
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 June 30, 2022

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 August 1, 2022 was 96,228,378.

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
AMA	Asset Management Agreement
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bcf	Billion Cubic Feet
BGSS	Basic Gas Supply Service
BPU	New Jersey Board of Public Utilities
CIP	Conservation Incentive Program
Clean Energy Ventures	Clean Energy Ventures segment
CME	Chicago Mercantile Exchange
COVID-19	Novel coronavirus disease
CR&R	Commercial Realty & Resources Corp.
DRP	NJR Direct Stock Purchase and Dividend Reinvestment Plan
EE	Energy Efficiency
Energy Services	Energy Services segment
Exchange Act	Securities Exchange Act of 1934, as amended
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 certain operations and maintenance expense and depreciation and amortization, as well as 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
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
MMBtu	Million British Thermal Units
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 Distribution	Natural Gas Distribution segment
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	The \$250 million unsecured committed credit facility expiring in September 2026
NJR Credit Facility	The \$500 million unsecured committed credit facility expiring in September 2026
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
OCI	Other Comprehensive Income
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
SAFE II	Safety Acceleration and Facility Enhancement Program, Phase II
SAVEGREEN	The SAVEGREEN Project®
SBC	Societal Benefits Charge
SOFR	A rate equal to the secured overnight financing rate as administered by the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate)
SREC	Solar Renewable Energy Certificate
Steckman Ridge	Collectively, Steckman Ridge GP, LLC and Steckman Ridge, LP
Storage and Transportation	Storage and Transportation segment
TETCO	Texas Eastern Transmission
TREC	Transition Renewable Energy Certificate
Trustee	U.S. Bank National Association
U.S.	The United States of America
USF	Universal Service Fund
Utility Gross Margin	A non-GAAP financial measure, which represents operating revenues less natural gas purchases, sales tax, and regulatory rider expense, and excludes certain operations and maintenance expense and depreciation and amortization

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 Exchange Act 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 2022 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, 2021, as well as the following:

- risks related to the impact of COVID-19, including the rise of COVID-19 mutations that have resulted in increased rates of reported cases, as well as impacts on business operations, supply chain, financial performance and condition and cash flows;
- impacts of inflation, including the current inflationary environment, and increased natural gas costs;
- 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 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 RECs and electricity prices, our ability to complete construction of the projects 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;
- 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;
- 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, including the risks, political and economic disruption and uncertainty related to Russia’s recent military invasion of Ukraine, and the international community’s responses;
- 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, including those changes in weather and weather patterns that could be attributable to climate change;
- 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		Nine Months Ended	
	June 30,		June 30,	
<i>(Thousands, except per share data)</i>	2022	2021	2022	2021
OPERATING REVENUES				
Utility	\$ 199,357	\$ 127,626	\$ 937,266	\$ 633,522
Nonutility	352,978	239,967	1,203,227	990,563
Total operating revenues	552,335	367,593	2,140,493	1,624,085
OPERATING EXPENSES				
Natural gas purchases:				
Utility	100,277	41,785	435,438	211,165
Nonutility	290,806	236,464	980,135	740,199
Related parties	1,838	1,699	5,567	5,163
Operation and maintenance	88,373	81,878	243,143	265,779
Regulatory rider expenses	8,360	5,456	55,941	34,570
Depreciation and amortization	32,872	27,767	94,700	81,977
Total operating expenses	522,526	395,049	1,814,924	1,338,853
OPERATING INCOME (LOSS)	29,809	(27,456)	325,569	285,232
Other income, net	4,288	4,817	12,551	13,941
Interest expense, net of capitalized interest	21,411	18,744	59,814	58,683
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	12,686	(41,383)	278,306	240,490
Income tax provision (benefit)	4,434	(18,785)	64,051	37,713
Equity in earnings (loss) of affiliates	4,801	(89,233)	6,145	(83,754)
NET INCOME (LOSS)	\$ 13,053	\$ (111,831)	\$ 220,400	\$ 119,023
EARNINGS (LOSS) PER COMMON SHARE				
Basic	\$0.14	\$(1.16)	\$2.29	\$1.24
Diluted	\$0.14	\$(1.16)	\$2.28	\$1.23
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	96,154	96,348	96,055	96,237
Diluted	96,620	96,348	96,527	96,629

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
<i>(Thousands)</i>	2022	2021	2022	2021
Net income (loss)	\$ 13,053	\$ (111,831)	\$ 220,400	\$ 119,023
Other comprehensive income, net of tax				
Reclassifications of losses to net income on derivatives designated as hedging instruments, net of tax of \$(79), \$(79), \$(238) and \$(270), respectively	262	264	789	758
Adjustment to postemployment benefit obligation, net of tax of \$(232), \$(245), \$(697) and \$(734), respectively	768	812	2,302	2,437
Other comprehensive income	\$ 1,030	\$ 1,076	\$ 3,091	\$ 3,195
Comprehensive income (loss)	\$ 14,083	\$ (110,755)	\$ 223,491	\$ 122,218

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)

	Nine Months Ended June 30,	
<i>(Thousands)</i>	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 220,400	\$ 119,023
Adjustments to reconcile net income to cash flows from operating activities		
Unrealized (gain) loss on derivative instruments	(58,060)	13,627
Impairment of equity method investment	—	92,000
Depreciation and amortization	94,700	81,977
Amortization of acquired wholesale energy contracts	2,016	4,000
Allowance for equity used during construction	(9,197)	(16,820)
Allowance for doubtful accounts	1,768	15,288
Non cash lease expense	3,720	3,048
Deferred income taxes	37,547	4,816
Equivalent value of ITCs recognized on equipment financing	(1,060)	—
Manufactured gas plant remediation costs	(16,341)	(23,775)
Equity in earnings, net of distributions received from equity investees	—	(3,469)
Cost of removal - asset retirement obligations	(847)	(768)
Contributions to postemployment benefit plans	(2,702)	(2,347)
Taxes related to stock-based compensation	(164)	(149)
Changes in:		
Components of working capital	(97,572)	(9,805)
Other noncurrent assets	(7,639)	53,430
Other noncurrent liabilities	69,308	11,720
Cash flows from operating activities	235,877	341,796
CASH FLOWS USED IN INVESTING ACTIVITIES		
Expenditures for:		
Utility plant	(177,559)	(289,205)
Solar equipment	(105,504)	(51,545)
Storage and Transportation and other	(130,170)	(51,241)
Cost of removal	(27,881)	(37,922)
Distribution from equity investees in excess of equity in earnings	690	733
Investments in equity investees, net of return of capital	5,479	(690)
Cash flows used in investing activities	(434,945)	(429,870)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Proceeds from long-term debt	310,000	—
Payments of long-term debt	(14,223)	(10,463)
Proceeds from term loan	150,000	—
(Payments of) proceeds from short-term debt, net	(156,950)	50,950
Proceeds from sale leaseback transactions - solar	3,300	17,673
Proceeds from sale leaseback transactions	17,300	—
Payments of common stock dividends	(95,691)	(90,377)
Cash settlement of equity forward agreement	—	(2,823)
Proceeds from issuance of common stock - DRP	11,076	11,520
Tax withholding payments related to net settled stock compensation	(3,794)	(1,819)
Cash flows from (used in) financing activities	221,018	(25,339)
Change in cash, cash equivalents and restricted cash	21,950	(113,413)
Cash, cash equivalents and restricted cash at beginning of period	6,043	119,423
Cash, cash equivalents and restricted cash at end of period	\$ 27,993	\$ 6,010
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$ (61,836)	\$ (75,730)
Inventories	(12,672)	42,639
Recovery of natural gas costs	3,772	(19,208)
Natural gas purchases payable	33,362	20,073
Natural gas purchases payable - related parties	(6)	72
Deferred revenue	44,304	(798)
Accounts payable and other	(70,194)	13,453
Prepaid expenses	(1,219)	(3,624)
Prepaid and accrued taxes	18,770	(7,236)
Restricted broker margin accounts	(47,643)	25,308
Customers' credit balances and deposits	(10,370)	(3,235)
Other current assets	6,160	(1,519)
Total	\$ (97,572)	\$ (9,805)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for:		
Interest (net of amounts capitalized)	\$ 65,385	\$ 66,322
Income taxes	\$ 3,763	\$ 5,357
Accrued capital expenditures	\$ 40,833	\$ 36,988

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

<i>(Thousands)</i>	(Unaudited) June 30, 2022	September 30, 2021
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 3,512,796	\$ 3,324,611
Construction work in progress	152,894	182,196
Nonutility plant and equipment, at cost	1,271,786	1,124,896
Construction work in progress	447,964	365,346
Total property, plant and equipment	5,385,440	4,997,049
Accumulated depreciation and amortization, utility plant	(648,817)	(611,827)
Accumulated depreciation and amortization, nonutility plant and equipment	(196,002)	(171,709)
Property, plant and equipment, net	4,540,621	4,213,513
CURRENT ASSETS		
Cash and cash equivalents	27,693	4,749
Customer accounts receivable		
Billed	268,043	212,838
Unbilled revenues	15,032	10,351
Allowance for doubtful accounts	(22,612)	(24,652)
Regulatory assets	42,320	30,118
Natural gas in storage, at average cost	203,438	193,606
Materials and supplies, at average cost	22,401	19,561
Prepaid expenses	9,385	8,166
Prepaid and accrued taxes	36,076	51,211
Derivatives, at fair value	20,278	35,251
Restricted broker margin accounts	96,085	72,840
Other current assets	21,943	20,235
Total current assets	740,082	634,274
NONCURRENT ASSETS		
Investments in equity method investees	108,253	114,529
Regulatory assets	529,556	522,099
Operating lease assets	169,884	173,928
Derivatives, at fair value	6,472	3,403
Intangible assets, net	2,893	5,029
Software costs	5,909	5,582
Other noncurrent assets	58,251	49,921
Total noncurrent assets	881,218	874,491
Total assets	\$ 6,161,921	\$ 5,722,278

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

CAPITALIZATION AND LIABILITIES

	(Unaudited)	
<i>(Thousands, except share data)</i>	June 30, 2022	September 30, 2021
CAPITALIZATION		
Common stock, \$2.50 par value; authorized 150,000,000 shares; outstanding June 30, 2022 — 96,160,232; September 30, 2021 — 95,709,662	\$ 241,596	\$ 240,644
Premium on common stock	518,606	502,584
Accumulated other comprehensive loss, net of tax	(31,437)	(34,528)
Treasury stock at cost and other; shares June 30, 2022 — 692,472; September 30, 2021 — 762,313	(10,620)	(12,448)
Retained earnings	1,050,538	934,610
Common stock equity	1,768,683	1,630,862
Long-term debt	2,524,565	2,162,164
Total capitalization	4,293,248	3,793,026
CURRENT LIABILITIES		
Current maturities of long-term debt	24,708	72,840
Short-term debt	370,350	377,300
Natural gas purchases payable	202,059	168,697
Natural gas purchases payable to related parties	855	861
Deferred revenue	46,049	1,745
Accounts payable and other	129,431	223,497
Dividends payable	34,858	34,768
Accrued taxes	6,991	3,356
Regulatory liabilities	50,574	28,007
New Jersey Clean Energy Program	17,648	16,308
Derivatives, at fair value	58,802	87,145
Operating lease liabilities	4,893	4,300
Customers' credit balances and deposits	22,216	32,586
Total current liabilities	969,434	1,051,410
NONCURRENT LIABILITIES		
Deferred income taxes	202,146	163,530
Deferred investment tax credits	2,780	3,010
Deferred revenue	776	847
Derivatives, at fair value	21,369	13,497
Manufactured gas plant remediation	120,587	135,012
Postemployment employee benefit liability	166,633	169,267
Regulatory liabilities	189,876	193,051
Operating lease liabilities	139,289	141,363
Asset retirement obligation	46,972	46,306
Other noncurrent liabilities	8,811	11,959
Total noncurrent liabilities	899,239	877,842
Commitments and contingent liabilities (Note 13)		
Total capitalization and liabilities	\$ 6,161,921	\$ 5,722,278

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, 2021	95,710	\$240,644	\$502,584	\$ (34,528)	\$ (12,448)	\$ 934,610	\$1,630,862
Net income	—	—	—	—	—	111,312	111,312
Other comprehensive income	—	—	—	1,030	—	—	1,030
Common stock issued:							
Incentive compensation plan	147	367	7,135	—	—	—	7,502
Dividend reinvestment plan	105	263	3,415	—	—	—	3,678
Cash dividend declared (\$.3625 per share)	—	—	—	—	—	(34,787)	(34,787)
Treasury stock and other	—	—	—	—	(2,619)	—	(2,619)
Balance at December 31, 2021	95,962	\$241,274	\$513,134	\$ (33,498)	\$ (15,067)	\$1,011,135	\$1,716,978
Net income	—	—	—	—	—	96,035	96,035
Other comprehensive income	—	—	—	1,031	—	—	1,031
Common stock issued:							
Incentive compensation plan	36	91	1,216	—	—	—	1,307
Dividend reinvestment plan	91	228	3,493	—	—	—	3,721
Cash dividend declared (\$.3625 per share)	—	—	—	—	—	(34,827)	(34,827)
Treasury stock and other	(7)	—	—	—	42	—	42
Balance at March 31, 2022	96,082	\$241,593	\$517,843	\$ (32,467)	\$ (15,025)	\$1,072,343	\$1,784,287
Net income	—	—	—	—	—	13,053	13,053
Other comprehensive income	—	—	—	1,030	—	—	1,030
Common stock issued:							
Incentive compensation plan	1	3	53	—	—	—	56
Dividend reinvestment plan ⁽¹⁾	78	—	710	—	2,826	—	3,536
Cash dividend declared (\$.3625 per share)	—	—	—	—	—	(34,858)	(34,858)
Treasury stock and other	(1)	—	—	—	1,579	—	1,579
Balance at June 30, 2022	96,160	\$241,596	\$518,606	\$ (31,437)	\$ (10,620)	\$1,050,538	\$1,768,683

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

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

<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
Net income	—	—	—	—	—	149,809	149,809
Other comprehensive loss	—	—	—	1,076	—	—	1,076
Common stock issued:							
Incentive plan	28	72	1,144	—	—	—	1,216
Dividend reinvestment plan	103	58	3,521	—	—	—	3,579
Common stock offering	—	—	(388)	—	—	—	(388)
Cash dividend declared (\$.3325 per share)	—	—	—	—	—	(32,007)	(32,007)
Treasury stock and other	(8)	—	—	—	334	—	334
Balance at March 31, 2021	96,262	\$240,497	\$497,167	\$ (42,196)	\$ 11,983	\$1,114,382	\$1,821,833
Net loss	—	—	—	—	—	(111,831)	(111,831)
Other comprehensive income	—	—	—	1,076	—	—	1,076
Common stock issued:							
Incentive compensation plan	1	2	57	—	—	—	59
Dividend reinvestment plan	99	76	3,904	—	—	—	3,980
Common stock offering	—	—	(2,435)	—	—	—	(2,435)
Cash dividend declared (\$.3325 per share)	—	—	—	—	—	(32,040)	(32,040)
Treasury stock and other	(1)	—	—	—	1,424	—	1,424
Balance at June 30, 2021	96,361	\$240,575	\$498,693	\$ (41,120)	\$ 13,407	\$ 970,511	\$1,682,066

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF THE BUSINESS

The Company provides regulated natural gas distribution services, transmission and storage services and operates certain unregulated businesses primarily through the following:

NJNG provides natural gas utility service to approximately 568,600 customers throughout Burlington, Middlesex, Monmouth, Morris, Ocean and Sussex 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 invests in, owns and operates clean energy projects, including commercial and residential solar installations located in New Jersey, Connecticut, Rhode Island and New York.

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, invests in energy-related ventures through its subsidiaries. The Company operates natural gas storage and transmission assets through the wholly-owned subsidiaries of Leaf River and Adelphia Gateway, and is subject to rate regulation by FERC. 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.

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 the Company in accordance with the rules and regulations of the U.S. Securities and Exchange Commission and GAAP. The September 30, 2021 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 the Company's 2021 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 the Company'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, 2022. 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. Asset retirement obligations 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.

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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 U.S. 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 continues to closely monitor developments related to the COVID-19 pandemic and has, when appropriate, taken steps to ensure business continuity in the safe operation of its business. These steps include working from home for office-based employees utilizing a hybrid schedule, limiting direct contact with customers and suspending late payment fees for utility customers. While the Company and many businesses generally have returned to normal operating practices, this remains an evolving situation. The timing for recovery of businesses and local economies, resurgences or mutations of the virus, and any potential future shutdowns remains unknown. Throughout the COVID-19 pandemic, the Company has continued to provide essential services to our customers. Both the Company and NJNG continue to have sufficient liquidity to meet their current obligations and business operations remain fundamentally unchanged at this time. The Company will continue to monitor developments affecting its employees, customers, and operations and take additional steps to address the COVID-19 pandemic and its impacts, as necessary. 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 June 30, 2022.

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. 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.

During December 2020, Energy Services entered into a series of AMAs with an investment grade public utility to release pipeline capacity associated with certain natural gas transportation contracts, which commenced on November 1, 2021. The AMAs include a series of temporary and permanent releases and revenue under these agreements is recognized as the performance obligations are satisfied. For temporary releases of pipeline capacity, revenue is recognized on a straight-line basis over the agreed upon term. For permanent releases of pipeline capacity, which represent a transfer of contractual rights for such capacity, revenue is recognized upon the transfer of the underlying contractual rights. Energy Services recognized \$10.3 million

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and \$42.7 million of operating revenue on the Unaudited Condensed Consolidated Statements of Operations during the three and nine months ended June 30, 2022, respectively. Amounts received in excess of revenue totaling \$44.1 million are included in deferred revenue on the Unaudited Condensed Consolidated Balance Sheets as of June 30, 2022.

