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, 2023
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	**22-2376465**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1415 Wyckoff Road **Wall New Jersey 07719**	**(732) 938-1480**
(Address of principal executive offices)	(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	☒	Accelerated filer	☐
Non-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 July 31, 2023 was 97,561,926.

New Jersey Resources Corporation

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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
DRP	NJR Direct Stock Purchase and Dividend Reinvestment Plan
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
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, as amended
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
NJNG	New Jersey Natural Gas Company
NJNG Credit Facility	The $250 million unsecured committed credit facility expiring in September 2027
NJR Credit Facility	The $650 million unsecured committed credit facility expiring in September 2027

GLOSSARY OF KEY TERMS (cont.)

NJR or The Company	New Jersey Resources Corporation
NJR Retail	NJR Retail Company
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	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
The Inflation Reduction Act	The Inflation Reduction Act of 2022
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 2023 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, 2022, as well as the following, which are neither presented in order of importance nor weighted:

- 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, 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;
- our ability to comply with current and future regulatory requirements;
- commercial and wholesale credit risks, including the availability of creditworthy customers and counterparties, and liquidity in the wholesale energy trading market;
- volatility of natural gas and other commodity prices and their impact on NJNG customer usage, NJNG's BGSS incentive programs, Energy Services 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;
- impacts of inflation, including the current inflationary environment, and increased natural gas costs;
- the impact of a disallowance of recovery of environmental-related expenditures and other regulatory changes;
- 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 military invasion of Ukraine, and the international community's responses;
- risks of prolonged constriction of credit availability in the markets and our ability to secure short-term financing;
- 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 and/or reductions in bond yields;
- 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, including our ability to optimize those changes brought about by the passage of the Inflation Reduction Act;
- any potential need to record a valuation allowance for our deferred tax assets;
- the impact of natural disasters, terrorist activities, pandemic illness, war and other extreme events on our operations and customers;
- the delay or prevention of a favorable transaction due to change in control provisions or laws;
- 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.

Forward-looking statements made in this report apply only as of the date of this report. 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.

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Thousands, except per share data)	Three Months Ended June 30, **2023**	Three Months Ended June 30, 2022	Nine Months Ended June 30, **2023**	Nine Months Ended June 30, 2022
OPERATING REVENUES				
Utility	$ **144,971**	$ 199,357	$ **902,880**	$ 937,266
Nonutility	**119,104**	352,978	**728,789**	1,203,227
Total operating revenues	**264,075**	552,335	**1,631,669**	2,140,493
OPERATING EXPENSES				
Natural gas purchases:				
Utility	**42,344**	100,277	**381,160**	435,438
Nonutility	**75,917**	290,806	**468,351**	980,135
Related parties	**1,870**	1,838	**5,467**	5,567
Operation and maintenance	**94,213**	88,373	**272,809**	243,143
Regulatory rider expenses	**6,120**	8,360	**47,525**	55,941
Depreciation and amortization	**38,877**	32,872	**113,650**	94,700
Total operating expenses	**259,341**	522,526	**1,288,962**	1,814,924
OPERATING INCOME	**4,734**	29,809	**342,707**	325,569
Other income, net	**5,711**	4,288	**15,145**	12,551
Interest expense, net of capitalized interest	**30,119**	21,411	**89,871**	59,814
(LOSS) INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	**(19,674)**	12,686	**267,981**	278,306
Income tax (benefit) provision	**(20,505)**	4,434	**43,059**	64,051
Equity in earnings of affiliates	**701**	4,801	**2,778**	6,145
NET INCOME	$ **1,532**	$ 13,053	$ **227,700**	$ 220,400
EARNINGS PER COMMON SHARE				
Basic	**$0.02**	$0.14	**$2.35**	$2.29
Diluted	**$0.02**	$0.14	**$2.33**	$2.28
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	**97,168**	96,154	**96,849**	96,055
Diluted	**97,886**	96,620	**97,538**	96,527

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Thousands)	Three Months Ended June 30, **2023**	Three Months Ended June 30, 2022	Nine Months Ended June 30, **2023**	Nine Months Ended June 30, 2022
Net income	$ **1,532**	$ 13,053	$ **227,700**	$ 220,400
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 $(238), respectively	**263**	262	**790**	789
Adjustment to postemployment benefit obligation, net of tax of $(12), $(232), $(37) and $(697), respectively	**41**	768	**123**	2,302
Other comprehensive income, net of tax	$ **304**	$ 1,030	$ **913**	$ 3,091
Comprehensive income	$ **1,836**	$ 14,083	$ **228,613**	$ 223,491

See Notes to Unaudited Condensed Consolidated Financial Statements

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Thousands)	Nine Months Ended June 30, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ **227,700**	$ 220,400
Adjustments to reconcile net income to cash flows from operating activities		
Unrealized (gain) on derivative instruments	**(30,502)**	(58,060)
Depreciation and amortization	**113,650**	94,700
Amortization of acquired wholesale energy contracts	**1,781**	2,016
Allowance for equity used during construction	**(5,054)**	(9,197)
Allowance for doubtful accounts	**1,397**	1,768
Non cash lease expense	**2,607**	3,720
Deferred income taxes	**11,026**	37,547
Equivalent value of ITCs recognized on equipment financing	**(1,232)**	(1,060)
Manufactured gas plant remediation costs	**(6,284)**	(16,341)
Cost of removal - asset retirement obligations	**(967)**	(847)
Contributions to postemployment benefit plans	**(1,133)**	(2,702)
Taxes related to stock-based compensation	**554**	(164)
Changes in:		
Components of working capital	**22,229**	(97,572)
Other noncurrent assets	**(16,207)**	(7,639)
Other noncurrent liabilities	**68,333**	69,308
Cash flows from operating activities	**387,898**	235,877
CASH FLOWS USED IN INVESTING ACTIVITIES		
Expenditures for:		
Utility plant	**(248,507)**	(177,559)
Solar equipment	**(68,604)**	(105,504)
Storage and Transportation and other	**(34,384)**	(130,170)
Cost of removal	**(28,719)**	(27,881)
Distribution from equity investees in excess of equity in earnings	**2,036**	690
Investments in equity investees, net of return of capital	**—**	5,479
Cash flows used in investing activities	**(378,178)**	(434,945)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	**175,000**	310,000
Payments of long-term debt	**(15,698)**	(14,223)
Proceeds from term loan	**—**	150,000
Payments of term loan	**(150,000)**	—
Payments of short-term debt, net	**(128,725)**	(156,950)
Proceeds from sale leaseback transactions - solar	**163,619**	3,300
Proceeds from sale leaseback transactions - natural gas meters	**8,441**	17,300
Payments of common stock dividends	**(112,991)**	(95,691)
Proceeds from waiver discount issuance of common stock	**42,807**	—
Proceeds from issuance of common stock - DRP	**11,419**	11,076
Tax withholding payments related to net settled stock compensation	**(4,024)**	(3,794)
Cash flows (used in) from financing activities	**(10,152)**	221,018
Change in cash, cash equivalents and restricted cash	**(432)**	21,950
Cash, cash equivalents and restricted cash at beginning of period	**1,452**	6,043
Cash, cash equivalents and restricted cash at end of period	$ **1,020**	$ 27,993
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	$ **103,954**	$ (61,836)
Inventories	**108,107**	(12,672)
Recovery of natural gas costs	**(20,106)**	3,772
Natural gas purchases payable	**(188,617)**	33,362
Natural gas purchases payable - related parties	**5**	(6)
Deferred revenue, current	**2,687**	44,304
Accounts payable and other	**(20,153)**	(70,194)
Prepaid expenses	**(2,454)**	(1,219)
Prepaid and accrued taxes	**24,684**	18,770
Restricted broker margin accounts	**22,868**	(47,643)
Customers' credit balances and deposits	**(2,979)**	(10,370)
Other current assets (liabilities)	**(5,767)**	6,160
Total	$ **22,229**	$ (97,572)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for:		

Interest (net of amounts capitalized)	**$**	**80,550**	$	65,385
Income taxes	**$**	**2,858**	$	3,763
Accrued capital expenditures	**$**	**21,008**	$	40,833

See Notes to Unaudited Condensed Consolidated Financial Statements

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

(Thousands)	**(Unaudited) June 30, 2023**	September 30, 2022
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	**$ 3,742,373**	$ 3,576,691
Construction work in progress	**235,998**	162,087
Nonutility plant and equipment, at cost	**1,745,135**	1,577,259
Construction work in progress	**126,923**	199,679
Total property, plant and equipment	**5,850,429**	5,515,716
Accumulated depreciation and amortization, utility plant	**(715,273)**	(659,737)
Accumulated depreciation and amortization, nonutility plant and equipment	**(242,346)**	(206,053)
Property, plant and equipment, net	**4,892,810**	4,649,926
CURRENT ASSETS		
Cash and cash equivalents	**511**	1,107
Customer accounts receivable		
Billed	**110,463**	222,297
Unbilled revenues	**16,492**	13,769
Allowance for doubtful accounts	**(12,504)**	(19,379)
Regulatory assets	**95,747**	40,086
Natural gas in storage, at average cost	**155,077**	273,644
Materials and supplies, at average cost	**30,784**	20,324
Prepaid expenses	**11,026**	8,572
Prepaid and accrued taxes	**36,165**	54,501
Derivatives, at fair value	**32,127**	24,635
Restricted broker margin accounts	**20,237**	94,261
Other current assets	**24,235**	22,270
Total current assets	**520,360**	756,087
NONCURRENT ASSETS		
Investments in equity method investees	**104,427**	106,571
Regulatory assets	**528,114**	500,666
Operating lease assets	**164,119**	168,520
Derivatives, at fair value	**1,864**	6,385
Intangible assets, net	**567**	2,348
Software costs	**7,625**	6,120
Deferred income taxes	**25,539**	2,928
Other noncurrent assets	**67,155**	61,865
Total noncurrent assets	**899,410**	855,403
Total assets	**$ 6,312,580**	$ 6,261,416

See Notes to Unaudited Condensed Consolidated Financial Statements

ITEM 1. FINANCIAL STATEMENTS (Continued)

CAPITALIZATION AND LIABILITIES

(Thousands, except share data)		(Unaudited) June 30, 2023		September 30, 2022
CAPITALIZATION				
Common stock, $2.50 par value; authorized 150,000,000 shares; outstanding shares June 30, 2023 — 97,496,302; September 30, 2022 — 96,249,859	**$**	**243,237**	$	241,616
Premium on common stock		**554,730**		519,697
Accumulated other comprehensive loss, net of tax		**(3,913)**		(4,826)
Treasury stock at cost and other; shares June 30, 2023 — 13,041; September 30, 2022 — 611,045		**19,398**		(6,805)
Retained earnings		**1,181,790**		1,067,528
Common stock equity		**1,995,242**		1,817,210
Long-term debt		**2,728,669**		2,485,402
Total capitalization		**4,723,911**		4,302,612
CURRENT LIABILITIES				
Current maturities of long-term debt		**162,316**		75,069
Short-term debt		**145,225**		423,950
Natural gas purchases payable		**46,432**		235,049
Natural gas purchases payable to related parties		**856**		851
Deferred revenue		**42,465**		35,547
Accounts payable and other		**122,236**		156,580
Dividends payable		**37,981**		37,534
Accrued taxes		**11,478**		5,130
Regulatory liabilities		**27,701**		31,090
New Jersey Clean Energy Program		**17,943**		15,697
Derivatives, at fair value		**17,563**		49,848
Operating lease liabilities		**5,273**		4,562
Restricted broker margin accounts		**1,218**		—
Customers' credit balances and deposits		**30,267**		33,246
Total current liabilities		**668,954**		1,104,153
NONCURRENT LIABILITIES				
Deferred income taxes		**275,238**		238,928
Deferred investment tax credits		**2,504**		2,710
Deferred revenue		**30,872**		753
Derivatives, at fair value		**13,257**		14,191
Manufactured gas plant remediation		**123,070**		127,060
Postemployment employee benefit liability		**88,844**		82,867
Regulatory liabilities		**181,814**		185,634
Operating lease liabilities		**135,916**		138,382
Asset retirement obligation		**56,992**		55,035
Other noncurrent liabilities		**11,208**		9,091
Total noncurrent liabilities		**919,715**		854,651
Commitments and contingent liabilities (Note 13)				
Total capitalization and liabilities	**$**	**6,312,580**	$	6,261,416

See Notes to Unaudited Condensed Consolidated Financial Statements

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF COMMON STOCK EQUITY (Unaudited)

(Thousands)	Number of Shares	Common Stock	Premium on Common Stock	Accumulated Other Comprehensive (Loss) Income	Treasury Stock and Other	Retained Earnings	Total
Balance as of September 30, 2022	96,250	$ 241,616	$ 519,697	$ (4,826)	$ (6,805)	$ 1,067,528	$ 1,817,210
Net income	—	—	—	—	—	115,921	115,921
Other comprehensive income	—	—	—	304	—	—	304
Common stock issued:							
Incentive compensation plan	92	229	3,243	—	—	—	3,472
Dividend reinvestment plan	93	—	437	—	3,429	—	3,866
Waiver discount	368	—	4,469	—	13,450	—	17,919
Cash dividend declared ($.39 per share)	—	—	—	—	—	(37,665)	(37,665)
Treasury stock and other	—	—	—	—	1,768	—	1,768
Balance as of December 31, 2022	96,803	$ 241,845	$ 527,846	$ (4,522)	$ 11,842	$ 1,145,784	$ 1,922,795
Net income	—	—	—	—	—	110,247	110,247
Other comprehensive income	—	—	—	305	—	—	305
Common stock issued:							
Incentive compensation plan	29	74	1,096	—	—	—	1,170
Dividend reinvestment plan	77	—	877	—	2,794	—	3,671
Cash dividend declared ($.39 per share)	—	—	—	—	—	(37,791)	(37,791)
Treasury stock and other	(8)	—	—	—	439	—	439
Balance as of March 31, 2023	96,901	$ 241,919	$ 529,819	$ (4,217)	$ 15,075	$ 1,218,240	$ 2,000,836
Net income	**—**	**—**	**—**	**—**	**—**	**1,532**	**1,532**
Other comprehensive income	**—**	**—**	**—**	**304**	**—**	**—**	**304**
Common stock issued:							
Incentive compensation plan	**3**	**7**	**112**	**—**	**—**	**—**	**119**
Dividend reinvestment plan [(1)]	**73**	**13**	**1,209**	**—**	**2,537**	**—**	**3,759**
Waiver discount	**519**	**1,298**	**23,590**	**—**	**—**	**—**	**24,888**
Cash dividend declared ($.39 per share)	**—**	**—**	**—**	**—**	**—**	**(37,982)**	**(37,982)**
Treasury stock and other	**—**	**—**	**—**	**—**	**1,786**	**—**	**1,786**
Balance as of June 30, 2023	**97,496**	**$ 243,237**	**$ 554,730**	**$ (3,913)**	**$ 19,398**	**$ 1,181,790**	**$ 1,995,242**

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

ITEM 1. FINANCIAL STATEMENTS (Continued)

(Thousands)	Number of Shares	Common Stock	Premium on Common Stock	Accumulated Other Comprehensive (Loss) Income	Treasury Stock and Other	Retained Earnings	Total
Balance as of 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 as of 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 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 as of 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	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 as of June 30, 2022	96,160	$ 241,596	$ 518,606	$ (31,437)	$ (10,620)	$ 1,050,538	$ 1,768,683

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 574,900 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 which is accounted for under the equity method of accounting and 20 percent ownership interest in PennEast, which ceased operations in fiscal 2022.

NJR Retail Holdings Corporation has one principal subsidiary, NJRHS, which provides heating, central air conditioning, standby generators, solar and other indoor and outdoor comfort products to residential homes throughout New Jersey. NJRHS is 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, 2022 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 2022 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, 2023. 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 periodically as required. 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.

