NEW JERSEY RESOURCES CORP
Form 10-Q
August 04, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014
OR
o 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 1 8359

NEW JERSEY RESOURCES CORPORATION
(Exact name of registrant as specified in its charter)

New Jersey (State or other jurisdiction of incorporation or organization)	22 2376465 (I.R.S. Employer Identification Number)
1415 Wyckoff Road, Wall, New Jersey 07719 (Address of principal executive offices)	732 938 1480 (Registrant's telephone number, including area code)

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

Common Stock $2.50 Par Value (Title of each class)	New York Stock Exchange (Name of each exchange on which registered)

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: x No: o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).
Yes: x No: o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b 2 of the Exchange Act.

Large accelerated filer: x	Accelerated filer: o	Non-accelerated filer: o (Do not check if a smaller reporting company)	Smaller reporting company: o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes: o No: x

The number of shares outstanding of $2.50 par value Common Stock as of July 31, 2014 was 42,212,434.

New Jersey Resources Corporation

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GLOSSARY OF KEY TERMS

AFUDC	Allowance for Funds Used During Construction
AIP	Accelerated Infrastructure Program
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
CME	Chicago Mercantile Exchange
CR&R	Commercial Realty & Resources Corp.
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DRP	NJR Direct Stock Purchase and Dividend Reinvestment Plan
EDA	New Jersey Economic Development Authority
EDA Bonds	Collectively, Series 2011A, Series 2011B and Series 2011C Bonds issued by the EDA
EE	Energy Efficiency
FASB	Financial Accounting Standards Board
FCM	Futures Commission Merchant
FERC	Federal Energy Regulatory Commission
FMB	First Mortgage Bonds
FRM	Financial Risk Management
GAAP	Generally Accepted Accounting Principles of the United States
ICE	Intercontinental Exchange
Iroquois	Iroquois Gas Transmission L.P.
ISDA	The International Swaps and Derivatives Association
ITC	Investment Tax Credit
JPMC Facility	NJNG's $100 million, four-year credit facility with JPMorgan Chase Bank, N.A. expiring in August 2015
JPMC Term Loan	NJR's $100 million, one-year term loan credit agreement with JPMorgan Chase Bank, N.A. expiring in September 2014
LIBOR	London Inter-Bank Offered Rate
LNG	Liquefied Natural Gas
MetLife	Metropolitan Life Insurance Company
MetLife Facility	NJR's unsecured, uncommitted $100 million private placement shelf note agreement with MetLife, Inc. expiring in September 2016
MGP	Manufactured Gas Plant
MMBtu	Million Metric British Thermal Unit
Moody's	Moody's Investors Service, Inc.
MW	Megawatts
MWh	Megawatt Hour
NAESB	The North American Energy Standards Board
NJR Credit Facility	NJR's $425 million unsecured committed credit facility expiring in August 2017
NFE	Net Financial Earnings
NGV	Natural Gas Vehicles
NJ RISE	New Jersey Reinvestment in System Enhancement
NJCEP	New Jersey's Clean Energy Program
NJDEP	New Jersey Department of Environmental Protection

GLOSSARY OF KEY TERMS (cont.)