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 irrevocable letters of credit at Leaf River and escrow balances for utility plant projects at NJNG, which are recorded in other 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>	June 30, 2022	September 30, 2021	June 30, 2021
Balance Sheet			
Cash and cash equivalents	\$ 27,693	\$ 4,749	\$ 4,719
Restricted cash in other noncurrent assets	\$ 300	\$ 1,294	\$ 1,291
Statements of Cash Flow			
Cash, cash equivalents and restricted cash	\$ 27,993	\$ 6,043	\$ 6,010

Allowance for Doubtful Accounts

The Company segregates financial assets, 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, including the estimated impact of the ongoing pandemic on the outstanding balances.

During fiscal 2022, the Company deferred a portion of costs incurred related to bad debt for NJNG associated with customer accounts receivable as a regulatory asset resulting from the impacts of the ongoing COVID-19 pandemic. See *Note 4. Regulation* for additional information.

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 has \$14.4 million and \$14.2 million recorded in other current assets and \$33.8 million and \$32.3 million in other noncurrent assets as of June 30, 2022 and September 30, 2021, 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 June 30, 2022 and September 30, 2021, the Company has not recorded any impairments for SAVEGREEN loans.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Natural Gas in Storage

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

(\$ in thousands)	June 30, 2022		September 30, 2021	
	Natural Gas in Storage	Bcf	Natural Gas in Storage	Bcf
Natural Gas Distribution	\$ 119,961	18.6	\$ 115,824	27.6
Energy Services	83,477	11.6	77,782	18.8
Total	\$ 203,438	30.2	\$ 193,606	46.4

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 tables present the software costs included in the Unaudited Condensed Consolidated Financial Statements:

(Thousands)	June 30, 2022	September 30, 2021
Balance Sheets		
Utility plant, at cost	\$ 36,974	\$ 16,543
Construction work in progress	\$ 10,828	\$ 7,801
Nonutility plant and equipment, at cost	\$ 344	\$ 338
Construction work in progress	\$ 1	\$ 8
Accumulated depreciation and amortization, utility plant	\$ (2,578)	\$ (1,333)
Accumulated depreciation and amortization, nonutility plant and equipment	\$ (23)	\$ (29)
Software costs	\$ 5,909	\$ 5,582

Statements of Operations	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Operation and maintenance ⁽¹⁾	\$ 2,835	\$ 2,039	\$ 8,186	\$ 6,810
Depreciation and amortization	\$ 637	\$ 273	\$ 1,239	\$ 796

- (1) During the three and nine months ended June 30, 2022, approximately \$113,000 and \$339,000, respectively, was amortized from software costs into O&M. During the three and nine months ended June 30, 2021, approximately \$147,000 and \$335,000, respectively, was amortized from software costs into O&M.

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 \$17.3 million during the nine months ended June 30, 2022, in connection with the sale leaseback of its natural gas meters. There were no natural gas meter sale leasebacks recorded during the nine months ended June 30, 2021.

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 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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company continues to operate the solar assets and is responsible for related expenses and entitled to retain the revenue generated from RECs 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.

Clean Energy Ventures received proceeds of \$3.3 million and \$17.7 million during the nine months ended June 30, 2022 and 2021, respectively, in connection with the sale leaseback of commercial solar projects. The proceeds received were recognized as a financing obligation on the Unaudited Condensed Consolidated Balance Sheets.

Accumulated Other Comprehensive Loss

The following table presents the changes in the components of accumulated other comprehensive loss, net of related tax effects during the three months ended June 30, 2022 and 2021:

<i>(Thousands)</i>	Cash Flow Hedges	Postemployment Benefit Obligation	Total
Balance at March 31, 2022	\$ (8,849)	\$ (23,618)	\$ (32,467)
Other comprehensive income, net of tax			
Amounts reclassified from accumulated other comprehensive loss, net of tax of \$(79), \$(232), \$(311), respectively	262	768 ⁽¹⁾	1,030
Balance at June 30, 2022	\$ (8,587)	\$ (22,850)	\$ (31,437)
Balance at March 31, 2021	\$ (9,903)	\$ (32,293)	\$ (42,196)
Other comprehensive income, net of tax			
Amounts reclassified from accumulated other comprehensive loss, net of tax of \$(79), \$(245), \$(324)	264	812 ⁽¹⁾	1,076
Balance at June 30, 2021	\$ (9,639)	\$ (31,481)	\$ (41,120)

⁽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.

The following table presents the changes in the components of accumulated other comprehensive loss, net of related tax effects during the nine months ended June 30, 2022 and 2021:

<i>(Thousands)</i>	Cash Flow Hedges	Postemployment Benefit Obligation	Total
Balance at September 30, 2021	\$ (9,376)	\$ (25,152)	\$ (34,528)
Other comprehensive income, net of tax			
Amounts reclassified from accumulated other comprehensive loss, net of tax of \$(238), \$(697), \$(935), respectively	789	2,302 ⁽¹⁾	3,091
Balance at June 30, 2022	\$ (8,587)	\$ (22,850)	\$ (31,437)
Balance at September 30, 2020	\$ (10,397)	\$ (33,918)	\$ (44,315)
Other comprehensive income, net of tax			
Amounts reclassified from accumulated other comprehensive loss, net of tax of \$(270), \$(734) and \$(1,004)	758	2,437 ⁽¹⁾	3,195
Balance at June 30, 2021	\$ (9,639)	\$ (31,481)	\$ (41,120)

⁽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.

Reclassification

Certain prior period amounts related to deferred revenue within current liabilities on the Unaudited Condensed Consolidated Balance Sheets and Unaudited Consolidated Condensed Statements of Cash Flows have been reclassified to conform to the current period presentation.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recently Adopted 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 simplifies the accounting for income taxes and changes the accounting for certain income tax transactions, among other minor improvements. The Company adopted this guidance on October 1, 2021, and applied it on a prospective basis. The amendments in this update were either not applicable, currently applied, or did not have a material impact on the Company's financial position, results of operations, cash flows or disclosures.

Investments - Equity Securities, Investments - Equity Method and Joint Ventures and Derivatives and Hedging

In January 2020, the FASB issued ASU No. 2020-01, an amendment to ASC 321, *Investments - Equity Securities*, ASC 323, *Investments - Equity Method and Joint Ventures*, and ASC 815, *Derivatives and Hedging*, which clarifies the interactions between the three ASU topics. The update requires an entity 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 Company adopted this guidance on October 1, 2021, and applied it on a prospective basis. There was no material impact on the Company's financial position, results of operations, cash flows or disclosures.

Other

In October 2020, the FASB issued ASU No. 2020-10, *Codification Improvements*, 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 Company adopted this guidance on October 1, 2021, and applied it on a prospective basis. There was no material impact on the Company's financial position, results of operations, cash flows or disclosures.

Other Recent Updates to the Accounting Standards Codification

Debt and Other

In August 2020, the FASB issued ASU No. 2020-06, an amendment to ASC 470, *Debt*, and ASC 815, *Derivatives and Hedging*, which changes the accounting for convertible instruments by reducing the number of acceptable accounting models to three models including, the embedded derivative, substantial premium, and traditional no proceeds allocated models. The guidance is effective for the Company beginning October 1, 2022, and the Company can elect to apply it on either a modified or a full retrospective basis. The Company does not currently have convertible debt instruments and thus does not expect the amendments to have an impact on its financial position, results of operations, cash flows and disclosures upon adoption.

In May 2021, the FASB issued ASU No. 2021-04, an amendment to ASC 470, *Debt*, ASC 260, *Earnings per Share*, ASC 718, *Stock Compensation*, and ASC 815, *Derivatives and Hedging*. The update impacts equity-classified written call options that remain equity-classified after a modification or exchange. The guidance is effective for the Company beginning October 1, 2022, and will be applied on a prospective basis. The Company does not currently have equity-classified written call options and thus does not expect the amendments to have an impact on its financial position, results of operations, cash flows and disclosures upon adoption.

Leases

In July 2021, the FASB issued ASU No. 2021-05, an amendment to ASC 842, *Leases*, which requires a lessor to classify a lease with entirely or partially variable payments that do not depend on an index or rate as an operating lease if another classification, including sales-type or direct financing would trigger a loss at the lease commencement date. The guidance is effective for the Company beginning October 1, 2022, and the Company can elect to apply it either on a retrospective basis to leases that have commenced or have been modified under ASC 842 or on a prospective basis. The Company does not expect the amendments to have an 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)

Business Combinations

In October 2021, the FASB issued ASU No. 2021-08, an amendment to ASC 805, *Business Combinations*, which requires that an acquirer recognize, and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, *Revenue from Contracts with Customers*. The guidance is effective for the Company beginning October 1, 2023, and will be applied on a prospective basis to new acquisitions following the date of adoption. The Company is currently evaluating the amendments to understand the impact on its financial position, results of operations, cash flows and disclosures upon adoption.

Derivatives and Hedging

In March 2022, the FASB issued ASU No. 2022-01, an amendment to ASC 815, *Derivatives and Hedging*, which addresses fair value hedge accounting of interest rate risk for portfolios of financial assets. This update further clarifies guidance previously released in ASU 2017-12 which established the "last-of-layer" method and this update renames that method to the "portfolio layer" method. The guidance is effective for the Company beginning October 1, 2023, and the transition method can be on a prospective basis for a multiple-layer hedging strategy or a modified retrospective basis for a portfolio layer method. The Company does not currently apply hedge accounting to any of its risk management activities and thus does not expect the amendments to have an impact on its financial position, results of operations, cash flows and disclosures upon adoption.

Financial Instruments

In March 2022, the FASB issued ASU No. 2022-02, an amendment to ASC 326, *Financial Instruments-Credit Losses*, which eliminates the accounting guidance for creditors in troubled debt restructuring. It also aligns conflicting disclosure requirement guidance in ASC 326 by requiring disclosure of current-period gross write-offs by year of origination. The amendment also adds new disclosures for creditors with loan refinancing and restructuring for borrowers experiencing financial difficulty. The guidance is effective for the Company beginning October 1, 2023, and the Company can elect to apply it either on a modified retrospective or prospective basis. At this time, the Company has not experienced a troubled debt restructuring and thus does not expect the amendments to have an impact on its financial position, results of operations and cash flows upon adoption. The Company is currently evaluating the amendments to understand the impact on its disclosures upon adoption.

Fair Value Measurement

In June 2022, the FASB issued ASU No. 2022-03, an amendment to ASC 820, *Fair Value Measurement*, The amendments clarify the fair value principles when measuring the fair value of an equity security subject to a contractual sale restriction. The guidance is effective for the Company on October 1, 2024, its first fiscal year beginning after December 15, 2023, and will be applied on a prospective basis, if applicable. At this time, the Company does not have equity securities subject to contractual sale restrictions, and therefore these amendments would only impact the Company if, in the future, it entered into such transactions.

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.

New Jersey Resources Corporation

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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 natural 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 in line with the terms of the contract and based on the services provided. Payment is due upon receipt of the invoice. For temporary releases of pipeline capacity, revenue is recognized on a straight-line basis over the agreed upon term.
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, 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 its 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:

Energy Services	Natural gas services	For a permanent release of pipeline capacity, the performance obligation of NJRES is the release of the pipeline capacity associated with certain natural gas transportation contracts and the transfer of the underlying contractual rights to the counterparty.
		Revenue is recognized upon the transfer of the underlying contractual rights.
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 usage fees and hub services for the use of storage space, injection and withdrawal from the storage facility. Hub services include park and loan transactions and wheeling.
		Usage fees and 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 June 30, 2022 and 2021, are as follows:

<i>(Thousands)</i>	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Storage and Transportation	Home Services and Other	Total
2022						
Natural gas utility sales ⁽¹⁾	\$ 180,933	—	—	—	—	\$ 180,933
Natural gas services	—	—	20,312	16,390	—	36,702
Service contracts	—	—	—	—	8,428	8,428
Installations and maintenance	—	—	—	—	5,792	5,792
Renewable energy certificates	—	1,709	—	—	—	1,709
Electricity sales	—	11,076	—	—	—	11,076
Eliminations ⁽²⁾	(338)	—	—	(611)	(52)	(1,001)
Revenues from contracts with customers	180,595	12,785	20,312	15,779	14,168	243,639
Alternative revenue programs ⁽³⁾	(1,810)	—	—	—	—	(1,810)
Derivative instruments	20,572	1,010 ⁽⁴⁾	287,503	—	—	309,085
Eliminations ⁽¹⁾	—	—	1,421	—	—	1,421
Revenues out of scope	18,762	1,010	288,924	—	—	308,696
Total operating revenues	\$ 199,357	13,795	309,236	15,779	14,168	\$ 552,335
2021						
Natural gas utility sales	\$ 118,367	—	—	—	—	\$ 118,367
Natural gas services	—	—	4,041	11,649	—	15,690
Service contracts	—	—	—	—	8,333	8,333
Installations and maintenance	—	—	—	—	4,979	4,979
Renewable energy certificates	—	1,568	—	—	—	1,568
Electricity sales	—	7,346	—	—	—	7,346
Eliminations ⁽¹⁾	—	—	—	(650)	(241)	(891)
Revenues from contracts with customers	118,367	8,914	4,041	10,999	13,071	155,392
Alternative revenue programs ⁽³⁾	577	—	—	—	—	577
Derivative instruments	8,682	4,467 ⁽⁴⁾	197,553	—	—	210,702
Eliminations ⁽¹⁾	—	—	922	—	—	922
Revenues out of scope	9,259	4,467	198,475	—	—	212,201
Total operating revenues	\$ 127,626	13,381	202,516	10,999	13,071	\$ 367,593

(1) Includes building rent related to the Wall headquarters, which is eliminated in consolidation.

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

(3) Includes CIP revenue.

(4) Includes SREC revenue.

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

Disaggregated revenues from contracts with customers by product line and by reporting segment and other business operations during the nine months ended June 30, 2022 and 2021, are as follows:

<i>(Thousands)</i>	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Storage and Transportation	Home Services and Other	Total
2022						
Natural gas utility sales ⁽¹⁾	\$ 786,590	—	—	—	—	\$ 786,590
Natural gas services	—	—	65,500	41,875	—	107,375
Service contracts	—	—	—	—	25,387	25,387
Installations and maintenance	—	—	—	—	16,006	16,006
Renewable energy certificates	—	3,574	—	—	—	3,574
Electricity sales	—	24,392	—	—	—	24,392
Eliminations ⁽²⁾	(1,013)	—	—	(1,707)	(232)	(2,952)
Revenues from contracts with customers	785,577	27,966	65,500	40,168	41,161	960,372
Alternative revenue programs ⁽³⁾	11,348	—	—	—	—	11,348
Derivative instruments	140,341	7,839 ⁽⁴⁾	1,024,204	—	—	1,172,384
Eliminations ⁽²⁾	—	—	(3,611)	—	—	(3,611)
Revenues out of scope	151,689	7,839	1,020,593	—	—	1,180,121
Total operating revenues	\$ 937,266	35,805	1,086,093	40,168	41,161	\$ 2,140,493
2021						
Natural gas utility sales	\$ 604,619	—	—	—	—	\$ 604,619
Natural gas services	—	—	21,480	38,679	—	60,159
Service contracts	—	—	—	—	24,906	24,906
Installations and maintenance	—	—	—	—	13,756	13,756
Renewable energy certificates	—	3,075	—	—	—	3,075
Electricity sales	—	16,616	—	—	—	16,616
Eliminations ⁽¹⁾	—	—	—	(1,976)	(660)	(2,636)
Revenues from contracts with customers	604,619	19,691	21,480	36,703	38,002	720,495
Alternative revenue programs ⁽³⁾	(4,519)	—	—	—	—	(4,519)
Derivative instruments	33,422	6,536 ⁽⁴⁾	872,160	—	—	912,118
Eliminations ⁽²⁾	—	—	(4,009)	—	—	(4,009)
Revenues out of scope	28,903	6,536	868,151	—	—	903,590
Total operating revenues	\$ 633,522	26,227	889,631	36,703	38,002	\$ 1,624,085

(1) Includes building rent related to the Wall headquarters, which is eliminated in consolidation.

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

(3) Includes CIP revenue.