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.

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.

In July 2021, the BPU established a new successor solar incentive program. This Administratively Determined Incentive Program, which we refer to as SREC IIs, provides administratively set incentives for net metered residential projects and net metered non-residential projects of 5 MW or less.

TREC & SREC IIs generated are required to be purchased monthly by a REC program administrator as appointed by the BPU. Revenue is recognized when RECs 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. 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 operating revenue of $9.5 million and $39.0 million during the three and nine months ended June 30, 2023, respectively, and $10.3 million and $42.7 million 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 $68.2 million and $33.8 million are included in deferred revenue on the Unaudited Condensed Consolidated Balance Sheets as of June 30, 2023 and September 30, 2022, respectively.

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

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

Cash and Cash Equivalents

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

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:

(Thousands)	**June 30, 2023**	September 30, 2022	June 30, 2022
Balance Sheet			
Cash and cash equivalents	**$ 511**	$ 1,107	$ 27,693
Restricted cash in other noncurrent assets	**$ 509**	$ 345	$ 300
Statements of Cash Flow			
Cash, cash equivalents and restricted cash	**$ 1,020**	$ 1,452	$ 27,993

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.

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 $15.0 million and $14.5 million recorded in other current assets as of June 30, 2023 and September 30, 2022, respectively, and $36.9 million and $34.7 million in other noncurrent assets as of June 30, 2023 and September 30, 2022, 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, 2023 and September 30, 2022, the Company has not recorded any impairments for SAVEGREEN loans.

Natural Gas in Storage

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

	June 30, 2023		September 30, 2022	
($ in thousands)	**Natural Gas in Storage**	**Bcf**	Natural Gas in Storage	Bcf
Natural Gas Distribution	**$ 118,776**	**21.7**	$ 191,175	29.0
Energy Services	**36,301**	**19.8**	82,469	10.8
Total	**$ 155,077**	**41.5**	$ 273,644	39.8

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, 2023**	September 30, 2022
Balance Sheets		
Utility plant, at cost	**$ 50,911**	$ 40,437
Construction work in progress	**$ 41,533**	$ 14,381
Nonutility plant and equipment, at cost	**$ 344**	$ 344
Accumulated depreciation and amortization, utility plant	**$ (6,501)**	$ (3,361)
Accumulated depreciation and amortization, nonutility plant and equipment	**$ (33)**	$ (25)
Software costs	**$ 7,625**	$ 6,120

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
Statements of Operations	**2023**	2022	**2023**	2022
Operation and maintenance [(1)]	**$ 3,163**	$ 2,835	**$ 10,801**	$ 8,186
Depreciation and amortization	**$ 1,320**	$ 637	**$ 3,148**	$ 1,239

(1) During the three and nine months ended June 30, 2023, approximately $125,000 and $387,000, respectively, was amortized from software costs into O&M. 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.

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.

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, the Company uses the financing method to account for the transaction. Under the financing method, the Company recognizes the proceeds received from the buyer-lessor that constitute a payment to acquire the solar energy asset as a financing arrangement, which is recorded as a component of debt on the Unaudited Condensed Consolidated Balance Sheets.

The Company continues to operate the solar assets and is responsible for related expenses and entitled to retain the revenue generated from SRECs, TRECs, SREC IIs 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.

See *Note 9. Debt* for more details regarding sale leaseback transactions recorded as financing arrangements.

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, 2023 and 2022:

(Thousands)	**Cash Flow Hedges**	**Postemployment Benefit Obligation**	**Total**
Balance as of March 31, 2023	$ (7,795)	$ 3,578	$ (4,217)
Other comprehensive income, net of tax			

Amounts reclassified from accumulated other comprehensive loss, net of tax of $(79), $(12), $(91), respectively		**263**		**41** (1)		**304**
Balance as of June 30, 2023	**$**	**(7,532)**	**$**	**3,619**	**$**	**(3,913)**
Balance as of 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)		262		768 (1)		1,030
Balance as of June 30, 2022	$	(8,587)	$	(22,850)	$	(31,437)

(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, 2023 and 2022:

(Thousands)		Cash Flow Hedges		Postemployment Benefit Obligation		Total
Balance as of September 30, 2022	$	(8,322)	$	3,496	$	(4,826)
Other comprehensive income, net of tax						
Amounts reclassified from accumulated other comprehensive loss, net of tax of $(238), $(37) and $(275), respectively		**790**		**123** (1)		**913**
Balance as of June 30, 2023	**$**	**(7,532)**	**$**	**3,619**	**$**	**(3,913)**
Balance as of 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) and $(935), respectively		789		2,302 (1)		3,091
Balance as of June 30, 2022	$	(8,587)	$	(22,850)	$	(31,437)

(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 have been reclassified to conform to the current period presentation. Deferred income taxes previously classified within other noncurrent assets on the on the Unaudited Condensed Consolidated Balance Sheets has been reclassified to its own category.

Recently Adopted 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 Company adopted this guidance on October 1, 2022. The Company does not currently have convertible debt instruments, and as a result there was no 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 Company adopted this guidance on October 1, 2022, on a prospective basis. As the Company does not currently have equity-classified written call options, there was no 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 Company adopted this guidance on October 1, 2022, on a prospective basis. The Company currently does not have any leases that meet this criteria, as such there was no impact on its financial position, results of operations, cash flows and disclosures upon adoption.

Other Recent Updates to the Accounting Standards Codification

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 amendment 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 as 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. As the Company does not currently apply hedge accounting to any of its risk management activities, it does not expect the amendment 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 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 amendment 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 amendment clarifies 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, and will be applied on a prospective basis. At this time, the Company does not have equity securities subject to contractual sale restrictions, and therefore this amendment would only impact the Company upon adoption if, in the future, it entered into such transactions.

Leases

In March 2023, the FASB issued ASU No. 2023-01, an amendment to ASC 842, *Leases,* which applies to arrangements between related parties under common control. This update requires that all entities with common control arrangements classify and account for these leases on the same basis as an arrangement with an unrelated party. If the lessee in these types of arrangements continues to control the use of the underlying asset through a lease, the leasehold improvements are to be amortized over the improvements' useful life to the common control group, regardless of the lease term. The guidance is effective for the Company on October 1, 2024, and the Company can elect to apply it either on a prospective basis or retrospectively beginning October 1, 2019, representing the date which the Company adopted ASC 842. The Company is currently evaluating the amendment to understand the impact on its financial position, results of operations, cash flows and disclosures upon adoption.

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.

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/ Operations	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	Renewable energy certificates	Certain Clean Energy Ventures projects generate TRECs and SREC IIs under the established administratively determined incentive program. A TREC or SREC II is created for every MWh of electricity produced by a solar generator. The performance obligation of Clean Energy Ventures is to generate electricity. TRECs and SREC IIs under the administratively determined incentive program 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.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue Recognized Over Time (continued):

Segment/ Operations	Performance Obligation	Description
Storage and Transportation	Natural gas services	The performance obligation of Storage and Transportation is to provide the customer with storage and transportation services. Storage and Transportation 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. NJR Retail enters into warranty contracts with homeowners for various appliances. 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.

Revenue Recognized at a Point in Time:

Energy Services	Natural gas services	For a permanent release of pipeline capacity, the performance obligation of Energy Services 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 Storage and Transportation is to provide the customer with storage and transportation services. Storage and Transportation 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 for 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.

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 three months ended June 30, 2023 and 2022, are as follows:

(Thousands)	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Storage and Transportation	Home Services and Other	Total
2023						
Natural gas utility sales [1]	**$ 134,253**	**—**	**—**	**—**	**—**	**$ 134,253**
Natural gas services	**—**	**—**	**16,021**	**22,201**	**—**	**38,222**
Service contracts	**—**	**—**	**—**	**—**	**8,842**	**8,842**
Installations and maintenance	**—**	**—**	**—**	**—**	**6,113**	**6,113**
Renewable energy certificates	**—**	**4,720**	**—**	**—**	**—**	**4,720**
Electricity sales	**—**	**8,274**	**—**	**—**	**—**	**8,274**
Eliminations [2]	**(337)**	**—**	**—**	**(766)**	**(6)**	**(1,109)**
Revenues from contracts with customers	**133,916**	**12,994**	**16,021**	**21,435**	**14,949**	**199,315**
Alternative revenue programs [3]	**5,211**	**—**	**—**	**—**	**—**	**5,211**
Derivative instruments	**5,844**	**184** [4]	**54,151**	**—**	**—**	**60,179**
Eliminations [2]	**—**	**—**	**(630)**	**—**	**—**	**(630)**
Revenues out of scope	**11,055**	**184**	**53,521**	**—**	**—**	**64,760**
Total operating revenues	**$ 144,971**	**13,178**	**69,542**	**21,435**	**14,949**	**$ 264,075**
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 [2]	—	—	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

(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.

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, 2023 and 2022, are as follows:

(Thousands)	Natural Gas Distribution	Clean Energy Ventures	Energy Services	Storage and Transportation	Home Services and Other	Total
2023						
Natural gas utility sales [(1)]	**$ 749,618**	**—**	**—**	**—**	**—**	**$ 749,618**
Natural gas services	**—**	**—**	**60,705**	**69,926**	**—**	**130,631**
Service contracts	**—**	**—**	**—**	**—**	**26,242**	**26,242**
Installations and maintenance	**—**	**—**	**—**	**—**	**16,427**	**16,427**
Renewable energy certificates	**—**	**8,007**	**—**	**—**	**—**	**8,007**
Electricity sales	**—**	**22,062**	**—**	**—**	**—**	**22,062**
Eliminations [(2)]	**(1,012)**	**—**	**—**	**(3,474)**	**(202)**	**(4,688)**
Revenues from contracts with customers	**748,606**	**30,069**	**60,705**	**66,452**	**42,467**	**948,299**
Alternative revenue programs [(3)]	**29,016**	**—**	**—**	**—**	**—**	**29,016**
Derivative instruments	**125,258**	**10,307** [(4)]	**527,979**	**—**	**—**	**663,544**
Eliminations [(2)]	**—**	**—**	**(9,190)**	**—**	**—**	**(9,190)**
Revenues out of scope	**154,274**	**10,307**	**518,789**	**—**	**—**	**683,370**
Total operating revenues	**$ 902,880**	**40,376**	**579,494**	**66,452**	**42,467**	**$ 1,631,669**
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

(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.

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, 2023 and 2022, are as follows:

(Thousands)		Natural Gas Distribution	Clean Energy Ventures	Energy Services	Storage and Transportation	Home Services and Other		Total
2023								
Residential	**$**	**94,340**	**3,585**	**—**	**—**	**14,922**	**$**	**112,847**
Commercial and industrial		**20,220**	**9,409**	**16,021**	**21,435**	**27**		**67,112**
Firm transportation		**18,088**	**—**	**—**	**—**	**—**		**18,088**
Interruptible and off-tariff		**1,268**	**—**	**—**	**—**	**—**		**1,268**
Revenues out of scope		**11,055**	**184**	**53,521**	**—**	**—**		**64,760**
Total operating revenues	**$**	**144,971**	**13,178**	**69,542**	**21,435**	**14,949**	**$**	**264,075**
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

Disaggregated revenues from contracts with customers by customer type and by reporting segment and other business operations during the nine months ended June 30, 2023 and 2022, are as follows:

(Thousands)		Natural Gas Distribution	Clean Energy Ventures	Energy Services	Storage and Transportation	Home Services and Other		Total
2023								
Residential	**$**	**558,901**	**10,082**	**—**	**—**	**42,191**	**$**	**611,174**
Commercial and industrial		**113,120**	**19,987**	**60,705**	**66,452**	**276**		**260,540**
Firm transportation		**73,655**	**—**	**—**	**—**	**—**		**73,655**
Interruptible and off-tariff		**2,930**	**—**	**—**	**—**	**—**		**2,930**
Revenues out of scope		**154,274**	**10,307**	**518,789**	**—**	**—**		**683,370**
Total operating revenues	**$**	**902,880**	**40,376**	**579,494**	**66,452**	**42,467**	**$**	**1,631,669**
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

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, 2023 and 2022, are as follows:

	Customer Accounts Receivable		Customers' Credit
(Thousands)	**Billed**	**Unbilled**	**Balances and Deposits**
Balance as of September 30, 2022	$ 222,297	$ 13,769	$ 33,246
(Decrease) increase	**(111,834)**	**2,723**	**(2,979)**
Balance as of June 30, 2023	**$ 110,463**	**$ 16,492**	**$ 30,267**
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

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, 2023 and September 30, 2022:

(Thousands)	**Natural Gas Distribution**	**Clean Energy Ventures**	**Energy Services**	**Storage and Transportation**	**Home Services and Other**	**Total**
June 30, 2023						
Customer accounts receivable						
Billed	**$ 72,747**	**7,433**	**20,675**	**7,485**	**2,123**	**$ 110,463**
Unbilled	**10,583**	**5,909**	**—**	**—**	**—**	**16,492**
Customers' credit balances and deposits	**(30,259)**	**—**	**—**	**(8)**	**—**	**(30,267)**
Total	**$ 53,071**	**13,342**	**20,675**	**7,477**	**2,123**	**$ 96,688**
September 30, 2022						
Customer accounts receivable						
Billed	$ 78,508	5,566	129,199	7,012	2,012	$ 222,297
Unbilled	10,814	2,955	—	—	—	13,769
Customers' credit balances and deposits	(33,246)	—	—	—	—	(33,246)
Total	$ 56,076	8,521	129,199	7,012	2,012	$ 202,820

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.

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:

(Thousands)		**June 30, 2023**		September 30, 2022
Regulatory assets-current				
New Jersey Clean Energy Program	**$**	**17,943**	$	15,697
Conservation Incentive Program		**52,115**		23,099
Derivatives at fair value, net		**24,228**		—
Other current regulatory assets		**1,461**		1,290
Total current regulatory assets	**$**	**95,747**	$	40,086
Regulatory assets-noncurrent				
Environmental remediation costs:				
Expended, net of recoveries	**$**	**63,841**	$	66,149
Liability for future expenditures		**123,070**		127,070
Deferred income taxes		**41,885**		40,520
SAVEGREEN		**72,507**		52,690
Postemployment and other benefit costs		**55,878**		56,021
Deferred storm damage costs		**543**		2,172
Cost of removal		**121,147**		104,850
Other noncurrent regulatory assets		**43,987**		45,828
Total noncurrent regulatory assets	**$**	**522,858**	$	495,300
Regulatory liability-current				
Overrecovered natural gas costs	**$**	**26,717**	$	17,807
Derivatives at fair value, net		**57**		7,972
Total current regulatory liabilities	**$**	**26,774**	$	25,779
Regulatory liabilities-noncurrent				
Tax Act impact *(1)*	**$**	**181,602**	$	185,367
Derivatives at fair value, net		**91**		116
Other noncurrent regulatory liabilities		**121**		151
Total noncurrent regulatory liabilities	**$**	**181,814**	$	185,634

(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. The Tax Act is 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.

Other noncurrent regulatory assets include deferred pandemic costs of approximately $3.9 million and $6.9 million as of June 30, 2023 and September 30, 2022, respectively, 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. On January 5, 2023, NJNG advised the BPU that it will cease deferring COVID-19 costs as of December 31, 2022, and will seek recovery of its regulatory asset balance in its next base rate proceeding.

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

(Thousands)		**June 30, 2023**		September 30, 2022
Total noncurrent regulatory assets	**$**	**5,256**	$	5,366
Total current regulatory liabilities	**$**	**927**	$	5,311

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.

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

- On February 22, 2023, NJNG advised the BPU that it would implement a bill credit and lower the BGSS rate for residential and small commercial customers, which will reduce revenues by approximately $29.9 million, effective March 1, 2023, which was approved on a final basis on April 12, 2023. Total bill credits given back to customers from March 2023 through May 2023, totaled approximately $32.4 million.