NJNG	New Jersey Natural Gas Company
NJNG Credit Facility	The $250 million unsecured committed credit facility expiring in May 2019
NPNS	Normal Purchase/Normal Sale
NJR or The Company	New Jersey Resources Corporation
NJR Energy	NJR Energy Corporation
NJR Midstream	NJR Midstream Holdings Corporation
NJR Service	NJR Service Corporation
NJRCEV	NJR Clean Energy Ventures Corporation
NJRES	NJR Energy Services Company
NJRHS	NJR Home Services Company
Non-GAAP	Not in accordance with Generally Accepted Accounting Principles of the United States
NYMEX	New York Mercantile Exchange
O&M	Operating and Maintenance
OCI	Other Comprehensive Income
OPEB	Other Postemployment Benefit Plans
PIM	Pipeline Integrity Management
Prudential	Prudential Investment Management, Inc.
Prudential Facility	NJR's unsecured, uncommitted $75 million private placement shelf note agreement with Prudential
PTC	Production Tax Credit
RA	Remediation Adjustment
Retail and Other	Retail and Other Operations
Retail Holdings	NJR Retail Holdings Corporation
S&P	Standard & Poor's Financial Services LLC
SAFE	Safety Acceleration and Facility Enhancement
Sarbanes-Oxley	Sarbanes-Oxley Act of 2002
SAVEGREEN	The SAVEGREEN Project®
SBC	Societal Benefits Clause
SEC	Securities and Exchange Commission
SREC	Solar Renewable Energy Certificate
Steckman Ridge	Collectively, Steckman Ridge GP, LLC and Steckman Ridge, LP
Superstorm Sandy	Post-Tropical Cyclone Sandy
The Exchange Act	The Securities Exchange Act of 1934, as amended
Tetco	Texas Eastern Transmission
U.S.	The United States of America
USF	Universal Service Fund
VRDN	Variable Rate Demand Notes

New Jersey Resources Corporation

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report, including, without limitation, statements as to management expectations 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 I. “Legal Proceedings” and in the notes to the financial statements are forward-looking statements within the meaning of 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,” “intend,” “expect,” “believe,” “will” “plan,” “should,” or or comparable terminology and are made based upon management's current expectations and beliefs as of this date concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Company will be those anticipated by management.

The Company cautions readers that the assumptions that form the basis for forward-looking statements regarding customer growth, customer usage, qualifications for ITCs, PTCs and SRECs, financial condition, results of operations, cash flows, capital requirements, future capital expenditures, market risk, effective tax rate and other matters for fiscal 2014 and thereafter include many factors that are beyond the Company's 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 NJR's expectations include, but are not limited to, those discussed in Item 1A. Risk Factors of NJR's Annual Report on Form 10-K for the year ended September 30, 2013, as well as the following:

- weather and economic conditions;
- demographic changes in the NJNG service territory and their effect on NJNG's customer growth;
- volatility of natural gas and other commodity prices and their impact on NJNG customer usage, NJNG's BGSS incentive programs, NJRES operations and on the Company's risk management efforts;
- 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 credit markets on our access to capital;
- the ability to comply with debt covenants;
- the impact to the asset values and resulting higher costs and funding obligations of NJR's pension and postemployment benefit plans as a result of potential downturns in the financial markets, lower discount rates or impacts associated with the Patient Protection and Affordable Care Act;
- accounting effects and other risks associated with hedging activities and use of derivatives contracts;
- commercial and wholesale credit risks, including the availability of creditworthy customers and counterparties, and liquidity in the wholesale energy trading market;
- regulatory approval of NJNG's planned infrastructure programs:
- the ability to obtain governmental approvals and/or financing for the construction, development and operation of certain non-regulated energy investments;
- risks associated with the management of the Company's joint ventures and partnerships;
- risks associated with our investment in an onshore wind developer;
- risks associated with our investments in distributed power projects, including the availability of regulatory and tax incentives, logistical risks and potential delays related to construction, permitting, regulatory approvals and electric grid interconnection, the availability of viable projects, NJR's eligibility for ITCs and PTCs, the future market for SRECs and operational risks related to projects in service;
- timing of qualifying for ITCs due to delays or failures to complete planned solar energy projects and the resulting effect on our effective tax rate and earnings;
-

the level and rate at which NJNG's costs and expenses (including those related to restoration efforts resulting from Post Tropical Cyclone Sandy, commonly referred to as Superstorm Sandy) are incurred and the extent to which they are allowed to be recovered from customers through the regulatory process;

- access to adequate supplies of natural gas and dependence on third-party storage and transportation facilities for natural gas supply;
- operating risks incidental to handling, storing, transporting and providing customers with natural gas;
- risks related to our employee workforce, including a work stoppage;
- the regulatory and pricing policies of federal and state regulatory agencies;
- the costs of compliance with the proposed regulatory framework for over-the-counter derivatives;
- the costs of compliance with present and future environmental laws, including potential climate change-related legislation;
- risks related to changes in accounting standards;
- the impact of a disallowance of recovery of environmental-related expenditures and other regulatory changes;
- environmental-related and other litigation and other uncertainties;
- risks related to cyber-attack or failure of information technology systems; and
- the impact of natural disasters, terrorist activities, and other extreme events could adversely affect our operations, financial conditions and results ofoperations.