(4) 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 June 30, 2022 and 2021, are as follows:

<i>(Thousands)</i>	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Storage and Transportation	Home Services and Other	Total
2022						
Residential	\$ 94,147	3,314	—	—	14,129	\$ 111,590
Commercial and industrial	65,550	9,471	20,312	15,779	39	111,151
Firm transportation	19,465	—	—	—	—	19,465
Interruptible and off-tariff	1,433	—	—	—	—	1,433
Revenues out of scope	18,762	1,010	288,924	—	—	308,696
Total operating revenues	\$ 199,357	13,795	309,236	15,779	14,168	\$ 552,335
2021						
Residential	\$ 79,054	2,904	—	—	12,877	\$ 94,835
Commercial and industrial	23,371	6,010	4,041	10,999	194	44,615
Firm transportation	15,052	—	—	—	—	15,052
Interruptible and off-tariff	890	—	—	—	—	890
Revenues out of scope	9,259	4,467	198,475	—	—	212,201
Total operating revenues	\$ 127,626	13,381	202,516	10,999	13,071	\$ 367,593

Disaggregated revenues from contracts with customers by customer type and by reporting segment and other business operations during the nine months ended June 30, 2022 and 2021, are as follows:

<i>(Thousands)</i>	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Storage and Transportation	Home Services and Other	Total
2022						
Residential	\$ 531,660	9,277	—	—	41,009	\$ 581,946
Commercial and industrial	172,840	18,689	65,500	40,168	152	297,349
Firm transportation	76,776	—	—	—	—	76,776
Interruptible and off-tariff	4,301	—	—	—	—	4,301
Revenues out of scope	151,689	7,839	1,020,593	—	—	1,180,121
Total operating revenues	\$ 937,266	35,805	1,086,093	40,168	41,161	\$ 2,140,493
2021						
Residential	\$ 441,452	8,318	—	—	37,315	\$ 487,085
Commercial and industrial	95,424	11,373	21,480	36,703	687	165,667
Firm transportation	64,346	—	—	—	—	64,346
Interruptible and off-tariff	3,397	—	—	—	—	3,397
Revenues out of scope	28,903	6,536	868,151	—	—	903,590
Total operating revenues	\$ 633,522	26,227	889,631	36,703	38,002	\$ 1,624,085

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Customer Accounts Receivable/Credit Balances and Deposits

The timing of revenue recognition, customer billings and cash collections resulting in accounts receivables, billed and unbilled, and customers' credit balances and deposits on the Unaudited Condensed Consolidated Balance Sheets during the nine months ended June 30, 2022 and 2021, are as follows:

<i>(Thousands)</i>	Customer Accounts Receivable		Customers' Credit	
	Billed	Unbilled	Balances and Deposits	
Balance as of September 30, 2021	\$ 212,838	\$ 10,351	\$	32,586
Increase (Decrease)	55,205	4,681		(10,370)
Balance as of June 30, 2022	\$ 268,043	\$ 15,032	\$	22,216
Balance as of September 30, 2020	\$ 134,173	\$ 9,226	\$	25,934
Increase (Decrease)	71,309	3,437		(3,235)
Balance as of June 30, 2021	\$ 205,482	\$ 12,663	\$	22,699

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 June 30, 2022 and September 30, 2021:

<i>(Thousands)</i>	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Storage and Transportation	Home Services and Other	Total
June 30, 2022						
Customer accounts receivable						
Billed	\$ 113,072	5,613	141,495	5,775	2,088	\$ 268,043
Unbilled	11,653	3,379	—	—	—	15,032
Customers' credit balances and deposits	(22,216)	—	—	—	—	(22,216)
Total	\$ 102,509	8,992	141,495	5,775	2,088	\$ 260,859
September 30, 2021						
Customer accounts receivable						
Billed	\$ 54,514	5,534	147,087	3,956	1,747	\$ 212,838
Unbilled	8,427	1,924	—	—	—	10,351
Customers' credit balances and deposits	(32,586)	—	—	—	—	(32,586)
Total	\$ 30,355	7,458	147,087	3,956	1,747	\$ 190,603

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 filings to the BPU for review of its BGSS, CIP and other programs and related rates. Annual rate changes are typically requested to be effective at the beginning of the following fiscal year. The current base rates include a weighted average cost of capital of 6.84 percent and a return on common equity of 9.6 percent. 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>	June 30, 2022	September 30, 2021
Regulatory assets-current		
New Jersey Clean Energy Program	\$ 17,648	\$ 16,308
Conservation Incentive Program	23,187	11,839
Other current regulatory assets	1,485	1,554
Total current regulatory assets	\$ 42,320	\$ 29,701
Regulatory assets-noncurrent		
Environmental remediation costs:		
Expended, net of recoveries	\$ 65,632	\$ 58,483
Liability for future expenditures	120,597	135,012
Deferred income taxes	40,274	39,694
Derivatives at fair value, net	5,057	—
SAVEGREEN	39,474	32,941
Postemployment and other benefit costs	109,320	117,194
Deferred storm damage costs	2,714	4,343
Cost of removal	104,100	99,238
Other noncurrent regulatory assets	37,305	32,695
Total noncurrent regulatory assets	\$ 524,473	\$ 519,600
Regulatory liability-current		
Overrecovered natural gas costs	\$ 20,630	\$ 5,510
Derivatives at fair value, net	29,378	22,497
Total current regulatory liabilities	\$ 50,008	\$ 28,007
Regulatory liabilities-noncurrent		
Tax Act impact ⁽¹⁾	\$ 186,621	\$ 190,386
Derivatives at fair value, net	—	1,166
Other noncurrent regulatory liabilities	218	336
Total noncurrent regulatory liabilities	\$ 186,839	\$ 191,888

(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, 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.

As of June 30, 2022, other noncurrent regulatory assets include deferred pandemic costs of \$8.9 million primarily related to a portion of bad debt associated with customer accounts receivable resulting from the impacts of the ongoing COVID-19 pandemic. These costs are eligible for future regulatory recovery. There were no deferred pandemic costs as of September 30, 2021.

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

<i>(Thousands)</i>	June 30, 2022	September 30, 2021
Total current regulatory assets	\$ —	\$ 417
Total noncurrent regulatory assets	\$ 5,083	\$ 2,499
Total current regulatory liabilities	566	—
Total noncurrent regulatory liabilities	\$ 3,037	\$ 1,163

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 November 17, 2021, the BPU issued an order adopting a stipulation of settlement approving a \$79.0 million increase to base rates, effective December 1, 2021. In addition, the order also included approval for the final increase for the NJ RISE/SAFE II programs, which totaled \$269,000. The increase includes an overall rate of return on rate base of 6.84 percent, return on common equity of 9.6 percent, a common equity ratio of 54.0 percent and a depreciation rate of 2.78 percent.
- On November 17, 2021, the BPU approved on a preliminary basis, NJNG's annual petition to modify its BGSS, balancing charge and CIP rates for residential and small commercial customers. The rate changes resulted in a \$2.9 million increase to the annual revenues credited to BGSS, a \$13.0 million annual increase related to its balancing charge, as well as changes to CIP rates, which resulted in a \$6.3 million annual recovery decrease, effective December 1, 2021, and was approved on a final basis on May 4, 2022.
- On November 19, 2021, NJNG submitted notification of its intent to self-implement an increase to its BGSS rate which results in an approximate \$24.2 million increase to annual revenues credited to BGSS, effective December 1, 2021.
- On January 26, 2022, the BPU approved a stipulation to resolve the current EE annual cost recovery filing, which increases annual recoveries by \$2.2 million, effective February 1, 2022.
- On March 23, 2022, the BPU approved NJNG's annual filing to increase the RAC by \$600,000 and decrease the NJCEP by \$2.9 million, effective April 1, 2022.
- On March 31, 2022, NJNG filed its first rate recovery request for its BPU approved IIP with capital expenditures estimated through June 30, 2022, including AFUDC. On July 13, 2022, NJNG filed its update with actual capital expenditures of \$28.9 million.
- On April 22, 2022, NJNG filed a petition with the BPU seeking authority to issue up to \$500 million in Medium Term Notes over a 3-year period.
- On June 1, 2022, NJNG submitted its annual petition to modify its BGSS, balancing charge and CIP rates. The proposed rate changes result in a \$81.9 million increase to the annual revenues credited to BGSS, a \$9.0 million annual increase related to its balancing charge, as well as changes to CIP rates, which will result in a \$13.7 million annual recovery increase, effective October 1, 2022.
- On June 1, 2022, NJNG submitted its annual cost recovery filing for the SAVEGREEN programs established from 2010 through present. If approved, the proposed rate increase will increase annual recoveries by \$500,000, effective October 1, 2022.
- On June 27, 2022, NJNG filed its annual USF compliance filing proposing an increase to the statewide USF rate, which will result in an annual decrease of approximately \$2.4 million, effective October 1, 2022.

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*.

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

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.

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.

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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value of Derivatives

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

		Derivatives at Fair Value			
		June 30, 2022		September 30, 2021	
<i>(Thousands)</i>	Balance Sheet Location	Assets	Liabilities	Assets	Liabilities
Derivatives not designated as hedging instruments:					
<u>Natural Gas Distribution:</u>					
Physical commodity contracts	Derivatives - current	\$ 18	\$ 14	\$ 36	\$ 16
Financial commodity contracts	Derivatives - current	70	10,209	2,046	13
<u>Energy Services:</u>					
Physical commodity contracts	Derivatives - current	3,075	20,038	2,818	24,592
	Derivatives - noncurrent	460	20,570	333	13,237
Financial commodity contracts	Derivatives - current	17,108	28,538	30,226	62,521
	Derivatives - noncurrent	6,012	799	3,068	260
Foreign currency contracts	Derivatives - current	7	3	125	3
	Derivatives - noncurrent	—	—	2	—
Total fair value of derivatives		\$ 26,750	\$ 80,171	\$ 38,654	\$100,642

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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

<i>(Thousands)</i>	Amounts Presented on Balance Sheets ⁽¹⁾	Offsetting Derivative Instruments ⁽²⁾	Financial Collateral Received/Pledged ⁽³⁾	Net Amounts ⁽⁴⁾
As of June 30, 2022:				
Derivative assets:				
Energy Services				
Physical commodity contracts	\$ 3,535	\$ (1,223)	\$ (200)	\$ 2,112
Financial commodity contracts	23,120	(10,562)	—	12,558
Foreign currency contracts	7	(3)	—	4
Total Energy Services	\$ 26,662	\$ (11,788)	\$ (200)	\$ 14,674
Natural Gas Distribution				
Physical commodity contracts	\$ 18	\$ (1)	\$ —	\$ 17
Financial commodity contracts	70	(70)	—	—
Total Natural Gas Distribution	\$ 88	\$ (71)	\$ —	\$ 17
Derivative liabilities:				
Energy Services				
Physical commodity contracts	\$ 40,608	\$ (1,223)	\$ —	\$ 39,385
Financial commodity contracts	29,337	(10,562)	—	18,775
Foreign currency contracts	3	(3)	—	—
Total Energy Services	\$ 69,948	\$ (11,788)	\$ —	\$ 58,160
Natural Gas Distribution				
Physical commodity contracts	\$ 14	\$ (1)	\$ —	\$ 13
Financial commodity contracts	10,209	(70)	—	10,139
Total Natural Gas Distribution	\$ 10,223	\$ (71)	\$ —	\$ 10,152
As of September 30, 2021:				
Derivative assets:				
Energy Services				
Physical commodity contracts	\$ 3,151	\$ (894)	\$ (700)	\$ 1,557
Financial commodity contracts	33,294	(33,294)	20,532	20,532
Foreign currency contracts	127	(3)	—	124
Total Energy Services	\$ 36,572	\$ (34,191)	\$ 19,832	\$ 22,213
Natural Gas Distribution				
Physical commodity contracts	\$ 36	\$ (8)	\$ —	\$ 28
Financial commodity contracts	2,046	(13)	—	2,033
Total Natural Gas Distribution	\$ 2,082	\$ (21)	\$ —	\$ 2,061
Derivative liabilities:				
Energy Services				
Physical commodity contracts	\$ 37,829	\$ (894)	\$ —	\$ 36,935
Financial commodity contracts	62,781	(33,294)	—	29,487
Foreign currency contracts	3	(3)	—	—
Total Energy Services	\$ 100,613	\$ (34,191)	\$ —	\$ 66,422
Natural Gas Distribution				
Physical commodity contracts	\$ 16	\$ (8)	\$ —	\$ 8
Financial commodity contracts	13	(13)	—	—
Total Natural Gas Distribution	\$ 29	\$ (21)	\$ —	\$ 8

(1) Derivative assets and liabilities are presented on a gross basis on the condensed consolidated balance sheets 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:

(Thousands)	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives			
		Three Months Ended		Nine Months Ended	
		June 30,		June 30,	
		2022	2021	2022	2021
Derivatives not designated as hedging instruments:					
Energy Services:					
Physical commodity contracts	Operating revenues	\$ 608	\$ 997	\$ (10,824)	\$ 42,668
Physical commodity contracts	Natural gas purchases	1,975	1,100	2,605	(1,304)
Financial commodity contracts	Natural gas purchases	(19)	(23,426)	29,947	(2,986)
Foreign currency contracts	Natural gas purchases	—	11	(14)	238
Total unrealized and realized (gain) loss		\$ 2,564	\$ (21,318)	\$ 21,714	\$ 38,616

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 gains (losses) associated with NJNG's derivative instruments for the periods set forth below:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
(Thousands)	2022	2021	2022	2021
<u>Natural Gas Distribution:</u>				
Physical commodity contracts	\$ 646	\$ 399	\$ 6,880	\$ 1,832
Financial commodity contracts	2,482	15,483	49,320	11,856
Total unrealized and realized gain	\$ 3,128	\$ 15,882	\$ 56,200	\$ 13,688

During fiscal 2020, NJR entered into treasury lock transactions to fix the benchmark treasury rate associated with debt issuances that were finalized in 2020. 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. Pre-tax losses of \$341,000 and \$343,000 were reclassified from OCI into income during the three months ended June 30, 2022 and 2021, respectively, and pre-tax losses of \$1.0 million were reclassified during both the nine months ended June 30, 2022 and 2021.

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

		Volume (Bcf)	
Transaction Type		June 30, 2022	September 30, 2021
Natural Gas Distribution	Futures	27.3	22.2
	Physical Commodity	8.1	7.6
Energy Services	Futures	(5.1)	(13.4)
	Swaps	(0.1)	(0.3)
	Physical Commodity	(0.4)	0.6

Not included in the above table are Energy Services' net notional amount of foreign currency transactions of approximately \$(4,000) as of June 30, 2022 and \$(123,000) as of September 30, 2021, and 1.6 million and 1.4 million SRECs that were open as of June 30, 2022 and September 30, 2021, respectively.

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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	June 30, 2022	September 30, 2021
Natural Gas Distribution	Restricted broker margin accounts-current assets	\$ 11,556	\$ 2,790
Energy Services	Restricted broker margin accounts-current assets	\$ 84,529	\$ 70,050

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.

The following is a summary of gross credit exposures grouped by investment and noninvestment grade counterparties, as of June 30, 2022. 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	\$ 176,341
Noninvestment grade	22,944
Internally rated investment grade	25,532
Internally rated noninvestment grade	47,611
Total	\$ 272,428

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.

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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 was approximately \$354,000 of derivative instruments with credit-risk-related contingent features that were in a liability position for which collateral is required as of June 30, 2022. 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>	June 30, 2022	September 30, 2021
Carrying value ^{(1) (2) (3)}	\$ 2,412,845	\$ 2,102,845
Fair market value	\$ 2,154,528	\$ 2,288,544

(1) Excludes finance leases of \$31.9 million and \$20.1 million as of June 30, 2022 and September 30, 2021, respectively.

(2) Excludes NJNG's debt issuance costs of \$10.5 million and \$9.1 million as of June 30, 2022 and September 30, 2021, respectively.

(3) Excludes NJR's debt issuance costs of \$3.7 million and \$3.3 million as of June 30, 2022 and September 30, 2021, respectively.

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 June 30, 2022 and September 30, 2021 was \$116.2 million and \$132.5 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 June 30, 2022, the Company discloses its debt within Level 2 of the fair value hierarchy.

Fair Value Hierarchy

The Company 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. The Company'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 the Company 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. The Company'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

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derivatives consist of transactions with non-FCM counterparties (basis swaps, fixed swaps and/or options). 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 the Company's best estimate of fair value and are derived primarily through the use of internal valuation methodologies.

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

<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 June 30, 2022:				
Assets:				
Physical commodity contracts	\$ —	\$ 3,553	\$ —	\$ 3,553
Financial commodity contracts	23,190	—	—	23,190
Financial commodity contracts - foreign exchange	—	7	—	7
Money market funds	27,605	—	—	27,605
Other	1,935	—	—	1,935
Total assets at fair value	\$ 52,730	\$ 3,560	\$ —	\$ 56,290
Liabilities:				
Physical commodity contracts	\$ —	\$ 40,622	\$ —	\$ 40,622
Financial commodity contracts	39,189	357	—	39,546
Financial commodity contracts - foreign exchange	—	3	—	3
Total liabilities at fair value	\$ 39,189	\$ 40,982	\$ —	\$ 80,171

<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 September 30, 2021:				
Assets:				
Physical commodity contracts	\$ —	\$ 3,187	\$ —	\$ 3,187
Financial commodity contracts	35,340	—	—	35,340
Financial commodity contracts - foreign exchange	—	127	—	127
Money market funds	41	—	—	41
Other	1,815	—	—	1,815
Total assets at fair value	\$ 37,196	\$ 3,314	\$ —	\$ 40,510
Liabilities:				
Physical commodity contracts	\$ —	\$ 37,845	\$ —	\$ 37,845
Financial commodity contracts	62,188	606	—	62,794
Financial commodity contracts - foreign exchange	—	3	—	3
Total liabilities at fair value	\$ 62,188	\$ 38,454	\$ —	\$ 100,642

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INVESTMENTS IN EQUITY INVESTEES

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

<i>(Thousands)</i>	June 30, 2022	September 30, 2021
Steckman Ridge ⁽¹⁾	\$ 108,253	\$ 109,050
PennEast	—	5,479
Total	\$ 108,253	\$ 114,529

(1) Includes loans with a total outstanding principal balance of \$70.4 million for both June 30, 2022 and September 30, 2021, which accrue interest at a variable rate that resets quarterly and are due October 1, 2023.

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. NJNG and Energy Services have entered into storage and park and loan agreements with Steckman Ridge. See *Note 15. Related Party Transactions* for more information on these intercompany transactions.

PennEast

The Company, through its subsidiary NJR Midstream Company, is a 20 percent investor in PennEast, a partnership whose purpose was to construct and operate a 120-mile natural gas pipeline that would have extended from northeast Pennsylvania to western New Jersey.

During the third quarter of fiscal 2021, the Company recognized an other-than-temporary impairment charge of \$92.0 million, or approximately \$74.5 million, net of income taxes, which represents the best estimate of the salvage value of the remaining assets of the project. Other-than-temporary impairments are recorded in equity in earnings (losses) of affiliates in the Unaudited Condensed Consolidated Statements of Operations.

On September 27, 2021, the PennEast partnership determined that this project is no longer supported, and all further development has ceased. On December 16, 2021, the FERC dismissed PennEast's pending applications. The order vacates the certificate authorization for the PennEast pipeline project in light of PennEast's response to FERC staff's November 23, 2021 request for a status update, in which PennEast informed the Commission it is no longer developing the project.

