contracts are accounted for as derivatives, unless the Company elects NPNS, which is done on a contract-by-contract election. 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 the Company's derivative instruments, see *Note 6. Fair Value*.

Energy Services

Energy Services 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 natural gas purchases or operating revenues, as appropriate for Energy Services, on the Unaudited Condensed Consolidated Statements of Operations as unrealized gains or losses. For Energy Services at settlement, realized gains and losses on all financial derivative instruments are recognized as a component of natural 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 natural gas purchases or operating revenues.

Energy Services 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. Energy Services may utilize foreign currency derivatives to lock in the exchange rates 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 natural gas purchase agreements.

As a result of Energy Services 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 natural 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. Energy Services 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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Natural Gas Distribution

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 a portfolio basis. However, since NPNS is a contract-by-contract election, where it makes sense to do so, NJNG can and may elect to treat certain contracts as 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 natural 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 February 2020 and March 2020, NJNG entered into treasury lock transactions to fix the benchmark treasury rate associated with a \$75 million debt tranche that was issued in September 2020. Settlement of the treasury locks resulted in a \$6.6 million loss, which was recorded as a component of regulatory assets on the Unaudited Condensed Consolidated Balance Sheets. The loss is being amortized into earnings over the term of the debt as a component of interest expense on the Unaudited Condensed Consolidated Statements of Operations, which totaled \$60,000 during the three months ended December 31, 2020.

Clean Energy Ventures

The Company elects NPNS accounting treatment on PPA contracts executed by Clean Energy Ventures that meet the definition of a derivative and accounts for the contract on an accrual basis. Accordingly, electricity sales are recognized in revenues throughout the term of the PPA as electricity is delivered. NPNS is a contract-by-contract election and where it makes sense to do so, the Company can and may elect to treat certain contracts as normal.

Home Services and Other

In February 2020 and March 2020, NJR entered into treasury lock transactions to fix the benchmark treasury rate associated with \$260 million of debt, of which \$60 million was issued in July 2020 and \$200 million was issued in September 2020. NJR designated its treasury lock contracts as cash flow hedges, therefore, changes in fair value of the effective portion of the hedges were recorded in OCI. Settlement of the treasury locks resulted in a loss of \$13.7 million, which was recorded within OCI. The loss is being amortized into earnings over the term of the debt as a component of interest expense on the Unaudited Condensed Consolidated Statements of Operations, which totaled \$231,000, net of tax, during the three months ended December 31, 2020.

Fair Value of Derivatives

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

		Fair Value			
		December 31, 2020		September 30, 2020	
(Thousands)	Balance Sheet Location	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Derivatives not designated as hedging instruments:					
<u>Natural Gas Distribution:</u>					
Physical commodity contracts	Derivatives - current	\$ 1	\$ 176	\$ 78	\$ 76
Financial commodity contracts	Derivatives - current	723	574	71	282
<u>Energy Services:</u>					
Physical commodity contracts	Derivatives - current	6,416	16,815	6,454	20,438
	Derivatives - noncurrent	1,159	12,668	1,264	12,003
Financial commodity contracts	Derivatives - current	25,784	6,866	16,671	12,965
	Derivatives - noncurrent	333	2,265	2,037	1,346
Foreign currency contracts	Derivatives - current	163	13	36	104
	Derivatives - noncurrent	55	—	48	3
Total fair value of derivatives		\$ 34,634	\$ 39,377	\$ 26,659	\$ 47,217

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Offsetting of Derivatives

The Company transacts under master netting arrangements or equivalent agreements that allow it to offset derivative assets and liabilities with the same counterparty. However, the Company'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 the Company has the right to offset but elects not to, financial collateral, as well as the net amounts the Company could present on the Unaudited Condensed Consolidated Balance Sheets but elects not to.

(Thousands)	Amounts Presented on Balance Sheets ⁽¹⁾	Offsetting Derivative Instruments ⁽²⁾	Financial Collateral Received/Pledged ⁽³⁾	Net Amounts ⁽⁴⁾
As of December 31, 2020:				
Derivative assets:				
Energy Services				
Physical commodity contracts	\$ 7,575	\$ (2,455)	\$ (200)	\$ 4,920
Financial commodity contracts	26,117	(9,131)	(888)	16,098
Foreign currency contracts	218	(13)	—	205
Total Energy Services	\$ 33,910	\$ (11,599)	\$ (1,088)	\$ 21,223
Natural Gas Distribution				
Physical commodity contracts	\$ 1	\$ (1)	\$ —	\$ —
Financial commodity contracts	723	(574)	—	149
Total Natural Gas Distribution	\$ 724	\$ (575)	\$ —	\$ 149
Derivative liabilities:				
Energy Services				
Physical commodity contracts	\$ 29,483	\$ (2,455)	\$ —	\$ 27,028
Financial commodity contracts	9,131	(9,131)	—	—
Foreign currency contracts	13	(13)	—	—
Total Energy Services	\$ 38,627	\$ (11,599)	\$ —	\$ 27,028
Natural Gas Distribution				
Physical commodity contracts	\$ 176	\$ (1)	\$ —	\$ 175
Financial commodity contracts	574	(574)	—	—
Total Natural Gas Distribution	\$ 750	\$ (575)	\$ —	\$ 175
As of September 30, 2020:				
Derivative assets:				
Energy Services				
Physical commodity contracts	\$ 7,718	\$ (3,587)	\$ (200)	\$ 3,931
Financial commodity contracts	18,708	(14,311)	—	4,397
Foreign currency contracts	84	(84)	—	—
Total Energy Services	\$ 26,510	\$ (17,982)	\$ (200)	\$ 8,328
Natural Gas Distribution				
Physical commodity contracts	\$ 78	\$ (65)	\$ —	\$ 13
Financial commodity contracts	71	(71)	—	—
Total Natural Gas Distribution	\$ 149	\$ (136)	\$ —	\$ 13
Derivative liabilities:				
Energy Services				
Physical commodity contracts	\$ 32,441	\$ (3,587)	\$ —	\$ 28,854
Financial commodity contracts	14,311	(14,311)	—	—
Foreign currency contracts	107	(84)	—	23
Total Energy Services	\$ 46,859	\$ (17,982)	\$ —	\$ 28,877
Natural Gas Distribution				
Physical commodity contracts	\$ 76	\$ (65)	\$ —	\$ 11
Financial commodity contracts	282	(71)	—	211
Total Natural Gas Distribution	\$ 358	\$ (136)	\$ —	\$ 222

(1) Derivative assets and liabilities are presented on a gross basis on 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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Energy Services utilizes financial derivatives to economically hedge the gross margin associated with the purchase of physical natural 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 natural 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 Energy Services, although the Company's intended economic results relating to the entire transaction are unaffected.

The following table presents the effect of derivative instruments recognized on the Unaudited Condensed Consolidated Statements of Operations for the periods set forth below:

<i>(Thousands)</i>	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives	
		Three Months Ended December 31,	
Derivatives not designated as hedging instruments:		2020	2019
<u>Energy Services:</u>			
Physical commodity contracts	Operating revenues	\$ 5,252	\$ 9,836
Physical commodity contracts	Natural gas purchases	(5,054)	(1,410)
Financial commodity contracts	Natural gas purchases	47,755	46,093
Foreign currency contracts	Natural gas purchases	200	115
Total unrealized and realized gains		\$ 48,153	\$ 54,634

NJNG's derivative contracts are part of the Company's risk management activities that relate to its natural gas purchases and BGSS incentive programs. 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 (losses) gains associated with NJNG's derivative instruments for the periods set forth below:

(Thousands)	Three Months Ended December 31,	
	2020	2019
<u>Natural Gas Distribution:</u>		
Physical commodity contracts	\$ 342	\$ 840
Financial commodity contracts	(4,272)	(1,088)
Total unrealized and realized losses	\$ (3,930)	\$ (248)

NJR designates its treasury lock contracts as cash flow hedges, therefore, changes in fair value of the effective portion of the hedges are recorded in OCI and upon settlement of the contracts, realized gains and (losses) are reclassified from OCI to interest expense on the Consolidated Statements of Operations.

The following table reflects the effect of derivative instruments designated as cash flow hedges in OCI:

<i>(Thousands)</i>	Amount of Pre-tax Gain (Loss) Recognized in OCI on Derivatives		Location of Gain (Loss) Reclassified from OCI into Income	Amount of Pre-tax Gain (Loss) Reclassified from OCI into Income	
	Three Months Ended December 31,			Three Months Ended December 31,	
Derivatives in cash flow hedging relationships:	2020	2019		2020	2019
Interest rate contracts	\$	—	Interest expense	\$ (343)	\$ —

New Jersey Resources Corporation
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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

		Volume (Bcf)	
		December 31, 2020	September 30, 2020
Transaction Type			
Natural Gas Distribution	Futures	24.0	23.7
	Physical Commodity	4.4	6.0
Energy Services	Futures	(25.3)	(27.5)
	Swaps	(1.2)	(1.8)
	Physical Commodity	(7.3)	5.0

Not included in the above table are Energy Services' net notional amount of foreign currency transactions of approximately \$5.1 million as of both December 31, 2020 and September 30, 2020 and 984,000 and 960,000 SRECs that were open as of December 31, 2020 and September 30, 2020, respectively.

Broker Margin

Futures exchanges have contract specific 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 the Natural Gas Distribution and Energy Services segments. The balances are as follows:

<i>(Thousands)</i>	Balance Sheet Location	December 31, 2020	September 30, 2020
Natural Gas Distribution	Restricted broker margin accounts	\$ 20,282	\$ 13,525
Energy Services	Restricted broker margin accounts	\$ 27,823	\$ 55,919

Wholesale Credit Risk

NJNG, Energy Services, Clean Energy Ventures and the Storage and Transportation segment 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, 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 then the Company could sustain a loss.

The Company 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 the Company's election not to extend credit or because exposure exceeds defined thresholds. Most of the Company'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.

Internally-rated exposure applies to counterparties that are not rated by Fitch or Moody's. In these cases, the counterparty's or guarantor's financial statements are reviewed, and similar methodologies and ratios used by Fitch 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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of gross credit exposures grouped by investment and noninvestment grade counterparties, as of December 31, 2020. 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 Clean Energy Ventures residential solar installations.

<i>(Thousands)</i>	Gross Credit Exposure
Investment grade	\$ 159,541
Noninvestment grade	16,482
Internally rated investment grade	26,364
Internally rated noninvestment grade	24,543
Total	\$ 226,930

Conversely, certain of NJNG's and Energy Services' 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. 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. There were no derivative instruments with credit-risk-related contingent features that were in a liability position for which collateral is required as of December 31, 2020. 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.

6. 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, in other noncurrent assets on the Unaudited Condensed Consolidated Balance Sheets. 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, including current maturities, excluding finance leases, debt issuance costs and solar asset financing obligations, is as follows:

<i>(Thousands)</i>	December 31, 2020	September 30, 2020
Carrying value ^{(1) (2) (3)}	\$ 2,102,845	\$ 2,102,845
Fair market value	\$ 2,455,242	\$ 2,417,748

(1) Excludes finance leases of \$69.5 million and \$74.2 million as of December 31, 2020 and September 30, 2020, respectively.

(2) Excludes NJNG's debt issuance costs of \$9.6 million and \$9.2 million as of December 31, 2020 and September 30, 2020, respectively.

(3) Excludes NJR's debt issuance costs of \$3.4 million as of both December 31, 2020 and September 30, 2020.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Clean Energy Ventures enters into transactions to sell certain commercial solar assets and lease the assets back for a term specified in the lease. These transactions are considered financing obligations for accounting purposes and are recorded within long-term debt on the Unaudited Condensed Consolidated Balance Sheets. The estimated fair value of solar asset financing obligations as of December 31, 2020 and September 30, 2020 was \$162.0 million and \$149.2 million, respectively.

The Company 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 December 31, 2020, 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, investments in equity 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 to internally 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.

New Jersey Resources Corporation
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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

<i>(Thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of December 31, 2020:				
Assets:				
Physical commodity contracts	\$ —	\$ 7,576	\$ —	\$ 7,576
Financial commodity contracts	26,324	516	—	26,840
Financial commodity contracts - foreign exchange	—	218	—	218
Money market funds	17,384	—	—	17,384
Other	1,927	—	—	1,927
Total assets at fair value	\$ 45,635	\$ 8,310	\$ —	\$ 53,945
Liabilities:				
Physical commodity contracts	\$ —	\$ 29,659	\$ —	\$ 29,659
Financial commodity contracts	9,705	—	—	9,705
Financial commodity contracts - foreign exchange	—	13	—	13
Total liabilities at fair value	\$ 9,705	\$ 29,672	\$ —	\$ 39,377
As of September 30, 2020:				
Assets:				
Physical commodity contracts	\$ —	\$ 7,796	\$ —	\$ 7,796
Financial commodity contracts	18,279	500	—	18,779
Financial commodity contracts - foreign exchange	—	84	—	84
Money market funds	112,291	—	—	112,291
Other	1,840	—	—	1,840
Total assets at fair value	\$ 132,410	\$ 8,380	\$ —	\$ 140,790
Liabilities:				
Physical commodity contracts	\$ —	\$ 32,517	\$ —	\$ 32,517
Financial commodity contracts	14,593	—	—	14,593
Financial commodity contracts - foreign exchange	—	107	—	107
Total liabilities at fair value	\$ 14,593	\$ 32,624	\$ —	\$ 47,217

7. INVESTMENTS IN EQUITY INVESTEES

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

<i>(Thousands)</i>	December 31, 2020	September 30, 2020
Steckman Ridge ⁽¹⁾	\$ 110,929	\$ 112,378
PennEast ⁽²⁾	100,652	95,997
Total	\$ 211,581	\$ 208,375

(1) Includes loans with a total outstanding principal balance of \$70.4 million for both December 31, 2020 and September 30, 2020, which accrue interest at a variable rate that resets quarterly and are due October 1, 2023.

(2) Includes a deferred tax component related to AFUDC equity of \$7.2 million and \$4.6 million for December 31, 2020 and September 30, 2020, respectively.