While the Company periodically reassesses material trends and uncertainties affecting the Company's results of operations and financial condition in connection with its preparation of management's discussion and analysis of results of operations and financial condition contained in its Quarterly and Annual Reports, the Company does not, by including this statement, assume any obligation to review or revise any particular forward-looking statement referenced herein in light of future events.

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands, except per share data)	2014	2013	2014	2013
OPERATING REVENUES				
Utility	$111,383	$119,022	$739,380	$689,621
Nonutility	576,874	648,447	2,406,851	1,774,752
Total operating revenues	688,257	767,469	3,146,231	2,464,373
OPERATING EXPENSES				
Gas purchases:				
Utility	39,546	55,708	298,694	356,069
Nonutility	599,530	593,534	2,310,930	1,660,528
Operation and maintenance	45,995	43,630	149,291	126,767
Regulatory rider expenses	9,337	6,258	67,380	44,014
Depreciation and amortization	13,620	11,942	39,014	34,966
Energy and other taxes	9,437	9,397	50,894	50,869
Total operating expenses	717,465	720,469	2,916,203	2,273,213
OPERATING (LOSS) INCOME	(29,208)	47,000	230,028	191,160
Other income	10,952	1,238	12,791	4,284
Interest expense, net of capitalized interest	6,507	6,008	19,108	17,579
(LOSS) INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	(24,763)	42,230	223,711	177,865
Income tax (benefit) provision	(7,808)	15,297	65,377	51,342
Equity in earnings of affiliates	2,681	2,222	8,056	8,307
NET (LOSS) INCOME	$(14,274)	$29,155	$166,390	$134,830
(LOSS) EARNINGS PER COMMON SHARE				
BASIC	$(0.34)	$0.70	$3.95	$3.23
DILUTED	$(0.34)	$0.70	$3.92	$3.22
DIVIDENDS DECLARED PER COMMON SHARE	$0.42	$0.40	$1.26	$1.20
WEIGHTED AVERAGE SHARES OUTSTANDING				
BASIC	42,117	41,608	42,072	41,697
DILUTED	42,117	41,732	42,456	41,820

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	2014	2013	2014	2013
Net (loss) income	$(14,274)	$29,155	$166,390	$134,830
Other comprehensive income, net of tax				
Unrealized gain on available for sale securities, net of tax of $(353), $(9), $(150), and $(235), respectively	$511	$13	216	340
Net unrealized gain (loss) on derivatives, net of tax of $(95) $13, $14, and $23, respectively	162	(22)	(24)	(39)

Adjustment to postemployment benefit obligation, net of tax of $(111), $(203), $(334) and $(608), respectively	161	296	483	1,005
Other comprehensive income	$ 834	$ 287	675	1,306
Comprehensive (loss) income	$ (13,440)	$ 29,442	$ 167,065	$ 136,136