On March 10, 2022, following the sale of certain project related assets and refunds of interconnection fees received from interstate pipelines, the PennEast board of managers approved a cash distribution to members of the partnership totaling \$4.0 million per partner. During the third quarter of fiscal 2022, the Company received an additional \$5.5 million from the partnership. The return of capital received by the Company reduced the remaining carrying value of its equity method investment in PennEast to zero in the Unaudited Condensed Consolidated Balance Sheet, with the excess recorded as other income, net in the Unaudited Condensed Consolidated Statements of Operations.

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8. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
<i>(Thousands, except per share amounts)</i>	2022	2021	2022	2021
Net income (loss), as reported	\$ 13,053	\$ (111,831)	\$ 220,400	\$ 119,023
Basic earnings (loss) per share				
Weighted average shares of common stock outstanding-basic	96,154	96,348	96,055	96,237
Basic earnings (loss) per common share	\$0.14	\$(1.16)	\$2.29	\$1.24
Diluted earnings (loss) per share				
Weighted average shares of common stock outstanding-basic	96,154	96,348	96,055	96,237
Incremental shares ⁽¹⁾	466	—	472	392
Weighted average shares of common stock outstanding-diluted	96,620	96,348	96,527	96,629
Diluted earnings (loss) per common share ⁽²⁾	\$0.14	\$(1.16)	\$2.28	\$1.23

(1) Incremental shares consist primarily of unvested stock awards and performance shares.

(2) Since there was a net loss for the three months ended June 30, 2021, incremental shares of 406,278 were not included in the computation of diluted loss per common share, as their effect would have been antidilutive. There were no anti-dilutive shares excluded during the three and nine months ended June 30, 2022 and during the nine months ended June 30, 2021.

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 and Short-term Debt

On February 8, 2022, NJR entered into a 364-day \$150 million term loan credit agreement with an interest rate based on SOFR plus 0.85 percent, which expires on February 7, 2023. The Company borrowed \$50 million on February 9, 2022 and \$100 million on February 14, 2022.

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

<i>(Thousands)</i>	June 30, 2022	September 30, 2021	Expiration Dates
NJR			
Bank revolving credit facility ⁽¹⁾	\$ 500,000	\$ 500,000	September 2026
Notes outstanding at end of period	\$ 220,350	\$ 219,100	
Weighted average interest rate at end of period	3.35 %	1.05 %	
Amount available at end of period ⁽²⁾	\$ 264,327	\$ 270,312	
Bank term loan credit agreement	\$ 150,000	\$ —	February 2023
Loans outstanding at end of period	\$ 150,000	\$ —	
Weighted average interest rate at end of period	1.89 %	— %	
Amount available at end of period	\$ —	\$ —	
NJNG			
Bank revolving credit facility ⁽³⁾	\$ 250,000	\$ 250,000	September 2026
Commercial paper and notes outstanding at end of period	\$ —	\$ 158,200	
Weighted average interest rate at end of period	— %	0.17 %	
Amount available at end of period ⁽⁴⁾	\$ 249,269	\$ 91,069	

(1) Committed credit facilities, which require commitment fees of 0.10 percent on the unused amounts.

(2) Letters of credit outstanding total \$15.3 million at June 30, 2022 and \$10.6 million at September 30, 2021, which reduces the 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 at both June 30, 2022 and September 30, 2021, which reduces the amount available by the same amount.

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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 facility or term loan.

Long-term Debt

NJR

On February 16, 2022, NJR signed a commitment letter with a financial institution to refinance \$50 million of its Senior Unsecured Notes that are currently scheduled to mature in September 2022. The new Senior Unsecured Note will be financed over a 12-year term with an interest rate of 3.64 percent maturing in 2034.

On June 23, 2022, NJR entered into a Note Purchase Agreement under which NJR issued \$110 million, Series 2022A senior notes at a fixed rate of 4.38 percent, maturing in 2027. The senior notes are unsecured and guaranteed by certain unregulated subsidiaries of NJR.

NJNG

On October 28, 2021, NJNG entered into a Note Purchase Agreement for \$100 million of its senior notes, of which \$50 million were issued at an interest rate of 2.97 percent, maturing in 2051, and \$50 million were issued at an interest rate of 3.07 percent, maturing in 2061. The senior notes are secured by an equal principal amount of NJNG's FMBs issued under NJNG's Mortgage Indenture.

On May 27, 2022, NJNG entered into a Note Purchase Agreement for \$100 million of its senior notes, of which \$50 million were issued at an interest rate of 4.37 percent, maturing in 2037, and \$50 million were issued at an interest rate of 4.71 percent, maturing in 2052. The senior notes are secured by an equal principal amount of NJNG's FMBs issued under NJNG's Mortgage Indenture.

NJNG received \$17.3 million during the nine months ended June 30, 2022, in connection with the sale leaseback of its natural gas meters. NJNG records a financing 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. There were no natural gas meter sale leasebacks recorded during the nine months ended June 30, 2021. NJNG exercised early purchase options with respect to meter leases by making final principal payments of \$1.1 million and \$1.2 million during the nine months ended June 30, 2022 and 2021, respectively.

Clean Energy Ventures

Clean Energy Ventures enters into transactions to sell certain commercial solar assets concurrent with agreements to lease the assets back over a period of five to 15 years. These transactions are treated as financing obligations for accounting purposes and are typically secured by the renewable energy facility asset and its future cash flows from RECs and energy sales. ITCs and other tax benefits associated with these solar projects are transferred 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. Clean Energy Ventures continues to operate the solar assets, including related expenses, and retain the revenue generated from RECs and energy sales, and has the option to renew the lease or repurchase the assets sold at the end of the lease term. During the nine months ended June 30, 2022 and 2021, Clean Energy Ventures received proceeds of \$3.3 million and \$17.7 million, respectively, in connection with the sale leaseback of commercial solar projects. The proceeds received were recognized as a financing obligation on the Unaudited Condensed Consolidated Balance Sheets.

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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		Nine Months Ended		Three Months Ended		Nine Months Ended	
	June 30,		June 30,		June 30,		June 30,	
(Thousands)	2022	2021	2022	2021	2022	2021	2022	2021
Service cost	\$ 2,073	\$ 2,182	\$ 6,219	\$ 6,547	\$ 1,077	\$ 1,211	\$ 3,229	\$ 3,633
Interest cost	2,408	2,278	7,224	6,834	1,588	1,518	4,766	4,553
Expected return on plan assets	(5,319)	(5,037)	(15,956)	(15,112)	(1,893)	(1,625)	(5,681)	(4,873)
Recognized actuarial loss	2,186	2,862	6,558	8,585	1,421	1,978	4,263	5,933
Prior service cost (credit) amortization	25	25	76	76	(35)	(44)	(107)	(134)
Net periodic benefit cost	\$ 1,373	\$ 2,310	\$ 4,121	\$ 6,930	\$ 2,158	\$ 3,038	\$ 6,470	\$ 9,112

The Company does not expect to be required to make additional contributions to fund the pension plans during fiscal 2022 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 nine months ended June 30, 2022 and 2021.

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.

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, the Company 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.

The Company 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.

Effective Tax Rate

The estimated annual effective tax rates were 22.5 percent and 19.9 percent, for the nine months ended June 30, 2022 and 2021, respectively.

To the extent there are discrete tax items that are not included in the estimated annual effective tax rate, the actual reported effective tax rate may differ from the estimated annual effective tax rate. During the nine months ended June 30, 2022 and 2021, discrete items totaled approximately \$(164,000) and \$11.8 million, respectively, related to excess tax (benefit) provision associated with the vesting of share-based awards along with the impairment of the equity method investment in PennEast, net of any recognized valuation allowances. NJR's actual reported effective tax rate was 22.5 percent and 24.0 percent during the nine months ended June 30, 2022 and 2021, respectively.

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Other Tax Items

As of June 30, 2022 and September 30, 2021, the Company has tax credit carryforwards of approximately \$227.8 million and \$224.2 million, respectively, which each have a life of 20 years. The Company expects to utilize this entire carryforward prior to expiration, which would begin in fiscal 2035.

As of June 30, 2022 and September 30, 2021, the Company has state income tax net operating losses of approximately \$406.9 million and \$554.6 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 began 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 impairment of the equity method investment in PennEast created net capital loss attributes totaling approximately \$61.8 million, which can only be utilized to offset capital gains income, and can be carried back three years and forward five years prior to expiration.

As of June 30, 2022, the Company has a valuation allowance totaling \$23.7 million comprised of approximately \$17.3 million related to the recognition of state net operating loss carryforwards, which primarily relate to New Jersey and approximately \$6.4 million related to capital loss carryforwards resulting from the impairment of the equity method investment in PennEast, which the Company believes may not be fully utilized prior to expiration. As of September 30, 2021, the Company had a valuation allowance totaling \$23.6 million related to the state net operating loss carryforwards and the capital loss carryforwards resulting from the impairment of the equity method investment, as previously discussed.

The Consolidated Appropriations Act extended the 30 percent ITC for solar property that is under construction on or before December 31, 2019. Projects placed in service after December 31, 2019, may also qualify 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 ITC safe harbor determination. The credit declined to 26 percent for property under construction before the end of 2020. The Consolidated Appropriations Act of 2021 extended the 26 percent tax credit for property under construction during 2021 and 2022. The credit will decrease to 22 percent for property under construction before the end of 2023. After 2023 the ITC will be reduced to 10 percent.

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. After the criteria is satisfied, the Company accounts for these arrangements as 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.

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. The 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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Generally, the Company's solar land lease terms are between 20 and 50 years and may include multiple options to extend the terms for an additional five to 20 years. The Company's office leases vary in duration, ranging from two to 17 years and may or may not include extension or early purchase options. The Company's meter lease terms are between seven and ten years with purchase options available prior to the end of the term. Equipment leases include general office equipment that also vary in duration, with an average term of six 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. In July 2021, NJNG entered into 16-year lease agreements, as Lessor, with various NJR subsidiaries, as Lessees, for office space at the Company's headquarters in Wall, New Jersey, the effects of which are eliminated in consolidation.

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		Nine Months Ended	
		June 30,		June 30,	
		2022	2021	2022	2021
Operating lease cost ⁽¹⁾	Operation and maintenance	\$ 2,343	\$ 2,366	\$ 7,377	\$ 5,811
Finance lease cost					
Amortization of right-of-use assets	Depreciation and amortization	458	640	1,311	3,077
Interest on lease liabilities	Interest expense, net of capitalized interest	220	193	404	527
Total finance lease cost		678	833	1,715	3,604
Short-term lease cost	Operation and maintenance	—	127	23	381
Variable lease cost	Operation and maintenance	182	262	545	964
Total lease cost		\$ 3,203	\$ 3,588	\$ 9,660	\$ 10,760

(1) Net of capitalized costs.

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

(Thousands)	Nine Months Ended	
	June 30,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	\$ 5,205	\$ 4,539
Operating cash flows for finance leases	\$ 623	\$ 984
Financing cash flows for finance leases	\$ 5,540	\$ 6,930

Assets obtained or modified for operating lease liabilities totaled approximately \$87,000 during the three months ended June 30, 2022, and totaled \$911,000 and \$12.8 million during the nine months ended June 30, 2022 and 2021, respectively. There were no assets obtained or modified through amendments in exchange for operating lease liabilities during the three months ended June 30, 2021.

Assets obtained or modified through finance lease liabilities totaled \$17.3 million during the nine months ended June 30, 2022. There were no assets obtained or modified through finance lease liabilities during the three months ended June 30, 2022 and the three and nine months ended June 30, 2021.

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

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:

<i>(Thousands)</i>	Balance Sheet Location	June 30, 2022	September 30, 2021
Assets			
Noncurrent			
Operating lease assets	Operating lease assets	\$ 169,884	\$ 173,928
Finance lease assets	Utility plant	22,370	13,489
Total lease assets		\$ 192,254	\$ 187,417
Liabilities			
Current			
Operating lease liabilities	Operating lease liabilities	\$ 4,893	\$ 4,300
Finance lease liabilities	Current maturities of long-term debt	6,491	5,393
Noncurrent			
Operating lease liabilities	Operating lease liabilities	139,289	141,363
Finance lease liabilities	Long-term debt	25,404	14,742
Total lease liabilities		\$ 176,077	\$ 165,798

For operating lease assets and liabilities, the weighted average remaining lease term was 29.4 years and 29.6 years as of June 30, 2022 and September 30, 2021, respectively, and the weighted average discount rate used in the valuation over the remaining lease term was 3.2 percent for both June 30, 2022 and September 30, 2021.

For finance lease assets and liabilities as of June 30, 2022 and September 30, 2021, the weighted average remaining lease term was 4.2 years and 3.4 years, respectively, and the weighted average discount rate used in the valuation over the remaining lease term is 2.7 percent and 3.5 percent as of June 30, 2022 and September 30, 2021, respectively.

13. COMMITMENTS AND CONTINGENT LIABILITIES

Cash Commitments

NJNG has entered into long-term contracts, expiring at various dates through September 2039, for the supply, transportation and storage of natural gas. These contracts include annual fixed charges of approximately \$198.0 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 June 30, 2022, for natural gas purchases and future demand fees for the next five fiscal year periods are as follows:

<i>(Thousands)</i>	2022	2023	2024	2025	2026	Thereafter
Energy Services:						
Natural gas purchases	\$ 68,598	\$ 69,392	\$ 557	\$ —	\$ —	\$ —
Storage demand fees	6,054	20,671	12,606	6,450	3,797	3,027
Pipeline demand fees	18,403	55,323	41,802	27,037	26,420	32,087
Sub-total Energy Services	\$ 93,055	\$ 145,386	\$ 54,965	\$ 33,487	\$ 30,217	\$ 35,114
NJNG:						
Natural gas purchases	\$ 37,381	\$ 4,770	\$ —	\$ —	\$ —	\$ —
Storage demand fees	12,585	47,476	35,322	17,362	10,266	14,320
Pipeline demand fees	36,029	149,114	94,345	136,535	127,713	1,181,829
Sub-total NJNG	\$ 85,995	\$ 201,360	\$ 129,667	\$ 153,897	\$ 137,979	\$ 1,196,149
Total	\$ 179,050	\$ 346,746	\$ 184,632	\$ 187,384	\$ 168,196	\$ 1,231,263

Certain pipeline demand fees totaling approximately \$4.0 million per year, for which Energy Services is the responsible party, are being 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, Freehold and Aberdeen, New Jersey, 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 natural resource damages that might be brought by the NJDEP for alleged injury to groundwater or other natural resources concerning these sites will range from approximately \$115.9 million to \$178.8 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, as of June 30, 2022, NJNG recorded a MGP remediation liability and a corresponding regulatory asset of approximately \$120.6 million on the Unaudited Condensed Consolidated Balance Sheets based on the most likely amount. 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. 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 at June 30, 2022 and September 30, 2021. NJNG will continue to gather information to determine whether the obligation exists to undertake remedial action, if any, and refine its estimate of potential costs for this site as more information becomes available.

NJNG recovers its remediation expenditures, including carrying costs, over rolling seven-year periods pursuant to a RAC approved by the BPU. On March 23, 2022, the BPU approved an increase in the RAC, which increased the pre-tax annual recovery from \$11.1 million to \$11.7 million, effective April 1, 2022. As of June 30, 2022, \$65.6 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, the Company 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. The Company also discloses contingent matters for which there is a reasonable possibility of a loss. Based upon currently available information, the Company believes that the results of litigation that are 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.

The foregoing statements about the Company'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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. 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.