Steckman Ridge

The Company holds a 50 percent equity method investment in Steckman Ridge, a jointly owned and controlled natural gas storage facility located in Bedford County, Pennsylvania. Due to the expiration of a customer contract in October 2020, the Company evaluated its investment in Steckman Ridge for other-than-temporary impairment and determined an impairment charge was not necessary.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and other factors. As a result, it is reasonably possible that unfavorable developments, such as the failure to execute storage contracts and other services for available capacity at anticipated price levels could result in an other-than temporary impairment charge in the Unaudited Condensed Consolidated Financial Statements.

PennEast

The Company, through its subsidiary NJR Pipeline Company, is a 20 percent investor in PennEast, a partnership whose purpose is to construct and operate a 120-mile natural gas pipeline that will extend from northeast Pennsylvania to western New Jersey. PennEast received a Certificate of Public Convenience and Necessity for the project from FERC on January 19, 2018.

On September 10, 2019, the Third Circuit issued an order overturning the United States District Court for the District of New Jersey's order granting PennEast condemnation and immediate access in accordance with the Natural Gas Act to certain properties in which the State of New Jersey holds an interest. A Petition for Rehearing was denied by the Third Circuit on November 5, 2019.

On October 8, 2019, the NJDEP issued a letter indicating that it deemed PennEast's freshwater wetlands permit application to be administratively incomplete and closed the matter without prejudice. On October 11, 2019, PennEast submitted a letter to the NJDEP objecting to its position that the application is administratively incomplete. PennEast's objections were rejected by the NJDEP on November 18, 2019.

On October 4, 2019, PennEast filed a petition for Declaratory Order with FERC requesting an interpretation of the eminent domain authority of a FERC certificate holder under the Natural Gas Act. The Declaratory Order was granted on January 30, 2020.

On January 30, 2020, PennEast filed an amendment with FERC to construct the PennEast pipeline in two phases. Phase one consists of construction of a 68-mile pipeline in Pennsylvania from the eastern Marcellus Shale region in Luzerne County that would terminate in Northampton County. Phase two includes construction of the remaining original certificated route in Pennsylvania and New Jersey. Construction is expected to begin following approval by FERC of the phased approach and receipt of any remaining governmental and regulatory permits.

On February 18, 2020, PennEast filed a writ of certiorari with the Supreme Court of the United States to review the September 10, 2019 Third Circuit decision.

On June 29, 2020, the Supreme Court requested that the Solicitor General of the United States file a brief that expresses the views on the question of the use of eminent domain to acquire state owned lands for pipeline construction. The Solicitor General filed its brief with the Supreme Court on December 9, 2020.

The state of New Jersey filed a brief with the Supreme Court on December 23, 2020 in response to the brief of the Solicitor General.

On February 3, 2021, the Supreme Court granted the petition for a writ of certiorari. The matter is expected to be argued before the Supreme Court in April 2021.

The Company evaluated its investment in PennEast for an other-than-temporary impairment and determined an impairment charge was not necessary. It is reasonably possible that future unfavorable developments, such as a reduced likelihood of success from development options and legal outcomes, estimated increases in construction costs, increases in the discount rate, or further significant delays, could result in an impairment of the Company's equity method investment. Also, the use of alternate judgments and assumptions could result in a different calculation of fair value, which could ultimately result in the recognition of an impairment charge in the Unaudited Condensed Consolidated Financial Statements.

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8. EARNINGS PER SHARE

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

<i>(Thousands, except per share amounts)</i>	Three Months Ended December 31,	
	2020	2019
Net income, as reported	\$ 81,045	\$ 75,752
Basic earnings per share		
Weighted average shares of common stock outstanding-basic	96,114	91,911
Basic earnings per common share	\$0.84	\$0.82
Diluted earnings per share		
Weighted average shares of common stock outstanding-basic	96,114	91,911
Equity forward sale agreement ⁽¹⁾	—	106
Other ⁽²⁾	301	303
Weighted average shares of common stock outstanding-diluted	96,415	92,320
Diluted earnings per common share ⁽²⁾	\$0.84	\$0.82

(1) See Note 14. Common Stock Equity for details regarding the forward sale agreement.

(2) Consist primarily of unvested stock awards and performance shares.

(3) There were anti-dilutive shares of 32,317 excluded from the calculation of diluted earnings per share related to the equity forward sale agreement during the three months ended December 31, 2020.

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 and committed unsecured credit facilities.

Credit Facilities

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

<i>(Thousands)</i>	December 31, 2020	September 30, 2020	Expiration Dates
NJR			
Bank revolving credit facilities ⁽¹⁾	\$ 425,000	\$ 425,000	December 2023
Notes outstanding at end of period	\$ 120,000	\$ 125,350	
Weighted average interest rate at end of period	0.93 %	1.49 %	
Amount available at end of period ⁽²⁾	\$ 294,706	\$ 289,356	
Bank revolving credit facilities ⁽¹⁾	\$ —	\$ 250,000	
Notes outstanding at end of period	\$ —	\$ —	
Weighted average interest rate at end of period	— %	— %	
Amount available at end of period ⁽²⁾	\$ —	\$ 250,000	
NJNG			
Bank revolving credit facilities ⁽³⁾	\$ 250,000	\$ 250,000	December 2023
Commercial paper outstanding at end of period	\$ 14,350	\$ —	
Weighted average interest rate at end of period	0.08 %	— %	
Amount available at end of period ⁽⁴⁾	\$ 234,919	\$ 249,269	

(1) Committed credit facilities, which require commitment fees of 0.075 percent on the unused amounts.

(2) Letters of credit outstanding total \$10.3 million for both December 31, 2020 and September 30, 2020, respectively, which reduces amount available by the same amount.

(3) Committed credit facilities, which require commitment fees of 0.075 percent on the unused amounts.

(4) Letters of credit outstanding total \$731,000 for both December 31, 2020 and September 30, 2020, which reduces the amount available by the same amount.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On April 24, 2020, NJR entered into a 364-day \$250 million revolving credit facility with an interest rate based on LIBOR plus 1.625 percent. After six months, all outstanding amounts under the credit facility would convert to a term loan and would be due on April 23, 2021. In connection with entry into this credit facility, all outstanding borrowings under NJR's December 13, 2019, \$150 million revolving line of credit facility were repaid. On October 24, 2020, there was no balance outstanding on the \$250 million credit facility. As a result, the credit facility was considered terminated.

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

NJNG received \$4.0 million in December 2019, 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 certain outstanding meter leases by making final principal payments of \$1.2 million during the three months ended December 31, 2019. There were no natural gas meter sale leasebacks recorded during the three months ended December 31, 2020.

Clean Energy Ventures

Clean Energy Ventures enters into transactions to sell the commercial solar assets concurrent with agreements to lease the assets back over a period of five to 15 years. These transactions are considered failed sale leasebacks for accounting purposes and are therefore treated as financing obligations, which are typically secured by the renewable energy facility asset and its future cash flows from SREC and energy sales. ITCs and other tax benefits associated with these solar projects are transferred to the buyer, if applicable. Clean Energy Ventures continues to operate the solar assets, including related expenses, and retain the revenue generated from SRECs and energy sales, and has the option to renew the lease or repurchase the assets sold at the end of the lease term. In December 2020, Clean Energy Ventures received proceeds of \$12.1 million in connection with the sale leaseback of two commercial solar projects. Clean Energy Ventures did not receive proceeds related to the sale leaseback of commercial solar assets during the three months ended December 31, 2019.

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		Three Months Ended	
	December 31,		December 31,	
(Thousands)	2020	2019	2020	2019
Service cost	\$ 2,182	\$ 2,056	\$ 1,211	\$ 1,355
Interest cost	2,278	2,647	1,518	2,004
Expected return on plan assets	(5,224)	(5,057)	(1,683)	(1,560)
Recognized actuarial loss	2,862	2,746	1,977	2,791
Prior service cost (credit) amortization	25	25	(45)	(49)
Net periodic benefit cost	\$ 2,123	\$ 2,417	\$ 2,978	\$ 4,541

The Company does not expect to be required to make additional contributions to fund the pension plans during fiscal 2020 or 2021 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 three months ended December 31, 2020 and 2019.

There are no federal requirements to pre-fund OPEB benefits. However, the Company is required to fund certain amounts due to regulatory agreements with the BPU and estimates that it will contribute between \$5 million and \$10 million over each of the next five years. Additional contributions may be required based on market conditions and changes to assumptions.

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The Company's OPEB liability was revalued for changes related to the Affordable Care Act-mandated excise tax applicable to high-cost health plans, commonly known as the Cadillac Tax. The Company applied a practical expedient to remeasure the plan assets and obligations as of December 31, 2019, which was the nearest calendar month-end date. The impact of the revaluation of the OPEB liability was recorded as of January 1, 2020.

11. INCOME TAXES

ASC Topic 740, *Income Taxes* requires the use of an estimated annual effective tax rate for purposes of determining the income tax provision during interim reporting periods. In calculating its estimated annual effective tax rate, NJR considers forecasted annual pre-tax income and estimated permanent book versus tax differences. Adjustments to the effective tax rate and management's estimates will occur as information and assumptions change.

Changes in tax laws or tax rates are recognized in the financial reporting period that includes the enactment date, the date in which the act is signed into law.

NJR evaluates its tax positions to determine the appropriate accounting and recognition of potential future obligations associated with unrecognized tax benefits. A tax benefit claimed, or expected to be claimed, on a tax return may be recognized if it is more likely than not that the position will be upheld upon examination by the applicable taxing authority. Interest and penalties related to unrecognized tax benefits, if any, are recognized within income tax expense and accrued interest, and penalties are recognized within other noncurrent liabilities on the Unaudited Condensed Consolidated Balance Sheets.

The Company evaluated certain tax benefits that have been recorded in the financial statements and concluded that a portion of the tax benefits are uncertain at this time. As a result, the Company recorded a reserve that is included in accrued taxes on the Unaudited Condensed Consolidated Balance Sheets. The tax benefits relate to fiscal tax years open to examination by the IRS and may be subject to subsequent adjustment.

The reserve for uncertain tax benefits is as follows:

<i>(Thousands)</i>	December 31, 2020	September 30, 2020
Balance at October 1,	\$ 4,930	\$ 4,930
Additions based on tax positions related to the current fiscal period	—	—
Balance at period end	\$ 4,930	\$ 4,930

CARES Act

On March 27, 2020, the President of the U.S. signed the CARES Act, which is aimed at providing emergency assistance and health care for individuals, families, and businesses affected by the COVID-19 pandemic and generally supporting the U.S. economy. The CARES Act, among other things, includes several business tax provisions which include, but are not limited to modifications of federal net operating loss carrybacks and deductibility, changes to prior year refundable alternative minimum tax liabilities, increase of limitations on business interest deductions from 30 percent to 50 percent of earnings before interest, taxes, depreciation, and amortization, technical corrections of the classification of qualified improvement property making them eligible for bonus depreciation, increase of the limits on charitable contribution deductions from 10 percent to 25 percent of adjusted taxable income, modifications of the treatment of federal loans, loan guarantees, and other investments, suspension of industry specific excise taxes, deferral of the company portion of OASDI, and implementation of a refundable employee retention tax credit.

The CARES Act provides for the delay in the required deposit of the employer portion of the OASDI payroll tax from the date of enactment through the end of 2020. Of the taxes that the Company can defer, 50 percent of the deferred taxes are required to be deposited by the end of 2021 and the remaining 50 percent are required to be deposited by the end of 2022. Additionally, The CARES Act provides a refundable tax credit, the employee retention tax credit, to certain employers who are ordered by a competent governmental authority to suspend or reduce business operations due to concern about the spread of COVID-19 or suffered a significant decline in the business during a calendar quarter during 2020 compared to the same calendar quarter during the previous year. As of December 31, 2020 and September 30, 2020, the Company deferred \$5.1 million and \$3.1 million, respectively, related to the employer portion of the OASDI tax.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Effective Tax Rate

The forecasted effective tax rates were 17.6 percent and 18.7 percent, for the three months ended December 31, 2020 and 2019, 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. During the three months ended December 31, 2020 and 2019, discrete items totaled \$(76,000) and \$798,000, respectively, excess tax benefits associated with the vesting of share-based awards. NJR's actual effective tax rate was 17.7 percent and 17.9 percent during the three months ended December 31, 2020 and 2019, respectively.

Other Tax Items

As of December 31, 2020 and September 30, 2020, the Company has federal income tax net operating losses of approximately \$134.0 million. Federal net operating losses can generally be carried back two years and forward 20 years and will begin to expire in fiscal 2036, with the remainder expiring by 2038. The Company expects to exercise its ability to carryback federal net operating losses to offset taxable income in prior periods.

For the net operating losses it expects to carryback, the Company estimated the portion considered refundable and recorded receivables of approximately \$22.8 million as of December 31, 2020 and September 30, 2020, as a component of other noncurrent assets on the Unaudited Condensed Consolidated Balance Sheets. Upon filing amended federal income tax returns to carryback its remaining federal net operating losses totaling \$24.1 million, the Company will reduce its taxable income in those periods and recapture federal investment tax credits of the same amount that were previously utilized to offset taxable income.

In addition, as of December 31, 2020 and September 30, 2020, the Company has tax credit carryforwards of approximately \$192.5 million and \$195.2 million, respectively, which each have a life of 20 years. When the Company carries back the federal net operating losses noted above, it expects to recapture investment tax credits totaling \$24.1 million. These recaptured tax credits are in addition to the \$192.5 million and will be carried forward to offset future taxable income. The Company expects to utilize this entire carryforward prior to expiration, which would begin in fiscal 2034.

As of December 31, 2020 and September 30, 2020, the Company has state income tax net operating losses of approximately \$479.5 million and \$487.7 million, respectively. These state net operating losses have varying carry-forward periods dictated by the state in which they were incurred; these state carry-forward periods range from seven to 20 years and would begin to expire in fiscal 2021, with the majority expiring after 2035. The Company expects to utilize this entire carryforward, other than as described below.

The Company had a valuation allowance of \$17.6 million, as of both December 31, 2020 and September 30, 2020. The valuation allowance are related to state net operating loss carryforwards in New Jersey related to changes in filing requirements and in Montana, Iowa and Kansas related to the sale of wind assets.