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS
(Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended June 30,	
(Thousands)	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$166,390	$134,830
Adjustments to reconcile net income to cash flows from operating activities:		
Unrealized loss (gain) on derivative instruments	45,810	(23,683)
Depreciation and amortization	39,014	34,966
Allowance for equity used during construction	(1,154)	(1,926)
Allowance for bad debt expense	1,685	1,829
Deferred income taxes	21,226	23,406
Manufactured gas plant remediation costs	(3,391)	(5,326)
Equity in earnings of equity investees, net of distributions received	1,364	(1,050)
Cost of removal - asset retirement obligations	(257)	(926)
Contributions to postemployment benefit plans	(3,618)	(24,538)
Changes in:		
Components of working capital	83,223	(22,092)
Other noncurrent assets	15,735	(2,607)
Other noncurrent liabilities	10,434	12,256
Cash flows from operating activities	376,461	125,139
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(90,381)	(73,654)
Solar and wind equipment	(91,569)	(39,756)
Real estate properties and other	(636)	(532)
Cost of removal	(18,690)	(21,186)
Distribution from equity investees in excess of equity in earnings	1,344	2,107
Proceeds from sale of asset	6,010	—
Withdrawal from restricted cash construction fund	100	—
Proceeds from sale of available-for-sale securities	—	482
Cash flows (used in) investing activities	(193,822)	(132,539)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	12,161	10,581
Tax benefit from stock options exercised	348	110
Proceeds from sale-leaseback transaction	7,576	7,076
Proceeds from long-term debt	125,000	50,000
Payments of long-term debt	(78,964)	(5,808)
Purchases of treasury stock	(4,387)	(23,689)
Payments of common stock dividends	(52,922)	(50,619)
Net (payments) proceeds from short-term debt	(191,100)	17,100
Cash flows (used in) from financing activities	(182,288)	4,751
Change in cash and cash equivalents	351	(2,649)
Cash and cash equivalents at beginning of period	2,969	4,509
Cash and cash equivalents at end of period	$3,320	$1,860

CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	$(37,575)	$(120,719)
Inventories	100,021	(24,792)
Recovery of gas costs	(5,725)	4,994
Gas purchases payable	3,367	86,932
Prepaid and accrued taxes	28,404	20,059
Accounts payable and other	8,439	(6,385)
Restricted broker margin accounts	(19,045)	26,760
Customers' credit balances and deposits	(4,738)	(30,899)
Other current assets	10,075	21,958
Total	$83,223	$(22,092)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for:		
Interest (net of amounts capitalized)	$12,419	$11,121
Income taxes	$12,782	$9,539
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Accrued capital expenditures	$14,317	$(9,734)

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS
(Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

ASSETS

(Thousands)	June 30, 2014	September 30, 2013
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	$1,774,424	$1,681,585
Construction work in progress	119,012	114,961
Solar and wind equipment, real estate properties and other, at cost	321,591	249,516
Construction work in progress	41,123	9,093
Total property, plant and equipment	2,256,150	2,055,155
Accumulated depreciation and amortization, utility plant	(401,713)	(383,895)
Accumulated depreciation and amortization, solar and wind equipment, real estate properties and other	(36,738)	(28,144)
Property, plant and equipment, net	1,817,699	1,643,116
CURRENT ASSETS		
Cash and cash equivalents	3,320	2,969
Customer accounts receivable		
Billed	276,409	240,281
Unbilled revenues	7,464	7,429
Allowance for doubtful accounts	(5,603)	(5,330)
Regulatory assets	28,064	34,372
Gas in storage, at average cost	219,859	314,477
Materials and supplies, at average cost	8,931	14,334
Prepaid and accrued taxes	24,607	42,645
Derivatives, at fair value	52,619	53,327
Restricted broker margin accounts	27,904	6,581
Deferred taxes	21,983	8,432
Asset held for sale	—	5,428
Other	29,898	20,953
Total current assets	695,455	745,898
NONCURRENT ASSETS		
Investments in equity investees	160,403	161,591
Prepaid pension asset	6,045	6,287
Regulatory assets	369,517	402,202
Derivatives, at fair value	2,830	2,761
Other	53,958	42,928
Total noncurrent assets	592,753	615,769
Total assets	$3,105,907	$3,004,783

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
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ITEM 1. FINANCIAL STATEMENTS
(Continued)