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
<i>(Thousands)</i>	2022	2021	2022	2021
Operating revenues				
Natural Gas Distribution				
External customers	\$ 199,357	\$ 127,626	\$ 937,266	\$ 633,522
Intercompany	338	—	1,013	—
Clean Energy Ventures				
External customers	13,795	13,381	35,805	26,227
Energy Services				
External customers ⁽¹⁾	309,236	202,516	1,086,093	889,631
Intercompany	(1,421)	(922)	3,611	4,009
Storage and Transportation				
External customers	15,779	10,999	40,168	36,703
Intercompany	611	650	1,707	1,976
Subtotal	537,695	354,250	2,105,663	1,592,068
Home Services and Other				
External customers	14,168	13,071	41,161	38,002
Intercompany	52	241	232	660
Eliminations	420	31	(6,563)	(6,645)
Total	\$ 552,335	\$ 367,593	\$ 2,140,493	\$ 1,624,085
Depreciation and amortization				
Natural Gas Distribution	\$ 23,951	\$ 19,894	\$ 70,188	\$ 58,538
Clean Energy Ventures	5,358	5,200	15,902	15,318
Energy Services ⁽²⁾	34	28	94	83
Storage and Transportation	3,323	2,443	8,027	7,447
Subtotal	32,666	27,565	94,211	81,386
Home Services and Other	207	260	614	747
Eliminations	(1)	(58)	(125)	(156)
Total	\$ 32,872	\$ 27,767	\$ 94,700	\$ 81,977
Interest income ⁽³⁾				
Natural Gas Distribution	\$ 250	\$ 90	\$ 634	\$ 248
Clean Energy Ventures	—	—	—	240
Energy Services	—	11	—	11
Storage and Transportation	501	350	1,259	1,895
Subtotal	751	451	1,893	2,394
Home Services and Other	225	129	527	388
Eliminations	(292)	(233)	(747)	(709)
Total	\$ 684	\$ 347	\$ 1,673	\$ 2,073

(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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	2022	2021	2022	2021
Interest expense, net of capitalized interest				
Natural Gas Distribution	\$ 11,474	\$ 8,667	\$ 33,233	\$ 26,647
Clean Energy Ventures	5,510	4,998	16,332	15,298
Energy Services	1,115	240	2,585	1,495
Storage and Transportation	3,177	2,937	7,160	10,497
Subtotal	21,276	16,842	59,310	53,937
Home Services and Other	135	1,902	504	4,746
Total	\$ 21,411	\$ 18,744	\$ 59,814	\$ 58,683
Income tax provision (benefit)				
Natural Gas Distribution	\$ 1,508	\$ 889	\$ 44,401	\$ 24,878
Clean Energy Ventures	(1,526)	(1,448)	(5,524)	(7,248)
Energy Services	2,338	(8,805)	22,053	26,445
Storage and Transportation	1,675	(10,393)	2,732	(8,874)
Subtotal	3,995	(19,757)	63,662	35,201
Home Services and Other	180	415	682	474
Eliminations	259	557	(293)	2,038
Total	\$ 4,434	\$ (18,785)	\$ 64,051	\$ 37,713
Equity in earnings (loss) of affiliates				
Storage and Transportation	\$ 5,274	\$ (88,615)	\$ 7,586	\$ (82,036)
Eliminations	(473)	(618)	(1,441)	(1,718)
Total	\$ 4,801	\$ (89,233)	\$ 6,145	\$ (83,754)
Net financial earnings (loss)				
Natural Gas Distribution	\$ 2,648	\$ 1,581	\$ 156,511	\$ 131,589
Clean Energy Ventures	(5,098)	(4,926)	(18,410)	(24,072)
Energy Services	(5,003)	(12,527)	42,504	85,501
Storage and Transportation	3,526	2,387	11,113	10,606
Subtotal	(3,927)	(13,485)	191,718	203,624
Home Services and Other	215	(384)	1,113	301
Eliminations	161	(279)	(406)	(2,812)
Total	\$ (3,551)	\$ (14,148)	\$ 192,425	\$ 201,113
Capital expenditures				
Natural Gas Distribution	\$ 79,976	\$ 150,642	\$ 205,440	\$ 327,127
Clean Energy Ventures	38,948	10,661	105,504	51,545
Storage and Transportation	20,560	22,479	129,608	50,186
Subtotal	139,484	183,782	440,552	428,858
Home Services and Other	320	244	562	1,055
Total	\$ 139,804	\$ 184,026	\$ 441,114	\$ 429,913
Investments in (return of capital from) equity investees				
Storage and Transportation	\$ (1,479)	\$ 208	\$ (5,479)	\$ 690
Total	\$ (1,479)	\$ 208	\$ (5,479)	\$ 690

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

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

<i>(Thousands)</i>	June 30, 2022	September 30, 2021
Assets at end of period:		
Natural Gas Distribution	\$ 3,959,609	\$ 3,707,461
Clean Energy Ventures	994,762	914,788
Energy Services	370,233	365,423
Storage and Transportation	985,525	862,407
Subtotal	6,310,129	5,850,079
Home Services and Other	139,652	162,134
Intercompany assets ⁽¹⁾	(287,860)	(289,935)
Total	\$ 6,161,921	\$ 5,722,278

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

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

<i>(Thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Net financial (loss) earnings	\$ (3,551)	\$ (14,148)	\$ 192,425	\$ 201,113
Less:				
Unrealized (gain) loss on derivative instruments and related transactions	(17,891)	21,862	(58,060)	13,627
Tax effect	4,253	(5,198)	13,809	(3,240)
Effects of economic hedging related to natural gas inventory	428	2,486	25,160	(12,255)
Tax effect	(102)	(591)	(5,979)	2,912
(Gain on) impairment of equity method investment	(4,021)	92,000	(4,021)	92,000
Tax effect	1,003	(11,934)	1,003	(11,934)
NFE tax adjustment	(274)	(942)	113	980
Net income (loss)	\$ 13,053	\$ (111,831)	\$ 220,400	\$ 119,023

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 are 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. 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. NFE also excludes certain transactions associated with equity method investments, including impairment charges, which are non-cash charges, and return of capital in excess of the carrying value of our investment. These are considered unusual in nature and occur infrequently such that they are not indicative of the Company's performance for its ongoing operations. Included in the tax effects are current and deferred income tax expense corresponding with the components of NFE. The Company also calculates a quarterly tax adjustment based on an estimated annual effective tax rate for NFE purposes.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. 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 June 30, 2022, Energy Services entered into transactions with Steckman Ridge for varying terms, all of which expire by March 31, 2024.

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

(Thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Natural Gas Distribution	\$ 1,651	\$ 1,687	\$ 5,015	\$ 4,760
Energy Services	187	13	552	403
Total	\$ 1,838	\$ 1,700	\$ 5,567	\$ 5,163

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

(Thousands)	June 30, 2022	September 30, 2021
Natural Gas Distribution	\$ 775	\$ 778
Energy Services	80	83
Total	\$ 855	\$ 861

NJNG and Energy Services have entered into various AMAs, 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 June 30, 2022, NJNG and Energy Services had one AMA with an expiration date of March 31, 2023.

NJNG has entered into a 5-year transportation precedent agreement with Adelphia Gateway for committed capacity of 130,000 Dekatherms per day, which is expected to begin during the first quarter of fiscal 2023.

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.

In March 2021, NJNG and Clean Energy Ventures entered into a 15-year sublease and PPA agreement related to an onsite solar array and the related energy output at the Company's headquarters in Wall, New Jersey, the effects of which are immaterial to the consolidated financial statements.

In July 2021, NJNG entered into 16-year lease agreements, as Lessor, with various NJR subsidiaries, as Lessees, for office space at the Company's headquarters in Wall, New Jersey, the effects of which are eliminated in consolidation.

In June 2022, NJNG and Clean Energy Ventures entered into a 20-year sublease and PPA agreement related to an onsite solar array and the related energy output at the Company's LNG plant in Howell, New Jersey, the effects of which are immaterial to the consolidated financial statements.

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

Critical Accounting Estimates

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, 2021. Our critical accounting policies have not changed from those reported in the 2021 Annual Report on Form 10-K.

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

Recently Issued Accounting Standards

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

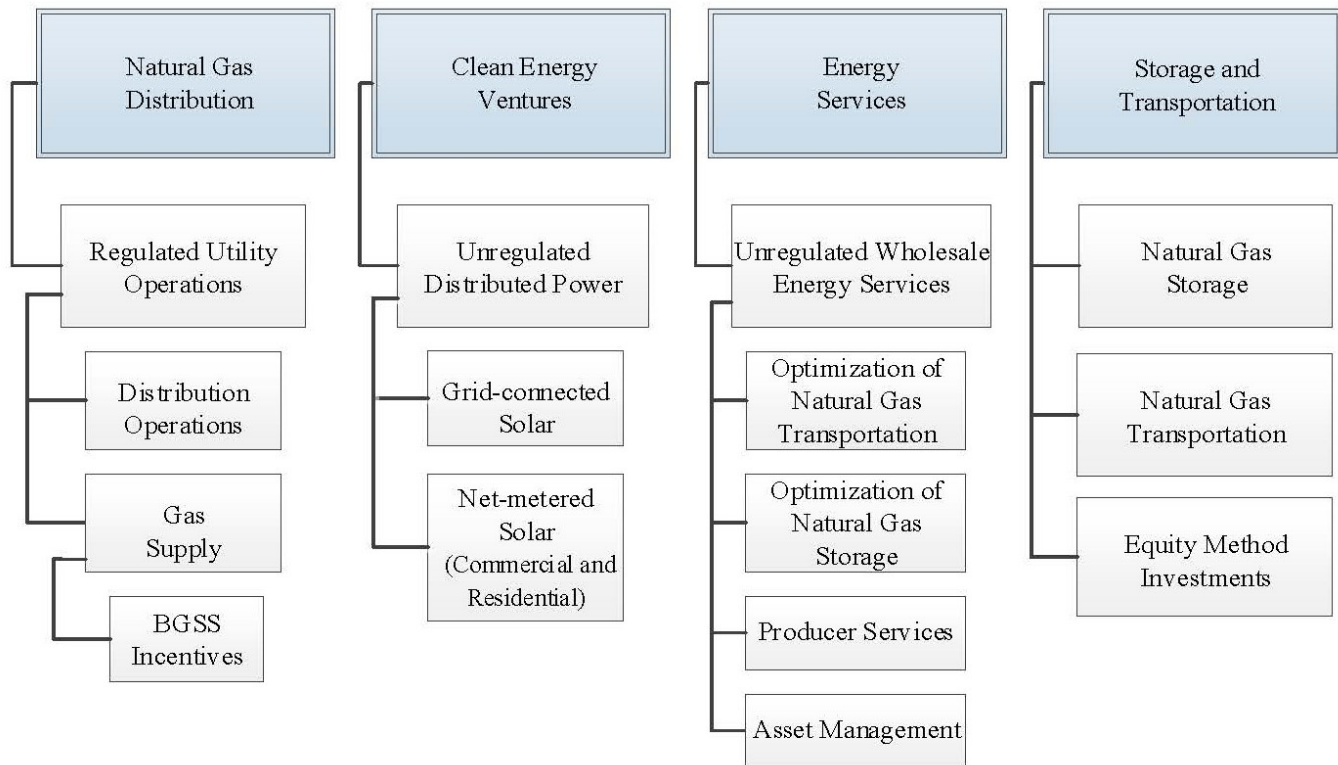
Management's Overview

Consolidated

NJR is a diversified energy services holding company providing retail natural gas service in New Jersey and wholesale natural gas and related energy services to customers in the U.S. and Canada. In addition, we invest in clean energy projects, storage and transportation assets and provide various repair, sales and installation services. A more detailed description of our organizational structure can be found in *Item 1. Business* of our 2021 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, commercial real estate holdings at CR&R and home warranty contracts at NJR Retail.

Impacts of the COVID-19 Pandemic

We continue to closely monitor developments related to the COVID-19 pandemic and have, when appropriate, taken steps intended to limit potential exposure for our employees and those we serve, including continuity in the safe operation of our business. These steps include working from home for our office-based employees utilizing a hybrid schedule, limiting direct contact with our customers and suspending late payment fees for our utility customers. And while we, along with other businesses, are continuing to return to normal operating practices, this remains an evolving situation. The timing for recovery of businesses and local economies, resurgences or mutations of the virus, and any potential future shutdowns remains unknown. Throughout the COVID-19 pandemic, we have continued to provide essential services to our customers. Both NJR and NJNG

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

continue to have sufficient liquidity to meet their current obligations and business operations remain fundamentally unchanged at this time. We cannot predict the nature and extent of impacts to future operations, or its effects on our financial condition, results of operations and cash flows. 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.

Operating Results

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

	Three Months Ended					Nine Months Ended						
	June 30,					June 30,						
(Thousands)	2022		2021			2022		2021				
Net income (loss)												
Natural Gas Distribution	\$	2,648	20 %	\$	1,581	(1)%	\$	156,511	71 %	\$	131,589	111 %
Clean Energy Ventures		(5,098)	(39)		(4,926)	4		(18,410)	(8)		(24,072)	(20)
Energy Services		7,501	57		(30,846)	28		70,214	32		83,688	70
Storage and Transportation		6,544	50		(77,679)	69		14,131	6		(69,460)	(58)
Home Services and Other		215	2		(384)	—		1,113	1		301	—
Eliminations ⁽¹⁾		1,243	10		423	—		(3,159)	(2)		(3,023)	(3)
Total	\$	13,053	100 %	\$	(111,831)	100 %	\$	220,400	100 %	\$	119,023	100 %

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

The increase in net income during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, was due primarily to the impairment of our equity method investment in PennEast during fiscal 2021, increased earnings at NJNG due to higher base rates and the commencement of AMAs at Energy Services with an investment grade public utility, which began in November 2021, partially offset by decreased earnings at Energy Services resulting from extreme cold weather and strong market demand during February 2021, which did not reoccur to the same extent during 2022.

Assets by reporting segment and operations are as follows:

<i>(Thousands)</i>	June 30, 2022		September 30, 2021	
Assets				
Natural Gas Distribution	\$ 3,959,609	64 %	\$ 3,707,461	65 %
Clean Energy Ventures	994,762	16	914,788	16
Energy Services	370,233	6	365,423	6
Storage and Transportation	985,525	16	862,407	15
Home Services and Other	139,652	2	162,134	3
Intercompany assets ⁽¹⁾	(287,860)	(4)	(289,935)	(5)
Total	\$ 6,161,921	100 %	\$ 5,722,278	100 %

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

The increase in assets was due primarily to additional investment in utility plant and an increase in accounts receivable in our Natural Gas Distribution segment, solar asset investments at Clean Energy Ventures and increased infrastructure spend in Storage and Transportation primarily related to the on-going conversion and construction of the southern end of Adelphia Gateway.

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

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. To the extent we utilize forwards, futures, or other derivatives to hedge forecasted SREC production, unrealized gains and losses are also eliminated from NFE. NFE also excludes certain transactions associated with equity method investments, including impairment charges, which are non-cash charges, and return of capital in excess of the carrying value of our investment. These are considered unusual in nature and occur infrequently such that they are not indicative of the Company's performance for its ongoing operations. Included in the tax effects are current and deferred income tax expense corresponding with the components of NFE.

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.

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:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
<i>(Thousands, except per share data)</i>	2022	2021	2022	2021
Net income (loss)	\$ 13,053	\$ (111,831)	\$ 220,400	\$ 119,023
Add:				
Unrealized (gain) loss on derivative instruments and related transactions	(17,891)	21,862	(58,060)	13,627
Tax effect	4,253	(5,198)	13,809	(3,240)
Effects of economic hedging related to natural gas inventory ⁽¹⁾	428	2,486	25,160	(12,255)
Tax effect	(102)	(591)	(5,979)	2,912
(Gain on) impairment of equity method investment	(4,021)	92,000	(4,021)	92,000
Tax effect	1,003	(11,934)	1,003	(11,934)
NFE tax adjustment	(274)	(942)	113	980
Net financial (loss) earnings	\$ (3,551)	\$ (14,148)	\$ 192,425	\$ 201,113
Basic earnings (loss) per share	\$ 0.14	\$ (1.16)	\$ 2.29	\$ 1.24
Add:				
Unrealized (gain) loss on derivative instruments and related transactions	(0.19)	0.22	(0.60)	0.14
Tax effect	0.04	(0.05)	0.14	(0.03)
Effects of economic hedging related to natural gas inventory ⁽¹⁾	—	0.03	0.26	(0.13)
Tax effect	—	(0.01)	(0.06)	0.03
(Gain on) impairment of equity method investment	(0.04)	0.95	(0.04)	0.95
Tax effect	0.01	(0.12)	0.01	(0.12)
NFE tax adjustment	—	(0.01)	—	0.01
Basic NFE per share	\$ (0.04)	\$ (0.15)	\$ 2.00	\$ 2.09

(1) 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)

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

	Three Months Ended June 30,					Nine Months Ended June 30,						
(Thousands)	2022		2021			2022		2021				
Net financial earnings (loss)												
Natural Gas Distribution	\$	2,648	(75)%	\$	1,581	(11)%	\$	156,511	81 %	\$	131,589	65 %
Clean Energy Ventures		(5,098)	144		(4,926)	35		(18,410)	(10)		(24,072)	(12)
Energy Services		(5,003)	141		(12,527)	89		42,504	22		85,501	43
Storage and Transportation		3,526	(99)		2,387	(17)		11,113	6		10,606	5
Home Services and Other		215	(6)		(384)	3		1,113	1		301	—
Eliminations ⁽¹⁾		161	(5)		(279)	1		(406)	—		(2,812)	(1)
Total	\$	(3,551)	100 %	\$	(14,148)	100 %	\$	192,425	100 %	\$	201,113	100 %

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

The increase in NFE during the three months ended June 30, 2022, compared with the three months ended June 30, 2021, was due primarily to increased earnings at Energy Services related to the commencement of AMAs at Energy Services and higher base rates at NJNG as previously discussed. The decrease in NFE during the nine months ended June 30, 2022, compared with the nine months ended June 30, 2021, was due primarily to decreased earnings at Energy Services related to the extreme cold weather during February 2021, which did not reoccur to the same extent during 2022, partially offset by the commencement of AMAs at Energy Services and higher base rates at NJNG as previously discussed.

Natural Gas Distribution Segment

Overview

Our Natural Gas Distribution segment is comprised of NJNG, a natural gas utility that provides regulated natural gas service throughout Burlington, Middlesex, Monmouth, Morris, Ocean, and Sussex counties in New Jersey to approximately 568,600 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, which may include but are 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 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 generates 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 fiscal 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.

Base Rate Case

On November 17, 2021, the BPU issued an order adopting a stipulation of settlement approving a \$79.0 million increase to base rates, effective December 1, 2021. In addition, the order also included approval for the final increase for the NJ RISE/SAFE II programs, which totaled \$269,000. These increases include an overall rate of return on rate base of 6.84 percent, return on common equity of 9.6 percent, a common equity ratio of 54.0 percent and a composite depreciation rate of 2.78 percent.