- On March 30, 2023, NJNG submitted its annual IIP filing to the BPU requesting a rate increase for estimated capital expenditures of $31.4 million through June 30, 2023. This filing was updated on July 28, 2023, with actual expenses of approximately $28.2 million through June 30, 2023, which will result in a $3.2 million revenue increase, which would be effective October 1, 2023.

- On April 12, 2023, the BPU approved on a final basis, NJNG's annual BGSS, balancing charge and CIP rates for residential and small business customers, which includes an $81.9 million increase to the annual revenues credited to BGSS, a $9.0 million annual increase related to its balancing charge and a $10.2 million increase to CIP rates, effective October 1, 2022.

- On April 12, 2023, the BPU approved on a final basis, NJNG's annual SBC filing of RAC expenditures through June 30, 2022, as well as an increase to the RAC annual recoveries of $3.7 million and a decrease to the NJCEP annual recoveries of $900,000, effective May 1, 2023.

- On June 1, 2023, NJNG filed its annual petition to modify its BGSS, balancing charge and CIP rates for residential and small business customers. This included a $38.6 million decrease to the annual revenues credited to BGSS, a $7.4 million annual decrease related to its balancing charge and a $27.5 million increase to CIP rates, which would be effective October 1, 2023.

- On June 1, 2023, NJNG submitted its annual EE filing with the BPU for the recovery of SAVEGREEN cost, proposing an increase in annual recoveries of approximately $10.7 million, which would be effective October 1, 2023.

- On June 28, 2023, NJNG submitted its annual USF filing to the BPU requesting an increase to the statewide USF rate, which will result in a $740,000 increase to annual recoveries, which would be effective October 1, 2023.

5. DERIVATIVE INSTRUMENTS

The Company is subject primarily to commodity price risk due to fluctuations in the market price of natural gas, SRECs and electricity. To manage this risk, the Company enters into a variety of derivative instruments including, but not limited to, futures contracts, physical forward contracts, financial options and swaps to economically hedge the commodity price risk associated with its existing and anticipated commitments to purchase and sell natural gas, SRECs and electricity. In addition, the Company is exposed to foreign currency and interest rate risk and may utilize foreign currency derivatives to hedge Canadian dollar denominated natural gas purchases and/or sales and interest rate derivatives to reduce exposure to fluctuations in interest rates. All of these types of contracts are accounted for as derivatives, unless the Company elects NPNS, which is done on a contract-by-contract election. Accordingly, all of the financial and certain of the Company's physical derivative instruments are recorded at fair value on the Unaudited Condensed Consolidated Balance Sheets. For a more detailed discussion of the Company’s fair value measurement policies and level disclosures associated with the Company’s derivative instruments, see *Note 6. Fair Value*.

Energy Services

Energy Services chooses not to designate its financial commodity and physical forward commodity derivatives as accounting hedges or to elect NPNS. The changes in the fair value of these derivatives are recorded as a component of natural gas purchases or operating revenues, as appropriate for Energy Services, on the Unaudited Condensed Consolidated Statements of Operations as unrealized gains or losses. For Energy Services at settlement, realized gains and losses on all financial derivative instruments are recognized as a component of natural gas purchases and realized gains and losses on all physical derivatives follow the presentation of the related unrealized gains and losses as a component of either natural gas purchases or operating revenues.

Energy Services also enters into natural gas transactions in Canada and, consequently, is exposed to fluctuations in the value of Canadian currency relative to the U.S. dollar. Energy Services may utilize foreign currency derivatives to lock in the exchange rates associated with natural gas transactions denominated in Canadian currency. The derivatives may include currency forwards, futures, or swaps and are accounted for as derivatives. These derivatives are typically used to hedge demand fee payments on pipeline capacity, storage and natural gas purchase agreements.

As a result of Energy Services entering into transactions to borrow natural gas, commonly referred to as “park and loans,” an embedded derivative is recognized relating to differences between the fair value of the amount borrowed and the fair value of the amount that will ultimately be repaid, based on changes in the forward price for natural gas prices at the borrowed location over the contract term. This embedded derivative is accounted for as a forward sale in the month in which the repayment of the borrowed natural gas is expected to occur, and is considered a derivative transaction that is recorded at fair value on the Unaudited Condensed Consolidated Balance Sheets, with changes in value recognized in current period earnings.

Expected production of SRECs is hedged through the use of forward and futures contracts. All contracts require the Company to physically deliver SRECs through the transfer of certificates as per contractual settlement schedules. Energy Services recognizes changes in the fair value of these derivatives as a component of operating revenues. Upon settlement of the contract, the related revenue is recognized when the SREC is transferred to the counterparty.

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.

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, 2023		September 30, 2022	
(Thousands)	Balance Sheet Location	**Assets**	**Liabilities**	Assets	Liabilities
Derivatives not designated as hedging instruments:					
Natural Gas Distribution:					
Physical commodity contracts	Derivatives - current	**$ 61**	**$ 5**	$ 252	$ 11
Financial commodity contracts	Derivatives - current	**6,714**	**188**	85	6,281
Energy Services:					
Physical commodity contracts	Derivatives - current	**6,547**	**13,079**	9,857	17,051
	Derivatives - noncurrent	**679**	**13,136**	376	13,561
Financial commodity contracts	Derivatives - current	**18,805**	**4,291**	14,423	26,488
	Derivatives - noncurrent	**1,185**	**121**	6,009	630
Foreign currency contracts	Derivatives - current	**—**	**—**	18	17
Total fair value of derivatives		**$ 33,991**	**$ 30,820**	$ 31,020	$ 64,039

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Offsetting of Derivatives

The Company transacts under master netting arrangements or equivalent agreements that allow it to offset derivative assets and liabilities with the same counterparty. However, the Company's policy is to present its derivative assets and liabilities on a gross basis at the contract level unit of account on the Unaudited Condensed Consolidated Balance Sheets.

The following table summarizes the reported gross amounts, the amounts that the Company has the right to offset but elects not to, financial collateral and the net amounts the Company could present on the Unaudited Condensed Consolidated Balance Sheets but elects not to.

(Thousands)		Amounts Presented on Balance Sheets (1)		Offsetting Derivative Instruments (2)		Financial Collateral Received/Pledged (3)		Net Amounts (4)
As of June 30, 2023								
Derivative assets:								
Energy Services								
Physical commodity contracts	**$**	**7,226**	**$**	**(2,231)**	**$**	**(460)**	**$**	**4,535**
Financial commodity contracts		**19,990**		**(4,412)**		**—**		**15,578**
Total Energy Services	**$**	**27,216**	**$**	**(6,643)**	**$**	**(460)**	**$**	**20,113**
Natural Gas Distribution								
Physical commodity contracts	**$**	**61**	**$**	**(1)**	**$**	**—**	**$**	**60**
Financial commodity contracts		**6,714**		**(188)**		**—**		**6,526**
Total Natural Gas Distribution	**$**	**6,775**	**$**	**(189)**	**$**	**—**	**$**	**6,586**
Derivative liabilities:								
Energy Services								
Physical commodity contracts	**$**	**26,215**	**$**	**(2,231)**	**$**	**—**	**$**	**23,984**
Financial commodity contracts		**4,412**		**(4,412)**		**—**		**—**
Total Energy Services	**$**	**30,627**	**$**	**(6,643)**	**$**	**—**	**$**	**23,984**
Natural Gas Distribution								
Physical commodity contracts	**$**	**5**	**$**	**(1)**	**$**	**—**	**$**	**4**
Financial commodity contracts		**188**		**(188)**		**—**		**—**
Total Natural Gas Distribution	**$**	**193**	**$**	**(189)**	**$**	**—**	**$**	**4**
As of September 30, 2022								
Derivative assets:								
Energy Services								
Physical commodity contracts	$	10,233	$	(404)	$	(200)	$	9,629
Financial commodity contracts		20,432		(12,198)		—		8,234
Foreign currency contracts		18		(17)		—		1
Total Energy Services	$	30,683	$	(12,619)	$	(200)	$	17,864
Natural Gas Distribution								
Physical commodity contracts	$	252	$	—	$	—	$	252
Financial commodity contracts		85		(85)		—		—
Total Natural Gas Distribution	$	337	$	(85)	$	—	$	252
Derivative liabilities:								
Energy Services								
Physical commodity contracts	$	30,612	$	(404)	$	—	$	30,208
Financial commodity contracts		27,118		(12,198)		—		14,920
Foreign currency contracts		17		(17)		—		—
Total Energy Services	$	57,747	$	(12,619)	$	—	$	45,128
Natural Gas Distribution								
Physical commodity contracts	$	11	$	—	$	—	$	11
Financial commodity contracts		6,281		(85)		—		6,196
Total Natural Gas Distribution	$	6,292	$	(85)	$	—	$	6,207

(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.

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 June 30,		**Nine Months Ended June 30,**	
Derivatives not designated as hedging instruments:		**2023**	2022	**2023**	2022
Energy Services:					
Physical commodity contracts	Operating revenues	**$ 12,648**	$ 608	**$ 29,894**	$ (10,824)
Physical commodity contracts	Natural gas purchases	**(5,914)**	1,975	**(6,708)**	2,605
Financial commodity contracts	Natural gas purchases	**4,858**	(19)	**76,332**	29,947
Foreign currency contracts	Natural gas purchases	**—**	—	**—**	(14)
Total unrealized and realized gain		**$ 11,592**	$ 2,564	**$ 99,518**	$ 21,714

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 June 30,		**Nine Months Ended June 30,**	
(Thousands)	**2023**	2022	**2023**	2022
Natural Gas Distribution:				
Physical commodity contracts	**$ 315**	$ 646	**$ (27,919)**	$ 6,880
Financial commodity contracts	**18,000**	2,482	**(51,957)**	49,320
Total unrealized and realized gain (loss)	**$ 18,315**	$ 3,128	**$ (79,876)**	$ 56,200

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 ratable over the term of the associated debt. Pre-tax losses of $342,000 and $341,000 were reclassified from OCI into income during the three months ended June 30, 2023 and 2022, respectively, and pre-tax losses of $1.0 million were reclassified during both the nine months ended June 30, 2023 and 2022.

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

		Volume (Bcf)	
	Transaction Type	**June 30, 2023**	September 30, 2022
Natural Gas Distribution	Futures	**26.0**	30.5
	Physical Commodity	**3.7**	6.8
Energy Services	Futures	**(14.2)**	(0.7)
	Physical Commodity	**2.1**	2.7

Not included in the above table are 1.5 million and 1.2 million SRECs that were open as of June 30, 2023 and September 30, 2022, respectively, and the notional amount of foreign currency transactions for the periods were immaterial.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Natural Gas Distribution and Energy Services. The balances by reporting segment are as follows:

(Thousands)	Balance Sheet Location		**June 30, 2023**		September 30, 2022
Natural Gas Distribution	Restricted broker margin accounts-current assets	**$**	**4,027**	$	26,138
Energy Services	Restricted broker margin accounts-current assets	**$**	**16,210**	$	68,123
	Restricted broker margin accounts-current liabilities	**$**	**1,218**	$	—

Wholesale Credit Risk

NJNG, Energy Services, Clean Energy Ventures and Storage and Transportation 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 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 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, 2023. 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.

(Thousands)		**Gross Credit Exposure**
Investment grade	**$**	**104,901**
Noninvestment grade		**3,303**
Internally rated investment grade		**16,129**
Internally rated noninvestment grade		**21,539**
Total	**$**	**145,872**

Conversely, certain of NJNG's and Energy Services' derivative instruments are linked to agreements containing provisions that would require cash collateral payments from the Company if certain events occur. These provisions vary based upon the terms in individual counterparty agreements and can result in cash payments if NJNG's credit rating were to fall below its current level. Specifically, most, but not all, of these additional payments will be triggered if NJNG's debt is downgraded by the major credit agencies, regardless of investment grade status. In addition, some of these agreements include threshold amounts that would result in additional collateral payments if the values of derivative liabilities were to exceed the maximum values provided for in relevant counterparty agreements. Other provisions include payment features that are not specifically linked to ratings but are based on certain financial metrics.

Collateral amounts associated with any of these conditions are determined based on a sliding scale and are contingent upon the degree to which the Company's credit rating and/or financial metrics deteriorate, and the extent to which liability amounts exceed applicable threshold limits. There was approximately $161,000 of derivative instruments with credit-risk-related contingent features that were in a liability position for which collateral is required as of September 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. There were no derivative instruments with credit-risk-related contingent features that were in a liability position for which collateral is required as of June 30, 2023.

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 loans receivable 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 natural gas meter finance arrangements, debt issuance costs and solar asset financing obligations, is as follows:

(Thousands)	**June 30, 2023**	September 30, 2022
Carrying value [(1) (2) (3)]	**$ 2,537,845**	$ 2,362,845
Fair market value	**$ 2,177,799**	$ 1,946,356

(1) Excludes the sale leasebacks of natural gas meters of $33.3 million and $30.3 million as of June 30, 2023 and September 30, 2022, respectively. The fair value of certain sale leasebacks of natural gas meters amounted to $22.2 million and $15.7 million as of June 30, 2023 and September 30, 2022, respectively.
(2) Excludes NJNG's debt issuance costs of $9.7 million and $9.5 million as of June 30, 2023 and September 30, 2022, respectively.
(3) Excludes NJR's debt issuance costs of $3.8 million as of both June 30, 2023 and September 30, 2022.

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, 2023 and September 30, 2022 was $277.4 million and $124.1 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, 2023, 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 includes 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 an 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 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:

(Thousands)	**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, 2023				
Assets:				
Physical commodity contracts	**$ —**	**$ 7,287**	**$ —**	**$ 7,287**
Financial commodity contracts	**26,704**	**—**	**—**	**26,704**
Money market funds	**131**	**—**	**—**	**131**
Other	**2,651**	**—**	**—**	**2,651**
Total assets at fair value	**$ 29,486**	**$ 7,287**	**$ —**	**$ 36,773**
Liabilities:				
Physical commodity contracts	**$ —**	**$ 26,220**	**$ —**	**$ 26,220**
Financial commodity contracts	**4,600**	**—**	**—**	**4,600**
Total liabilities at fair value	**$ 4,600**	**$ 26,220**	**$ —**	**$ 30,820**
As of September 30, 2022				
Assets:				
Physical commodity contracts	$ —	$ 10,485	$ —	$ 10,485
Financial commodity contracts	20,517	—	—	20,517
Financial commodity contracts - foreign exchange	—	18	—	18
Money market funds	59	—	—	59
Other	1,884	—	—	1,884
Total assets at fair value	$ 22,460	$ 10,503	$ —	$ 32,963
Liabilities:				
Physical commodity contracts	$ —	$ 30,623	$ —	$ 30,623
Financial commodity contracts	33,231	168	—	33,399
Financial commodity contracts - foreign exchange	—	17	—	17
Total liabilities at fair value	$ 33,231	$ 30,808	$ —	$ 64,039

7. INVESTMENTS IN EQUITY INVESTEES

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. The Company's investment in Steckman Ridge was $104.4 million and $106.6 million as of June 30, 2023 and September 30, 2022, respectively, which include loans with a total outstanding principal balance of $70.4 million for both June 30, 2023 and September 30, 2022. These loans accrue interest at a variable rate that resets quarterly and are due October 1, 2023.

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 represented the best estimate of the salvage value of the remaining assets of the project and was recorded in equity in earnings of affiliates in the Unaudited Condensed Consolidated Statements of Operations. In September 2021, the PennEast partnership determined that this project was no longer supported, and all further development ceased.

In March 2022, the PennEast board of managers approved cash distributions to members of the partnership following the sale of certain project-related assets and refunds of interconnection fees received from interstate pipelines. The return of capital received by the Company from March 2022 through September 2022, totaled $11.0 million and reduced the remaining carrying value of its equity method investment in PennEast to zero in the Unaudited Condensed Consolidated Balance Sheets, with the excess recorded in equity in earnings of affiliates in the Unaudited Condensed Consolidated Statements of Operations.