CAPITALIZATION AND LIABILITIES

(Thousands)	June 30, 2014	September 30, 2013
CAPITALIZATION		
Common stock, $2.50 par value; authorized 75,000,000 shares; outstanding June 30, 2014-42,167,558; September 30, 2013-41,961,534	$ 112,777	$ 112,563
Premium on common stock	304,731	300,196
Accumulated other comprehensive (loss), net of tax	(946)	(1,621)
Treasury stock at cost and other; shares June 30, 2014-2,943,373; September 30, 2013-3,060,356	(121,727)	(128,638)
Retained earnings	718,250	604,884
Common stock equity	1,013,085	887,384
Long-term debt	626,796	512,886
Total capitalization	1,639,881	1,400,270
CURRENT LIABILITIES		
Current maturities of long-term debt	9,455	68,643
Short-term debt	174,500	365,600
Gas purchases payable	258,180	254,813
Accounts payable and other	82,329	60,342
Dividends payable	17,709	17,624
Deferred and accrued taxes	12,330	4,040
Regulatory liabilities	11,710	1,456
New Jersey clean energy program	15,429	14,532
Derivatives, at fair value	78,549	40,390
Broker margin accounts	2,278	—
Customers' credit balances and deposits	19,655	24,393
Total current liabilities	682,124	851,833
NONCURRENT LIABILITIES		
Deferred income taxes	410,130	372,773
Deferred investment tax credits	5,342	5,584
Deferred revenue	4,222	4,763
Derivatives, at fair value	5,517	2,458
Manufactured gas plant remediation	183,600	183,600
Postemployment employee benefit liability	68,697	67,897
Regulatory liabilities	69,120	79,647
Asset retirement obligation	29,935	28,711
Other	7,339	7,247
Total noncurrent liabilities	783,902	752,680
Commitments and contingent liabilities (Note 12)		
Total capitalization and liabilities	$ 3,105,907	$ 3,004,783

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF THE BUSINESS

New Jersey Resources Corporation provides regulated gas distribution services and operates certain non-regulated businesses primarily through the following subsidiaries:

New Jersey Natural Gas Company provides natural gas utility service to approximately 503,800 retail customers in central and northern New Jersey and is subject to rate regulation by the BPU. NJNG comprises the Natural Gas Distribution segment;

NJR Energy Services Company comprises the Energy Services segment that maintains and transacts around a portfolio of natural gas storage and transportation capacity contracts and provides wholesale energy and energy management services;

NJR Clean Energy Ventures Corporation, the company’s unregulated distributed power subsidiary, comprises the Clean Energy Ventures segment and consists of the Company's capital investments in distributed power projects, including commercial and residential solar projects and onshore wind investments;

NJR Midstream Holdings Corporation invests in energy-related ventures through its subsidiaries, NJR Steckman Ridge Storage Company, which holds the Company's 50 percent combined interest in Steckman Ridge and NJNR Pipeline Company, which holds the Company's 5.53 percent ownership interest in Iroquois Gas Transmission L.P. Steckman Ridge and Iroquois comprise the Midstream segment. On November 7, 2013, NJR Energy Holdings Corporation changed its name to NJR Midstream Holdings Corporation; and

NJR Retail Holdings Corporation has two principal subsidiaries, NJR Home Services Company and Commercial Realty & Resources Corporation. Retail Holdings and NJR Energy Corporation are included in Retail and Other operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared by NJR in accordance with the rules and regulations of the Securities and Exchange Commission and ASC 270. The September 30, 2013, Balance Sheet data is derived from the audited financial statements of the Company. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and the notes thereto included in NJR's 2013 Annual Report on Form 10-K.

The Unaudited Condensed Consolidated Financial Statements include the accounts of NJR and its subsidiaries. In the opinion of management, the accompanying Unaudited Condensed Consolidated Financial Statements reflect all adjustments necessary, for a fair presentation of the results of the interim periods presented. These adjustments are of a normal and recurring nature. Because of the seasonal nature of NJR's utility and wholesale energy services operations, in addition to other factors, the financial results for the interim periods presented are not indicative of the results that are to be expected for the fiscal year ended September 30, 2014.

Intercompany transactions and accounts have been eliminated.