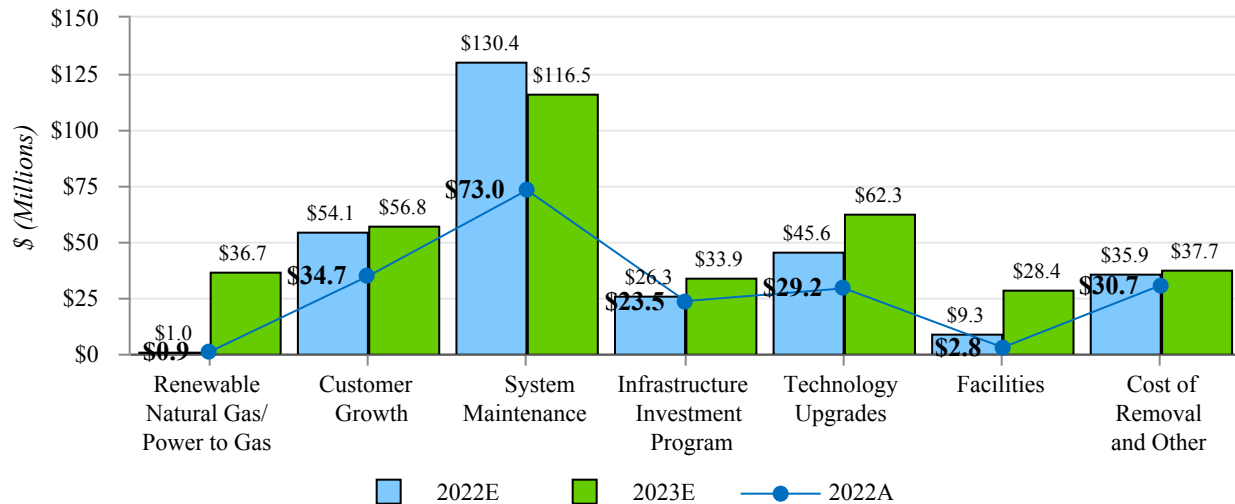
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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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 nine months ended June 30, 2022, and estimates of expected investments for fiscal 2022 and 2023:



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.

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

Infrastructure Investment Program

In February 2019, NJNG filed a petition with the BPU seeking authority to implement a five-year IIP. The IIP consisted of two components: transmission and distribution investments and information technology replacement and enhancements. The total investment for the IIP was approximately \$507.0 million. All approved investments will be recovered through annual filings to adjust base rates. In October 2020, the BPU approved the Company's transmission and distribution component of the IIP for \$150.0 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. On March 31, 2022, NJNG filed its first rate recovery request for its BPU approved IIP with capital expenditures estimated through June 30, 2022, including AFUDC. On July 13, 2022, NJNG filed its update with actual capital expenditures of \$28.9 million.

SAFE II and NJ RISE

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 was requested for recovery in base rate cases, of which \$23.4 million was approved in NJNG's 2019 base rate case and \$19.1 million was approved in the 2021 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.

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

In March 2021, NJNG filed a petition with the BPU requesting the final base rate increase for the recovery associated with NJ RISE and SAFE II capital investments cost of approximately \$3.4 million made through June 30, 2021. In June 2021, this filing was consolidated with the 2021 base rate case. On November 17, 2021, the BPU issued an order for the consolidated matter which included approval for the final increase for the NJ RISE and SAFE II programs of \$269,000. With this approval, the filings with respect to NJ RISE and SAFE II are complete.

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:

	June 30, 2022	June 30, 2021
Firm customers		
Residential	510,931	500,923
Commercial, industrial & other	31,469	30,789
Residential transport	17,605	22,030
Commercial transport	8,547	8,895
Total firm customers	568,552	562,637
Other	48	106
Total customers	568,600	562,743

During the nine months ended June 30, 2022 and 2021, respectively, NJNG added 5,274 and 5,448 new customers. NJNG expects new customer additions, and those customers who added additional natural gas services to their premises to contribute approximately \$4.4 million of incremental utility gross margin on an annualized basis.

NJNG continues to expect to add approximately 28,000 to 30,000 new customers during the three-year period of fiscal 2022 to 2024. 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 \$19.1 million annually, as calculated under NJNG's CIP tariff.

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. In March 2021, the BPU approved a three-year SAVEGREEN program consisting of approximately \$126.1 million of direct investment, \$109.4 million in financing options, and approximately \$23.4 million in operation and maintenance expenses, which resulted in a \$15.6 million annual recovery increase, effective July 1, 2021.

In May 2020, NJNG filed a petition with the BPU to decrease its EE recovery rate. In October 2020, 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.

In June 2021, NJNG submitted its annual cost recovery filing for the SAVEGREEN programs established from 2010 through 2021. On January 26, 2022, the BPU approved the stipulation, which increased annual recoveries by \$2.2 million, effective February 1, 2022.

On June 1, 2022, NJNG submitted its annual cost recovery filing for the SAVEGREEN programs established from 2010 through present. If approved, the proposed rate increase will increase annual recoveries by \$500,000, effective October 1, 2022.

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

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

<i>(Thousands)</i>	June 30, 2022	September 30, 2021
Loans	\$ 146,800	\$ 132,800
Grants, rebates and related investments	119,800	98,100
Total	\$ 266,600	\$ 230,900

Program recoveries from customers during the nine months ended June 30, 2022 and 2021, were \$23.5 million and \$10.2 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 9.6 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.

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

<i>(Thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Weather ⁽¹⁾	\$ 806	\$ 483	\$ 22,263	\$ 13,273
Usage	(774)	2,784	1,210	(461)
Total	\$ 32	\$ 3,267	\$ 23,473	\$ 12,812

(1) Compared with the 20-year average, weather was 6.4 percent warmer-than-normal and 3.1 percent warmer-than-normal during the three months ended June 30, 2022 and 2021, respectively, and 8.5 percent warmer-than-normal and 6.1 percent warmer-than-normal during the nine months ended June 30, 2022 and 2021, respectively.

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 terms 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.

During fiscal 2021, NJNG notified the BPU of its intent to provide BGSS bill credits to residential and small commercial sales customers. The actual bill credits given to customers totaled \$20.6 million, \$19.3 million net of tax.

On November 17, 2021, the BPU approved on a preliminary basis a \$2.9 million increase to the annual revenues credited to BGSS, a \$13.0 million annual increase related to its balancing charge, as well as changes to CIP rates, which resulted in a \$6.3 million annual recovery decrease, effective December 1, 2021, and was approved on a final basis on May 4, 2022.

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

On November 19, 2021, NJNG submitted notification of its intent to self-implement an increase to its BGSS rate, which resulted in an approximately \$24.2 million increase to annual revenues credited to BGSS, effective December 1, 2021.

On June 1, 2022, NJNG submitted its annual petition to modify its BGSS, balancing charge and CIP rates. If approved, the proposed rate changes will result in a \$81.9 million increase to the annual revenues credited to BGSS, a \$9.0 million annual increase related to its balancing charge, as well as changes to CIP rates, which resulted in a \$13.7 million annual recovery increase, effective October 1, 2021. 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.

BGSS Incentive Programs

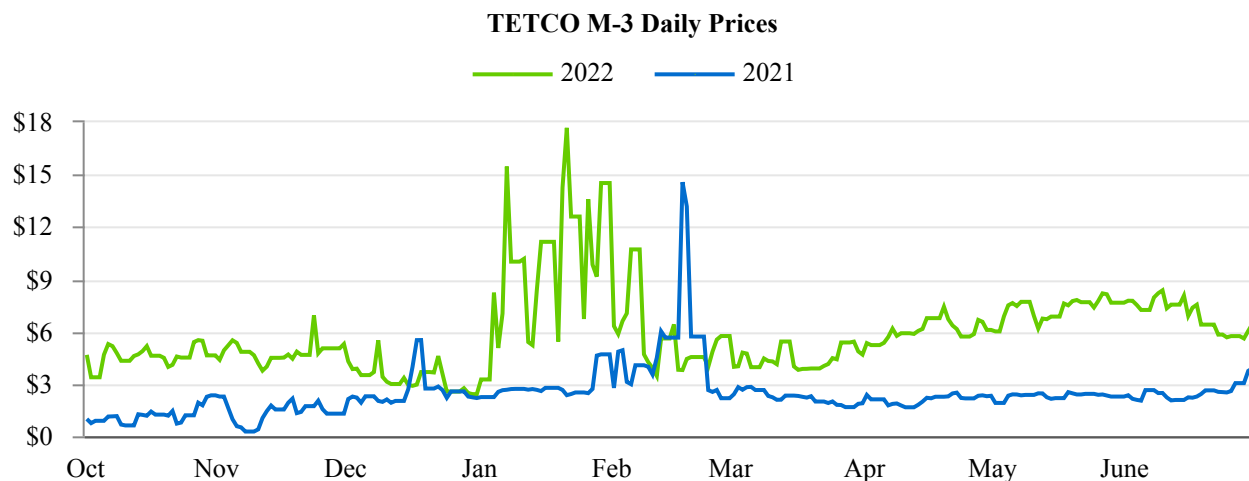
NJNG is eligible to receive financial incentives for reducing BGSS costs through a series of utility gross margin-sharing programs that include off-system sales, capacity release and storage incentive programs. These programs are designed to encourage better utilization and hedging of NJNG's natural 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 \$1.9 million and \$3.3 million during the three months ended June 30, 2022 and 2021, respectively, and \$12.1 million and \$10.0 million during the nine months ended June 30, 2022 and 2021, 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. 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 sourced from Standard & Poor's Financial Services, LLC Global Platts.

The maximum price per MMBtu was \$17.69 and \$14.57 and the minimum price was \$2.42 and \$0.28 for the nine months ended June 30, 2022 and 2021, respectively. A more detailed discussion of the impacts of the price of natural gas on operating

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

revenues, natural gas purchases and cash flows can be found in the *Operating Results* and *Cash Flow* sections of *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Societal Benefits Charge

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.

In April 2021, the BPU approved on a final basis NJNG's annual SBC application 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, which was effective May 1, 2021.

In September 2021, the BPU approved on a final basis NJNG's annual USF compliance filing, which resulted in an annual increase of approximately \$4.9 million, effective October 1, 2021.

On March 23, 2022, the BPU approved on a final basis NJNG's annual SBC application to recover remediation expenses, including an increase in the RAC, of approximately \$600,000 annually and a decrease to the NJCEP factor of approximately \$2.9 million, effective April 1, 2022.

On June 27, 2022, NJNG filed its annual USF compliance filing proposing a decrease to the statewide USF rate, which will result in an annual decrease of approximately \$2.4 million, effective October 1, 2022.

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 \$120.6 million as of June 30, 2022, a decrease of \$14.4 million compared with the prior fiscal period.

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 preliminary assessment and site investigation activities are ongoing at the Aberdeen, NJ site location and based on initial findings will be moving to remedial investigation phase. The costs associated with preliminary assessment, site investigation and remedial investigation activities are considered immaterial and are included as a 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.

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

Operating Results

NJNG's operating results are as follows:

<i>(Thousands)</i>	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Operating revenues ⁽¹⁾	\$ 199,695	\$ 127,626	\$ 938,279	\$ 633,522
Operating expenses				
Natural gas purchases ⁽²⁾⁽³⁾	102,624	44,111	442,441	221,872
Operation and maintenance	51,560	51,679	141,015	148,268
Regulatory rider expense ⁽⁴⁾	8,360	5,456	55,941	34,570
Depreciation and amortization	23,951	19,894	70,188	58,538
Total operating expenses	186,495	121,140	709,585	463,248
Operating income	13,200	6,486	228,694	170,274
Other income, net	2,430	4,651	5,451	12,840
Interest expense, net of capitalized interest	11,474	8,667	33,233	26,647
Income tax provision	1,508	889	44,401	24,878
Net income	\$ 2,648	\$ 1,581	\$ 156,511	\$ 131,589

- (1) Includes nonutility revenue of approximately \$338,000 and \$1.0 million for the three and nine months ended June 30, 2022, respectively, for lease agreements with various NJR subsidiaries leasing office space from NJNG at the Company's headquarters that commenced in July 2021, which are eliminated in consolidation. There was no nonutility revenue for the three and nine months ended June 30, 2021.
- (2) Includes the purchased cost of the natural gas, fees paid to pipelines and storage facilities, adjustments as a result of BGSS incentive programs and hedging transactions. These expenses are passed through to customers and are offset by corresponding revenues.
- (3) Includes related party transactions of approximately \$2.3 million for both the three months ended June 30, 2022 and 2021, and approximately \$7.0 million and \$10.7 million for the nine months ended June 30, 2022 and 2021, respectively, a portion of which is eliminated in consolidation.
- (4) Consists of expenses associated with state-mandated programs, the RAC and energy efficiency programs, and are calculated on a per-therm basis. These expenses are passed through to customers and are offset by corresponding revenues.

Operating Revenues and Natural Gas Purchases

Operating revenues increased by 56.5 percent and 48.1 percent and natural gas purchases increased 132.6 percent and 99.4 percent during the three and nine months ended June 30, 2022, respectively, compared with the three and nine months ended June 30, 2021, respectively. The factors contributing to the increases and decreases in operating revenues and natural gas purchases are as follows:

<i>(Thousands)</i>	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2022 v. 2021		2022 v. 2021	
	Operating revenues	Natural gas purchases	Operating revenues	Natural gas purchases
BGSS incentives	\$ 46,522	\$ 47,844	\$ 155,949	\$ 153,850
Base rate impact	16,773	—	57,840	—
Average BGSS rates	9,389	9,389	48,840	48,840
Bill credits	—	—	20,590	20,590
Firm sales	(803)	129	(11,591)	(4,546)
CIP adjustments	(3,235)	—	10,661	—
Riders and other ⁽¹⁾	3,423	1,151	22,468	1,835
Total increase	\$ 72,069	\$ 58,513	\$ 304,757	\$ 220,569

- (1) Other includes changes in rider rates, including those related to EE, NJCEP and other programs, which is offset in regulatory rider expense.

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

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 operating revenues less natural gas purchases, sales tax, and regulatory rider expenses. This measure differs from gross margin as presented on a GAAP basis as it excludes certain operations and maintenance expense and depreciation and amortization. Utility gross margin may also 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 gross margin, the closest GAAP financial measure to NJNG's utility gross margin, is as follows:

(Thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Operating revenues	\$ 199,695	\$ 127,626	\$ 938,279	\$ 633,522
Less:				
Natural gas purchases	102,624	44,111	442,441	221,872
Operation and maintenance ⁽¹⁾	25,034	29,437	64,924	80,544
Regulatory rider expense	8,360	5,456	55,941	34,570
Depreciation and amortization	23,951	19,894	70,188	58,538
Gross margin	39,726	28,728	304,785	237,998
Add:				
Operation and maintenance ⁽¹⁾	25,034	29,437	64,924	80,544
Depreciation and amortization	23,951	19,894	70,188	58,538
Utility gross margin	\$ 88,711	\$ 78,059	\$ 439,897	\$ 377,080

(1) Excludes selling, general and administrative expenses of \$26.5 million and \$22.2 million for the three months ended June 30, 2022 and 2021, respectively, and approximately \$76.1 million and \$67.7 million for the nine months ended June 30, 2022 and 2021, respectively

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 June 30,				Nine Months Ended June 30,			
	2022		2021		2022		2021	
	Margin	Bcf	Margin	Bcf	Margin	Bcf	Margin	Bcf
Utility gross margin/throughput								
Residential	\$ 55,597	6.7	\$ 48,333	6.6	\$ 303,716	42.3	\$ 258,776	42.9
Commercial, industrial and other	15,387	1.3	14,282	1.2	64,609	7.9	54,372	7.9
Firm transportation	14,729	2.3	11,186	2.5	57,101	11.5	51,352	12.1
Total utility firm gross margin/throughput	85,713	10.3	73,801	10.3	425,426	61.7	364,500	62.9
BGSS incentive programs	1,938	20.3	3,260	24.9	12,051	69.4	9,952	74.4
Interruptible/off-tariff agreements	1,060	9.7	998	5.4	2,420	16.9	2,628	10.7
Total utility gross margin/throughput	\$ 88,711	40.3	\$ 78,059	40.6	\$ 439,897	148.0	\$ 377,080	148.0

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

Utility Firm Gross Margin

Utility firm gross margin increased \$11.9 million and \$60.9 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, respectively, due primarily to the increase in base rates as previously discussed.

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 June 30, 2022 v. 2021	Nine Months Ended June 30, 2022 v. 2021
Off-system sales	\$ 478	\$ 6,627
Storage	(1,097)	(2,766)
Capacity release	(703)	(1,762)
Total (decrease) increase	\$ (1,322)	\$ 2,099

The decrease in BGSS incentive programs during the three months ended June 30, 2022, compared with the three months ended June 30, 2021, was due primarily to the timing differences for storage incentive and lower capacity release volumes, partially offset by increased off-system sales margins. The increase in BGSS incentive programs during the nine months ended June 30, 2022, compared with the nine months ended June 30, 2021, was due primarily to increased margins from off-system sales, partially offset by the timing differences for storage incentive and lower capacity release volumes.

Operation and Maintenance Expense

O&M expense decreased \$119,000 and \$7.3 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, due primarily to the deferral of bad debt costs in accordance with the July 2, 2020 BPU deferral order, partially offset by an increase in compensation and information technology expenditures.

Depreciation Expense

Depreciation expense increased \$4.1 million and \$11.7 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, as a result of additional utility plant being placed into service.

Interest Expense

Interest expense increased \$2.8 million and \$6.6 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, due primarily to increased outstanding long-term debt and lower AFUDC debt related to infrastructure projects completed and placed in service at the end of fiscal 2021.

Other Income

Other income decreased \$2.2 million and \$7.4 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, due primarily to decreased AFUDC equity as previously discussed.

Income Tax Provision

Income tax provision increased \$619,000 and \$19.5 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, due to higher income before income taxes and an increase in the annualized effective tax rate applied.

Net Income

Net income increased \$1.1 million and \$24.9 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, due primarily to higher revenue along with decreased O&M, partially offset by higher depreciation and interest expenses, decreased other income and higher income taxes as previously discussed.

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

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.

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 RECs. 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:

		Three Months Ended June 30,					
		2022			2021		
<i>(\$ in Thousands)</i>		Projects	MW	Costs	Projects	MW	Costs
Placed in service							
Net-metered:							
Residential		82	0.9	\$ 2,410	134	1.5	\$ 4,001
Total placed in service		82	0.9	\$ 2,410	134	1.5	\$ 4,001

		Nine Months Ended June 30,					
		2022			2021		
<i>(\$ in Thousands)</i>		Projects	MW	Costs	Projects	MW	Costs
Placed in service							
Grid-connected ⁽¹⁾		1	1.0	\$ 3,102	2	5.6	\$ 9,175 ⁽²⁾
Net-metered:							
Residential		249	2.8	8,107	260	2.8	7,830
Total placed in service		250	3.8	\$ 11,209	262	8.4	\$ 17,005

(1) Includes projects subject to sale leaseback arrangements.