The Company received additional return of capital of $200,000 on February 15, 2023 and $100,000 on June 20, 2023, which is recognized in equity in earnings of affiliates, in the Unaudited Condensed Consolidated Statements of Operations.

8. EARNINGS PER SHARE

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

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
(Thousands, except per share amounts)	**2023**	2022	**2023**	2022
Net income, as reported	**$ 1,532**	$ 13,053	**$ 227,700**	$ 220,400
Basic earnings per share				
Weighted average shares of common stock outstanding-basic	**97,168**	96,154	**96,849**	96,055
Basic earnings per common share	**$0.02**	$0.14	**$2.35**	$2.29
Diluted earnings per share				
Weighted average shares of common stock outstanding-basic	**97,168**	96,154	**96,849**	96,055
Incremental shares *(1)*	**718**	466	**689**	472
Weighted average shares of common stock outstanding-diluted	**97,886**	96,620	**97,538**	96,527
Diluted earnings per common share	**$0.02**	$0.14	**$2.33**	$2.28

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

(Thousands)		**June 30, 2023**		September 30, 2022	**Expiration Dates**
NJR					
Bank revolving credit facility [(1)]	**$**	**650,000**	$	650,000	September 2027
Notes outstanding at end of period	**$**	**134,525**	$	200,150	
Weighted average interest rate at end of period		**6.31 %**		3.97 %	
Amount available at end of period [(2)]	**$**	**510,302**	$	440,177	
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		**— %**		3.81 %	
Amount available at end of period	**$**	**—**	$	—	
NJNG					
Bank revolving credit facility [(3)]	**$**	**250,000**	$	250,000	September 2027
Commercial paper and notes outstanding at end of period	**$**	**10,700**	$	73,800	
Weighted average interest rate at end of period		**5.25 %**		3.34 %	
Amount available at end of period [(4)]	**$**	**238,569**	$	175,469	

(1) Committed credit facilities, which require commitment fees of 0.10 percent on the unused amounts.
(2) Letters of credit outstanding total $5.2 million at June 30, 2023 and $9.7 million at September 30, 2022, 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, 2023 and September 30, 2022, which reduces the amount available by the same amount.

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.

On February 7, 2023, NJR's 364-day $150 million term loan credit agreement, that was entered into in February 2022, expired. The Company had $50 million that was borrowed on February 9, 2022 and $100 million that was borrowed on February 14, 2022, which was paid in full at expiration of the term loan agreement.

Long-term Debt

NJR

On October 24, 2022, NJR entered into a Note Purchase Agreement, which closed on December 15, 2022, under which NJR issued $50 million, Series 2022B senior notes at a fixed rate of 6.14 percent, maturing in 2032. The senior notes are unsecured and guaranteed by certain unregulated subsidiaries of NJR.

NJNG

On October 24, 2022, NJNG entered into a Note Purchase Agreement under which it sold $125 million of its senior notes at an interest rate of 5.47 percent, maturing in 2052.

NJNG received $8.4 million and $17.3 million during the nine months ended June 30, 2023 and 2022, respectively, in connection with the sale leaseback of its natural gas meters. NJNG records a financing obligation and has the option to purchase the meters back at fair value upon expiration of the lease. NJNG exercised an early purchase option with respect to meter leases by making a final principal payment of $1.1 million during the nine months ended June 30, 2022. There was no early purchase option exercised during the nine months ended June 30, 2023.

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 treated as financing obligations for accounting purposes and are typically secured by the renewable energy facility asset and its future cash flows from SRECs, TRECs 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 SRECs, TRECs 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, 2023 and 2022, Clean Energy Ventures received proceeds of $163.6 million and $3.3 million, respectively, in connection with the sale leaseback of commercial solar assets. The proceeds received were recognized as a financing obligation on the Unaudited Condensed Consolidated Balance Sheets.

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 June 30,		Nine Months Ended June 30,		Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Service cost	**$ 1,350**	$ 2,073	**$ 4,051**	$ 6,219	**$ 618**	$ 1,077	**$ 1,854**	$ 3,229
Interest cost	**3,794**	2,408	**11,381**	7,224	**2,286**	1,588	**6,859**	4,766
Expected return on plan assets	**(4,993)**	(5,319)	**(14,979)**	(15,956)	**(1,680)**	(1,893)	**(5,041)**	(5,681)
Recognized actuarial loss	**75**	2,186	**225**	6,558	**—**	1,421	**—**	4,263
Prior service cost (credit) amortization	**25**	25	**76**	76	**—**	(35)	**—**	(107)
Net periodic benefit cost	**$ 251**	$ 1,373	**$ 754**	$ 4,121	**$ 1,224**	$ 2,158	**$ 3,672**	$ 6,470

The Company does not expect to be required to make additional contributions to fund the pension plans during fiscal 2023 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, 2023 and 2022.

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.

NJR evaluates its tax positions to determine the appropriate accounting and recognition of potential future obligations associated with uncertain tax positions. A tax benefit claimed, or expected to be claimed, on a tax return may be recognized only 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 21.9 percent and 22.5 percent, for the nine months ended June 30, 2023 and 2022, 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, 2023 and 2022, discrete items totaled approximately $16.3 million and $164,000, respectively. For the nine months ended June 30, 2023, $15.8 million is related to the reversal of a valuation allowance for certain deferred tax assets, while the remaining amount is related to excess tax benefits associated with the vesting of share-based awards for both fiscal 2023 and 2022. NJR's actual reported effective tax rate was 15.9 percent and 22.5 percent during the nine months ended June 30, 2023 and 2022, respectively.

Inflation Reduction Act

On August 16, 2022, the President of the U.S. signed the Inflation Reduction Act, which contains provisions addressing inflation, clean energy, healthcare and taxes beginning in 2023. The Inflation Reduction Act imposes a 15 percent minimum tax rate on corporations with higher than $1 billion of annual income, along with a 1 percent excise tax on corporate stock repurchases. The Inflation Reduction Act raised the ITC from 26 percent to 30 percent through the end of 2032, dropping to 26 percent for property under construction before the end of 2033 and to 22 percent for property under construction before the end of 2034. The ITC expires starting in 2035 unless it is renewed. There are additional opportunities to increase the credit amount for certain facilities that are placed in service after December 31, 2022. The credit amount can be increased by 10 percent if certain domestic content requirements are satisfied or if the facility is located in an energy community, such as a brownfield site. ITCs are also expanded to include stand-alone energy storage projects without being integrated into a solar facility, allowing solar to claim PTCs that are a production-based credit extending for 10 years following the placed-in-service date of the facility and introduced the concept of transferability of tax credits, providing an additional option to monetize such credits.

The Company evaluated the impacts of the Inflation Reduction Act on its financial position, results of operations and cash flows, noting the corporate alternative minimum tax does not impact the Company as the applicable income thresholds have not been met. Upon the repurchase of common stock through the Company's share repurchase program, the Company would be subject to the 1 percent excise tax. It is expected the ITC revisions of the Inflation Reduction Act could result in potential opportunities, however the Company cannot reasonably estimate the future impacts at this time.

Other Tax Items

As of June 30, 2023 and September 30, 2022, the Company has tax credit carryforwards of approximately $164.9 million and $211.8 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.

The impairment of the equity method investment in PennEast created net capital loss attributes, which can only be utilized to offset capital gains income and can be carried back three years and forward five years prior to expiration. These attributes totaled approximately $56.3 million and $56.6 million as of June 30, 2023 and September 30, 2022.

As of June 30, 2023 and September 30, 2022, the Company had a valuation allowance of approximately $5.0 million and $5.1 million, respectively, related to capital loss carryforwards resulting from the impairment of the equity method investment in PennEast, which the Company believes are not more likely than not to be fully utilized prior to expiration.

As of June 30, 2023 and September 30, 2022, the Company has state income tax net operating losses of approximately $546.0 million and $544.4 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, with the majority expiring after 2035. The Company expects to utilize this entire carryforward, other than as described below.

As of September 30, 2022, the Company had a valuation allowance of approximately $17.2 million related to the recognition of state net operating loss carryforwards. As of June 30, 2023, it was determined that the realization of certain deferred tax assets was more likely than not, and thus the associated valuation allowance of $15.8 million was no longer required. Reversal of the valuation allowance resulted in a corresponding income tax benefit on the Unaudited Condensed Consolidated Statement of Operations. As of June 30, 2023, the remaining valuation allowance of $1.1 million related primarily to other state income tax attributes for which the Company could not conclude were realizable on a more-likely-than-not basis.

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 Internal Revenue Service 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 Inflation Reduction Act raised the ITC from 26 percent to 30 percent through the end of 2032, as previously stated.

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 certain 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.

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 eight 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.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

		Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	**Income Statement Location**	**2023**	2022	**2023**	2022
Operating lease cost [(1)]	Operation and maintenance	**$ 2,276**	$ 2,343	**$ 7,000**	$ 7,377
Finance lease cost [(2)]					
Amortization of right-of-use assets	Depreciation and amortization	**540**	458	**1,565**	1,311
Interest on lease liabilities	Interest expense, net of capitalized interest	**283**	220	**816**	404
Total finance lease cost		**823**	678	**2,381**	1,715
Short-term lease cost	Operation and maintenance	**—**	—	**—**	23
Variable lease cost	Operation and maintenance	**158**	182	**653**	545
Total lease cost		**$ 3,257**	$ 3,203	**$ 10,034**	$ 9,660

(1) Net of capitalized costs.
(2) Includes immaterial costs associated with the sale leaseback of natural gas meters, certain of which are considered financing transactions for accounting purposes.

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

	Nine Months Ended June 30,	
(Thousands)	**2023**	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	**$ 5,739**	$ 5,205
Operating cash flows for finance leases [(1)]	**$ 816**	$ 623
Financing cash flows for finance leases [(1)]	**$ 5,470**	$ 5,540

(1) Includes immaterial activity associated with the sale leaseback of natural gas meters, certain of which are considered financing transactions for accounting purposes.

Assets obtained or modified through operating leases totaled approximately $407,000 during the nine months ended June 30, 2023 and $87,000 and $911,000 during the three and nine months ended June 30, 2022, respectively. There were no assets obtained or modified through operating lease assets during the three months ended June 30, 2023. Assets obtained or modified through other leases, including those which are finance leases and financing transactions for accounting purposes, totaled $8.4 million and $17.3 million during the nine months ended June 30, 2023 and 2022, respectively. There were no assets obtained or modified through finance lease liabilities during the three months ended June 30, 2023 and 2022.

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

(Thousands)	**Balance Sheet Location**	**June 30, 2023**	September 30, 2022
Assets			
Noncurrent			
Operating lease assets	Operating lease assets	**$ 164,119**	$ 168,520
Finance lease assets [(1)]	Utility plant	**28,788**	21,913
Total lease assets [(1)]		**$ 192,907**	$ 190,433
Liabilities			
Current			
Operating lease liabilities	Operating lease liabilities	**$ 5,273**	$ 4,562
Finance lease liabilities [(1)]	Current maturities of long-term debt	**8,626**	6,538
Noncurrent			
Operating lease liabilities	Operating lease liabilities	**135,916**	138,382
Finance lease liabilities [(1)]	Long-term debt	**24,635**	23,752
Total lease liabilities [(1)]		**$ 174,450**	$ 173,234

(1) Includes immaterial amounts associated with the sale leaseback of natural gas meters, certain of which are considered financing transactions for accounting purposes.

For operating lease assets and liabilities, the weighted average remaining lease term was 28.9 years and 29.2 years as of June 30, 2023 and September 30, 2022, respectively, and the weighted average discount rate used in the valuation over the remaining lease term was 3.2 percent for both June 30, 2023 and September 30, 2022.

For finance lease assets and liabilities, certain of which are considered financing transactions for accounting purposes, as of June 30, 2023 and September 30, 2022, the weighted average remaining lease term was 3.5 years and 4.0 years, 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 $195.5 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, Energy Services 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, 2023, for natural gas purchases and future demand fees for the next five fiscal year periods are as follows:

(Thousands)	2023	2024	2025	2026	2027	Thereafter
Energy Services:						
Natural gas purchases	$ 13,851	$ 38,526	$ 2,671	$ —	$ —	$ —
Storage demand fees	5,561	16,874	8,098	6,010	4,878	10,285
Pipeline demand fees	15,698	47,616	46,625	35,261	27,669	42,168
Sub-total Energy Services	$ 35,110	$ 103,016	$ 57,394	$ 41,271	$ 32,547	$ 52,453
NJNG:						
Natural gas purchases	$ 4,519	$ 371	$ —	$ —	$ —	$ —
Storage demand fees	11,238	42,049	30,048	14,353	9,541	4,773
Pipeline demand fees	34,711	156,113	154,995	130,354	124,118	1,079,225
Sub-total NJNG	$ 50,468	$ 198,533	$ 185,043	$ 144,707	$ 133,659	$ 1,083,998
Total	**$ 85,578**	**$ 301,549**	**$ 242,437**	**$ 185,978**	**$ 166,206**	**$ 1,136,451**

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.

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 estimates the 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 $110.8 million to $167.1 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, 2023, NJNG recorded a MGP remediation liability and a corresponding regulatory asset of approximately $123.1 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, New Jersey 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, 2023 and September 30, 2022. 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. On April 12, 2023, the BPU approved on a final basis, NJNG's annual SBC filing of RAC expenditures through June 30, 2022, as well as an increase to the RAC annual recoveries of $3.7 million, which increased the pre-tax annual recovery to $15.4 million, effective May 1, 2023. As of June 30, 2023, $63.8 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.