Gas in Storage

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

($ in thousands)	June 30, 2014 Gas in Storage	June 30, 2014 Bcf	September 30, 2013 Gas in Storage	September 30, 2013 Bcf
NJNG	$48,279	12.1	$104,979	20.4
NJRES	171,580	41.8	209,498	62.3
Total	$219,859	53.9	$314,477	82.7

Available for Sale Securities

Included in other noncurrent assets on the Unaudited Condensed Consolidated Balance Sheets are certain investments in equity securities of a publicly traded energy company that have a fair value of $12.1 million and $11.7 million as of June 30, 2014 and September 30, 2013, respectively. Total unrealized gains associated with these equity securities, which are included as a part of accumulated other comprehensive income, a component of common stock equity, were $9.5 million ($5.6 million, after tax) and $9.1 million ($5.4 million, after tax) as of June 30, 2014 and September 30, 2013, respectively. Reclassifications of realized gains out of other comprehensive income into income are determined based on average cost.

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

Sale of Asset

On October 22, 2013, CR&R sold approximately 25.4 acres of undeveloped land located in Monmouth County with a net book value of $5.4 million for $6 million, generating a pre-tax gain after closing costs of $313,000, which was recognized in other income on the Unaudited Condensed Consolidated Statements of Operations.

Customer Accounts Receivable

Customer accounts receivable include outstanding billings from the following subsidiaries as of:

(Thousands)	June 30, 2014			September 30, 2013		
NJRES	$ 186,014	67	%	$ 194,263	81	%
NJNG [1]	85,579	31		43,045	18	
NJRCEV	480	—		293	—	
NJRHS and other	4,336	2		2,680	1	
Total	$ 276,409	100	%	$ 240,281	100	%

(1) Does not include unbilled revenues of $7.5 million and $7.4 million as of June 30, 2014 and September 30, 2013, respectively.

Loan Receivable

NJNG provides interest-free loans, with terms ranging from two to ten 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 net present value on the Unaudited Condensed Consolidated Balance Sheets. The Company has recorded $3.5 million and $1.9 million in other current assets and $24.9 million and $14.3 million in other noncurrent assets as of June 30, 2014 and September 30, 2013, respectively, on the Unaudited Condensed Consolidated Balance Sheets, related to the loans.

NJR's policy is to establish an allowance for doubtful accounts when loan balances are outstanding for more than 60 days. As of June 30, 2014 and September 30, 2013, there was no allowance for doubtful accounts established.

Recent Updates to the Accounting Standards Codification

In December 2011, the FASB issued ASU No. 2011-11, an amendment to ASC Topic 210, Balance Sheet, requiring additional disclosures about the effect of an entity's rights of setoff and related master netting arrangements to its financial statements. ASU 2013-01, issued in January 2013, further clarified that the amended guidance was applicable to certain financial and derivative instruments. The Company applied the provisions of the amended guidance retrospectively effective October 1, 2013. The guidance did not impact the Company's financial position, results of operations or cash flows, however, it required additional disclosures that are included in Note 4. Derivative Instruments.

In July 2013, the FASB issued ASU No. 2013-11, an amendment to ASC Topic 740, Income Taxes, which clarifies financial statement presentation for unrecognized tax benefits. The ASU requires that an unrecognized tax benefit, or portion thereof, shall be presented in the balance sheet as a reduction to a deferred tax asset for a net operating loss carryforward, similar tax loss or a tax credit carryforward. To the extent such a deferred tax asset is not available or the company does not intend to use it to settle any additional taxes that would result from the disallowance of a tax position, the related unrecognized tax benefit will be presented as a liability in the financial statements. The amended guidance will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company currently does not have unrecognized tax benefits recorded on its balance sheet and does not expect any impact to its financial position upon adoption during its first quarter of fiscal 2015.

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The new guidance changes the definition and reporting of discontinued operations to include only those disposals that represent a strategic shift and that have a major effect on an entity's operations and financial results. The new guidance, which also requires additional disclosures, becomes effective for annual periods beginning on or after December 15, 2014 and interim periods within those years. The company does not expect an impact to its financial position, results of operations and cash flows upon adoption.

In May 2014, the FASB issued ASU No. 2014-09, and added Topic 606, Revenue from Contracts with Customers, to the ASC. ASC 606 supersedes ASC 605, Revenue Recognition, as well as most industry-specific guidance, and prescribes a single, comprehensive revenue recognition model designed to improve financial reporting comparability across entities, industries,

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jurisdictions and capital markets. The new guidance will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Upon adoption, the guidance will be applied on a full or modified retrospective basis. The Company is currently evaluating the provisions of ASC 606 to understand the impact, if any, to its financial position, results of operations and cash flows upon adoption.