12. LEASES

Lessee Accounting

The Company determines if an arrangement is a lease at inception based on whether the Company has the right to control the use of an identified asset, the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset and accounts for leases in accordance with ASC 842, *Leases*. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term, including payments at commencement that depend on an index or rate. Most leases in which the Company is the lessee do not have a readily determinable implicit rate, so an incremental borrowing rate, based on the information available at the lease commencement date, is utilized to determine the present value of lease payments. When a secured borrowing rate is not readily available, unsecured borrowing rates are adjusted for the effects of collateral to determine the incremental borrowing rate. The Company uses the implicit rate for agreements in which it is a lessor. The Company has not entered into any material agreements in which it is a lessor. Lease expense and lease income are recognized on a straight-line basis over the lease term for operating leases. For more information on the adoption of ASC 842, *Leases*, see Note 2. *Summary of Significant Accounting Policies*.

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The Company's lease agreements primarily consist of commercial solar land leases, storage and capacity leases, equipment and real property, including land and office facilities, office equipment and the sale leaseback of its natural gas meters.

Certain leases contain escalation provisions for inflation metrics. The storage leases contain a variable payment component that relates to the change in the inflation metrics that are not known past the current payment period. These variable components of these lease payments are excluded from the lease payments that are used to determine the related right-of-use lease asset and liability. The variable portion of these leases are recognized as leasing expenses when they are incurred. The capacity lease payments are fully variable and based on the amount of natural gas stored in the storage caverns.

Generally, the Company's solar land leases terms are between 15 and 35 years and may include multiple options to extend the terms for an additional five to 10 years. The Company's office leases vary in duration, ranging from one to 25 years and may or may not include extension or early purchase options. The majority of the Company's meter leases are for terms of seven years with purchase options available prior to the end of the seven year term. Equipment leases include general office equipment that also vary in duration, most of which are for a term of five years. The Company's storage and capacity leases have assumed terms of 50 years to coincide with the expected useful lives of the cavern assets with which the leases are associated. The Company's lease terms may include options to extend, purchase the leased asset or terminate a lease and they are included in the lease liability calculation when it is reasonably certain that those options will be exercised. The Company has elected an accounting policy that exempts leases with an original term of one year or less from the recognition requirements of ASC 842, Leases.

The Company has lease agreements with lease and non-lease components and has elected the practical expedient to combine lease and non-lease components for certain classes of leases, such as office buildings, solar land leases and office equipment. Variable payments are not considered material to the Company. The Company's lease agreements do not contain any material residual value guarantees, material restrictions or material covenants. There are no material lease transactions with related parties.

The following table presents the Company's lease costs included in the Unaudited Condensed Consolidated Statements of Operations:

(Thousands)	Income Statement Location	Three Months Ended December 31,	
		2020	2019
Finance lease cost			
Amortization of right-of-use assets	Depreciation and amortization	\$ 1,246	\$ 1,161
Interest on lease liabilities	Interest expense, net of capitalized interest	221	247
Total finance lease cost		1,467	1,408
Operating lease cost	Operation and maintenance, net of capitalized costs	2,089	1,392
Short-term lease cost	Operation and maintenance	127	454
Variable lease cost	Operation and maintenance	153	707
Total lease cost		\$ 3,836	\$ 3,961

The following table presents supplemental cash flow information related to leases:

(Thousands)		Three Months Ended December 31,	
		2020	2019
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows from operating leases		\$ 1,737	\$ 1,562
Operating cash flows from finance leases		\$ 2,176	\$ 443
Financing cash flows from finance leases		\$ 5,997	\$ 2,623

Assets obtained or modified through amendments in exchange for operating lease liabilities totaled \$9.3 million and \$21.6 million during the three months ended December 31, 2020 and 2019. There were no assets obtained or modified through finance lease liabilities during the three months ended December 31, 2020. Assets obtained or modified through finance lease liabilities during the three months ended December 31, 2019, totaled \$4.0 million.

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The following table presents the balance and classifications of the Company's right of use assets and lease liabilities included in the Unaudited Condensed Consolidated Balance Sheets:

(Thousands)	Balance Sheet Location	December 31, 2020	September 30, 2020
Assets			
Noncurrent			
Operating lease assets	Operating lease assets	\$ 138,633	\$ 131,769
Finance lease assets	Utility plant	69,839	71,085
Total lease assets		\$ 208,472	\$ 202,854
Liabilities			
Current			
Operating lease liabilities	Operating lease liabilities	\$ 4,397	\$ 6,724
Finance lease liabilities	Current maturities of long-term debt	10,164	10,416
Noncurrent			
Operating lease liabilities	Operating lease liabilities	104,970	95,030
Finance lease liabilities	Long-term debt	59,345	63,743
Total lease liabilities		\$ 178,876	\$ 175,913

For operating lease assets and liabilities, the weighted average remaining lease term was 27.9 and 25.5 years and the weighted average discount rate used in the valuation over the remaining lease term was 3.3 percent and 3.2 percent as of December 31, 2020 and September 30, 2020, respectively. For finance lease assets and liabilities as of December 31, 2020 and September 30, 2020, the weighted average remaining lease term was 11.7 and 11.5 years, respectively, and the weighted average discount rate used in the valuation over the remaining lease term is 2.5 percent as of both December 31, 2020 and September 30, 2020.

13. COMMITMENTS AND CONTINGENT LIABILITIES

Cash Commitments

NJNG has entered into long-term contracts, expiring at various dates through October 2036, for the supply, transportation and storage of natural gas. These contracts include annual fixed charges of approximately \$133.7 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, the Energy Services segment enters into storage and pipeline capacity contracts, which require the payment of certain demand charges by Energy Services 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 December 31, 2020, for natural gas purchases and future demand fees for the next five fiscal year periods are as follows:

(Thousands)	2021	2022	2023	2024	2025	Thereafter
Energy Services:						
Natural gas purchases	\$ 134,236	\$ —	\$ —	\$ —	\$ —	\$ —
Storage demand fees	18,481	12,625	6,836	3,118	2,256	552
Pipeline demand fees	69,378	49,005	25,377	20,494	15,640	35,556
Sub-total Energy Services	\$ 222,095	\$ 61,630	\$ 32,213	\$ 23,612	\$ 17,896	\$ 36,108
NJNG:						
Natural gas purchases	\$ 9,880	\$ —	\$ —	\$ —	\$ —	\$ —
Storage demand fees	36,128	29,764	17,204	12,152	4,532	3,043
Pipeline demand fees	97,551	135,313	106,858	87,769	83,495	554,138
Sub-total NJNG	\$ 143,559	\$ 165,077	\$ 124,062	\$ 99,921	\$ 88,027	\$ 557,181
Total	\$ 365,654	\$ 226,707	\$ 156,275	\$ 123,533	\$ 105,923	\$ 593,289

Certain pipeline demand fees totaling \$4.0 million per year, for which Energy Services is the responsible party, will be paid for by the counterparty to a capacity release transaction beginning November 1, 2021 for a period of 10 years.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Legal Proceedings

Manufactured Gas Plant Remediation

NJNG is responsible for the remedial cleanup of certain former 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 NJDEP regulations.

NJNG periodically, and at least annually, performs an environmental review of former MGP sites located in Atlantic Highlands, Berkeley, Long Branch, Manchester, Toms River, and Freehold, New Jersey, collectively, the "former 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 at the former MGP sites for which it is responsible, including potential liabilities for further and continued natural resource damages, may be brought by the NJDEP for alleged injury to groundwater or other natural resources concerning these sites. As we have not yet completed the remedial investigation of the site, the total amount of potential costs of all remedial actions at the MGP site in Freehold, New Jersey, cannot be reasonably estimated at this time.

The estimated total future expenditures for all former MGP sites will range from approximately \$143.1 million to \$181.7 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 \$148.0 million as of December 31, 2020 and \$150.6 million as of September 30, 2020, based on the most likely amount. The remediation liability at December 31, 2020 includes adjustments for actual expenditures during fiscal 2021. 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 insurance recoveries, if any.

In June 2019, NJNG initiated a preliminary assessment of a site in Aberdeen, New Jersey to determine prior ownership and if former MGP operations were active at the location. As of September 30, 2019, costs associated with preliminary assessment activities were considered immaterial and included as a component of NJNG's annual SBC application to recover remediation expenses. The preliminary assessment and site investigation activities are ongoing at the Aberdeen, NJ site location. The estimated costs to complete the preliminary assessment and site investigation phase are included in the MGP remediation liability and corresponding regulatory asset on the Unaudited Condensed Consolidated Balance Sheets. NJNG will continue to gather information to determine whether the obligation exists to undertake remedial action.

NJNG recovers its remediation expenditures, including carrying costs, over rolling seven-year periods pursuant to a RAC approved by the BPU. On September 9, 2020, the BPU approved NJNG's increase in the RAC, which increased the annual recovery from \$8.5 million to \$9.7 million and is effective October 1, 2020. As of December 31, 2020, \$36.9 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 will continue to seek recovery of MGP-related costs through the RAC. 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

The Company is involved, and from time to time in the future may be involved, in a number of pending and threatened judicial, regulatory and arbitration proceedings relating to matters that arise in the ordinary course of business. In view of the inherent difficulty of predicting the outcome of litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, the Company cannot state with confidence what the eventual outcome of the pending litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter will be, if any. In accordance with applicable accounting guidance, NJR establishes accruals for litigation for those matters that present loss contingencies as to which it is both probable that a loss will be incurred and the amount of such loss can be reasonably estimated. NJR also discloses contingent matters for which there is a reasonable possibility of a loss. Based upon currently available information, NJR believes that the results of litigation that is currently pending, taken together, will not have a materially adverse effect on the Company's financial condition, results of operations or cash flows. The actual results of resolving the pending litigation matters may be substantially higher than the amounts accrued.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The foregoing statements about NJR's litigation are based upon the Company's judgments, assumptions and estimates and are necessarily subjective and uncertain. The Company has a number of threatened and pending litigation matters at various stages.

14. COMMON STOCK EQUITY

In December 2019, the Company completed an equity offering of 6,545,454 common shares, consisting of 5,333,334 common shares issued directly by the Company and 1,212,120 common shares issuable pursuant to forward sales agreements with investment banks. The issuance of 5,333,334 resulted in proceeds of approximately \$212.9 million, net of issuance costs, and was reflected in shareholders' equity and as a financing activity on the statement of cash flows.

Under the forward sale agreements, a total of 1,212,120 common shares were borrowed from third parties and sold to the underwriters. Each forward sale agreement allows the Company, at its election and prior to September 30, 2020, to physically settle the forward sale agreement by issuing common shares in exchange for net proceeds at the then-applicable forward sale price specified by the agreement, which was initially \$40.0125 per share, or, alternatively, to settle the forward sale agreement in whole or in part through the delivery or receipt of shares or cash. The forward sale price is subject to adjustment daily based on a floating interest rate factor and will decrease in respect of certain fixed amounts specified in the agreement, such as anticipated dividends.

On September 18, 2020, the Company amended its forward sale agreements to extend the maturity date of such forward sales agreements from September 30, 2020 to September 10, 2021. As of December 31, 2020, if the Company elected to net settle the forward sale agreement, the Company would have received approximately \$4.5 million under a cash settlement or would have received 136,619 common shares under a net share settlement.

Issuances of shares under the forward sale agreements are classified as equity transactions. Accordingly, no amounts relating to the forward sale agreements have or will be recorded in the financial statements until settlements take place. Prior to any settlements, the only impact to the financial statements is the inclusion of incremental shares within the calculation of diluted EPS using the treasury stock method until settlement of the forward sale agreements. Under this method, the number of the Company common shares used in calculating diluted EPS is deemed to be increased by the excess, if any, of the number of shares that would be issued upon physical settlement of the forward sale agreements less the number of shares that would be purchased by the Company in the market (based on the average market price during the same reporting period) using the proceeds receivable upon settlement (based on the adjusted forward sale price at the end of that reporting period). Share dilution occurs when the average market price of the Company's common shares is higher than the adjusted forward sale price. See *Note 8. Earnings Per Share* for the impact of the forward sale agreements on the calculation of diluted earnings per share.

15. REPORTING SEGMENT AND OTHER OPERATIONS DATA

The Company 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 reporting 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 and retail energy operations; the Storage and Transportation segment consists of the Company'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, other investments and general corporate activities.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three Months Ended December 31,	
<i>(Thousands)</i>	2020	2019
Operating revenues		
Natural Gas Distribution		
External customers	\$ 195,729	\$ 219,623
Clean Energy Ventures		
External customers	6,370	6,212
Energy Services		
External customers ⁽¹⁾	227,349	368,304
Intercompany	2,128	2,111
Storage and Transportation		
External customers	12,447	8,405
Intercompany	657	667
Subtotal	444,680	605,322
Home Services and Other		
External customers	12,410	12,492
Intercompany	167	415
Eliminations	(2,952)	(3,193)
Total	\$ 454,305	\$ 615,036
Depreciation and amortization		
Natural Gas Distribution	\$ 19,169	\$ 16,817
Clean Energy Ventures	5,433	6,316
Energy Services ⁽²⁾	42	29
Storage and Transportation	2,640	1,681
Subtotal	27,284	24,843
Home Services and Other	260	246
Eliminations	(182)	(452)
Total	\$ 27,362	\$ 24,637
Interest income ⁽³⁾		
Natural Gas Distribution	\$ 82	\$ 107
Energy Services	—	37
Storage and Transportation	694	697
Subtotal	776	841
Home Services and Other	132	491
Eliminations	(239)	(1,146)
Total	\$ 669	\$ 186

(1) Includes sales to Canada for the Energy Services segment, which are immaterial.

(2) The amortization of acquired wholesale energy contracts is excluded above and is included in natural gas purchases - nonutility on the Unaudited Condensed Consolidated Statements of Operations.

(3) Included in other income, net on the Unaudited Condensed Consolidated Statements of Operations.