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: Natural Gas Distribution consists of regulated energy and off-system, capacity and storage management operations; Clean Energy Ventures consists of capital investments in clean energy projects; Energy Services consists of unregulated wholesale and retail energy operations; Storage and Transportation consists of the Company's investments in natural gas transportation and storage facilities; the Home Services and Other business 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 June 30,		Nine Months Ended June 30,	
(Thousands)	**2023**	2022	**2023**	2022
Operating revenues				
Natural Gas Distribution				
External customers	**$ 144,971**	$ 199,357	**$ 902,880**	$ 937,266
Intercompany	**337**	338	**1,012**	1,013
Clean Energy Ventures				
External customers	**13,178**	13,795	**40,376**	35,805
Energy Services				
External customers (1)	**69,542**	309,236	**579,494**	1,086,093
Intercompany	**630**	(1,421)	**9,190**	3,611
Storage and Transportation				
External customers	**21,435**	15,779	**66,452**	40,168
Intercompany	**766**	611	**3,474**	1,707
Subtotal	**250,859**	537,695	**1,602,878**	2,105,663
Home Services and Other				
External customers	**14,949**	14,168	**42,467**	41,161
Intercompany	**6**	52	**202**	232
Eliminations	**(1,739)**	420	**(13,878)**	(6,563)
Total	**$ 264,075**	$ 552,335	**$ 1,631,669**	$ 2,140,493
Depreciation and amortization				
Natural Gas Distribution	**$ 25,825**	$ 23,951	**$ 76,034**	$ 70,188
Clean Energy Ventures	**6,672**	5,358	**18,713**	15,902
Energy Services (2)	**51**	34	**170**	94
Storage and Transportation	**6,102**	3,323	**18,064**	8,027
Subtotal	**38,650**	32,666	**112,981**	94,211
Home Services and Other	**227**	207	**669**	614
Eliminations	**—**	(1)	**—**	(125)
Total	**$ 38,877**	$ 32,872	**$ 113,650**	$ 94,700
Interest income (3)				
Natural Gas Distribution	**$ 496**	$ 250	**$ 1,285**	$ 634
Energy Services	**310**	—	**959**	—
Storage and Transportation	**1,841**	501	**4,926**	1,259
Subtotal	**2,647**	751	**7,170**	1,893
Home Services and Other	**753**	225	**2,141**	527
Eliminations	**(1,010)**	(292)	**(2,726)**	(747)
Total	**$ 2,390**	$ 684	**$ 6,585**	$ 1,673

(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.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Nine Months Ended June 30, 2023	Nine Months Ended June 30, 2022
Interest expense, net of capitalized interest				
Natural Gas Distribution	$ **13,226**	$ 11,474	$ **40,814**	$ 33,233
Clean Energy Ventures	**7,848**	5,510	**21,059**	16,332
Energy Services	**2,467**	1,115	**8,274**	2,585
Storage and Transportation	**6,430**	3,177	**19,265**	7,160
Subtotal	**29,971**	21,276	**89,412**	59,310
Home Services and Other	**148**	135	**459**	504
Total	$ **30,119**	$ 21,411	$ **89,871**	$ 59,814
Income tax provision (benefit)				
Natural Gas Distribution	$ **196**	$ 1,508	$ **38,503**	$ 44,401
Clean Energy Ventures	**(18,237)**	(1,526)	**(23,079)**	(5,524)
Energy Services	**(2,934)**	2,338	**23,046**	22,053
Storage and Transportation	**535**	1,675	**3,074**	2,732
Subtotal	**(20,440)**	3,995	**41,544**	63,662
Home Services and Other	**429**	180	**1,134**	682
Eliminations	**(494)**	259	**381**	(293)
Total	$ **(20,505)**	$ 4,434	$ **43,059**	$ 64,051
Equity in earnings of affiliates				
Storage and Transportation	$ **377**	$ 5,274	$ **2,263**	$ 7,586
Eliminations	**324**	(473)	**515**	(1,441)
Total	$ **701**	$ 4,801	$ **2,778**	$ 6,145
Net financial earnings (loss)				
Natural Gas Distribution	$ **891**	$ 2,648	$ **156,252**	$ 156,511
Clean Energy Ventures	**7,267**	(5,098)	**(5,694)**	(18,410)
Energy Services	**(1,604)**	(5,003)	**72,054**	42,504
Storage and Transportation	**2,358**	3,526	**11,051**	11,113
Subtotal	**8,912**	(3,927)	**233,663**	191,718
Home Services and Other	**523**	215	**1,307**	1,113
Eliminations	**235**	161	**(2,706)**	(406)
Total	$ **9,670**	$ (3,551)	$ **232,264**	$ 192,425
Capital expenditures				
Natural Gas Distribution	$ **102,555**	$ 79,976	$ **277,226**	$ 205,440
Clean Energy Ventures	**10,905**	38,948	**68,604**	105,504
Storage and Transportation	**3,450**	20,560	**33,291**	129,608
Subtotal	**116,910**	139,484	**379,121**	440,552
Home Services and Other	**193**	320	**1,093**	562
Total	$ **117,103**	$ 139,804	$ **380,214**	$ 441,114
Return of capital from equity investees				
Storage and Transportation	$ **—**	$ (1,479)	$ **—**	$ (5,479)
Total	$ **—**	$ (1,479)	$ **—**	$ (5,479)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Thousands)		June 30, 2023		September 30, 2022
Assets at end of period:				
Natural Gas Distribution	$	**4,239,231**	$	4,030,686
Clean Energy Ventures		**1,091,029**		1,015,065
Energy Services		**126,903**		333,064
Storage and Transportation		**1,004,129**		999,520
Subtotal		**6,461,292**		6,378,335
Home Services and Other		**151,430**		159,068
Intercompany assets [(1)]		**(300,142)**		(275,987)
Total	$	**6,312,580**	$	6,261,416

(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:

		Three Months Ended June 30,				Nine Months Ended June 30,		
(Thousands)		2023		2022		2023		2022
Net financial earnings (loss)	$	**9,670**	$	(3,551)	$	**232,264**	$	192,425
Less:								
Unrealized gain on derivative instruments and related transactions		**(12,970)**		(17,891)		**(30,502)**		(58,060)
Tax effect		**3,083**		4,253		**7,250**		13,809
Effects of economic hedging related to natural gas inventory		**24,116**		428		**36,885**		25,160
Tax effect		**(5,731)**		(102)		**(8,766)**		(5,979)
Gain on equity method investment		**(100)**		(4,021)		**(300)**		(4,021)
Tax effect		**24**		1,003		**74**		1,003
NFE tax adjustment		**(284)**		(274)		**(77)**		113
Net income	$	**1,532**	$	13,053	$	**227,700**	$	220,400

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.

15. RELATED PARTY TRANSACTIONS

Effective April 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, 2023, 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:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	**2023**	2022	**2023**	2022
Natural Gas Distribution	**$ 1,703**	$ 1,651	**$ 4,973**	$ 5,015
Energy Services	**167**	187	**494**	552
Total	**$ 1,870**	$ 1,838	**$ 5,467**	$ 5,567

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

(Thousands)	**June 30, 2023**	September 30, 2022
Natural Gas Distribution	**$ 775**	$ 775
Energy Services	**81**	76
Total	**$ 856**	$ 851

NJNG and Energy Services enter 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, 2023, NJNG and Energy Services had one AMA with an expiration date of March 31, 2024.

NJNG entered into a 5-year transportation agreement with Adelphia Gateway for committed capacity of 130,000 Dekatherms per day in Zone South, which began on August 9, 2022.

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 liquefied natural gas plant in Howell, New Jersey, the effects of which are immaterial to the consolidated financial statements.

NJNG entered into a 15-year transportation precedent agreement with Adelphia Gateway for committed capacity of 130,000 Dekatherms per day in Zone North, beginning November 1, 2023; however, the agreement term will automatically be reduced to 7 years if Transcontinental Gas Pipe Line Corporation has not placed its Regional Energy Access Expansion project into service by October 31, 2030.

The intercompany profits for certain transactions between NJNG and Energy Services and NJNG and Adelphia Gateway are not eliminated in accordance with ASC 980, *Regulated Operations.*

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, 2022. Our critical accounting policies have not changed from those reported in the 2022 Annual Report on Form 10-K.

Recently Issued Accounting Standards

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

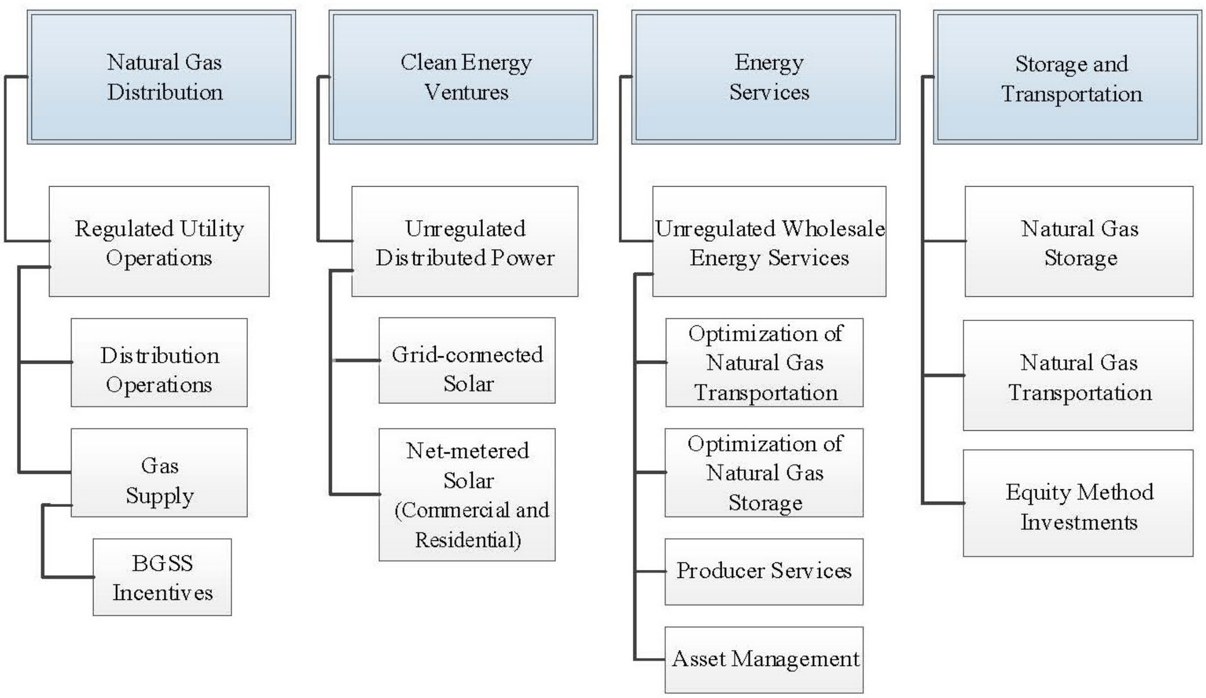
Management's Overview

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 2022 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 nonutility 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 Commercial Realty & Resources Corp. and home warranty contracts at NJR Retail.

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

Operating Results

Net income (loss) by reporting segment and other business operations, which are discussed in detail within the operating results sections of each reporting segment and other business operations, are as follows:

	Three Months Ended June 30,						Nine Months Ended June 30,					
(Thousands)		**2023**			2022			**2023**			2022	
Net income (loss)												
Natural Gas Distribution	**$**	**891**	**58 %**	$	2,648	20 %	**$**	**156,252**	**69 %**	$	156,511	71 %
Clean Energy Ventures		**7,267**	**474**		(5,098)	(39)		**(5,694)**	**(3)**		(18,410)	(8)
Energy Services		**(9,336)**	**(609)**		7,501	57		**74,271**	**32**		70,214	32
Storage and Transportation		**2,434**	**159**		6,544	50		**11,277**	**5**		14,131	6
Home Services and Other		**523**	**34**		215	2		**1,307**	**1**		1,113	1
Eliminations [(1)]		**(247)**	**(16)**		1,243	10		**(9,713)**	**(4)**		(3,159)	(2)
Total	**$**	**1,532**	**100 %**	$	13,053	100 %	**$**	**227,700**	**100 %**	$	220,400	100 %

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

The decrease in net income during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, was due primarily to lower operating income at Energy Services due to decreased natural gas prices, partially offset by an increase in the benefit from income taxes at Clean Energy Ventures due to the reversal of a valuation allowance for certain deferred tax assets during June 2023. The increase in net income during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, was due primarily to an increase in the benefit from income taxes at Clean Energy Ventures, as previously discussed.

Assets by reporting segment and operations are as follows:

(Thousands)		**June 30, 2023**			September 30, 2022	
Assets						
Natural Gas Distribution	**$**	**4,239,231**	**67 %**	$	4,030,686	64 %
Clean Energy Ventures		**1,091,029**	**17**		1,015,065	16
Energy Services		**126,903**	**2**		333,064	5
Storage and Transportation		**1,004,129**	**16**		999,520	16
Home Services and Other		**151,430**	**3**		159,068	3
Intercompany assets [(1)]		**(300,142)**	**(5)**		(275,987)	(4)
Total	**$**	**6,312,580**	**100 %**	$	6,261,416	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 at Natural Gas Distribution and solar asset investments at Clean Energy Ventures, partially offset by a decrease in accounts receivable at Energy Services, and a decrease in gas in storage and restricted broker margin at Natural Gas Distribution and Energy Services due primarily to the decline in natural gas prices.

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. Included in the tax effects are current and deferred income tax expense corresponding with the components of 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 our ongoing operations. Included in the tax effects are current and deferred income tax expense corresponding with the components of NFE.

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

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 June 30,		Nine Months Ended June 30,	
(Thousands, except per share data)	**2023**	2022	**2023**	2022
Net income	**$ 1,532**	$ 13,053	**$ 227,700**	$ 220,400
Add:				
Unrealized gain on derivative instruments and related transactions	**(12,970)**	(17,891)	**(30,502)**	(58,060)
Tax effect	**3,083**	4,253	**7,250**	13,809
Effects of economic hedging related to natural gas inventory [(1)]	**24,116**	428	**36,885**	25,160
Tax effect	**(5,731)**	(102)	**(8,766)**	(5,979)
Gain on equity method investment	**(100)**	(4,021)	**(300)**	(4,021)
Tax effect	**24**	1,003	**74**	1,003
NFE tax adjustment	**(284)**	(274)	**(77)**	113
Net financial earnings (loss)	**$ 9,670**	$ (3,551)	**$ 232,264**	$ 192,425
Basic earnings per share	**$ 0.02**	$ 0.14	**$ 2.35**	$ 2.29
Add:				
Unrealized gain on derivative instruments and related transactions	**(0.14)**	(0.19)	**(0.31)**	(0.60)
Tax effect	**0.03**	0.04	**0.07**	0.14
Effects of economic hedging related to natural gas inventory [(1)]	**0.25**	—	**0.38**	0.26
Tax effect	**(0.06)**	—	**(0.09)**	(0.06)
Gain on equity method investment	**—**	(0.04)	**—**	(0.04)
Tax effect	**—**	0.01	**—**	0.01
Basic net financial earnings (loss) per share	**$ 0.10**	$ (0.04)	**$ 2.40**	$ 2.00

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

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

	Three Months Ended June 30,				Nine Months Ended June 30,			
(Thousands)	**2023**		2022		**2023**		2022	
Net financial earnings (loss)								
Natural Gas Distribution	**$ 891**	**9 %**	$ 2,648	(75)%	**$ 156,252**	**67 %**	$ 156,511	81 %
Clean Energy Ventures	**7,267**	**75**	(5,098)	144	**(5,694)**	**(3)**	(18,410)	(10)
Energy Services	**(1,604)**	**(16)**	(5,003)	141	**72,054**	**31**	42,504	22
Storage and Transportation	**2,358**	**24**	3,526	(99)	**11,051**	**5**	11,113	6
Home Services and Other	**523**	**6**	215	(6)	**1,307**	**1**	1,113	1
Eliminations [(1)]	**235**	**2**	161	(5)	**(2,706)**	**(1)**	(406)	—
Total	**$ 9,670**	**100 %**	$ (3,551)	100 %	**$ 232,264**	**100 %**	$ 192,425	100 %

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

The increase in NFE during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, was due primarily to an increase in the benefit from income taxes at Clean Energy Ventures, as previously discussed. The increase in NFE during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, was due primarily to higher Financial Margin at Energy Services along with an increase in the benefit from income taxes at Clean Energy Ventures, as previously discussed.

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

Natural Gas Distribution

Overview

Natural Gas Distribution 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 574,900 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, 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 such as inflation and rising natural gas costs, 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.

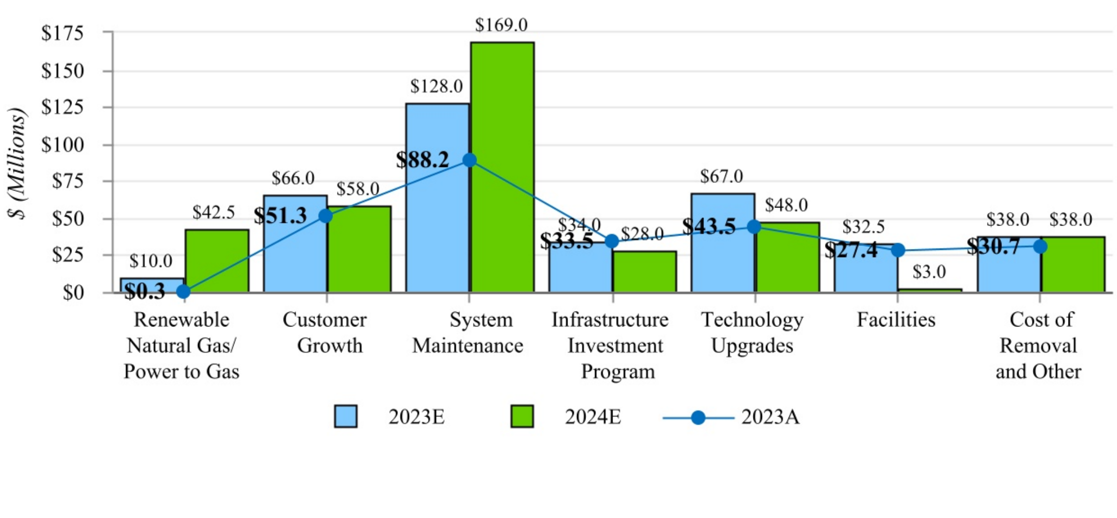
NJNG's operations are managed with the goal of providing safe and reliable service, growing its customer base, diversifying its Utility Gross Margin, promoting clean energy programs and mitigating the risks discussed above.