In June 2014, the FASB issued ASU No. 2014-12, an amendment to ASC Topic 718, Compensation - Stock Compensation, which clarifies the accounting for performance awards when the terms of the award provide that a performance target could be achieved after the requisite service period. The new guidance will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The company does not expect a material impact to its financial position, results of operations and cash flows upon adoption.

3. 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 investment based on the BPU's approval, in accordance with accounting guidance applicable to regulated operations. 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.

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

(Thousands)	June 30, 2014	September 30, 2013
Regulatory assets-current		
Conservation Incentive Program	$—	$18,887
Underrecovered gas costs	12,635	953
New Jersey Clean Energy Program	15,429	14,532
Total current	$28,064	$34,372
Regulatory assets-noncurrent		
Environmental remediation costs		
Expended, net of recoveries	$31,284	$46,968
Liability for future expenditures	183,600	183,600
Deferred income taxes	10,718	10,718
Derivatives at fair value, net	—	19
SAVEGREEN	26,054	30,004
Postemployment and other benefit costs	96,337	101,415
Deferred Superstorm Sandy costs	15,207	14,822
Other	6,317	14,656
Total noncurrent	$369,517	$402,202
Regulatory liability-current		
Conservation Incentive Program	$5,958	$—
Derivatives at fair value, net	5,752	1,456
Total current	$11,710	$1,456
Regulatory liabilities-noncurrent		

Cost of removal obligation	$ 69,000	$ 79,315
Derivatives at fair value, net	3	—
Other	117	332
Total noncurrent	$ 69,120	$ 79,647

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NJNG's recovery of costs is facilitated through its base tariff rates, BGSS and other regulatory tariff riders. As recovery of regulatory assets is subject to BPU approval, if there are any changes in regulatory positions that indicate recovery is not probable, the related cost would be charged to income in the period of such determination.

Recent regulatory filings and/or actions include the following:

- On September 18, 2013, the BPU approved NJNG's filing to reduce the USF recovery rate resulting in a .5 percent decrease for the average residential heat customer's bill effective October 1, 2013.

- On October 16, 2013, the BPU provisionally approved NJNG’s fiscal 2014 BGSS/CIP filing to maintain its current BGSS rate along with reductions to its CIP factors effective November 1, 2013, which resulted in a 1 percent reduction to an average residential heat customer's bill. On November 21, 2013, NJNG notified the BPU of its intent to reduce its BGSS rate, effective December 1, 2013, resulting in a 6 percent decrease to the average residential heat customer's bill. On July 23, 2014, the BPU approved these rates on a final basis.

- On November 22, 2013, the BPU provisionally approved a Stipulation of Settlement for SBC factors that included recovery of MGP expenditures through June 30, 2013 and a .2 percent reduction to the average residential heat customer's bill related to the SBC RA factor to recover $18.7 million annually, and a 1.9 percent increase related to its NJCEP factor, effective December 1, 2013. On July 23, 2014, the BPU approved these rates on a final basis.

- On December 18, 2013, the BPU approved a gas service agreement which will allow NJNG to provide transportation service to Red Oak Power, LLC, an electric generation facility, through September 2022.

- On April 23, 2014, the BPU approved a petition filed by NJNG requesting authorization over a three-year period to issue up to $300 million of medium-term notes with a maturity of not more than 30 years, renew its revolving credit facility expiring August 2014 for up to five years, enter into interest rate risk management transactions related to debt securities and redeem, refinance or defease any of NJNG’s outstanding long-term debt securities.

- On May 21, 2014, the BPU approved the continuation of the CIP program with no expiration date; however, it will be subject to review in a rate filing in 2017.

- On June 2, 2014, NJNG submitted its fiscal 2015 BGSS/CIP filing, which proposes a 4.3 percent reduction to an average residential heat customer's bill related to the CIP factor for fiscal 2015.