New Jersey Resources Corporation
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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended December 31,	
<i>(Thousands)</i>	2020	2019
Interest expense, net of capitalized interest		
Natural Gas Distribution	\$ 8,974	\$ 7,832
Clean Energy Ventures	5,034	4,492
Energy Services	680	1,226
Storage and Transportation	3,982	2,822
Subtotal	18,670	16,372
Home Services and Other	1,116	272
Eliminations	—	(574)
Total	\$ 19,786	\$ 16,070
Income tax provision (benefit)		
Natural Gas Distribution	\$ 8,367	\$ 8,635
Clean Energy Ventures	(3,086)	(3,834)
Energy Services	12,122	10,752
Storage and Transportation	646	702
Subtotal	18,049	16,255
Home Services and Other	118	219
Eliminations	(726)	(3)
Total	\$ 17,441	\$ 16,471
Equity in earnings of affiliates		
Storage and Transportation	\$ 3,193	\$ 3,664
Eliminations	(518)	(275)
Total	\$ 2,675	\$ 3,389
Net financial earnings (loss)		
Natural Gas Distribution	\$ 49,467	\$ 43,856
Clean Energy Ventures	(10,274)	(8,179)
Energy Services	1,500	(5,122)
Storage and Transportation	3,508	3,004
Subtotal	44,201	33,559
Home Services and Other	(62)	1,109
Eliminations	518	263
Total	\$ 44,657	\$ 34,931
Capital expenditures		
Natural Gas Distribution	\$ 79,246	\$ 77,797
Clean Energy Ventures	22,335	45,699
Storage and Transportation	7,613	2,561
Subtotal	109,194	126,057
Home Services and Other	686	126
Total	\$ 109,880	\$ 126,183
Investments in equity investees		
Storage and Transportation	\$ 286	\$ 509
Total	\$ 286	\$ 509

New Jersey Resources Corporation

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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:

(Thousands)	Three Months Ended December 31,	
	2020	2019
Net financial earnings	\$ 44,657	\$ 34,931
Less:		
Unrealized gain on derivative instruments and related transactions	(37,491)	(41,766)
Tax effect	8,913	9,931
Effects of economic hedging related to natural gas inventory	(7,532)	(8,887)
Tax effect	1,790	2,112
NFE tax adjustment	(2,068)	(2,211)
Net income	\$ 81,045	\$ 75,752

The Company uses derivative instruments as economic hedges of purchases and sales of physical natural 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 natural gas related to physical natural gas flow is recognized when the natural gas is delivered to customers. Consequently, there is a mismatch in the timing of earnings recognition between the economic hedges and physical natural gas flows. Timing differences occur in two ways:

- unrealized gains and losses on derivatives are recognized in reported earnings in periods prior to physical natural 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 natural 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 natural 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 natural gas flows. Included in the tax effects are current and deferred income tax expense corresponding with the NFE. 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)	December 31, 2020	September 30, 2020
Assets at end of period:		
Natural Gas Distribution	\$ 3,531,162	\$ 3,531,477
Clean Energy Ventures	838,586	814,277
Energy Services	259,463	244,836
Storage and Transportation	854,476	844,799
Subtotal	5,483,687	5,435,389
Home Services and Other	156,544	138,375
Intercompany assets ⁽¹⁾	(243,326)	(257,287)
Total	\$ 5,396,905	\$ 5,316,477

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

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. RELATED PARTY TRANSACTIONS

Effective April 1, 2020, NJNG entered into a 5-year agreement for 3 Bcf of firm storage capacity with Steckman Ridge, which expires on March 31, 2025. 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.

Energy Services may periodically enter into storage or park and loan agreements with its affiliated FERC-jurisdictional natural gas storage facility, Steckman Ridge. As of December 31, 2020, Energy Services has entered into transactions with Steckman Ridge for varying terms, all of which expire by October 31, 2021.

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

(Thousands)	Three Months Ended December 31,	
	2020	2019
Natural Gas Distribution	\$ 1,568	\$ 1,494
Energy Services	166	30
Total	\$ 1,734	\$ 1,524

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

(Thousands)	December 31,		September 30,	
	2020		2020	
Natural Gas Distribution	\$ 775	\$ 775		
Energy Services	90	16		
Total	\$ 865	\$ 791		

NJNG and Energy Services 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 Energy Services. As of December 31, 2020, NJNG and Energy Services had three asset management agreements with expiration dates ranging from October 31, 2021 through March 31, 2021.

NJNG has entered into a 15-year transportation precedent agreement for committed capacity of 180,000 Dths per day and NJRES has entered into a 5-year, 50,000 Dths per day transportation precedent agreement with PennEast, both to commence when PennEast is placed in service.

NJNG has entered into a transportation precedent agreement with Adelpia Gateway for committed capacity of 130,000 Dths per day, which expires in October 2026.

Energy Services has a 5-year agreement for 3 Bcf of firm storage capacity with Leaf River, which is eliminated in consolidation and expires in March 2024.

17. ACQUISITIONS AND DISPOSITIONS

Acquisitions

Adelpia Gateway

On January 13, 2020, Adelpia Gateway, an indirect wholly-owned subsidiary of NJR, acquired all of Talen's membership interests in IEC, an existing 84-mile pipeline in southeastern Pennsylvania, including related assets and rights of way, for a base purchase price of \$166 million. In November 2017, the Company made an initial payment of \$10 million towards the base purchase price, which was included in other noncurrent assets on the Consolidated Balance Sheets. The remaining purchase price of \$156 million was paid upon the close of the acquisition of the related assets. As additional consideration, Adelpia Gateway will pay Talen specified amounts of up to \$23 million contingent upon the achievement of

New Jersey Resources Corporation

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

certain regulatory approvals and binding natural gas capacity commitments. On December 20, 2019, FERC issued Adelphia Gateway's Certificate of Public Convenience and Necessity. Adelphia Gateway has agreed to provide firm natural gas transportation service for 10 years following the closing to two power generators owned by affiliates of Talen that are currently served by the pipeline.

The Company evaluated the acquisition under the guidance of ASU 2017-01, *Clarifying the Definition of a Business* and concluded that the acquisition did not meet the definition of a business, as almost all of the fair value relates to the pipeline assets acquired. As a result, the purchase was accounted for as an asset acquisition.

The following table summarizes the consideration transferred and purchase price allocation based upon the relative fair value of the assets acquired and liabilities to be assumed:

<i>(Thousands)</i>	Estimated Fair Value
Purchase price	\$ 166,000
Net working capital adjustment	(449)
Transaction costs	9,456
Total costs capitalized	\$ 175,007
Identifiable assets acquired	
Property, plant and equipment	\$ 174,438
Other	1,018
Net working capital	(449)
Net assets acquired	\$ 175,007

The Company utilized a discounted cash flow valuation technique to measure the fair value of the property, plant, and equipment based upon the present value of their future economic benefits reflecting current market expectations. The assumptions used in the discounted cash flow valuation are not observable in active markets and thus represent non-recurring Level 3 fair value measurements.

Property, plant and equipment consist primarily of pipeline related assets, land, buildings and other structures and software. Depreciation is computed on a straight-line basis over the estimated useful life of the assets, ranging from five to 30 years, based on various classes of depreciable property. Other assets consist primarily of an assembled workforce and base natural gas.

Asset retirement obligations are initially recognized when the legal obligation to retire an asset has been incurred and a reasonable estimate of fair value can be made. The Company records any asset retirement obligations in the period in which information permitting a reasonable estimate of such obligation becomes available. The Company is unable to predict when, or if, the pipelines would become completely obsolete and require decommissioning. As such, upon acquisition, there were no liabilities recorded for asset retirement obligations, as both the timing and future estimates of decommissioning the pipeline was indeterminable.

Leaf River

On October 11, 2019, NJR Pipeline Company, an indirect wholly-owned subsidiary of NJR, acquired 100 percent of the issued and outstanding limited liability company interests of Leaf River Energy Center LLC for \$367.5 million. The purchase price was subject to certain contractual conditions, including customary purchase price adjustments related to the amount of net working capital and transaction expenses. Leaf River owns and operates a 32.2 million Dth salt dome natural gas storage facility, located in southeastern Mississippi.

The Company evaluated the acquisition under the guidance of ASU 2017-01, *Clarifying the Definition of a Business* and concluded that the acquisition did not meet the definition of a business, as almost all of the fair value relates to the natural gas storage assets acquired. As a result, the purchase was accounted for as an asset acquisition.

New Jersey Resources Corporation
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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the consideration transferred and purchase price allocation based upon the relative fair value of the assets acquired and liabilities to be assumed:

<i>(Thousands)</i>	Estimated Fair Value
Purchase price	\$ 367,500
Net working capital adjustment	4,111
Transaction costs	1,664
Total costs capitalized	\$ 373,275
Identifiable assets acquired	
Property, plant and equipment	\$ 365,715
Base gas	3,445
Other assets, net	4
Net working capital	4,111
Net assets acquired	\$ 373,275

The total consideration transferred is comprised of the purchase price to the seller and the transaction costs incurred during the acquisition. The Company utilized a discounted cash flow valuation technique to measure the fair value of the property, plant, and equipment based upon the present value of their future economic benefits reflecting current market expectations. Base gas is valued based upon the estimated replacement costs associated with the respective assets.

Base gas is needed to maintain the necessary pressure to allow efficient operation of the storage facility. The base gas is determined to be recoverable and is considered a component of the facility and presented as a component in property, plant and equipment. This natural gas is not depreciated, as it is expected to be recovered and sold.

Property, plant and equipment consist primarily of surface equipment and pipelines necessary to operate the facility. Depreciation is computed on a straight-line basis over the estimated useful life of the assets, ranging from five to 50 years, based on various classes of depreciable property.

Asset retirement obligations are initially recognized when the legal obligation to retire an asset has been incurred and a reasonable estimate of fair value can be made. The Company records any asset retirement obligations in the period in which information permitting a reasonable estimate of such obligation becomes available. The Company is unable to predict when, or if, the storage facilities and related pipelines would become completely obsolete and require decommissioning. As such, upon acquisition, there were no liabilities recorded for asset retirement obligations, as both the timing and future estimates of decommissioning the storage facilities and related pipelines were indeterminable.

The assumptions used in the discounted cash flow valuation are not observable in active markets and thus represent non-recurring Level 3 fair value measurements.

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, 2020. Our critical accounting policies have not changed from those reported in the 2020 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.

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

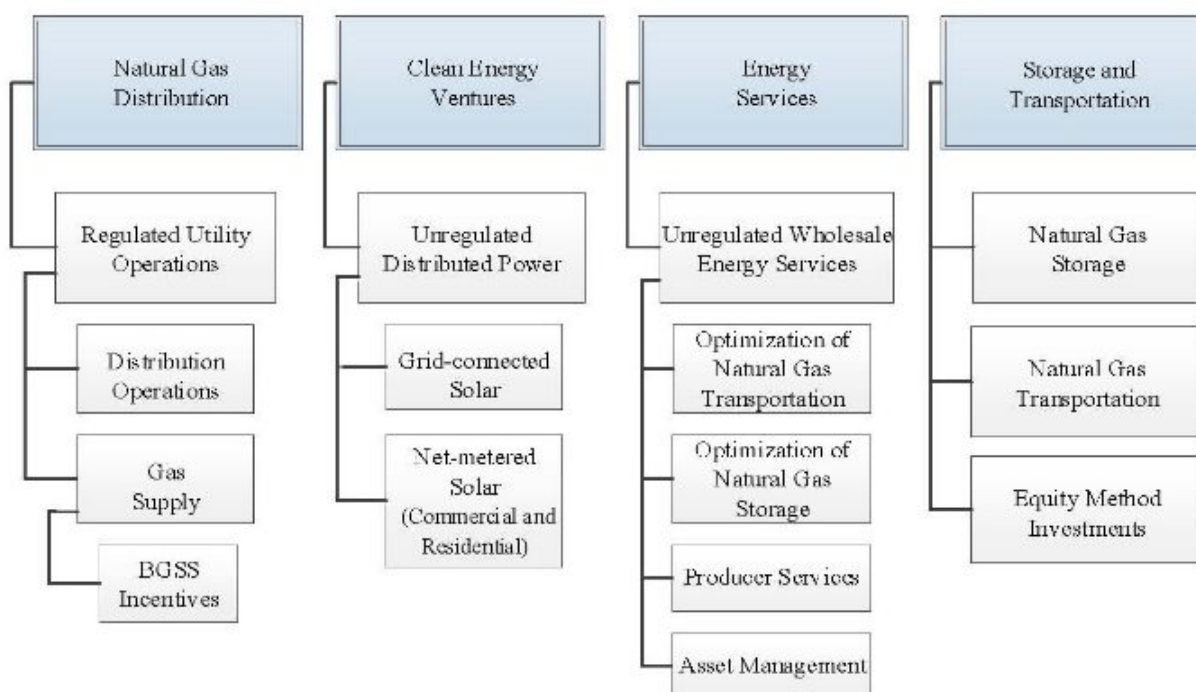
Management's Overview

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. In addition, we invest in clean energy projects, storage and transportation 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 2020 Annual Report on Form 10-K.

Reporting Segments

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



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

Impacts of the COVID-19 Pandemic

We are closely monitoring developments related to the COVID-19 pandemic and are taking steps intended to limit potential exposure for our employees and those we serve. We have also taken proactive steps to ensure business continuity in the safe operation of our business. Both NJR and NJNG continue to have sufficient liquidity to meet their current obligations and business operations remain fundamentally unchanged at this time. This is, however, a rapidly evolving situation, and we cannot predict the extent or duration of the outbreak, the effects of the pandemic on the global, national or local economy, or its effects on our financial condition, results of operations and cash flows. We cannot predict the nature and extent of impacts to future operations. We will continue to monitor developments affecting our employees, customers, and operations and take additional steps to address the COVID-19 pandemic and its impacts, as necessary.