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.

Infrastructure Projects

NJNG has significant annual capital expenditures associated with the management of its natural gas distribution and transmission system, including new utility plant expenditures 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, 2023, and estimates of expected investments for fiscal 2023 and 2024:



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

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 through June 30, 2022. On September 7, 2022, the BPU approved the rate increase resulting in a $3.2 million revenue increase, effective October 1, 2022.

On March 30, 2023, NJNG submitted its annual IIP filing to the BPU requesting a rate increase for estimated capital expenditures of $31.4 million through June 30, 2023. This filing was updated on July 28, 2023, with actual expenses of approximately $28.2 million through June 30, 2023, which will result in a $3.2 million revenue increase, which would be effective October 1, 2023.

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, 2023	June 30, 2022
Firm customers		
Residential	**518,359**	510,931
Commercial, industrial & other	**32,084**	31,469
Residential transport	**16,340**	17,605
Commercial transport	**8,020**	8,547
Total firm customers	**574,803**	568,552
Other	**97**	48
Total customers	**574,900**	568,600

During the nine months ended June 30, 2023 and 2022, respectively, NJNG added 5,892 and 5,274 new customers, respectively. NJNG expects new customer additions, and those customers who added additional natural gas services to their premises to contribute approximately $5.0 million of incremental Utility Gross Margin on an annualized basis.

NJNG expects its new customer annual growth rate to be approximately 1.7 percent. Based on information from municipalities and developers, as well as external industry analysts and management's experience, NJNG estimates that approximately 63 percent of the growth will come from new construction markets and 37 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 $7.9 million annually, as calculated under NJNG's CIP tariff.

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

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 O&M.

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

In June 2022, NJNG submitted its annual cost recovery filing for the SAVEGREEN programs established from 2010 through the present. In September 2022, the BPU approved the rate decrease, which resulted in an annual decrease of approximately $3.5 million, effective October 1, 2022.

On June 1, 2023, the NJNG submitted its annual cost recovery filing for the SAVEGREEN programs established from 2010 through the present, which would increase annual recoveries by approximately $10.7 million, which would be effective October 1, 2023.

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

(Thousands)		**June 30, 2023**		September 30, 2022
Loans	**$**	**169,000**	$	152,000
Grants, rebates and related investments		**154,900**		132,200
Total	**$**	**323,900**	$	284,200

Program recoveries from customers during the nine months ended June 30, 2023 and 2022, were $15.9 million and $23.5 million, respectively. The recovery includes a weighted average cost of capital that ranges from 6.84 percent to 6.9 percent, with a return on equity of 9.6 percent to 9.75 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, along 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:

	Three Months Ended June 30,				**Nine Months Ended June 30,**			
(Thousands)		**2023**		2022		**2023**		2022
Weather [(1)]	**$**	**5,649**	$	806	**$**	**44,675**	$	22,263
Usage		**2,290**		(774)		**3,358**		1,210
Total	**$**	**7,939**	$	32	**$**	**48,033**	$	23,473

(1) Compared with the 20-year average, weather was 17.2 percent and 13.5 percent warmer-than-normal during the three and nine months ended June 30, 2023, respectively, and 6.4 percent and 8.5 percent warmer-than-normal during the three and nine months ended June 30, 2022, 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 therms delivered. There is no Utility Gross Margin associated with BGSS costs; therefore, changes in such costs do not impact NJNG's earnings. NJNG monitors its actual natural gas costs in comparison to its BGSS rates to manage its cash flows associated with its allowed recovery of natural gas costs, which is facilitated through BPU-approved deferred accounting and the BGSS pricing mechanism. Accordingly, NJNG occasionally adjusts its periodic BGSS rates or can issue credits or refunds, as appropriate, for its residential and small commercial customers when the commodity cost varies from the existing BGSS rate. BGSS rates for its large commercial customers are adjusted monthly based on NYMEX prices.

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

In November 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.

In May 2022, the BPU approved on a final 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.

On April 12, 2023, the BPU approved on a final basis an $81.9 million increase to the annual revenues credited to BGSS, a $9.0 million annual increase related to its balancing charge and a $10.2 million increase to CIP rates, effective October 1, 2022.

On April 12, 2023, the BPU approved on a final basis, NJNG's February 22, 2023 filing that advised the BPU of a bill credit and a reduction to the BGSS rate for residential and small commercial customers, which will reduce recoveries by approximately $29.9 million, effective March 1, 2023. Total bill credits given back to customer from March 2023 through May 2023, totaled approximately $32.4 million.

On June 1, 2023, the NJNG filed its annual petition to modify its BGSS, balancing charge and CIP rates for residential and small business customers. This included a $38.6 million decrease to the annual revenues credited to BGSS, a $7.4 million annual decrease related to its balancing charge and a $27.5 million increase to CIP rates, which would be effective October 1, 2023. 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 $2.9 million and $17.4 million during the three and nine months ended June 30, 2023, respectively, and $1.9 million and $12.1 million during the three and nine months ended June 30, 2022, respectively.

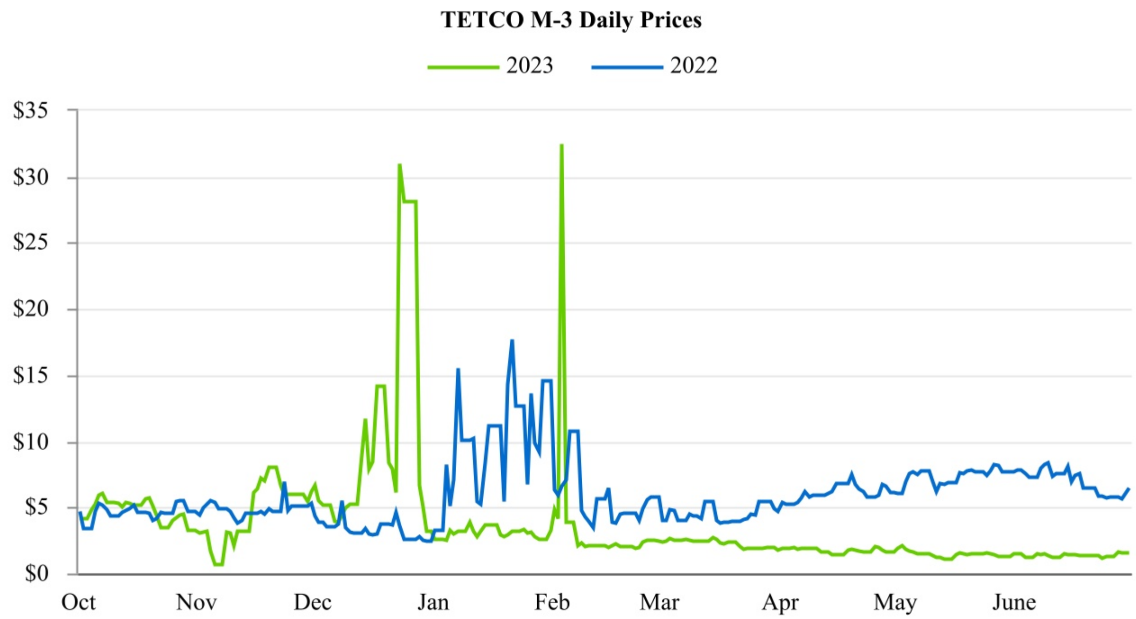
Hedging

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. The hedging goal is typically achieved with gas in storage and the use of financial instruments to hedge storage injections. NJNG may also use various financial instruments including futures, swaps, options and weather related products to hedge its future delivery obligations.

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

Commodity Prices

Natural Gas Distribution 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 $32.46 and $17.69 and the minimum price was $0.67 and $2.42 for the nine months ended June 30, 2023 and 2022, respectively. A more detailed discussion of the impacts of the price of natural gas on operating revenues, natural gas purchases and cash flows can be found in the *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 March 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.

In June 2022, NJNG filed its annual USF compliance filing proposing a decrease to the statewide USF rate. In August 2022, an additional update was submitted on behalf of all NJ utilities with actual information through July 31, 2022. In September 2022, the BPU approved a decrease based on the August update, which resulted in an annual decrease of approximately $1.6 million, effective October 1, 2022.

On April 12, 2023, the BPU approved on a final basis, NJNG's annual SBC filing of RAC expenditures through June 30, 2022, as well as an increase to the RAC annual recoveries of $3.7 million and a decrease to the NJCEP annual recoveries of $900,000, effective May 1, 2023.

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

On June 28, 2023, NJNG submitted its annual USF filing to the BPU requesting an increase to the statewide USF rate, which will result in a $740,000 increase to annual recoveries, which would be effective October 1, 2023.

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 $123.1 million as of June 30, 2023, a decrease of $4.0 million compared with the prior fiscal period. See *Note 13. Commitments and Contingent Liabilities* for more details.

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

Operating Results

NJNG's operating results are as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	**2023**	2022	**2023**	2022
Operating revenues [(1)]	**$ 145,308**	$ 199,695	**$ 903,892**	$ 938,279
Operating expenses				
Natural gas purchases [(2)(3)]	**44,669**	102,624	**388,134**	442,441
Operation and maintenance	**58,303**	51,560	**166,499**	141,015
Regulatory rider expense [(4)]	**6,120**	8,360	**47,525**	55,941
Depreciation and amortization	**25,825**	23,951	**76,034**	70,188
Total operating expenses	**134,917**	186,495	**678,192**	709,585
Operating income	**10,391**	13,200	**225,700**	228,694
Other income, net	**3,922**	2,430	**9,869**	5,451
Interest expense, net of capitalized interest	**13,226**	11,474	**40,814**	33,233
Income tax provision	**196**	1,508	**38,503**	44,401
Net income	**$ 891**	$ 2,648	**$ 156,252**	$ 156,511

(1) Includes nonutility revenue of approximately $337,000 and $338,000 for the three months ended June 30, 2023 and 2022, respectively, and $1.0 million for both the nine months ended June 30, 2023 and 2022, for lease agreements with various NJR subsidiaries leasing office space from NJNG at the Company's headquarters, which are eliminated in consolidation.

(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 and $7.0 million for both the three and nine months ended June 30, 2023 and 2022, 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 decreased by 27.2 percent and decreased 3.7 percent and natural gas purchases decreased 56.5 percent and decreased 12.3 percent during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022.

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

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

	Three Months Ended June 30, 2023 v. 2022		Nine Months Ended June 30, 2023 v. 2022	
(Thousands)	**Operating revenues**	**Natural gas purchases**	**Operating revenues**	**Natural gas purchases**
BGSS incentives	**$ (55,445)**	**$ (56,441)**	**$ (71,586)**	**$ (76,933)**
Bill credits	**—**	**—**	**(31,581)**	**(31,581)**
Firm sales	**(9,368)**	**(6,049)**	**(29,326)**	**(18,864)**
Average BGSS rates	**3,404**	**3,404**	**73,144**	**73,144**
CIP adjustments	**7,907**	**—**	**24,560**	**—**
Base rate impact	**—**	**—**	**6,927**	**—**
Riders and other (1)	**(885)**	**1,131**	**(6,525)**	**(73)**
Total decrease	**$ (54,387)**	**$ (57,955)**	**$ (34,387)**	**$ (54,307)**

(1) Rider and other includes changes in rider rates, including those related to Energy Efficiency, NJCEP and other programs, which is offset in regulatory rider expense.

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:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	**2023**	2022	**2023**	2022
Operating revenues	**$ 145,308**	$ 199,695	**$ 903,892**	$ 938,279
Less:				
Natural gas purchases	**44,669**	102,624	**388,134**	442,441
Operation and maintenance (1)	**31,436**	25,034	**88,441**	64,924
Regulatory rider expense	**6,120**	8,360	**47,525**	55,941
Depreciation and amortization	**25,825**	23,951	**76,034**	70,188
Gross margin	**37,258**	39,726	**303,758**	304,785
Add:				
Operation and maintenance (1)	**31,436**	25,034	**88,441**	64,924
Depreciation and amortization	**25,825**	23,951	**76,034**	70,188
Utility Gross Margin	**$ 94,519**	$ 88,711	**$ 468,233**	$ 439,897

(1) Excludes selling, general and administrative expenses of approximately $26.9 million and $78.1 million for the three and nine months ended June 30, 2023, respectively, and $26.5 million and $76.1 million for the three and nine months ended June 30, 2022, respectively.

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

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:

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2023		2022		**2023**		2022	
($ in thousands)	**Margin**	**Bcf**	Margin	Bcf	**Margin**	**Bcf**	Margin	Bcf
Utility Gross Margin/Throughput								
Residential	**$ 59,723**	**5.7**	$ 55,597	6.7	**$ 321,017**	**39.9**	$ 303,716	42.3
Commercial, industrial and other	**14,897**	**1.2**	15,387	1.3	**65,742**	**7.7**	64,609	7.9
Firm transportation	**15,815**	**2.2**	14,729	2.3	**61,503**	**10.7**	57,101	11.5
Total utility firm gross margin/throughput	**90,435**	**9.1**	85,713	10.3	**448,262**	**58.3**	425,426	61.7
BGSS incentive programs	**2,935**	**13.8**	1,938	20.3	**17,399**	**17.0**	12,051	69.4
Interruptible/off-tariff agreements	**1,149**	**10.4**	1,060	9.7	**2,572**	**52.4**	2,420	16.9
Total Utility Gross Margin/Throughput	**$ 94,519**	**33.3**	$ 88,711	40.3	**$ 468,233**	**127.7**	$ 439,897	148.0

Utility Firm Gross Margin

Utility firm gross margin increased $4.7 million and $22.8 million during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, respectively, due primarily to increased base rates along with increased residential and transportation customers.

The factors contributing to the change in Utility Gross Margin generated by BGSS incentive programs are as follows:

(Thousands)	**Three Months Ended June 30, 2023 v. 2022**	**Nine Months Ended June 30, 2023 v. 2022**
Off-system sales	**$ (759)**	**$ 426**
Storage	**1,726**	**4,732**
Capacity release	**31**	**190**
Total increase	**$ 998**	**$ 5,348**

The increase in BGSS incentive programs during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, was due primarily to increased margins from the acceleration of storage incentives.

Operation and Maintenance Expense

O&M expense increased $6.7 million during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, due primarily to increased employee related costs. O&M expense increased $25.5 million during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, due primarily to the deferral of $10.7 million in pandemic related costs in accordance with the July 2, 2020 BPU deferral order in December 2021 that did not reoccur along with increased employee related costs.

Depreciation Expense

Depreciation expense increased $1.9 million and $5.8 million during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, respectively, as a result of additional utility plant being placed into service.

Interest Expense

Interest expense increased $1.8 million and $7.6 million during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, respectively, due primarily to increased outstanding long-term debt.

Other Income

Other income increased $1.5 million and $4.4 million during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, respectively, due primarily to increased AFUDC equity.

Income Tax Provision

Income tax provision decreased $1.3 million and $5.9 million during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, respectively, due to lower income before income taxes.

Net Income

Net income decreased $1.8 million during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, due primarily to higher O&M, depreciation and interest expenses, partially offset by higher Utility Gross Margin, increased other income and lower income taxes as previously discussed. Net income remained relatively flat during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022.