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

Clean Energy Ventures has approximately 371.5 MW of solar capacity in service. 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 higher rates for certain solar projects that are completed after the scheduled reduction in rates, in accordance with IRS guidance.

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

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 RECs 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. During the nine months ended June 30, 2022 and 2021, Clean Energy Ventures received proceeds of \$3.3 million and \$17.7 million, respectively, in connection with the sale leaseback of commercial solar assets. There were no proceeds from sale leasebacks during the three months ended June 30, 2022 and 2021.

As part of its solar investment portfolio, Clean Energy Ventures operates a residential and small commercial solar program, The Sunlight Advantage®, that provides qualifying homeowners and small business owners the opportunity to have a solar system installed at their home or place of business 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.

For solar installations placed in-service in New Jersey prior to April 30, 2020, 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.

REC activity consisted of the following:

	Nine Months Ended June 30,			
	2022		2021	
	SRECs	TRECs	SRECs	TRECs
Inventory balance as of October 1,	108,104	6,944	35,011	9,270
RECs generated	278,681	25,471	275,271	21,206
RECs delivered	(38,773)	(22,182)	(32,495)	(8,485)
Inventory balance as of June 30,	348,012	10,233	277,787	21,991

The average SREC sales price was \$202 and \$201 during the nine months ended June 30, 2022 and 2021, respectively, and the average TREC price was \$138 and \$145 during the nine months ended June 30, 2022 and 2021, respectively.

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 of SRECs related to its in-service commercial and residential assets:

Energy Year ⁽¹⁾	Percent of SRECs Hedged
2022	97%
2023	99%
2024	95%
2025	89%
2026	29%

⁽¹⁾ Energy years are compliance periods for New Jersey's renewable portfolio standard that run from June 1 to May 31.

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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 broker fees.

Operating Results

Clean Energy Ventures' financial results are summarized as follows:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
(Thousands)	2022	2021	2022	2021
Operating revenues	\$ 13,795	\$ 13,381	\$ 35,805	\$ 26,227
Operating expenses				
Operation and maintenance	9,646	9,469	27,780	26,930
Depreciation and amortization	5,358	5,200	15,902	15,318
Total operating expenses	15,004	14,669	43,682	42,248
Operating loss	(1,209)	(1,288)	(7,877)	(16,021)
Other income (expense), net	95	(88)	275	(1)
Interest expense, net	5,510	4,998	16,332	15,298
Income tax benefit	(1,526)	(1,448)	(5,524)	(7,248)
Net loss	\$ (5,098)	\$ (4,926)	\$ (18,410)	\$ (24,072)

Operating Revenues

Operating revenues increased \$414,000 during the three months ended June 30, 2022, compared with the three months ended June 30, 2021, respectively, due primarily to increased electricity sales, partially offset by decreased SREC revenue. Operating revenues increased \$9.6 million during the nine months ended June 30, 2022, compared with the nine months ended June 30, 2021, respectively, due primarily to increased electricity sales.

Net Loss

Net loss remained relatively flat during the three months ended June 30, 2022, compared with the three months ended June 30, 2021. Net loss decreased \$5.7 million during the nine months ended June 30, 2022, compared with the nine months ended June 30, 2021, due primarily to the increased operating revenues, as previously discussed, partially offset by higher operating expenses and lower income tax benefit.

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

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

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 it 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.

During December 2020, Energy Services entered into a series of AMAs with an investment grade public utility to release pipeline capacity associated with certain natural gas transportation contracts. The utility provides 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 AMAs include a series of initial and permanent releases, which commenced 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. Energy Services recognized \$10.3 million and \$42.7 million of operating revenue during the three and nine months ended June 30, 2022, respectively, on the Unaudited Condensed Consolidated Statements of Operations. Amounts received in excess of revenue totaling \$44.1 million as of June 30, 2022, are included in deferred revenue on the Unaudited Condensed Consolidated Balance Sheets.

Operating Results

Energy Services' financial results are summarized as follows:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
(Thousands)	2022	2021	2022	2021
Operating revenues ⁽¹⁾	\$ 307,815	\$ 201,594	\$ 1,089,704	\$ 893,640
Operating expenses				
Natural gas purchases (including demand charges ⁽²⁾⁽³⁾)	290,767	237,011	980,600	741,128
Operation and maintenance	6,181	4,066	14,531	41,080
Depreciation and amortization	34	28	94	83
Total operating expenses	296,982	241,105	995,225	782,291
Operating income (loss)	10,833	(39,511)	94,479	111,349
Other income, net	121	100	373	279
Interest expense, net	1,115	240	2,585	1,495
Income tax provision (benefit)	2,338	(8,805)	22,053	26,445
Net income (loss)	\$ 7,501	\$ (30,846)	\$ 70,214	\$ 83,688

(1) Includes related party transactions of approximately \$1.4 million and \$921,000 for the three months ended June 30, 2022 and 2021, respectively, and approximately \$3.6 million and \$4.0 million for the nine months ended June 30, 2022 and 2021, respectively, 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 \$257,000 and \$226,000 for the three months ended June 30, 2022 and 2021, respectively, and approximately \$752,000 and \$616,000 for the nine months ended June 30, 2022 and 2021, respectively, a portion of which is eliminated in consolidation.

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

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

<i>(in Bcf)</i>	Nine Months Ended June 30,	
	2022	2021
Net short futures and swaps contracts	5.2	22.6

During the nine months ended June 30, 2022 and 2021, the net short position resulted in an unrealized gain of \$6.2 million and \$5.5 million, respectively.

Operating Revenues and Natural Gas Purchases

Operating revenues increased \$106.2 million and \$196.1 million and natural gas purchases increased \$53.8 million and \$239.5 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, respectively, due primarily to a 153.2 percent and 119.2 percent increase in natural gas prices, respectively. To a lesser extent, operating revenues also increased \$10.3 million and \$42.7 million, respectively, due to AMAs with an investment grade public utility that commenced in November 2021, partially offset by increased natural gas price volatility related to the extreme weather in the mid-continent and southern regions of the U.S. during February 2021, which did not reoccur to the same extent during 2022.

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 increased \$2.1 million during the three months ended June 30, 2022, compared with the three months ended June 30, 2021, due primarily to increased compensation costs. O&M expense decreased \$26.5 million during the nine months ended June 30, 2022, compared with the nine months ended June 30, 2021, due primarily to decreased compensation costs, charitable contributions and bad debt expense.

Income Tax Provision

Income tax provision increased \$11.1 million during the three months ended June 30, 2022, compared with the three months ended June 30, 2021, due primarily to increased income before income taxes. Income tax provision decreased \$4.4 million during the nine months ended June 30, 2022, compared with the nine months ended June 30, 2021, due primarily to decreased income before income taxes related to the increased natural gas prices, partially offset by decreased O&M.

Net Income

Net income increased \$38.3 million during the three months ended June 30, 2022, compared with the three months ended June 30, 2021, due primarily to increased operating income, partially offset by higher income taxes, as previously discussed. Net income decreased \$13.5 million during the nine months ended June 30, 2022, compared with the nine months ended June 30, 2021, due primarily to decreased operating income, partially offset by lower income taxes, 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.

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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 differs from gross margin as defined on a GAAP basis as it excludes certain operations and maintenance expense and depreciation and amortization as well as the effects of derivatives as discussed above.

Financial Margin

A reconciliation of gross margin, the closest GAAP financial measure, to Energy Services' financial margin is as follows:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
(Thousands)	2022	2021	2022	2021
Operating revenues ⁽¹⁾	\$ 307,815	\$ 201,594	\$ 1,089,704	\$ 893,640
Less:				
Natural gas purchases	290,767	237,011	980,600	741,128
Operation and maintenance ⁽²⁾	5,617	3,663	12,864	28,271
Depreciation and amortization	34	28	94	83
Gross margin	11,397	(39,108)	96,146	124,158
Add:				
Operation and maintenance ⁽²⁾	5,617	3,663	12,864	28,271
Depreciation and amortization	34	28	94	83
Unrealized (gain) loss on derivative instruments and related transactions	(16,470)	22,784	(61,671)	13,351
Effects of economic hedging related to natural gas inventory ⁽³⁾	428	2,486	25,160	(12,255)
Financial margin	\$ 1,006	\$ (10,147)	\$ 72,593	\$ 153,608

(1) Includes unrealized losses related to an intercompany transaction between NJNG and Energy Services that have been eliminated in consolidation of approximately \$(1.4) million and \$(920,000) for the three months ended June 30, 2022 and 2021, respectively, and approximately \$3.6 million and \$277,000 for the nine months ended June 30, 2022 and 2021, respectively.

(2) Excludes selling, general and administrative expenses of approximately \$564,000 and \$403,000 for the three months ended June 30, 2022 and 2021, respectively, and approximately \$1.7 million and \$12.8 million for the nine months ended June 30, 2022 and 2021, respectively.

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

Financial margin increased \$11.2 million during the three months ended June 30, 2022, compared with the three months ended June 30, 2021, resulting primarily from the AMAs, which commenced November 2021, partially offset by increased natural gas prices, as previously discussed. Financial margin decreased \$81.0 million during the nine months ended June 30, 2022, compared with the nine months ended June 30, 2021, resulting primarily from the price volatility related to the extreme weather in the mid-continent and southern regions of the U.S. during February 2021, which did not reoccur to the same extent during 2022 and increased natural gas prices, partially offset by the AMAs, which commenced November 2021, as previously discussed.

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

Net Financial Earnings

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

<i>(Thousands)</i>	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 7,501	\$ (30,846)	\$ 70,214	\$ 83,688
Add:				
Unrealized (gain) loss on derivative instruments and related transactions	(16,470)	22,784	(61,671)	13,351
Tax effect ⁽¹⁾	3,914	(5,418)	14,667	(3,175)
Effects of economic hedging related to natural gas inventory	428	2,486	25,160	(12,255)
Tax effect	(102)	(591)	(5,979)	2,912
Net income to NFE tax adjustment	(274)	(942)	113	980
Net financial (loss) earnings	\$ (5,003)	\$ (12,527)	\$ 42,504	\$ 85,501

(1) Includes taxes related to an intercompany transaction between NJNG and Energy Services that have been eliminated in consolidation of approximately \$339,000 and \$218,000 for the three months ended June 30, 2022 and 2021, respectively, and \$(859,000) and \$(66,000) for the nine months ended June 30, 2022 and 2021, respectively.

Net financial loss decreased \$7.5 million during the three months ended June 30, 2022, compared with the three months ended June 30, 2021, due primarily to higher financial margin, as previously discussed. NFE decreased \$43.0 million during the nine months ended June 30, 2022, compared with the nine months ended June 30, 2021, due primarily to lower 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 cost- 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 construction, operation 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 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 Leaf River, a 32.2 million Dth salt dome natural gas storage facility that operates under market-based rates and Adelphia Gateway, an existing 84-mile pipeline in southeastern Pennsylvania. 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 began the conversion of the southern zone of the pipeline to natural gas.

Our Storage and Transportation segment also has a 50 percent ownership interest in Steckman Ridge, a storage facility that operates under market-based rates and a 20 percent interest in PennEast, a partnership whose purpose was to construct and operate a 120-mile natural gas pipeline that would have extended from northeast Pennsylvania to western New Jersey. As of June 30, 2022, our investment in Steckman Ridge was \$108.3 million.

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

PennEast received a Certificate of Public Convenience and Necessity for the project from FERC in January 2018. However, because of numerous regulatory and legal challenges, we evaluated our equity investment in PennEast for impairment during fiscal 2021, and determined that it was other-than-temporarily impaired. We estimated the fair value of our investment in PennEast using probability weighted scenarios assigned to discounted future cash flows. The impairment was the result of management's estimates and assumptions regarding the likelihood of certain outcomes related to required regulatory approvals and pending legal matters, the timing and magnitude of construction costs and in-service dates, the evaluation of the current environmental and political climate as it relates to interstate pipeline development, and transportation capacity revenues and discount rates.

During the third quarter of fiscal 2021, the PennEast partnership determined that this project is no longer supported, and all further development ceased. The Company recognized an other-than-temporary impairment charge of \$92.0 million, or approximately \$74.5 million, net of income taxes, which represents the best estimate of the salvage value of the remaining assets of the project. Other-than-temporary impairments are recorded in equity in (losses) earnings from affiliates in the Unaudited Condensed Consolidated Statements of Operations.

On December 16, 2021, the FERC dismissed PennEast's pending applications. The order vacates the certificate authorization for the PennEast pipeline project in light of PennEast's response to FERC staff's November 23, 2021 request for a status update, in which PennEast informed the Commission it is no longer developing the project. The order vacates the certificate authorization, subject to leave of the U.S. Court of Appeals for the D.C. Circuit where the Commission's certificate and rehearing orders are under review.

On March 10, 2022, following the sale of certain project related assets and refunds of interconnection fees received from interstate pipelines, the PennEast board of managers approved a cash distribution to members of the partnership totaling \$4.0 million per partner. The distribution was received by the Company on March 31, 2022. During the third quarter of fiscal 2022, the Company received an additional \$5.5 million from the partnership. The return of capital received by the Company reduced the remaining carrying value of its equity method investment in PennEast to zero, with the excess recorded within other income, net, in the Unaudited Condensed Consolidated Statements of Operations.

Operating Results

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

<i>(Thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Operating revenues ⁽¹⁾	\$ 16,390	\$ 11,649	\$ 41,875	\$ 38,679
Operating expenses				
Natural gas purchases	987	327	2,028	798
Operation and maintenance	7,840	6,689	22,524	20,370
Depreciation and amortization	3,323	2,443	8,027	7,447
Total operating expenses	12,150	9,459	32,579	28,615
Operating income	4,240	2,190	9,296	10,064
Other income, net	1,882	1,290	7,141	4,135
Interest expense, net	3,177	2,937	7,160	10,497
Income tax provision (benefit)	1,675	(10,393)	2,732	(8,874)
Equity in earnings (loss) of affiliates	5,274	(88,615)	7,586	(82,036)
Net income (loss)	\$ 6,544	\$ (77,679)	\$ 14,131	\$ (69,460)

(1) Includes related party transactions of approximately \$611,000 and \$650,000 for the three months ended June 30, 2022 and 2021, respectively, and \$1.7 million and \$2.0 million for the nine months ended June 30, 2022 and 2021, respectively, which are eliminated in consolidation.

Operating Revenues

Operating revenues increased \$4.7 million and \$3.2 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, respectively, due primarily to increased fixed price contract revenue for Adelphia Gateway.

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

Equity in earnings of affiliates increased \$93.9 million and \$89.6 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, respectively, due primarily to the impairment of our equity method investment in PennEast during fiscal 2021, partially offset by decreased AFUDC equity related to our investment in PennEast, which ceased all further development.

Other Income, Net

Other income increased \$592,000 and \$3.0 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, respectively, due primarily to increased AFUDC equity related to the Adelphia Gateway project.

Interest Expense

Interest expense remained relatively flat during the three months ended June 30, 2022, compared with the three months ended June 30, 2021. Interest expense decreased \$3.3 million during the nine months ended June 30, 2022, compared with the nine months ended June 30, 2021, due primarily to reduced debt related to the PennEast project.

Net Income

Net income increased \$84.2 million and \$83.6 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, respectively, due primarily to absence of the impairment of our equity method investment in PennEast, as previously discussed.

Non-GAAP Financial Measures

Management uses NFE, a non-GAAP financial measure, when evaluating the operating results of our Storage and Transportation segment. Certain transactions associated with equity method investments and their impact, including impairment charges, which are non-cash charges, and the return of capital in excess of the carrying value of our investment, are excluded for NFE purposes. The details of such adjustments can be found in the table below. Non-GAAP financial measures are not in accordance with, or an alternative to GAAP, and should be considered in addition to, and not as a substitute for the comparable GAAP measure. A reconciliation of Storage and Transportations' net income, the most directly comparable GAAP financial measure to NFE is as follows:

(Thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2021	2021
Net income (loss)	\$ 6,544	\$ (77,679)	\$ 14,131	\$ (69,460)
Add:				
(Gain on) impairment of equity method investment	(4,021)	92,000	(4,021)	92,000
Tax effect	1,003	(11,934)	1,003	(11,934)
Net financial earnings	\$ 3,526	\$ 2,387	\$ 11,113	\$ 10,606

NFE increased \$1.1 million and \$507,000 during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, respectively, due primarily to increased operating revenue and higher AFUDC at Adelphia Gateway and decreased 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 home warranty contract income at NJR Retail.

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

Operating Results

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
<i>(Thousands)</i>	2022	2021	2022	2021
Operating revenues	\$ 14,220	\$ 13,312	\$ 41,393	\$ 38,662
Income before income taxes	\$ 395	\$ 31	\$ 1,795	\$ 775
Income tax provision	180	415	682	474
Net income (loss)	\$ 215	\$ (384)	\$ 1,113	\$ 301

Operating Revenues

Operating revenues increased \$908,000 and \$2.7 million during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, respectively, due primarily to increased installation revenue at NJRHS.

Net Income

Net income increased \$599,000 and \$812,000 during the three and nine months ended June 30, 2022, compared with the three and nine months ended June 30, 2021, respectively, due primarily to increased revenue as previously discussed.

Liquidity and Capital Resources

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

Our consolidated capital structure was as follows:

	June 30, 2022	September 30, 2021
Common stock equity	38 %	38 %
Long-term debt	54	51
Short-term debt	8	11
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 \$3.6 million and \$4.0 million of equity through the DRP during the three months ended June 30, 2022 and 2021, respectively. NJR raised approximately \$11.1 million and \$11.5 million of equity through the DRP during the nine months ended June 30, 2022 and 2021, respectively.