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

Operating Results

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

(Thousands)	Three Months Ended December 31,			
	2020		2019	
Net income (loss)				
Natural Gas Distribution	\$ 49,467	61 %	\$ 43,856	58 %
Clean Energy Ventures	(10,274)	(13)	(8,179)	(11)
Energy Services	38,872	48	36,025	48
Storage and Transportation	3,508	4	3,004	4
Home Services and Other	(62)	—	1,109	1
Eliminations ⁽¹⁾	(466)	—	(63)	—
Total	\$ 81,045	100 %	\$ 75,752	100 %

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

The increase in net income during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, was driven primarily by increased earnings at our Natural Gas Distribution segment due to increased base rates, along with increased returns on infrastructure programs related to SAFE II and NJ RISE and increased BGSS incentives. The primary drivers of the changes noted above are described in more detail in the individual segment discussions.

Assets by reporting segment and operations are as follows:

(Thousands)	December 31, 2020		September 30, 2020	
Assets				
Natural Gas Distribution	\$ 3,531,162	65 %	\$ 3,531,477	66 %
Clean Energy Ventures	838,586	16	814,277	15
Energy Services	259,463	5	244,836	5
Storage and Transportation	854,476	16	844,799	16
Home Services and Other	156,544	3	138,375	3
Intercompany assets ⁽¹⁾	(243,326)	(5)	(257,287)	(5)
Total	\$ 5,396,905	100 %	\$ 5,316,477	100 %

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

The increase in assets was due primarily to an increase in solar asset investments at Clean Energy Ventures, along with an increase in accounts receivable at our Natural Gas Distribution and Energy Services segments.

Non-GAAP Financial Measures

Our management uses NFE, a non-GAAP financial measure, when evaluating our operating results. Energy Services 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 natural gas and, therefore, eliminates the impact of volatility to GAAP earnings associated with the derivative instruments. There is a related tax effect on current and deferred income tax expense corresponding with this non-GAAP measure. To the extent we utilize 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, the rate and resulting NFE are subject to change. No adjustment is needed during the fourth quarter, since the actual effective tax rate is calculated at year end.

New Jersey Resources Corporation

Part I

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

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. Below is a reconciliation of consolidated net income, the most directly comparable GAAP measure, to NFE:

(Thousands, except per share data)	Three Months Ended December 31,	
	2020	2019
Net income	\$ 81,045	\$ 75,752
Add:		
Unrealized gain on derivative instruments and related transactions	(37,491)	(41,766)
Tax effect	8,913	9,931
Effects of economic hedging related to natural gas inventory ⁽¹⁾	(7,532)	(8,887)
Tax effect	1,790	2,112
NFE tax adjustment	(2,068)	(2,211)
Net financial earnings	\$ 44,657	\$ 34,931
Basic earnings per share	\$ 0.84	\$ 0.82
Add:		
Unrealized gain on derivative instruments and related transactions	(0.39)	(0.45)
Tax effect	0.09	0.11
Effects of economic hedging related to natural gas inventory ⁽¹⁾	(0.08)	(0.10)
Tax effect	0.02	0.02
NFE tax adjustment	(0.02)	(0.02)
Basic NFE per share	\$ 0.46	\$ 0.38

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

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

(Thousands)	Three Months Ended December 31,			
	2020		2019	
Net financial earnings (loss)				
Natural Gas Distribution	\$ 49,467	111 %	\$ 43,856	125 %
Clean Energy Ventures	(10,274)	(23)	(8,179)	(23)
Energy Services	1,500	3	(5,122)	(15)
Storage and Transportation	3,508	8	3,004	9
Home Services and Other	(62)	—	1,109	3
Eliminations ⁽¹⁾	518	1	263	1
Total	\$ 44,657	100 %	\$ 34,931	100 %

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

The increase in NFE during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, was due primarily to increased earnings at our Natural Gas Distribution segment as previously discussed.

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 throughout Burlington, Middlesex, Monmouth, Morris and Ocean counties in New Jersey to approximately 559,600 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, including those risks associated with COVID-19 and may include but is not limited to impacts to customer growth and customer usage, customer collections, the timing and costs of capital expenditures and construction of infrastructure projects, operating and financing costs, fluctuations in commodity prices and customer

New Jersey Resources Corporation

Part I

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

conservation efforts. In addition, NJNG may be subject to adverse economic conditions, 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.

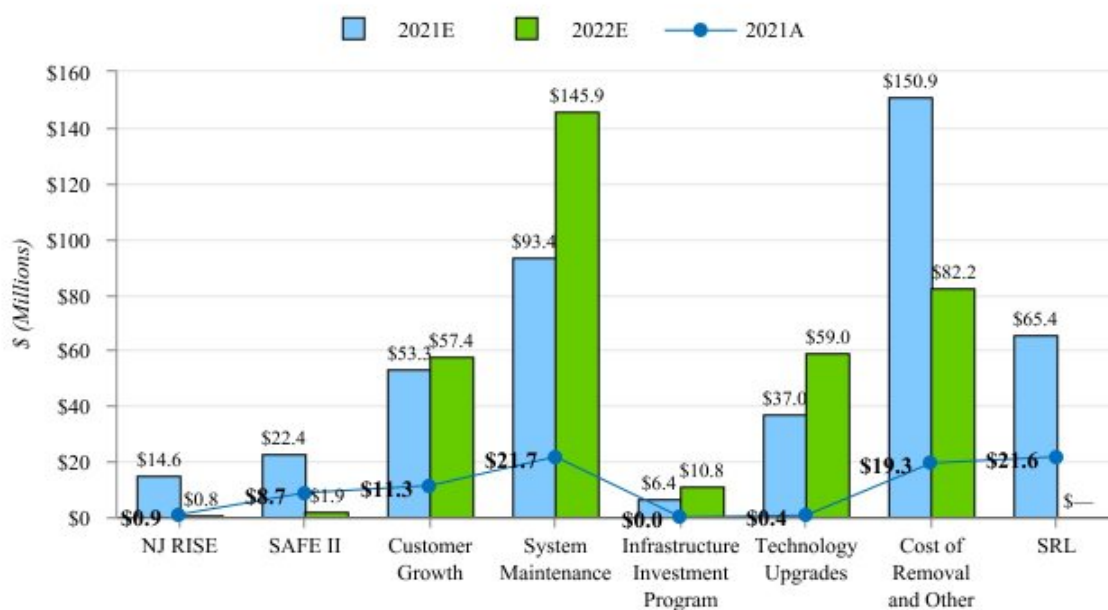
NJNG's business is seasonal by nature, as weather conditions directly influence the volume of natural gas delivered to customers on an annual basis. Specifically, customer demand substantially increases during the winter months when natural gas is used for heating purposes. As a result, NJNG receives 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 4. 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 utility gross margin, promoting clean energy programs and mitigating the risks discussed above.

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 pipeline integrity management and infrastructure programs. Below is a summary of NJNG's capital expenditures, including accruals, for the three months ended December 31, 2020, and estimates of expected investments for fiscal 2021 and 2022:



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.

New Jersey Resources Corporation

Part I

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

Infrastructure Investment Program

On February 28, 2019, NJNG filed a petition with the BPU seeking authority to implement a five-year Infrastructure Investment Program. The IIP consists of two components: transmission and distribution investments and information technology replacement and enhancements. The total investment for the IIP is approximately \$507 million. All approved investments will be recovered through annual filings to adjust base rates. On October 28, 2020, the BPU approved the Company's transmission and distribution component of the IIP for \$150 million over five years, effective November 1, 2020. NJNG voluntarily withdrew the information technology upgrade component and will seek to recover associated costs in future rate case proceedings.

SAFE II and NJ RISE

NJNG continues to implement BPU-approved infrastructure projects that are designed to enhance the reliability and integrity of NJNG's natural gas distribution system.

The BPU approved the 5-year SAFE II program and the associated rate mechanism to replace the remaining unprotected steel mains and services from NJNG's natural gas distribution system at an estimated cost of approximately \$200 million, excluding AFUDC. With the approval of SAFE II, \$157.5 million was approved for accelerated cost recovery methodology. The remaining \$42.5 million in capital expenditures must be requested for recovery in base rate cases, of which \$23.4 million was approved in NJNG's most recent base rate case.

The BPU approved NJNG's NJ RISE capital infrastructure program, which consists of six capital investment projects estimated to cost \$102.5 million, excluding AFUDC, for natural 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 in the most storm-prone areas of NJNG's service territory. Recovery of NJ RISE investments is included in NJNG's base rates.

On March 30, 2020, NJNG filed a petition with the BPU requesting a rate increase of approximately \$7.4 million for the recovery associated with NJ RISE and SAFE II capital investment costs of approximately \$57.9 million. On July 24, 2020, the Company updated the filing with actual information through June 30, 2020 and the revised rate increase requested was \$7.1 million based on \$55.1 million of actual capital investments. On September 9, 2020, the BPU approved the increase to base rate revenue, effective October 1, 2020.

Southern Reliability Link

The SRL is an approximately 30-mile, 30-inch transmission main designed to support improved system reliability and integrity in the southern portion of NJNG's service territory. Construction began on the project in December 2018 and is estimated to cost between \$250 million and \$270 million upon completion. Costs associated with SRL will be requested for recovery in a future base rate case.

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:

	December 31, 2020	December 31, 2019
Firm customers		
Residential	497,203	489,491
Commercial, industrial & other	30,912	30,422
Residential transport	22,296	22,917
Commercial transport	9,102	9,242
Total firm customers	559,513	552,072
Other	118	49
Total customers	559,631	552,121

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

During the three months ended December 31, 2020 and 2019, respectively, NJNG added 1,948 and 2,282 new customers. NJNG expects these new customer additions, and those customers who added additional natural gas services to their premises to contribute approximately \$1.4 million to utility gross margin during the fiscal year.

NJNG continues to expect to add approximately 28,000 to 30,000 new customers during the three-year period of fiscal 2021 to 2023. Based on information from municipalities and developers, as well as external industry analysts and management's experience, NJNG estimates that approximately 65 percent of the growth will come from new construction markets and 35 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 \$6.3 million annually, as calculated under NJNG's CIP tariff. See the *Natural Gas Distribution Segment 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.

Energy Efficiency Programs

SAVEGREEN conducts home energy audits and provides various grants, incentives and financing alternatives 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. On September 25, 2020, NJNG filed a petition with the BPU for an additional three-year SAVEGREEN program consisting of approximately \$127 million in direct investment, \$113 million in financing options, and approximately \$23 million in operation and maintenance expenses, to be effective July 1, 2021.

On May 29, 2020, NJNG filed a petition with the BPU to minimally decrease its EE recovery rate. Throughout the course of the proceeding, NJNG updated the filing with additional actual information. Based on the updated information, the BPU approved NJNG to maintain its existing rate, which will result in an annual recovery of approximately \$11.4 million, effective November 1, 2020.

The following table summarizes, loans, grants, rebates and related investments as of:

(Thousands)	December 31, 2020	September 30, 2020
ns	\$ 123,090	119,400
ts, rebates and related investments	81,700	80,500
al	\$ 204,790	199,900

Program recoveries from customers during the three months ended December 31, 2020 and 2019, were \$3.3 million and \$3.4 million, respectively. 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/BGSS

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 natural gas supply cost savings achieved and is subject to a variable margin revenue test. Additionally, recovery of the CIP utility gross margin 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.

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

(Thousands)	Three Months Ended December 31,	
	2020	2019
Weather ⁽¹⁾	\$ 6,455	\$ (2,219)
Usage	594	1,043
Total	\$ 7,049	\$ (1,176)

(1) Compared with the 20-year average, weather was 10.0 percent warmer-than-normal and 2.5 percent colder-than-normal during the three months ended December 31, 2020 and 2019, respectively.

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

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 natural gas costs in comparison to its BGSS 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.

NJNG's residential and commercial markets are currently open to competition, and its rates are segregated between BGSS (i.e., natural gas commodity) and delivery (i.e., transportation) components. NJNG earns utility gross margin through the delivery of natural gas to its customers and, therefore, is not negatively affected by customers who use its transportation service and purchase natural gas from another supplier. Under an existing order from the BPU, BGSS can be provided by suppliers other than the state's natural gas utilities; however, customers who purchase natural gas from another supplier continue to use NJNG for transportation service.

On March 27, 2020, the BPU approved, on a final basis, a decrease to NJNG's BGSS rate for residential and small commercial customers, an increase to its balancing charge rate, resulting in a \$2.0 million decrease to the annual revenues credited to BGSS, as well as changes to the CIP rates, which resulted in a \$10.6 million annual recovery increase, effective October 1, 2019.

On September 9, 2020, the BPU approved on a provisional basis a decrease to NJNG's BGSS rate for residential and small commercial customers, a decrease to its balancing charge and modifications to its CIP rates, effective October 1, 2020, which will result in a \$7.7 million overall net decrease to the annual recovery. The balancing charge rate includes the cost of balancing natural gas deliveries with customer usage for sales and transportation customers and balancing charge revenues are credited to BGSS.

On November 20, 2020, NJNG notified the BPU of its intent to provide BGSS bill credits to residential and small commercial sales customers effective December 1, 2020 to December 31, 2020. The December bill credits were estimated to be \$10 million, \$9.4 million net of tax. On December 22, 2020, NJNG notified the BPU of the extension of the BGSS bill credits through January 31, 2021. The January 2021 bill credits are estimated to be \$12.5 million, \$11.7 million net of tax. The bill credits represent an estimated 3.8 percent reduction to a typical residential heating customer's annual bill.

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 NJNG's 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. Utility gross margin from incentive programs was \$4.6 million and \$2.7 million during the three months ended December 31, 2020 and 2019, respectively.

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 natural gas sales volumes hedged by each November 1 and at least 25 percent of the projected periodic BGSS natural 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.

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 energy sources.

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

Natural gas commodity prices are shown in the graph below, which illustrates the daily natural gas prices⁽¹⁾ in the Northeast market region, also known as TETCO M-3.



(1) Data source from S&P Global Platts.

The maximum price per MMBtu was \$5.52 and \$5.59 and the minimum price was \$0.28 and \$0.68 for the three months ended December 31, 2020 and 2019, respectively. A more detailed discussion of the impacts of the price of natural gas on operating revenues, natural 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*.