Clean Energy Ventures

Overview

Clean Energy Ventures 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 various risks, 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.

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

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

($ in Thousands)	Three Months Ended June 30, 2023			2022		
Placed in service	**Projects**	**MW**	**Costs**	Projects	MW	Costs
Grid-connected [(1)]	**—**	**—**	**$ (539)**	—	—	$ —
Net-metered:						
Commercial [(1)]	**—**	**—**	**1,406**	—	—	—
Sunlight Advantage®	**86**	**1.0**	**3,502**	82	0.9	2,410
Total placed in service	**86**	**1.0**	**$ 4,369**	82	0.9	$ 2,410

($ in Thousands)	Nine Months Ended June 30, 2023			2022		
Placed in service	**Projects**	**MW**	**Costs**	Projects	MW	Costs
Grid-connected [(1)]	**3**	**35.7**	**$ 89,613**	1	1.0	$ 3,102
Net-metered:						
Commercial [(1)]	**3**	**15.5**	**37,895**	—	—	—
Sunlight Advantage®	**235**	**2.8**	**9,111**	249	2.8	8,107
Total placed in service	**241**	**54.0**	**$ 136,619**	250	3.8	$ 11,209

(1) Includes projects subject to sale leaseback arrangements.

On July 17, 2023, CEV acquired two operating solar assets totaling 20.7 MW for approximately $14.1 million.

Clean Energy Ventures has approximately 440.6 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. In December 2020, the 26 percent federal ITC was extended through the end of 2022. Following the signing of the Inflation Reduction Act into law in August 2022, the federal ITC was restored to 30 percent through the end of 2032. There are opportunities to increase the credit amount up to an additional 20 percent for certain facilities that are placed in service after December 31, 2022, based upon the type of project and location. ITC-eligible projects placed in service prior to the enactment of the Inflation Reduction Act are not impacted by the change.

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. Clean Energy Ventures received proceeds of $101.8 million and $163.6 million during the three and nine months ended June 30, 2023, respectively, and $3.3 million during the nine months ended June 30, 2022, in connection with sale leasebacks of commercial solar assets. There were no solar sale leasebacks during the three months ended June 30, 2022.

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 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.

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

In July 2021, the BPU established a new successor solar incentive program. This Administratively Determined Incentive Program, which we refer to as SREC IIs, provides administratively set incentives for net metered residential projects and net metered non-residential projects of 5 MW or less.

REC activity consisted of the following:

	Nine Months Ended June 30,				
	2023			2022	
	SRECs	SREC IIs	TRECs	SRECs	TRECs
Inventory balance as of October 1,	**116,005**	**247**	**10,759**	108,104	6,944
RECs generated	**292,753**	**5,803**	**52,013**	278,681	25,471
RECs delivered	**(48,871)**	**(2,360)**	**(43,154)**	(38,773)	(22,182)
Inventory balance as of June 30,	**359,887**	**3,690**	**19,618**	348,012	10,233

The average SREC sales price was $211 and $202 during the nine months ended June 30, 2023 and 2022, respectively, the average TREC price was $141 and $138 during the nine months ended June 30, 2023 and 2022, respectively, and the average SREC II price was $91 during the nine months ended June 30, 2023.

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**
2023	94%
2024	100%
2025	89%
2026	71%
2027	17%

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

There are no direct costs associated with the production of RECs 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 June 30,		Nine Months Ended June 30,	
(Thousands)	**2023**	2022	**2023**	2022
Operating revenues	**$ 13,178**	$ 13,795	**$ 40,376**	$ 35,805
Operating expenses				
Operation and maintenance	**9,850**	9,646	**30,330**	27,780
Depreciation and amortization	**6,672**	5,358	**18,713**	15,902
Total operating expenses	**16,522**	15,004	**49,043**	43,682
Operating loss	**(3,344)**	(1,209)	**(8,667)**	(7,877)
Other income, net	**222**	95	**953**	275
Interest expense, net	**7,848**	5,510	**21,059**	16,332
Income tax benefit	**(18,237)**	(1,526)	**(23,079)**	(5,524)
Net income (loss)	**$ 7,267**	$ (5,098)	**$ (5,694)**	$ (18,410)

Operating Revenues

Operating revenues decreased $617,000 during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, due primarily to decreased electricity sales related to lower average electricity prices. Operating revenues increased $4.6 million during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, due primarily to increased REC sales.

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

Operation and Maintenance Expense

O&M expense remained relatively flat during the three months ended June 30, 2023, compared with the three months ended June 30, 2022. O&M expense increased $2.6 million during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, due primarily to higher operating expenses.

Income Tax Benefit

Income tax benefit increased $16.7 million and $17.6 million during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, respectively, due to the reversal of a valuation allowance for certain deferred tax assets during June 2023.

Net Income (Loss)

Net income increased $12.4 million during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, due to the reversal of a valuation allowance for certain deferred tax assets during June 2023. Net loss decreased $12.7 million during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, due to the reversal of a valuation allowance, as previously discussed.

Energy Services

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 an obligation to either purchase and/or deliver physical natural gas. In addition to the contractual purchase and/or sale of physical natural gas, Energy Services generates or pays fee-based margin in exchange for its active management and may provide the producer and/or utility with additional margin based on actual results.

In conjunction with the active management of these contracts, Energy Services generates Financial Margin by identifying market opportunities and simultaneously entering into natural gas purchase/sale, storage or transportation contracts and financial derivative contracts. In cases where storage is utilized to fulfill these contracts, these forecast sales and/or purchases are economically hedged through the use of financial derivative contracts. The financial derivative contracts consist primarily of exchange-traded futures, options and swap contracts, and are frequently used to lock in anticipated transactional cash flows and to help manage volatility in natural gas market prices. Generally, when its transportation and storage contracts are exposed to periods of increased market volatility, Energy Services is able to implement strategies that allow 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.

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

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 a total of 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 operating revenue of $9.5 million and $39.0 million during the three and nine months ended June 30, 2023, respectively, and $10.3 million and $42.7 million 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 $68.2 million and $33.8 million as of June 30, 2023 and September 30, 2022, respectively, 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 June 30,		Nine Months Ended June 30,	
(Thousands)	**2023**	2022	**2023**	2022
Operating revenues [(1)]	**$ 70,172**	$ 307,815	**$ 588,684**	$ 1,089,704
Operating expenses				
Natural gas purchases (including demand charges [(2)(3)])	**76,599**	290,767	**471,000**	980,600
Operation and maintenance	**3,699**	6,181	**13,144**	14,531
Depreciation and amortization	**51**	34	**170**	94
Total operating expenses	**80,349**	296,982	**484,314**	995,225
Operating (loss) income	**(10,177)**	10,833	**104,370**	94,479
Other income, net	**374**	121	**1,221**	373
Interest expense, net	**2,467**	1,115	**8,274**	2,585
Income tax (benefit) provision	**(2,934)**	2,338	**23,046**	22,053
Net (loss) income	**$ (9,336)**	$ 7,501	**$ 74,271**	$ 70,214

(1) Includes related party transactions of approximately $630,000 and $9.2 million during the three and nine months ended June 30, 2023, respectively, and $1.4 million and $3.6 million for the three and nine months ended June 30, 2022, 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 $232,000 and $705,000 during the three and nine months ended June 30, 2023, respectively, and $257,000 and $752,000 during the three and nine months ended June 30, 2022, respectively, a portion of which is eliminated in consolidation.

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

	Nine Months Ended June 30,	
(in Bcf)	**2023**	2022
Net short futures and swaps contracts	**14.2**	5.2

During the nine months ended June 30, 2023 and 2022, the net short position resulted in an unrealized gain of $15.6 million and $6.2 million, respectively.

<u>Operating Revenues and Natural Gas Purchases</u>

Operating revenues decreased $237.6 million and natural gas purchases decreased $214.2 million during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, due primarily to decrease in natural gas prices of 70.7 percent. Operating revenues decreased $501.0 million and natural gas purchases decreased $509.6 million during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, due to decreased natural gas prices of 34.0 percent, partially offset by periods of volatility in natural gas prices during the first two quarters of fiscal 2023.

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

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* for TETCO M-3 Daily Prices, which illustrates the daily natural gas prices in the Northeast market region.

Operation and Maintenance Expense

O&M expense decreased $2.5 million during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, due primarily to decreased compensation due to the timing of the change in incentive accruals related to outsized performance during the first quarter of fiscal 2023. O&M expense decreased $1.4 million during the nine months ended June 30, 2023, compared to the nine months ended June 30, 2022, due primarily to a reduction in the reserve for bad debt.

Interest Expense

Interest expense increased $1.4 million and $5.7 million during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, respectively, due primarily to increased borrowings and higher interest rates.

Net (Loss) Income

Net loss increased $16.8 million during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, due primarily to the operating loss related to decreased operating revenue along with higher interest expense, partially offset by an income tax benefit related to the operating loss. Net income increased $4.1 million during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, respectively, due primarily to higher operating income, partially offset by interest expense, 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.

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.

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

Financial Margin

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	**2023**	2022	**2023**	2022
Operating revenues [(1)]	**$ 70,172**	$ 307,815	**$ 588,684**	$ 1,089,704
Less:				
Natural gas purchases	**76,599**	290,767	**471,000**	980,600
Operation and maintenance [(2)]	**3,244**	5,617	**14,366**	12,864
Depreciation and amortization	**51**	34	**170**	94
Gross margin	**(9,722)**	11,397	**103,148**	96,146
Add:				
Operation and maintenance [(2)]	**3,244**	5,617	**14,366**	12,864
Depreciation and amortization	**51**	34	**170**	94
Unrealized gain on derivative instruments and related transactions	**(13,601)**	(16,470)	**(39,692)**	(61,671)
Effects of economic hedging related to natural gas inventory [(3)]	**24,116**	428	**36,885**	25,160
Financial Margin	**$ 4,088**	$ 1,006	**$ 114,877**	$ 72,593

(1) Includes unrealized losses (gains) related to an intercompany transaction between NJNG and Energy Services that have been eliminated in consolidation of approximately $630,000 and $9.2 million during the three and nine months ended June 30, 2023, respectively, and $(1.4) million and $3.6 million during the three and nine months ended June 30, 2022, respectively.

(2) Excludes selling, general and administrative expenses of approximately $455,000 and $(1.2) million during the three and nine months ended June 30, 2023, respectively, and $564,000 and $1.7 million during the three and nine months ended June 30, 2022, respectively.

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

Financial Margin increased $3.1 million during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, due primarily to decreased O&M as previously discussed. Financial Margin increased $42.3 million during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, due primarily to higher natural gas price volatility in December 2022 and February 2023, as a result of cold weather in regions where Energy Services had contracted rights to transportation and storage assets.

Net Financial Earnings

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	**2023**	2022	**2023**	2022
Net (loss) income	**$ (9,336)**	$ 7,501	**$ 74,271**	$ 70,214
Add:				
Unrealized gain on derivative instruments and related transactions	**(13,601)**	(16,470)	**(39,692)**	(61,671)
Tax effect [(1)]	**3,232**	3,914	**9,433**	14,667
Effects of economic hedging related to natural gas inventory	**24,116**	428	**36,885**	25,160
Tax effect	**(5,731)**	(102)	**(8,766)**	(5,979)
Net income to NFE tax adjustment	**(284)**	(274)	**(77)**	113
Net financial (loss) earnings	**$ (1,604)**	$ (5,003)	**$ 72,054**	$ 42,504

(1) Includes taxes related to an intercompany transaction between NJNG and Energy Services that have been eliminated in consolidation of approximately $149,000 and $(2.2) million during the three and nine months ended June 30, 2023, respectively, and $339,000 and $859,000 during the three and nine months ended June 30, 2022, respectively.

NFE increased $3.4 million during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, due primarily to higher Financial Margin, as previously discussed. NFE increased $29.6 million during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, due primarily to higher Financial Margin, partially offset by higher interest expenses, as previously discussed.

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

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

Overview

Storage and Transportation 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. Storage and Transportation 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.

Storage and Transportation 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. On October 5, 2020, we began the conversion of the southern zone of the pipeline to natural gas, which became fully operational on September 2, 2022.

Storage and Transportation has a 50 percent ownership interest in Steckman Ridge, a storage facility that operates under market-based rates. As of June 30, 2023, our investment in Steckman Ridge was $104.4 million.

Storage and Transportation also has 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. 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.

On December 16, 2021, the FERC dismissed PennEast's pending applications. The order vacated 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.

During fiscal 2022, the PennEast board of managers approved cash distributions to members of the partnership following the sale of certain project-related assets and refunds of interconnection fees received from interstate pipelines. The return of capital received by the Company, which totaled $11.0 million, reduced the remaining carrying value of its equity method investment in PennEast to zero, with the excess recorded in equity in earnings of affiliates in the Consolidated Statements of Operations. On February 15, 2023 and June 20, 2023, we received additional capital distributions of $200,000 and $100,000, respectively.

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

Operating Results

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	**2023**	2022	**2023**	2022
Operating revenues [(1)]	**$ 22,201**	$ 16,390	**$ 69,926**	$ 41,875
Operating expenses				
Natural gas purchases	**205**	987	**1,387**	2,028
Operation and maintenance	**8,687**	7,840	**23,951**	22,524
Depreciation and amortization	**6,102**	3,323	**18,064**	8,027
Total operating expenses	**14,994**	12,150	**43,402**	32,579
Operating income	**7,207**	4,240	**26,524**	9,296
Other income, net	**1,815**	1,882	**4,829**	7,141
Interest expense, net	**6,430**	3,177	**19,265**	7,160
Income tax provision	**535**	1,675	**3,074**	2,732
Equity in earnings of affiliates	**377**	5,274	**2,263**	7,586
Net income	**$ 2,434**	$ 6,544	**$ 11,277**	$ 14,131

(1) Includes related party transactions of approximately $766,000 and $3.5 million during the three and nine months ended June 30, 2023, respectively, and $611,000 and $1.7 million during the three and nine months ended June 30, 2022, respectively, which are eliminated in consolidation.

Operating Revenues

Operating revenues increased $5.8 million and $28.1 million during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, respectively, due primarily to increased fixed price contract revenue for Adelphia Gateway and increased hub services at Leaf River.

Depreciation Expense

Depreciation expense increased $2.8 million and $10.0 million during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, respectively, due primarily to the southern portion of the Adelphia Gateway project, which was placed in service in September 2022.

Other Income, Net

Other income remained relatively flat during the three months ended June 30, 2023, compared with the three months ended June 30, 2022. Other income decreased $2.3 million during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, due primarily to decreased AFUDC equity related to the Adelphia Gateway project.

Interest Expense

Interest expense increased $3.3 million and $12.1 million during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, respectively, due primarily to increased borrowings and higher interest rates.

Net Income

Net income decreased $4.1 million during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, due primarily to increased depreciation and interest expenses along with decreased other income, partially offset by increased revenue, as previously discussed. Net income decreased $2.9 million during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, due primarily to increased interest expense and decreased other income, as previously discussed, partially offset by increased operating revenue.

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

Non-GAAP Financial Measures

Management uses NFE, a non-GAAP financial measure, when evaluating the operating results of Storage and Transportation. 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:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	**2023**	2022	**2023**	2022
Net income	**$ 2,434**	$ 6,544	**$ 11,277**	$ 14,131
Add:				
Gain on equity method investment	**(100)**	(4,021)	**(300)**	(4,021)
Tax effect	**24**	1,003	**74**	1,003
Net financial earnings	**$ 2,358**	$ 3,526	**$ 11,051**	$ 11,113

NFE decreased $1.2 million during the three months ended June 30, 2023, compared with the three months ended June 30, 2022, due primarily to increased depreciation and interest expenses along with decreased other income, partially offset by increased revenue, as previously discussed. NFE remained relatively flat during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022.

Home Services and Other

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.