In March 2021, we cash settled a portion of a forward sale agreement for a payout of approximately \$388,000 in lieu of the issuance of 727,272 common shares. In May 2021, we cash settled the rest of the forward sale agreements for a payout of approximately \$2.4 million in lieu of the issuance of 484,848 common shares.

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

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 June 30, 2022, we had repurchased a total of approximately 17.8 million of those shares and may repurchase an additional 1.7 million shares under the approved program. There were no shares repurchased during the nine months ended June 30, 2022 and 2021.

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, as borrowers, respectively, 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 flows from operations will be sufficient to satisfy our working capital, capital expenditures and dividend requirements for at least 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 June 30, 2022, 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 and recent geopolitical tensions resulting in inflationary pressures, there has been uncertainty and volatility in the credit and capital markets. We have been able to obtain sufficient financing to meet our funding requirements for operations and capital expenditures, however, 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, 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 June 30, 2022, NJR had a revolving credit facility and a term loan totaling \$650 million, with \$264.3 million available under the facility.

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 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 June 30, 2022, the unused amount available under the NJNG Credit Facility, including amounts allocated to the backstop under the commercial paper program and the issuance of letters of credit, was \$249.3 million.

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

Short-term borrowings were as follows:

<i>(Thousands)</i>	Three Months Ended	Nine Months Ended
	June 30, 2022	
NJR		
Notes Payable to banks:		
Balance at end of period	\$ 370,350	\$ 370,350
Weighted average interest rate at end of period	1.39 %	1.39 %
Average balance for the period	\$ 422,896	\$ 354,458
Weighted average interest rate for average balance	1.82 %	1.47 %
Month end maximum for the period	\$ 494,060	\$ 494,060
NJNG		
Commercial Paper and Notes Payable to banks:		
Balance at end of period	\$ —	\$ —
Weighted average interest rate at end of period	— %	— %
Average balance for the period	\$ —	\$ 5,842
Weighted average interest rate for average balance	— %	0.43 %
Month end maximum for the period	\$ —	\$ 177,700

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 and nine months ended June 30, 2022, NJR's average interest rate was 1.82 percent and 1.47 percent, resulting in interest expense of approximately \$1.9 million and \$3.9 million, respectively.

During fiscal 2021, NJR entered into a Second Amended and Restated Credit Agreement governing a \$500 million NJR Credit Facility. The NJR Credit Facility expires on September 2, 2026, subject to two mutual options for a one-year extension beyond that date. The NJR Credit Facility permits the borrowing of revolving loans and swingline loans, as well as a \$75 million sublimit for the issuance of letters of credit. The NJR Credit Facility also includes an accordion feature, which would allow NJR, in the absence of a default or event of default, to increase from time to time, with the existing or new lenders, the revolving credit commitments under the NJR Credit Facility in increments of \$50 million up to a maximum of \$250 million. Certain of NJR's unregulated subsidiaries have guaranteed all of NJR's obligations under the NJR Credit Facility. The credit facility is used primarily to finance its share repurchases, to satisfy Energy Services' short-term liquidity needs and to finance, on an initial basis, unregulated investments. As of June 30, 2022, NJR had eight letters of credit outstanding totaling \$15.3 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.

On February 8, 2022, NJR entered into a 364-day \$150 million term loan credit agreement with an interest rate based on SOFR plus 0.85 percent, which expires on February 7, 2023. The Company borrowed \$50 million on February 9, 2022 and \$100 million on February 14, 2022.

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

NJNG

As noted above, based on its average borrowings during the nine months ended June 30, 2022, NJNG's average interest rate was 0.43 percent, resulting in interest expense of approximately \$159,000.

During fiscal 2021, NJNG entered into a Second Amended and Restated Credit Agreement governing a \$250 million, NJNG Credit Facility. The NJNG Credit Facility expires on September 2, 2026, subject to two mutual options for a one-year extension beyond that date. The NJNG Credit Facility permits the borrowing of revolving loans and swingline loans, as well as a \$30 million sublimit for the issuance of letters of credit. The NJNG Credit Facility also includes an accordion feature, which would allow NJNG, in the absence of a default or event of default, to increase from time to time, with the existing or new lenders, the revolving credit commitments under the NJNG Credit Facility in minimum increments of \$50 million up to a maximum of \$100 million.

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

As of June 30, 2022, NJNG had two letters of credit outstanding for \$731,000, which reduced the amount available under NJNG's committed credit facility by the same amount. NJNG does not anticipate that these letters of credit will be drawn upon by the counterparties.

Short-Term Debt Covenants

Borrowings under the NJR Credit Facility, term loan credit agreement 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 .70 to 1.00 for NJR and .65 to 1.00 for NJNG. These revolving credit facilities and term loan credit agreement 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 June 30, 2022, 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;
- \$80 million of 3.25 percent senior notes due September 1, 2033; and
- \$110 million of 4.38 percent senior notes due June 23, 2027.

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

On February 16, 2022, NJR signed a commitment letter with a financial institution to refinance \$50 million of its Senior Unsecured Notes that are currently scheduled to mature in September 2022. The new Senior Unsecured Note will be financed over a 12-year term with an interest rate of 3.64 percent maturing in September 2034.

On June 23, 2022, NJR entered into a Note Purchase Agreement under which NJR issued \$110 million, Series 2022A senior notes at a fixed rate of 4.38 percent, maturing in 2027. The senior notes are unsecured and guaranteed by certain unregulated subsidiaries of NJR

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

NJNG

As of June 30, 2022, NJNG's long-term debt consisted of \$1.3 billion in fixed-rate debt issuances secured by the Mortgage Indenture, with maturities ranging from 2024 to 2061, and \$25.4 million in finance leases with various maturities ranging from 2024 to 2028.

On October 28, 2021, NJNG entered into a Note Purchase Agreement for \$100 million of its senior notes, of which \$50 million were issued at an interest rate of 2.97 percent, maturing in 2051, and \$50 million were issued at an interest rate of 3.07 percent, maturing in 2061. The senior notes are secured by an equal principal amount of NJNG's FMBs issued under NJNG's Mortgage Indenture.

On May 27, 2022, NJNG entered into a Note Purchase Agreement for \$100 million of its senior notes, of which \$50 million were issued at an interest rate of 4.37 percent, maturing in 2037, and \$50 million were issued at an interest rate of 4.71 percent, maturing in 2052. The senior notes are secured by an equal principal amount of NJNG's FMBs issued under NJNG's Mortgage Indenture.

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

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 70 percent for NJR and 65 percent for NJNG 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.

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

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 of 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 \$17.3 million during the nine months ended June 30, 2022, in connection with the sale leaseback of its natural gas meters. NJNG records a financing 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 continues to evaluate this sale leaseback program based on current market conditions. Natural gas meters are excepted from the lien on NJNG property under the Mortgage Indenture. There were no natural gas meter sale leasebacks recorded during the nine months ended June 30, 2021.

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 RECs and energy sales. ITCs and other tax benefits associated with these solar projects are transferred 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. Clean Energy Ventures continues to operate the solar assets, including related expenses, and retain the revenue generated from RECs and energy sales, and has the option to renew the lease or repurchase the assets sold at the end of the lease term. During the nine months ended June 30, 2022 and 2021, Clean Energy Ventures received proceeds of \$3.3 million and \$17.7 million, respectively, in connection with the sale leaseback of commercial solar projects. The proceeds received were recognized as a financing obligation on the Unaudited Condensed Consolidated Balance Sheets.

Contractual Obligations

As of June 30, 2022, there were NJR guarantees covering approximately \$216.6 million of natural gas purchases and Energy Services demand fee commitments and ten outstanding letters of credit totaling \$16.1 million, as previously mentioned, not yet reflected in accounts payable on the Unaudited Condensed Consolidated Balance Sheets.

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.

NJNG's total capital expenditures are projected to be between \$285 million and \$335 million during fiscal 2022. Total capital expenditures spent or accrued during the nine months ended June 30, 2022, were \$194.8 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 June 30, 2022, NJNG's future MGP expenditures are estimated to be \$120.6 million. For a more detailed description of MGP expenditures see Note 13. Commitments and Contingent Liabilities in the accompanying Unaudited Condensed Consolidated Financial Statements.

During the nine months ended June 30, 2022, our Storage and Transportation segment had capital expenditures spent or accrued for the Adelpia Gateway project totaling \$111.4 million and capital expenditures spent or accrued for Leaf River totaling \$13.2 million. During fiscal 2022, we expect expenditures related to the Adelpia Gateway project to be between \$115 million and \$130 million and expenditures related to Leaf River to be between \$12 million and \$14 million.

During the nine months ended June 30, 2022, total capital expenditures spent or accrued related to the purchase and installation of solar equipment were \$100.0 million. 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. We estimate solar-related capital expenditures for projects during fiscal 2022 to be between \$139 million and \$157 million.

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

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 sourcing projects that meet our investment criteria, 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 or unforeseen events and the ability to access capital or allocation of capital to other investments or business opportunities.

Energy Services does not currently anticipate any significant capital expenditures during fiscal 2022 and 2023.

During December 2020, Energy Services entered into a series of AMAs with an investment grade public utility to release pipeline capacity associated with certain natural gas transportation contracts. The utility provides 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 AMAs include a series of initial and permanent releases, which commenced 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. During the nine months ended June 30, 2022, Energy Services recognized \$42.7 million of operating revenue on the Unaudited Condensed Consolidated Statements of Operations. Amounts received in excess of revenue totaling \$44.1 million as of June 30, 2022, are included in deferred revenue on the Unaudited Condensed Consolidated Balance Sheets.

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, 2021.

Cash Flows

Operating Activities

Cash flows from operating activities during the nine months ended June 30, 2022, totaled \$235.9 million, compared with \$341.8 million during the nine months ended June 30, 2021. Operating cash flows are primarily affected by variations in working capital, which can be impacted by several factors, including:

- seasonality of our business;
- fluctuations in wholesale natural gas prices and other energy prices, including changes in derivative asset and liability values;
- timing of storage injections and withdrawals;
- the deferral and recovery of 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 decrease of \$105.9 million in operating cash flows during the nine months ended June 30, 2022, compared with the nine months ended June 30, 2021, was due primarily to additional working capital requirements related to the rising energy prices along with the outsized performance at Energy Services during February 2021 that did not reoccur during fiscal 2022, partially offset by the AMAs, which commenced November 2021, as previously discussed.

Investing Activities

Cash flows used in investing activities totaled \$434.9 million during the nine months ended June 30, 2022, compared with \$429.9 million during the nine months ended June 30, 2021. The increase of \$5.0 million was due primarily to an increase in capital expenditures for Storage and Transportation related to the conversion of the southern portion of Adelpia Gateway's pipeline to natural gas along with increased solar expenditures, partially offset by decreased utility plant expenditures.

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

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 from financing activities totaled \$221.0 million during the nine months ended June 30, 2022, compared with Cash flows (used in) financing activities which totaled \$(25.3) million during the nine months ended June 30, 2021. The increase of \$246.3 million is due primarily to the issuance of \$310 million long-term debt, a new \$150 million term loan, along with proceeds of \$17.3 million for meter sale leasebacks, partially offset by increased net payments of short-term debt of \$207.9 million and lower proceeds of \$14.4 million from solar sale leasebacks.

Credit Ratings

The table below summarizes NJNG's credit ratings as of June 30, 2022, 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

Fitch ratings and outlook were reaffirmed on April 14, 2022. The Moody's ratings and outlook were reaffirmed on May 11, 2021. NJNG's Moody's and Fitch ratings are investment-grade ratings. NJR is not a rated entity.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Risk Management

Commodity Market Risks

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

Our regulated and 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.

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

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

<i>(Thousands)</i>	Balance September 30, 2021	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance June 30, 2022
Natural Gas Distribution	\$ 2,033	26,640	38,812	\$ (10,139)
Energy Services	(29,487)	(35,550)	(58,820)	(6,217)
Total	\$ (27,454)	(8,910)	(20,008)	\$ (16,356)

There were no changes in methods of valuations during the nine months ended June 30, 2022.

The following is a summary of fair market value of financial derivatives as of June 30, 2022, excluding foreign exchange contracts discussed below, by method of valuation and by maturity for each fiscal year period:

<i>(Thousands)</i>	2022	2023	2024 - 2026	After 2026	Total Fair Value
Price based on NYMEX/CME	\$ (248)	(109)	—	—	\$ (357)
Price based on ICE	6,301	(26,686)	4,386	—	(15,999)
Total	\$ 6,053	(26,795)	4,386	—	\$ (16,356)

The following is a summary of financial derivatives by type as of June 30, 2022:

		Volume Bcf	Price per MMBtu ⁽¹⁾	Amounts included in Derivatives (Thousands)
Natural Gas Distribution	Futures	27.3	\$2.60 - \$13.50	\$ (10,139)
Energy Services	Futures	(5.1)	\$2.41 - \$12.25	(5,860)
	Swaps	(0.1)	\$2.77 - \$3.03	(357)
Total				\$ (16,356)

(1) Million British thermal unit

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

<i>(Thousands)</i>	Balance September 30, 2021	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance June 30, 2022
Natural Gas Distribution - Prices based on other external data	\$ 20	4,435	4,451	\$ 4
Energy Services - Prices based on other external data	(34,678)	(11,551)	(9,156)	(37,073)
Total	\$ (34,658)	(7,116)	(4,705)	\$ (37,069)

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 \$4.2 million. This analysis does not include potential changes to reported credit adjustments embedded in the \$25.1 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	\$ —	\$ (2,097)	\$ (4,195)	\$ (6,292)	\$ (8,389)
Ending derivative fair value	\$ 25,085	\$ 22,988	\$ 20,890	\$ 18,793	\$ 16,696
Percent decrease in NYMEX natural gas futures prices	0%	(5)%	(10)%	(15)%	(20)%
Estimated change in derivative fair value	\$ —	\$ 2,097	\$ 4,195	\$ 6,292	\$ 8,389
Ending derivative fair value	\$ 25,085	\$ 27,182	\$ 29,280	\$ 31,377	\$ 33,474

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

Wholesale Credit Risk

The following is a summary of gross and net credit exposures, grouped by investment and non-investment grade counterparties, as of June 30, 2022. 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 June 30, 2022, is as follows:

<i>(Thousands)</i>	Gross Credit Exposure	Net Credit Exposure
Investment grade	\$ 173,996	\$ 155,145
Noninvestment grade	22,417	3,940
Internally rated investment grade	25,217	16,638
Internally rated noninvestment grade	29,886	13,338
Total	\$ 251,516	\$ 189,061

NJNG's counterparty credit exposure as of June 30, 2022, is as follows:

<i>(Thousands)</i>	Gross Credit Exposure	Net Credit Exposure
Investment grade	\$ 2,345	\$ 1,607
Noninvestment grade	527	—
Internally rated investment grade	315	235
Internally rated noninvestment grade	17,725	—
Total	\$ 20,912	\$ 1,842

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, 2021.

Effects of Inflation

Any change in price levels has an effect on operating results due to the capital-intensive and regulated nature of our utility subsidiary. The Company's operations are sensitive to increases in the rate of inflation because of its operational and capital spending requirements in both its regulated and non-regulated businesses. We attempt to minimize the effects of inflation through cost control, productivity improvements and regulatory actions, when appropriate. See Item 1A. Risk Factors for additional information related to the impact of recent increases in inflation rates.

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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 SEC'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 June 30, 2022, 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, 2021, 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 June 30, 2022, 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 2021 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 2021 Annual Report on Form 10-K, except the following, which is an additional risk factor that should be read to supplement the previously disclosed risk factors:

Inflation and increased natural gas costs could adversely impact NJNG's customer base and customer collections and increase its level of indebtedness.

Inflation has caused increases in certain operating and capital costs. NJR has a process in place to continually review the adequacy of NJNG's rates in relation to the increasing cost of providing service and the inherent regulatory lag in adjusting those rates. The ability to control expenses is an important factor that will influence future results.

Rapid increases in the price of purchased gas may cause NJNG to experience a significant increase in short-term debt because it must pay suppliers for gas when it is purchased, which can be significantly in advance of when these costs may be recovered through the collection of monthly customer bills for gas delivered. Increases in purchased gas costs could also slow collection efforts as customers are more likely to delay the payment of their gas bills, leading to higher-than-normal accounts receivable. This situation could also result in higher short-term debt levels and increased bad debt expense.

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

The following table sets forth our repurchase activity for the quarter ended June 30, 2022:

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
04/01/22 - 04/30/22	—	—	—	1,685,053
05/01/22 - 05/31/22	—	—	—	1,685,053
06/01/22 - 06/30/22	—	—	—	1,685,053
Total	—	\$	—	1,685,053

The stock repurchase plan, which was authorized by our Board of Directors, became effective in September 1996 and as of June 30, 2022, included 19.5 million shares of common stock for repurchase, of which, approximately 1.7 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.

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ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
4.1	\$100,000,000 Note Purchase Agreement, dated as of May 27, 2022, by and among New Jersey Natural Gas Company and the Purchasers party thereto (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, as filed on June 1, 2022)
4.2	Eleventh Supplemental Indenture, dated as of May 1, 2022, by and between New Jersey Natural Gas Company and U.S. Bank Trust Company, National Association, as Trustee (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, as filed on June 1, 2022)
4.3	\$110,000,000 Note Purchase Agreement, dated as of June 23, 2022, by and among New Jersey Resources Corporation and the Purchasers party thereto (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, as filed on June 27, 2022)
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 June 30, 2022, 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 Exchange Act.

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: August 4, 2022

By: /s/ Roberto F. Bel

Roberto F. Bel

Senior Vice President and
Chief Financial Officer