Societal Benefits Charge

USF

NJNG's qualifying customers are eligible for the USF program, which is administered by the New Jersey Department of Community Affairs, to help make energy bills more affordable. On June 25, 2020, NJNG filed its annual USF compliance filing proposing a decrease to the statewide USF rate, which will result in annual decreases of approximately \$400,000. On September 23, 2020, the BPU approved the decrease, effective October 1, 2020.

Environmental Remediation

NJNG is responsible for the environmental remediation of former 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 at the end of each fiscal year 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 \$148.0 million as of December 31, 2020, a decrease of \$2.6 million compared with the prior fiscal period. On September 9, 2020, the BPU approved a stipulation for NJNG's annual SBC application including recovery of remediation expenses, an increase in the RAC of approximately \$1.2 million annually and an annual decrease to the NJCEP factor of \$600,000, which was effective April 1, 2020. On September 29, 2020, NJNG filed its annual SBC application requesting to recover remediation expenses, including an increase in the RAC, of approximately \$1.3 million annually and an increase to the NJCEP factor, of approximately \$6.0 million, effective April 1, 2021.

In June 2019, NJNG initiated a preliminary assessment of a site in Aberdeen, New Jersey to determine prior ownership and if former MGP operations were active at the location. The Company is in the process of conducting site investigation activities to identify and evaluate the nature and extent of MGP-related contaminants present at the location. The costs associated with preliminary assessment and site investigation activities are considered immaterial and are included as a

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component of NJNG's annual SBC application to recover remediation expenses. We will continue to gather information to further refine and enhance its estimate of potential costs for this site as it becomes available. See Note 13. Commitments and Contingent Liabilities for a more detailed description.

Other regulatory filings and a more detailed discussion of the filings in this section can be found in *Note 4. Regulation* in the accompanying Unaudited Condensed Consolidated Financial Statements.

Operating Results

NJNG's operating results are as follows:

(Thousands)	Three Months Ended December 31,	
	2020	2019
Operating revenues	\$ 195,729	\$ 219,623
Operating expenses		
Natural gas purchases ⁽¹⁾	59,309	95,822
Operation and maintenance	43,638	36,185
Regulatory rider expense	10,701	11,742
Depreciation and amortization	19,169	16,817
Total operating expenses	132,817	160,566
Operating income	62,912	59,057
Other income, net	3,896	1,266
Interest expense, net of capitalized interest	8,974	7,832
Income tax provision	8,367	8,635
Net income	\$ 49,467	\$ 43,856

(1) Includes related party transactions of approximately \$3.2 million and \$4 million for the three months ended December 31, 2020 and 2019, respectively, the majority of which is eliminated in consolidation.

Operating Revenues and Natural Gas Purchases

During the three months ended December 31, 2020, compared with the three months ended December 31, 2019, operating revenues decreased by 10.9 percent and natural gas purchases decreased 38.1 percent.

The factors contributing to the increases and decreases in operating revenues and natural gas purchases are as follows:

(Thousands)	Three Months Ended December 31, 2020 v. 2019	
	Operating revenues	Natural gas purchases
Base rate impact	\$ 5,193	\$ —
CIP adjustments	8,225	—
SAFE II/NJ RISE	2,331	—
Firm sales	(8,204)	(5,826)
BGSS incentives	(10,875)	(12,724)
Average BGSS rates	(8,340)	(8,340)
Bill credits	(9,519)	(9,519)
Other ⁽¹⁾	(2,705)	(104)
Total decrease	\$ (23,894)	\$ (36,513)

(1) Other includes changes in rider rates, including those related to EE, NJCEP and other programs.

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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 revenues 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:

(Thousands)	Three Months Ended December 31,	
	2020	2019
Operating revenues	\$ 195,729	\$ 219,623
Less:		
Natural gas purchases	59,309	95,822
Regulatory rider expense	10,701	11,742
Utility gross margin	\$ 125,719	\$ 112,059

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:

(\$ in thousands)	Three Months Ended December 31,			
	2020		2019	
	Margin	Bcf	Margin	Bcf
Utility gross margin/throughput				
Residential	\$ 85,975	13.6	\$ 77,082	14.6
Commercial, industrial and other	17,040	2.4	15,187	2.8
Firm transportation	17,288	3.9	15,659	4.3
Total utility firm gross margin/throughput	120,303	19.9	107,928	21.7
BGSS incentive programs	4,578	25.9	2,729	27.9
Interruptible/off-tariff agreements	838	4.5	1,402	9.0
Total utility gross margin/throughput	\$ 125,719	50.3	\$ 112,059	58.6

Utility Firm Gross Margin

Utility firm gross margin increased \$12.4 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to the increase in base rates, along with increased returns on infrastructure programs related to SAFE II and NJ RISE.

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

BGSS Incentive Programs

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

<i>(Thousands)</i>	Three Months Ended December 31, 2020 v. 2019
Storage	\$ 2,076
Off-system sales	(136)
Capacity release	(91)
Total increase	\$ 1,849

The increase in BGSS incentive programs during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, was due primarily to increased market opportunities related to the storage incentive program.

Operation and Maintenance Expense

O&M expense increased \$7.5 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to increased compensation costs and bad debt expense.

Depreciation Expense

Depreciation expense increased \$2.4 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, as a result of additional utility plant being placed into service.

Interest Expense

Interest expense increased \$1.1 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to increased outstanding long-term debt.

Other Income

Other income increased \$2.6 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to increased AFUDC earned on infrastructure projects.

Income Tax Provision

Income tax provision remained relatively flat during the three months ended December 31, 2020, compared with the three months ended December 31, 2019.

Net Income

Net income increased \$5.6 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to the increase in operating revenues related to increased base rates and increased other income related to AFUDC earned on infrastructure projects, partially offset by the increases in depreciation and interest expense, as previously discussed.

Clean Energy Ventures Segment

Overview

Our Clean Energy Ventures segment actively pursues opportunities in the renewable energy markets. Clean Energy Ventures enters 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 enters into various long-term agreements, including PPAs, to supply energy from commercial solar projects.

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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. Clean Energy Ventures is also subject to risks associated with COVID-19, which may include impacts to residential solar customer growth and customer collections, our ability to identify and develop commercial solar asset investments, impacts to our supply chain and our ability to source materials for construction.

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 and/or relevant state legislation and regulatory policies affecting the market for solar renewable energy credits, could significantly affect future results.

Solar

Solar projects placed in service and related expenditures are as follows:

(\$ in Thousands)	2020			Three Months Ended December 31,			2019
	Projects	MW	Costs	Projects	MW	Costs	
Placed in service							
Grid-connected	1	2.9	\$ 3,683	1	2.9	\$ 11,707	
Net-metered:							
Commercial	—	—	—	—	—	—	
Residential	46	0.5	1,599	124	1.3	4,010	
Total placed in service	47	3.4	\$ 5,282	125	4.2	\$ 15,717	

(1) Includes an operational 2.9 MW commercial solar project acquired in December 2020.

Since inception, Clean Energy Ventures has constructed a total of 360.8 MW of solar capacity and has an additional 8.3 MW under construction or planned for fiscal 2021. Projects that were placed in service through December 31, 2019, qualified for a 30-percent federal ITC. The credit declined to 26 percent for property under construction during 2020 and was originally scheduled to decline to 22 percent for property under construction during 2021 and 10 percent for any property that is under construction after 2021. On December 27, 2020, the 26 percent federal ITC was extended through the end of 2022. The credit declines to 22 percent after 2022 and to 10 percent after 2023.

Projects placed in service after December 31, 2019, also qualified for a 30 percent federal ITC if five percent or more of the total costs of a solar property are incurred before the end of the applicable year and there are continuous efforts to advance towards completion of the project, based on the IRS guidance around the ITC safe harbor determination. We have taken steps to preserve the ITC at the higher rate for certain solar projects that are completed after the scheduled reduction in rates, in accordance with IRS guidance.

Clean Energy Ventures may enter into transactions to sell certain of its commercial solar assets concurrent with agreements to lease the assets back over a period of five to 15 years. The Company will continue to operate the solar assets and are responsible for related expenses and entitled to retain the revenue generated from SRECs and energy sales. The ITCs and other tax benefits associated with these solar projects transfer to the buyer if applicable; however, the lease payments are structured so that Clean Energy Ventures is compensated for the transfer of the related tax incentives. Accordingly, for solar projects financed under sale leasebacks for which the assets were sold during the first 5 years of in service life, Clean Energy Ventures recognizes the equivalent value of the ITC in other income on the Unaudited Condensed Consolidated Statements of Operations over the respective five-year ITC recapture periods, starting with the second year of the lease. In December 2020, Clean Energy Ventures received proceeds of \$12.1 million in connection with the sale leaseback of commercial solar assets. Clean Energy Ventures did not enter into any sale leaseback transactions for its commercial solar assets during the three months ended December 31, 2019.

As part of its solar investment portfolio, Clean Energy Ventures 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. Clean Energy Ventures owns, operates and maintains the system over the life of the contract in exchange for monthly payments.

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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.

In December 2019, the BPU established the TREC as pursuant to the successor program to the SREC program. TRECs provide a fixed compensation base multiplied by an assigned project factor in order to determine their value. The project factor is determined by the type and location of the project, as defined. All TRECs generated are required to be purchased monthly by a TREC program administrator as appointed by the BPU.

SREC and TREC activity consisted of the following:

	Three Months Ended December 31,		
	2020		2019
	SRECs	TRECs	SRECs
Inventory balance as of October 1,	35,011	9,270	53,395
RECs generated	87,208	4,683	81,489
RECs delivered	(6,095)	(321)	(9,693)
Inventory balance as of December 31,	116,124	13,632	125,191

The average SREC sales price was \$212 and \$226 during the three months ended December 31, 2020 and 2019, respectively and the average TREC price was \$147 during the three months ended December 31, 2020.

Clean Energy Ventures hedges its expected SREC production through the use of forward sales contracts. The following table reflects the hedged percentage of our projected inventory related to its in-service commercial and residential assets:

Energy Year ⁽¹⁾	Percent of SRECs Hedged
2021	98%
2022	92%
2023	60%
2024	26%

(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 or TRECs by our solar 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.

Operating Results

Clean Energy Ventures' financial results are summarized as follows:

<i>(Thousands)</i>	Three Months Ended December 31,	
	2020	2019
Operating revenues	\$ 6,370	\$ 6,212
Operating expenses		
Operation and maintenance	9,201	7,334
Depreciation and amortization	5,433	6,316
Total operating expenses	14,634	13,650
Operating loss	(8,264)	(7,438)
Other income (expense), net	(62)	(83)
Interest expense, net	5,034	4,492
Income tax benefit	(3,086)	(3,834)
Net loss	\$ (10,274)	\$ (8,179)

Operating Revenues

Operating revenues increased \$158,000 during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to increased residential solar revenue and TREC revenue, partially offset by decreased SREC sales.

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Operation and Maintenance Expense

O&M expense increased \$1.9 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to increased project maintenance expense and lease expense due to the addition of new projects placed in service.

Depreciation Expense

Depreciation expense decreased \$883,000 during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, primarily due to the change in estimated useful lives of our commercial solar assets, effective July 1, 2020.

Income Tax Provision (Benefit)

Income tax benefit decreased \$748,000 during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to increased operating loss.

Net Income

Net income decreased \$2.1 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to the increased O&M, partially offset by decreased depreciation expense, as previously discussed.

Energy Services Segment

Overview

Energy Services markets and sells natural gas to wholesale and retail customers and manages natural gas transportation and storage assets throughout major market areas across North America. Energy Services maintains a strategic portfolio of natural gas transportation and storage contracts that it utilizes in conjunction with its market expertise to provide service and value to its customers. Availability of these transportation and storage contracts allows Energy Services to generate market opportunities by capturing price differentials over specific time horizons and between geographic market locations.

Energy Services also provides management of transportation and storage assets for natural gas producers and regulated utilities. 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, Energy Services 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, Energy Services 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 anticipated transactional cash flows and to help manage volatility in natural gas market prices. Generally, when its transportation and storage contracts are exposed to periods of increased market volatility, Energy Services is able to implement strategies that allow them to capture margin by improving the respective time or geographic spreads on a forward basis.

Energy Services accounts for its physical commodity contracts and its financial derivative instruments at fair value on the Unaudited Condensed Consolidated Balance Sheets. Changes in the fair value of physical commodity contracts and financial derivative instruments are included in earnings as a component of operating revenues or natural gas purchases on the Unaudited Condensed Consolidated Statements of Operations. Volatility in reported net income at Energy Services 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. Volatility in earnings can also occur as a result of timing differences between the settlement of financial derivatives and the sale of the underlying physical commodity. For example, when a financial instrument settles and the physical natural gas is injected into inventory, 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 from storage and sold, at which time Energy Services realizes the entire margin on the transaction.

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Operating Results

Energy Services' financial results are summarized as follows:

	Three Months Ended December 31,	
<i>(Thousands)</i>	2020	2019
Operating revenues ⁽¹⁾	\$ 229,477	\$ 370,415
Operating expenses		
Natural gas purchases (including demand charges ⁽²⁾⁽³⁾)	173,837	317,724
Operation and maintenance	4,016	4,738
Depreciation and amortization	42	29
Total operating expenses	177,895	322,491
Operating income	51,582	47,924
Other income, net	92	79
Interest expense, net	680	1,226
Income tax provision	12,122	10,752
Net income	\$ 38,872	\$ 36,025

(1) Includes related party transactions of approximately \$2.1 million for both the three months ended December 31, 2020 and 2019, which are eliminated in consolidation.

(2) Costs associated with pipeline and storage capacity 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 \$166,000 and \$46,000 for the three months ended December 31, 2020 and 2019, respectively, a portion of which is eliminated in consolidation.

Energy Services' portfolio of financial derivative instruments are composed of:

	Three Months Ended December 31,	
<i>(in Bcf)</i>	2020	2019
Net short futures contracts	26.5	38.4

Operating Revenues and Natural Gas Purchases

Operating revenues decreased \$140.9 million and natural gas purchases decreased \$143.9 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to increased natural gas price volatility compared to the prior period.

Future results at Energy Services 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 warmer temperatures, and reduced volatility can negatively impact Energy Services' 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 decreased \$722,000 during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to decreased compensation costs.