Operating Results

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	**2023**	2022	**2023**	2022
Operating revenues	**$ 14,955**	$ 14,220	**$ 42,669**	$ 41,393
Income before income taxes	**$ 952**	$ 395	**$ 2,441**	$ 1,795
Income tax provision	**429**	180	**1,134**	682
Net income	**$ 523**	$ 215	**$ 1,307**	$ 1,113

Operating Revenues

Operating revenues increased $735,000 and $1.3 million during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, respectively, due primarily to increased installation and service contract revenue.

Net Income

Net income increased $308,000 and $194,000 during the three and nine months ended June 30, 2023, compared with the three and nine months ended June 30, 2022, respectively, due primarily to increased operating income, as previously discussed, along with decreased pension costs, partially offset by increased income taxes related to the higher operating income.

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

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, 2023	September 30, 2022
Common stock equity	**40 %**	38 %
Long-term debt	**54**	52
Short-term debt	**6**	10
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 $3.8 million and $11.4 million of equity through the DRP during the three and nine months ended June 30, 2023, respectively, and $3.6 million and $11.1 million during the three and nine months ended June 30, 2022, respectively. We raised approximately $24.9 million and $42.8 million of equity by issuing approximately 519,000 and 887,000 shares through the waiver discount feature of the DRP during the three and nine months ended June 30, 2023, respectively. There were no shares issued through the waiver discount feature during the three and nine months ended June 30, 2022.

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, 2023, 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 three and nine months ended June 30, 2023 and 2022.

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, 2023, NJR and NJNG were, and currently are, in compliance with all existing debt covenants, both financial and non-financial.

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, 2023, NJR had a revolving credit facility totaling $650 million, with $510.3 million available under the facility.

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

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, 2023, 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 $238.6 million.

Short-term borrowings were as follows:

(Thousands)	Three Months Ended June 30, 2023	Nine Months Ended June 30, 2023
NJR		
Notes Payable to banks:		
Balance at end of period	**$ 134,525**	**$ 134,525**
Weighted average interest rate at end of period	**6.31 %**	**6.31 %**
Average balance for the period	**$ 151,991**	**$ 274,993**
Weighted average interest rate for average balance	**6.18 %**	**5.55 %**
Month end maximum for the period	**$ 150,000**	**$ 465,000**
NJNG		
Commercial Paper and Notes Payable to banks:		
Balance at end of period	**$ 10,700**	**$ 10,700**
Weighted average interest rate at end of period	**5.25 %**	**5.25 %**
Average balance for the period	**$ 7,493**	**$ 45,211**
Weighted average interest rate for average balance	**5.25 %**	**4.56 %**
Month end maximum for the period	**$ 10,700**	**$ 111,800**

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

On August 30, 2022, NJR entered into a First Amendment to NJR's Second Amended and Restated Credit Agreement governing a $650 million NJR Credit Facility with a maturity date of September 2, 2027. The NJR Credit Facility is subject to a one-year extension beyond that date and includes an accordion feature, which allows 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 with the total revolving credit commitments not exceeding $750 million. The NJR Credit Facility also permits the borrowing of revolving loans and swingline loans, as well as a $75 million sublimit for the issuance of letters of credit. 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, 2023, NJR had seven letters of credit outstanding totaling $5.2 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.

In February 2022, NJR entered into a 364-day $150 million term loan credit agreement with an interest rate based on SOFR plus 0.85 percent, that expired on February 7, 2023. The Company borrowed $50 million on February 9, 2022 and $100 million on February 14, 2022 under the term loan, which was paid in full at expiration of the term loan agreement.

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

Based on its average borrowings during fiscal 2023, NJR's average interest rate was 5.55 percent, resulting in interest expense of approximately $11.1 million. Based on average borrowings of $275.0 million during the period, a 100 basis point change in the underlying average interest rate would have caused a change in interest expense of approximately $2.1 million during fiscal 2023.

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

NJNG

During fiscal 2021, NJNG entered into a Second Amended and Restated Credit Agreement governing a $250 million NJNG Credit Facility, which was to expire on September 2, 2026. The NJNG Credit Facility is subject to two mutual options for a one-year extension beyond that date and 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. On August 30, 2022, NJNG entered into a First Amendment to the Second Amended and Restated Credit Agreement to extend the maturity date of the facility to September 2, 2027 and moved to SOFR as the benchmark rate, replacing the existing LIBOR.

As of June 30, 2023, NJNG had two letters of credit outstanding for $731,000, which reduced the amount available under the NJNG Credit Facility by the same amount. NJNG does not anticipate that these letters of credit will be drawn upon by the counterparties.

Based on its average borrowings during fiscal 2023, NJNG's average interest rate was 4.56 percent, resulting in interest expense of $1.1 million. Based on average borrowings of $45.2 million during the period, a 100 basis point change in the underlying average interest rate would have caused a change in interest expense of approximately $260,000 during fiscal 2023.

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, 2023, NJR had the following outstanding:

- $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;
- $110 million of 4.38 percent senior notes due June 23, 2027;
- $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;
- $130 million of 3.60 percent senior notes due July 23, 2032;
- $80 million of 3.25 percent senior notes due September 1, 2033;
- $120 million of 3.13 percent senior notes due September 1, 2031;
- $50 million of 3.64 percent senior notes due September 19, 2034; and
- $50 million of 6.14 percent senior notes due December 15, 2032.

On October 24, 2022, NJR entered into a Note Purchase Agreement, which closed on December 15, 2022, under which NJR issued $50 million, Series 2022B senior notes at a fixed rate of 6.14 percent, maturing in 2032. 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, 2023, NJNG's long-term debt consisted of $1.4 billion in fixed-rate debt issuances secured by the Mortgage Indenture, with maturities ranging from 2024 to 2061, and $24.6 million in finance leases with various maturities ranging from 2024 to 2028.

On October 24, 2022, NJNG entered into a Note Purchase Agreement under which it sold $125 million of its senior notes at an interest rate of 5.47 percent, maturing in 2052.

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.

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

The aforementioned covenants are subject to a number of exceptions and qualifications set forth in the applicable note purchase agreements.

In addition, the FMBs issued by NJNG under the Mortgage Indenture are subject to certain default provisions. Events of Default, as defined in the Mortgage Indenture, consist mainly of:

- failure for 30 days to pay interest when due;
- failure to pay principal or premium when due and payable;
- failure to make sinking fund payments when due;
- failure to comply with any other covenants of the Mortgage Indenture after 30 days' written notice from the Trustee;
- failure to pay or provide for judgments in excess of $30 million in aggregate amount within 60 days of the entry thereof; or
- certain events that are or could be the basis of a bankruptcy, reorganization, insolvency or receivership proceeding.

Upon the occurrence and continuance of such an Event of Default, the Mortgage Indenture, subject to any provisions of law applicable thereto, provides that the Trustee may take possession and conduct the business of NJNG, may sell the trust estate, or proceed to foreclose the lien 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 $8.4 million and $17.3 million during the nine months ended June 30, 2023 and 2022, in connection with the sale leaseback of its natural gas meters. NJNG records a financing obligation that is paid over the term of the lease and has the option to purchase the meters back at fair value upon expiration. Natural gas meters are excepted from the lien on NJNG property under the Mortgage Indenture.

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, 2023 and 2022, Clean Energy Ventures received proceeds of $163.6 million and $3.3 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 and Capital Expenditures

As of June 30, 2023, there were NJR guarantees covering approximately $177.4 million of natural gas purchases and Energy Services demand fee commitments and nine outstanding letters of credit totaling $5.9 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.

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

NJNG's total capital expenditures are projected to be between $362 million and $388 million during fiscal 2023. Total capital expenditures spent or accrued during the nine months ended June 30, 2023, were $274.9 million. NJNG expects to fund its obligations with a combination of cash flows from operations, cash on hand, issuance of commercial paper, available capacity under its revolving credit facility and the issuance of long-term debt. As of June 30, 2023, NJNG's future MGP expenditures are estimated to be $123.1 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, 2023, our Storage and Transportation segment had capital expenditures spent or accrued for the Adelphia Gateway project totaling $15.6 million and capital expenditures spent or accrued for Leaf River totaling $5.7 million. During fiscal 2023, we expect expenditures related to the Adelphia Gateway project to be between $12 million and $16 million and expenditures related to Leaf River to be between $23 million and $27 million.

During the nine months ended June 30, 2023, total capital expenditures spent or accrued related to the purchase and installation of solar equipment were $73.4 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 during fiscal 2023 to be between $100 million and $150 million.

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 2023 and 2024.

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, 2023, Energy Services recognized $39.0 million of operating revenue on the Unaudited Condensed Consolidated Statements of Operations. Amounts received in excess of revenue totaling $68.2 million as of June 30, 2023, are included in deferred revenue on the Unaudited Condensed Consolidated Balance Sheets.

Cash Flows

Operating Activities

Cash flows from operating activities during the nine months ended June 30, 2023, totaled $387.9 million, compared with $235.9 million during the nine months ended June 30, 2022. 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.

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

Cash flows from operating activities increased $152.0 million during the nine months ended June 30, 2023, compared with the nine months ended June 30, 2022, due primarily to decreased working capital requirements related to the decline in natural gas prices.

Investing Activities

Cash flows used in investing activities totaled $378.2 million during the nine months ended June 30, 2023, compared with $434.9 million during the nine months ended June 30, 2022. The decrease of $56.7 million was due primarily to lower capital expenditures for Storage and Transportation related to the conversion of the southern portion of Adelphia Gateway's pipeline to natural gas, which was placed into service during September 2022, partially offset by increased utility plant expenditures.

Financing Activities

Financing cash flows generally are seasonal in nature and are impacted by the volatility in pricing in the natural gas and other energy markets. NJNG's inventory levels are built up during its natural gas injection season (April through October) and reduced during withdrawal season (November through March) in response to the supply requirements of its customers. Changes in financing cash flows can also be impacted by natural gas management and marketing activities at Energy Services and clean energy investments at Clean Energy Ventures.

Cash flows (used in) from financing activities totaled $(10.2) million during the nine months ended June 30, 2023, compared with $221.0 million during the nine months ended June 30, 2022. The increase in the use of cash of $231.2 million is due primarily to the repayment of the term loan of $150.0 million that was borrowed during fiscal 2022, decreased long-term debt borrowings of $135.0 million and a decrease in proceeds from meter sale leasebacks of $8.9 million, partially offset by an increase in proceeds of $160.3 million from solar sale leasebacks, $42.8 million from the waiver discount issuance of common stock and a decrease in payments of short-term debt of $28.2 million.

Credit Ratings

The table below summarizes NJNG's credit ratings as of June 30, 2023, 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 24, 2023. The Moody's ratings and outlook were reaffirmed on September 28, 2022. NJNG's Moody's and Fitch ratings are investment-grade ratings. NJR is not rated by Moody's or Fitch.

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.

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

(Thousands)	Balance September 30, 2022	Increase in Fair Market Value	Less Amounts Settled	Balance June 30, 2023
Natural Gas Distribution	$ (6,196)	**(10,564)**	**(23,286)**	**$ 6,526**
Energy Services	(6,686)	**81,176**	**58,912**	**15,578**
Total	$ (12,882)	**70,612**	**35,626**	**$ 22,104**

There were no changes in methods of valuations during the nine months ended June 30, 2023.

The following is a summary of fair market value of financial derivatives as of June 30, 2023, excluding foreign exchange contracts discussed below, by method of valuation and by maturity for each fiscal year period:

(Thousands)	2023	2024	2025 - 2027	After 2027	Total Fair Value
Price based on ICE	219	21,259	626	—	**22,104**
Total	$ 219	21,259	626	—	**$ 22,104**

The following is a summary of financial derivatives by type as of June 30, 2023:

		Volume Bcf	Price per MMBtu[(1)]	Amounts included in Derivatives (Thousands)
Natural Gas Distribution	Futures	**26.0**	**$1.20 - $6.17**	**$ 6,526**
Energy Services	Futures	**(14.2)**	**$1.08 - $7.15**	**15,578**
Total				**$ 22,104**

(1) Million British thermal units

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

(Thousands)	Balance September 30, 2022	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance June 30, 2023
Natural Gas Distribution - Prices based on other external data	$ 241	**(20,049)**	**(19,864)**	**$ 56**
Energy Services - Prices based on other external data	(20,379)	**12,735**	**11,345**	**(18,989)**
Total	$ (20,138)	**(7,314)**	**(8,519)**	**$ (18,933)**

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

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 $4.6 million. This analysis does not include potential changes to reported credit adjustments embedded in the $10.8 million reported fair value.

Derivative Fair Value Sensitivity Analysis

(Thousands)	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	**$ —**	**$ (2,317)**	**$ (4,634)**	**$ (6,951)**	**$ (9,268)**
Ending derivative fair value	**$ 10,775**	**$ 8,458**	**$ 6,141**	**$ 3,824**	**$ 1,507**
Percent decrease in NYMEX natural gas futures prices	**0%**	**(5)%**	**(10)%**	**(15)%**	**(20)%**
Estimated change in derivative fair value	**$ —**	**$ 2,317**	**$ 4,634**	**$ 6,951**	**$ 9,268**
Ending derivative fair value	**$ 10,775**	**$ 13,092**	**$ 15,409**	**$ 17,726**	**$ 20,043**

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, 2023. 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, 2023, is as follows:

(Thousands)	Gross Credit Exposure	Net Credit Exposure
Investment grade	**$ 93,460**	**$ 90,601**
Noninvestment grade	**3,260**	**558**
Internally rated investment grade	**16,094**	**15,921**
Internally rated noninvestment grade	**21,513**	**18,545**
Total	**$ 134,327**	**$ 125,625**

NJNG's counterparty credit exposure as of June 30, 2023, is as follows:

(Thousands)	Gross Credit Exposure	Net Credit Exposure
Investment grade	**$ 11,441**	**$ 11,237**
Noninvestment grade	**43**	**—**
Internally rated investment grade	**35**	**18**
Internally rated noninvestment grade	**26**	**14**
Total	**$ 11,545**	**$ 11,269**

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.

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

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.

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.

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, 2023, that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

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, 2022, 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, 2023, 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 2022 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 2022 Annual Report on Form 10-K.

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

The following table sets forth our repurchase activity for the quarter ended June 30, 2023:

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
04/01/23 - 04/30/23	—	—	—	1,685,053
05/01/23 - 05/31/23	—	—	—	1,685,053
06/01/23 - 06/30/23	—	—	—	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, 2023, 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.

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Trading Plans

During the three months ended June 30, 2023, no director or officer (as defined by Rule 16a-1(f) of the Exchange Act) of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Bylaws of New Jersey Resources Corporation, as amended and restated on July 12, 2023 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, as filed on July 13, 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, 2023, 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.

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 3, 2023	
	By:/s/ Stephen M. Skrocki
	Stephen M. Skrocki
	Corporate Controller (Principal Accounting Officer)

EXHIBIT 31.1

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

I, Stephen D. Westhoven, certify that:

1) I have reviewed this report on Form 10-Q of New Jersey Resources Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2023

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

EXHIBIT 31.2

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

I, Roberto F. Bel, certify that:

1) I have reviewed this report on Form 10-Q of New Jersey Resources Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2023

By: /s/ Roberto F. Bel
Roberto F. Bel
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Stephen D. Westhoven hereby certifies as follows:

(a) I am the Chief Executive Officer of New Jersey Resources Corporation (the "Company");

(b) To the best of my knowledge, this quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2023, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(c) To the best of my knowledge, based upon a review of this report, the information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2023

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

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Roberto F. Bel hereby certifies as follows:

(a) I am the Chief Financial Officer of New Jersey Resources Corporation (the "Company");

(b) To the best of my knowledge, this quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2023, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(c) To the best of my knowledge, based upon a review of this report, the information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2023

By: /s/ Roberto F. Bel
Roberto F. Bel
Senior Vice President and Chief Financial Officer