Income Tax Provision

Income tax provision increased \$1.4 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to increased operating income.

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

Net Income

Net income increased \$2.8 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, respectively, due primarily to increased operating income related to increased natural gas price volatility and lower O&M expenses, as previously discussed.

Non-GAAP Financial Measures

Management uses financial margin and NFE, non-GAAP financial measures, when evaluating the operating results of Energy Services. Financial margin and NFE are based on removing timing differences associated with certain derivative instruments. GAAP also 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 Energy Services, as the adjustment primarily relates to timing differences associated with certain derivative instruments which impacts the estimate of the annual effective tax rate for NFE. No adjustment is needed during the fourth quarter, since the actual effective tax rate is calculated at year end. Accordingly, for NFE purposes, the annual estimated effective tax rate is 16.3 percent for fiscal 2021 and 17.9 percent for fiscal 2020.

Management views these measures as representative of the overall expected economic result and uses these measures to compare Energy Services' 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, Energy Services' 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 Energy Services 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 natural gas flows.

Financial Margin

The following table is a computation of Energy Services' financial margin:

(Thousands)	Three Months Ended December 31,	
	2020	2019
Operating revenues ⁽¹⁾	\$ 229,477	\$ 370,415
Less: Natural gas purchases	173,837	317,724
Add:		
Unrealized gain on derivative instruments and related transactions	(38,781)	(42,194)
Effects of economic hedging related to natural gas inventory ⁽²⁾	(7,532)	(8,887)
Financial margin	\$ 9,327	\$ 1,610

(1) Includes unrealized losses related to an intercompany transaction between NJNG and Energy Services that have been eliminated in consolidation of approximately \$1.3 million and \$428,000 for the three months ended December 31, 2020 and 2019, respectively.

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

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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 Energy Services' financial margin is as follows:

(Thousands)	Three Months Ended December 31,	
	2020	2019
Operating income	\$ 51,582	\$ 47,924
Add:		
Operation and maintenance	4,016	4,738
Depreciation and amortization	42	29
Subtotal	55,640	52,691
Add:		
Unrealized gain on derivative instruments and related transactions	(38,781)	(42,194)
Effects of economic hedging related to natural gas inventory	(7,532)	(8,887)
Financial margin	\$ 9,327	\$ 1,610

Financial margin increased \$7.7 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to increased pricing spreads and volumes as compared to the prior period.

Net Financial Earnings

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

(Thousands)	Three Months Ended December 31,	
	2020	2019
Net income	\$ 38,872	\$ 36,025
Add:		
Unrealized gain on derivative instruments and related transactions	(38,781)	(42,194)
Tax effect ⁽¹⁾	9,219	10,033
Effects of economic hedging related to natural gas inventory	(7,532)	(8,887)
Tax effect	1,790	2,112
Net income to NFE tax adjustment	(2,068)	(2,211)
Net financial earnings (loss)	\$ 1,500	\$ (5,122)

(1) Includes taxes related to an intercompany transaction between NJNG and Energy Services that have been eliminated in consolidation of approximately \$(306,000) and \$(102,000) for the three months ended December 31, 2020 and 2019, respectively.

NFE increased \$6.6 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to higher financial margin, as previously discussed.

Future results are subject to Energy Services' 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.

Storage and Transportation Segment

Overview

Our Storage and Transportation segment invests in natural gas assets, such as natural gas transportation and storage facilities. We believe that acquiring, owning and developing these storage and transportation assets, which operate under a tariff structure that has either regulated or market-based rates, can provide us a growth opportunity. Our Storage and Transportation segment is subject to various risks, including the construction, development and operation of our transportation and storage assets, obtaining necessary governmental, environmental and regulatory approvals, our ability to obtain necessary property rights and our ability to obtain financing at reasonable costs for the constructions and maintenance of our assets. In addition, our storage and transportation assets may be subject to risk associated with the COVID-19 pandemic, such as disruption to the

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

supply chain and availability of critical equipment and supplies, disruptions to the availability of our specialized workforce and contractors and changes to demand for natural gas, transportation and other downstream activities.

Our Storage and Transportation segment is comprised of 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. NJR Pipeline Company acquired 100 percent of Leaf River for \$367.5 million, on October 11, 2019. Leaf River owns and operates a 32.2 million Dth salt dome natural gas storage facility that operates under market-based rates. In addition, on January 13, 2020, Adelphia Gateway, acquired all of Talen's membership interests in IEC, an existing 84-mile pipeline in southeastern Pennsylvania, including related assets and rights of way, for a base purchase price of \$166.0 million. Adelphia Gateway operates under cost of service rates but can enter into negotiated rates with counterparties. The northern portion of the pipeline was operational upon acquisition and it currently serves two natural gas generation facilities. On October 5, 2020, we received a partial Notice to Proceed with construction from FERC and have begun the conversion of the southern zone of the pipeline to natural gas.

Through our subsidiary NJR Pipeline Company, we are a 20 percent investor in PennEast, a partnership whose purpose is to construct and operate a 120-mile natural gas pipeline that will extend from northeast Pennsylvania to western New Jersey. PennEast received a Certificate of Public Convenience and Necessity for the project from FERC on January 19, 2018.

On September 10, 2019, the Third Circuit issued an order overturning the U.S. District Court for the District of New Jersey's order granting PennEast condemnation and immediate access in accordance with the Natural Gas Act to certain properties in which the State of New Jersey holds an interest. A Petition for Rehearing was denied by the Third Circuit on November 5, 2019.

On October 8, 2019, the NJDEP issued a letter indicating that it deemed PennEast's freshwater wetlands permit application to be administratively incomplete and closed the matter without prejudice. On October 11, 2019, PennEast submitted a letter to the NJDEP objecting to its position that the application is administratively incomplete. PennEast's objections were rejected by the NJDEP on November 18, 2019.

On October 4, 2019, PennEast filed a petition for Declaratory Order with FERC requesting an interpretation of the eminent domain authority of a FERC certificate holder under the Natural Gas Act. The Declaratory Order was granted on January 30, 2020.

On January 30, 2020, PennEast filed an amendment with FERC to construct the PennEast pipeline in two phases. Phase one consists of construction of a 68-mile pipeline in Pennsylvania from the eastern Marcellus Shale region in Luzerne County that would end in Northampton County. Phase two includes construction of the remaining original certificated route in Pennsylvania and New Jersey. Construction is expected to begin following approval by FERC of the phased approach and receipt of any remaining governmental and regulatory permits.

On February 18, 2020, PennEast filed a writ of certiorari with the Supreme Court of the United States to review the September 10, 2019 Third Circuit decision.

On June 29, 2020, the Supreme Court requested that the Solicitor General of the United States file a brief that expresses the views on the question of the use of eminent domain to acquire state owned lands for pipeline construction. The Solicitor General filed its brief with the Supreme Court on December 9, 2020.

The state of New Jersey filed a brief with the Supreme Court on December 23, 2020 in response to the brief of the Solicitor General.

On February 3, 2021, the Supreme Court granted the petition for a writ of certiorari. The matter is expected to be argued before the Supreme Court in April 2021.

We evaluated our investment in PennEast for an other-than-temporary impairment and determined an impairment charge was not necessary. It is reasonably possible that future unfavorable developments, such as a reduced likelihood of success from development options and legal outcomes, estimated increases in construction costs, increases in the discount rate, or further significant delays, could result in an impairment of our equity method investment. Also, the use of alternate judgments and assumptions could result in a different calculation of fair value, which could ultimately result in the recognition of an impairment charge in the Unaudited Condensed Consolidated Financial Statements.

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

Due to the expiration of a customer contract for Steckman Ridge, we evaluated our investment in Steckman Ridge for other-than-temporary impairment and determined an impairment charge was not necessary.

The fair value of our investment in Steckman Ridge was determined using a discounted cash flow method and utilized management's best estimates and assumptions related to expected future results, including the price and capacity of firm natural gas storage contracting, operations and maintenance costs, the nature and timing of major maintenance and capital investment, and discount rates. Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and other factors. As a result, it is reasonably possible that unfavorable developments, such as the failure to execute storage contracts and other services for available capacity at anticipated price levels could result in an other-than temporary impairment charge in the Unaudited Condensed Consolidated Financial Statements.

As of December 31, 2020, our investments in Steckman Ridge and PennEast were \$110.9 million and \$100.7 million, respectively.

Operating Results

The financial results of our Storage and Transportation segment are summarized as follows:

(Thousands)	Three Months Ended December 31,	
	2020	2019
Operating revenues ⁽¹⁾	\$ 13,104	\$ 9,072
Operating expenses		
Natural gas purchases	233	346
Operation and maintenance	6,542	4,878
Depreciation and amortization	2,640	1,681
Total operating expenses	9,415	6,905
Operating income	3,689	2,167
Other income, net	1,254	697
Interest expense, net	3,982	2,822
Income tax provision	646	702
Equity in earnings of affiliates	3,193	3,664
Net income	\$ 3,508	\$ 3,004

(1) Includes related party transactions of approximately \$657,000 for both the three months ended December 31, 2020 and 2019, which are eliminated in consolidation.

Operating Revenues

Operating revenues increased \$4 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due to increased operating revenues at Leaf River and Adelphia Gateway that were not present in the prior period.

Equity in earnings of affiliates decreased \$471,000 during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to decreases in storage revenue at Steckman Ridge.

Operation and Maintenance Expense

O&M expense increased \$1.7 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to operations of Adelphia Gateway and increases at Leaf River.

Depreciation Expense

Depreciation expense increased \$1 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to operations of Adelphia Gateway during the three months ended December 31, 2020 that were not present in the prior period.

Interest Expense

Interest expense increased \$1.2 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to increased debt service requirements related to the acquisition of Leaf River and Adelphia Gateway.

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

Net Income

Net income increased \$504,000 during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to increased operating revenue, partially offset by increased O&M and interest expense, as previously discussed.

Home Services and Other Operations

Overview

The financial results of Home Services and Other consist primarily of the operating results of NJRHS. NJRHS provides service, sales and installation of appliances to service contract customers and has been focused on growing its installation business and expanding its service contract customer base. Home Services and Other also includes organizational expenses incurred at NJR and rental income at CR&R.

Operating Results

The condensed financial results of Home Services and Other are summarized as follows:

(Thousands)	Three Months Ended December 31,	
	2020	2019
Operating revenues	\$ 12,577	\$ 12,907
Operation and maintenance	\$ 10,321	\$ 10,533
Income tax provision	\$ 118	\$ 219
Net (loss) income	\$ (62)	\$ 1,109

Operating Revenues

Operating revenues decreased \$330,000 during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to decreased installation revenue at NJRHS.

Net (Loss) Income

Net income decreased \$1.2 million during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, due primarily to decreased operating revenues along with increased interest expense.

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:

	December 31, 2020		September 30, 2020	
Common stock equity	41	%	43	%
Long-term debt	55		53	
Short-term debt	4		4	
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. NJR raised approximately \$3.9 million and \$3.6 million of equity through the DRP by issuing approximately 140,000 and 80,000 shares of treasury stock, during the three months ended December 31, 2020 and 2019, respectively. There

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were no shares of common stock issued through the waiver discount feature of the DRP during the three months ended December 31, 2020 and 2019.

On December 4, 2019, we completed an equity offering of 6,545,454 common shares, consisting of 5,333,334 common shares issued directly by NJR and 1,212,120 common shares issuable pursuant to forward sales agreements with investment banks. The issuance of 5,333,334 common shares resulted in proceeds of approximately \$212.9 million, net of issuance costs, and was reflected in shareholders' equity and as a financing activity on the statement of cash flows.

Under the forward sale agreements, a total of 1,212,120 common shares were borrowed from third parties and sold to the underwriters. Each forward sale agreement allows us, at our election and prior to September 30, 2020, to physically settle the forward sale agreements by issuing common shares in exchange for net proceeds at the then-applicable forward sale price specified by the agreement, which was initially \$40.0125 per share, or, alternatively, to settle the forward sale agreements in whole or in part through the delivery or receipt of shares or cash. The forward sale price is subject to adjustment daily based on a floating interest rate factor and will decrease with respect to certain fixed amounts specified in the agreements, such as dividends.

On September 18, 2020, the Company amended our forward sale agreements to extend the maturity date of such forward sales agreements from September 30, 2020 to September 10, 2021. As of December 31, 2020, if we had elected to net settle the forward sale agreements, we would have received \$4.5 million under a cash settlement or 136,619 common shares under a net share settlement.

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 December 31, 2020, we had repurchased a total of approximately 17.1 million of those shares and may repurchase an additional 2.4 million shares under the approved program. There were no shares repurchased during the three months ended December 31, 2020 and 2019.

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 working capital, capital expenditures and dividend requirements for the next 12 months. NJR, NJNG, Clean Energy Ventures, Storage and Transportation and Energy Services 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 and meter or solar asset sale leasebacks.

We believe that as of December 31, 2020, NJR and NJNG were, and currently are, in compliance with all existing debt covenants, both financial and non-financial.

As a result of the COVID-19 pandemic there have been disruptions, uncertainty and volatility in the credit and capital markets. Our ability to access funds from financial institutions at a reasonable cost may impact the nature and timing of future capital market transactions.

Short-Term Debt

We use our short-term borrowings primarily to finance Energy Services' short-term liquidity needs, Storage and Transportation investments and PennEast contributions, share repurchases and, on an initial basis, Clean Energy Ventures' investments. Energy Services' 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 December 31, 2020, NJR had revolving credit facilities totaling \$425 million, with \$294.7 million available under the facilities.

NJNG satisfies its debt needs by issuing short-term 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

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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 December 31, 2020, 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 \$234.9 million.

Short-term borrowings were as follows:

<i>(Thousands)</i>	Three Months Ended December 31, 2020
<u>NJR</u>	
Notes Payable to banks:	
Balance at end of period	\$ 120,000
Weighted average interest rate at end of period	0.93 %
Average balance for the period	\$ 105,926
Weighted average interest rate for average balance	1.05 %
Month end maximum for the period	\$ 120,000
<u>NJNG</u>	
Commercial Paper and Notes Payable to banks:	
Balance at end of period	\$ 14,350
Weighted average interest rate at end of period	0.08 %
Average balance for the period	\$ 1,435
Weighted average interest rate for average balance	.77 %
Month end maximum for the period	\$ 14,350

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 the November through January time frame.

NJR

Based on its average borrowings during the three months ended December 31, 2020, NJR's average interest rate was 1.05 percent, resulting in interest expense of approximately \$281,000.

As of December 31, 2020, NJR had seven letters of credit outstanding totaling \$10.3 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

As noted above, based on its average borrowings during the three months ended December 31, 2020, NJNG's average interest rate was 0.77 percent. NJNG's interest expense was immaterial for the three months ended December 31, 2020.

As of December 31, 2020, 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.

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Short-Term Debt Covenants

Borrowings under the NJR Credit Facilities 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 December 31, 2020, NJR had the following outstanding:

- \$50 million of 3.25 percent senior notes due September 17, 2022;
- \$50 million of 3.20 percent senior notes due August 18, 2023;
- \$100 million of 3.48 percent senior notes due November 7, 2024;
- \$100 million of 3.54 percent senior notes due August 18, 2026;
- \$100 million of 3.96 percent senior notes due June 8, 2028;
- \$150 million of 3.29 percent senior notes due July 17, 2029;
- \$130 million of 3.50 percent senior notes due July 23, 2030;
- \$120 million of 3.13 percent senior notes due September 1, 2031;
- \$130 million of 3.60 percent senior notes due July 23, 2032; and
- \$80 million of 3.25 percent senior notes due September 1, 2033.

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

NJNG

As of December 31, 2020, NJNG's long-term debt consisted of \$1.1 billion in fixed-rate debt issuances secured by the Mortgage Indenture, with maturities ranging from 2024 to 2060, and \$59.3 million in finance leases with various maturities ranging from 2021 to 2026.

NJR is not obligated directly or contingently with respect to NJNG's fixed-rate debt issuances.

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

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

NJNG received \$4.0 million in December 2019, 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 certain outstanding meter leases by making final principal payments of \$1.2 million during the three months ended December 31, 2019. There were no natural gas meter sale leasebacks recorded during the three months ended December 31, 2020.

Clean Energy Ventures

Clean Energy Ventures enters into transactions to sell the commercial solar assets concurrent with agreements to lease the assets back over a period of five to 15 years. These transactions are considered failed sale leasebacks for accounting purposes and are therefore treated as financing obligations, which are typically secured by the renewable energy facility asset and its future cash flows from SREC and energy sales. ITCs and other tax benefits associated with these solar projects are transferred to the buyer, if applicable. Clean Energy Ventures continues to operate the solar assets, including related expenses, and retain the revenue generated from SRECs and energy sales, and has the option to renew the lease or repurchase the assets sold at the end of the lease term. In December 2020, Clean Energy Ventures received proceeds of \$12.1 million in connection with the sale

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leaseback of two commercial solar projects. Clean Energy Ventures did not receive proceeds related to the sale leaseback of commercial solar assets during the three months ended December 31, 2019.

Contractual Obligations

NJNG's total capital expenditures are projected to be between \$434 million and \$452 million during fiscal 2021. Total capital expenditures spent or accrued during the three months ended December 31, 2020, were \$83.9 million. NJNG expects to fund its obligations with a combination of cash flows 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 December 31, 2020, NJNG's future MGP expenditures are estimated to be \$148.0 million. For a more detailed description of MGP expenditures see *Note 13. 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.

Clean Energy Ventures' expenditures include clean energy projects that support our goal to promote renewable energy. Accordingly, Clean Energy Ventures enters into agreements to install solar equipment involving both residential and commercial projects. During the three months ended December 31, 2020, total capital expenditures spent or accrued related to the purchase and installation of solar equipment were \$26.1 million. We estimate solar-related capital expenditures for projects during fiscal 2021 to be between \$162 million and \$168 million.

During the three months ended December 31, 2020, our Storage and Transportation segment had capital expenditures for the Adelphia Gateway project totaling \$7.8 million and capital expenditures for Leaf River totaling \$345,000. During fiscal 2021, we expect expenditures related to the Adelphia Gateway project to be between \$136 million and \$156 million and expenditures related to Leaf River to be between \$12 million and \$32 million.

Energy Services does not currently anticipate any significant capital expenditures during fiscal 2021 and 2022.

On December 16, 2020, Energy Services entered into a series of asset management agreements with an investment grade public utility to release pipeline capacity associated with certain natural gas transportation contracts. The utility will provide certain asset management services and Energy Services may deliver natural gas to the utility in exchange for aggregate net proceeds of approximately \$500 million, payable through November 1, 2030. The asset management agreements include a series of initial and permanent releases commencing on November 1, 2021. NJR will receive approximately \$260 million in cash from fiscal 2022 through fiscal 2024 and \$34 million per year from fiscal 2025 through fiscal 2031 under the agreements.

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, 2020.

Off-Balance-Sheet Arrangements

As of December 31, 2020, our off-balance-sheet arrangements consist of guarantees covering approximately \$235.5 million of natural gas purchases, SREC sales and demand fee commitments and outstanding letters of credit totaling \$11.0 million.

Cash Flows

Operating Activities

Cash flows from operating activities during the three months ended December 31, 2020, totaled \$31.7 million compared with cash flows used in operating activities of \$43.1 million during the three months ended December 31, 2019. 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;

New Jersey Resources Corporation

Part I

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

- the deferral and recovery of natural 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 \$74.8 million in cash flows from operating activities during the three months ended December 31, 2020, compared with the three months ended December 31, 2019, was due primarily to decreased working capital.

Investing Activities

Cash flows used in investing activities totaled \$108.8 million during the three months ended December 31, 2020, compared with \$494.2 million during the three months ended December 31, 2019. The decrease of \$385.4 million was due primarily to the acquisition of Leaf River in the prior period that did not recur.

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 natural gas management and marketing activities at Energy Services and clean energy investments at Clean Energy Ventures.

Cash flows used in financing activities totaled \$17.6 million during the three months ended December 31, 2020, compared with cash flows from financing activities of \$551.4 million during the three months ended December 31, 2019. The decrease of \$569.0 million is due primarily to increased short-term debt activity at NJR in the prior period that did not recur primarily related to the acquisition of Leaf River, partially offset by proceeds of \$12.1 million from solar sale leasebacks at Clean Energy Ventures.

Credit Ratings

The table below summarizes NJNG's credit ratings as of December 31, 2020, issued by two rating entities, Moody's and Fitch:

	Moody's	Fitch
Corporate Rating	N/A	A-
Commercial Paper	P-2	F-2
Senior Secured	A1	A+
Ratings Outlook	Stable	Stable

The Fitch ratings and outlook were reaffirmed on March 18, 2020. NJNG's Moody's and Fitch ratings are investment-grade ratings. NJR is not a rated entity.

On March 18, 2020, Moody's revised NJNG's secured rating from Aa3 to A1 and its commercial paper rating from P-1 to P-2 resulting from higher debt levels to fund NJNG's elevated capital program. The outlook was increased to stable from negative. This action does not currently affect any of NJNG's long-term borrowing rates or credit facility pricing.

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

New Jersey Resources Corporation
Part I

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

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.

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 unregulated 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. Energy Services 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:

	Balance September 30, 2020	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance December 31, 2020
<i>(Thousands)</i>				
Natural Gas Distribution	\$ (211)	(927)	(1,287)	\$ 149
Energy Services	4,397	21,181	8,592	16,986
Total	\$ 4,186	20,254	7,305	\$ 17,135

There were no changes in methods of valuations during the three months ended December 31, 2020.

The following is a summary of fair market value of financial derivatives at December 31, 2020, excluding foreign exchange contracts discussed below, by method of valuation and by maturity for each fiscal year period:

	2021	2022	2023 - 2025	After 2025	Total Fair Value
<i>(Thousands)</i>					
Price based on NYMEX/CME	\$ 446	55	15	—	\$ 516
Price based on ICE	16,155	683	(219)	—	16,619
Total	\$ 16,601	738	(204)	—	\$ 17,135

The following is a summary of financial derivatives by type as of December 31, 2020:

	Volume Bcf	Price per MMBtu ⁽¹⁾	Amounts included in Derivatives (Thousands)
Natural Gas Distribution	Futures 24.0	\$2.24 - \$3.54	\$ 149
Energy Services	Futures (25.3)	\$1.57 - \$6.34	16,470
	Swaps (1.2)	\$2.72 - \$3.20	516
Total			\$ 17,135

⁽¹⁾ Million British thermal unit

New Jersey Resources Corporation
Part I

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

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

<i>(Thousands)</i>	Balance September 30, 2020	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance December 31, 2020
Natural Gas Distribution - Prices based on other external data	\$ 2	(171)	6	\$ (175)
Energy Services - Prices based on other external data	(24,723)	(274)	(3,089)	(21,908)
Total	\$ (24,721)	(445)	(3,083)	\$ (22,083)

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 \$5.9 million. This analysis does not include potential changes to reported credit adjustments embedded in the \$9.7 million reported fair value.

Derivative Fair Value Sensitivity Analysis

<i>(Thousands)</i>	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	\$ —	\$ (2,966)	\$ (5,932)	\$ (8,898)	\$ (11,863)
Ending derivative fair value	\$ 9,712	\$ 6,746	\$ 3,780	\$ 814	\$ (2,151)
Percent decrease in NYMEX natural gas futures prices	0%	(5)%	(10)%	(15)%	(20)%
Estimated change in derivative fair value	\$ —	\$ 2,966	\$ 5,932	\$ 8,898	\$ 11,863
Ending derivative fair value	\$ 9,712	\$ 12,678	\$ 15,644	\$ 18,610	\$ 21,575

Wholesale Credit Risk

The following is a summary of gross and net credit exposures, grouped by investment and non-investment grade counterparties, as of December 31, 2020. Gross credit exposure for Energy Services 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. Gross credit exposure for Storage and Transportation is defined as demand and estimated usage fees for contracted services and/or market value of loan balances 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.

Energy Services', Clean Energy Ventures' and Storage and Transportation's counterparty credit exposure as of December 31, 2020, is as follows:

<i>(Thousands)</i>	Gross Credit Exposure	Net Credit Exposure
Investment grade	\$ 149,474	\$ 133,115
Noninvestment grade	16,282	6,566
Internally rated investment grade	25,971	19,358
Internally rated noninvestment grade	23,240	14,717
Total	\$ 214,967	\$ 173,756

NJNG's counterparty credit exposure as of December 31, 2020, is as follows:

<i>(Thousands)</i>	Gross Credit Exposure	Net Credit Exposure
Investment grade	\$ 10,067	\$ 9,334
Noninvestment grade	200	—
Internally rated investment grade	393	212
Internally rated noninvestment grade	1,303	160
Total	\$ 11,963	\$ 9,706

New Jersey Resources Corporation
Part I

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

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.

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.

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, 2020.

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 December 31, 2020, that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

New Jersey Resources Corporation
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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, 2020, and is set forth in *Part I, Item 1, Note 13. Commitments and Contingent Liabilities-Legal Proceedings* on the Unaudited Condensed Consolidated Financial Statements, which is incorporated by reference. No legal proceedings became reportable during the quarter ended December 31, 2020, 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 2020 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 2020 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 December 31, 2020:

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
10/01/20 - 10/31/20	—	\$ —	—	2,431,053
11/01/20 - 11/30/20	—	—	—	2,431,053
12/01/20 - 12/31/20	—	—	—	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 December 31, 2020, 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.

New Jersey Resources Corporation
Part II

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
10.1	FY 2021 Performance Share Units Agreement (TSR) (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, as filed on November 13, 2020)
10.2	FY 2021 Performance Share Units Agreement (NFE) (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, as filed on November 13, 2020)
10.3	FY 2021 Restricted Stock Units Agreement (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K, as filed on November 13, 2020)
10.4	FY 2021 Performance-based Restricted Stock Units Agreement (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K, as filed on November 13, 2020)
18.1+	Deloitte & Touche LLP letter, dated February 4, 2021, related to financial information
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 December 31, 2020, furnished in iXBRL (Inline eXtensible Business Reporting Language))
104+	Cover Page Interactive Data File included in Exhibit 101

+ 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.

New Jersey Resources Corporation
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SIGNATURES

Pursuant to the requirements 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: February 4, 2021

By: /s/ Patrick Migliaccio

Patrick Migliaccio
Senior Vice President and
Chief Financial Officer

PREFERABILITY LETTER FROM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

February 4, 2021

New Jersey Resources Corporation
1415 Wyckoff Road
Wall, NJ 07719

Dear Sirs/Madams:

At your request, we have read the description included in your Quarterly Report on Form 10-Q to the Securities and Exchange Commission for the quarter ended December 31, 2020, of the facts relating to a change in accounting principle for investment tax credits from the flow-through method to the deferral method, the effects of which are presented in Footnote 2 to the financial statements. We believe, on the basis of the facts so set forth and other information furnished to us by appropriate officials of New Jersey Resources Corporation (the "Company"), that the accounting change described in your Form 10-Q is an alternative accounting principle that is preferable under the circumstances.

We have not audited any consolidated financial statements of the Company and its subsidiaries as of any date or for any period subsequent to September 30, 2020. Therefore, we are unable to express, and we do not express, an opinion on the facts set forth in the above-mentioned Form 10-Q, on the related information furnished to us by officials of the Company, or on the financial position, results of operations, or cash flows of the Company and its subsidiaries as of any date or for any period subsequent to September 30, 2020.

Yours truly,

/s/ Deloitte & Touche LLP

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

I, Stephen D. Westhoven, 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 the 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: February 4, 2021

By: /s/ Stephen D. Westhoven
Stephen D. Westhoven
President and Chief Executive Officer

**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 the 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: February 4, 2021

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, Stephen D. Westhoven 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 December 31, 2020, 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: February 4, 2021

By: /s/ Stephen D. Westhoven

Stephen D. Westhoven

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 December 31, 2020, 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: February 4, 2021

By: /s/ Patrick Migliaccio

Patrick Migliaccio

Senior Vice President and Chief Financial Officer