- On June 2, 2014, NJNG submitted an EE rate filing for the recovery of SAVEGREEN costs, which proposes to maintain the existing rate.

- On June 20, 2014, NJNG submitted its annual USF compliance filing proposing to increase the statewide USF rate, resulting in a .4 percent increase to the average residential heat customer’s bill effective October 1, 2014.

- On July 23, 2014, the BPU approved a Stipulation of Settlement related to the NJ RISE capital infrastructure program. NJNG will invest $102.5 million over a five-year period in six capital projects designed to enhance the resiliency of its natural gas distribution and transmission systems and help diminish the impact of major weather events in the future. In May 2015, NJNG will submit a filing to recover costs through July 31, 2015, associated with NJ RISE, through an adjustment to base rates as of November 1, 2015. Additional cost recovery will be included in NJNG's next base rate case scheduled to be filed no later than November 15, 2015.

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4. DERIVATIVE INSTRUMENTS

The Company is subject 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 may utilize foreign currency derivatives as cash flow hedges of Canadian dollar denominated gas purchases. These contracts, with a few exceptions as described below, are accounted for as derivatives. 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 NJR's derivative instruments, see Note 5. Fair Value.

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

NJRES also enters into natural gas transactions in Canada and, consequently, is exposed to fluctuations in the value of Canadian currency relative to the US dollar. NJRES utilizes foreign currency derivatives to lock in the currency translation rate 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 being used to hedge future forecasted cash payments associated with transportation and storage contracts along with purchases of natural gas. The Company has designated these foreign currency derivatives as cash flow hedges of that exposure, and expects the hedge relationship to be highly effective throughout the term. Since NJRES designates its foreign exchange contracts as cash flow hedges, changes in fair value of the effective portion of the hedge are recorded in OCI. When the foreign exchange contracts are settled and the related purchases are recognized in income, realized gains and (losses) are recognized in gas purchases on the Unaudited Condensed Consolidated Statements of Operations.

As a result of NJRES entering into transactions to borrow gas, commonly referred to as “park and loans,” an embedded derivative is created related to differences between the fair value of the amount borrowed and the fair value of the amount that may ultimately be repaid, based on changes in forward natural gas prices during the contract term. This embedded derivative is accounted for as a forward sale in the month in which the repayment of the borrowed 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.

Changes in fair value of NJNG's financial derivative instruments are recorded as a component of regulatory assets or liabilities on the Unaudited Condensed Consolidated Balance Sheets, as NJNG has received regulatory approval to defer and to recover these amounts through future BGSS rates as an increase or decrease to the cost of natural gas in NJNG's tariff for gas service.

The Company elects NPNS accounting treatment on all physical commodity contracts at NJNG. These contracts are accounted for on an accrual basis. Accordingly, gains or (losses) are recognized in regulatory assets or liabilities on the Unaudited Condensed Consolidated Balance Sheets when the contract settles and the natural gas is delivered.

NJRCEV hedges certain of its expected production of SRECs through forward sale contracts. The Company intends to physically deliver the SRECs upon settlement and therefore applies NPNS accounting treatment to the contracts. NJRCEV recognizes revenue for SRECs upon transfer of the certificate.

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Fair Value of Derivatives

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

		Fair Value			
		June 30, 2014		September 30, 2013	
(Thousands)	Balance Sheet Location	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Derivatives designated as hedging instruments:					
NJRES:					
Foreign currency contracts	Derivatives - current	$ 1	$ 29	$ 16	$ 3
	Derivatives - noncurrent	—	—	—	2
Fair value of derivatives designated as hedging instruments		$ 1	$ 29	$ 16	$ 5
Derivatives not designated as hedging instruments:					
NJNG:					
Financial derivative contracts	Derivatives - current	$ 7,952	$ 2,201	$ 3,502	$ 2,045
	Derivatives - noncurrent	3	—	121	140
NJRES:					
Physical forward commodity contracts	Derivatives - current	12,214	37,177	11,282	14,573
	Derivatives - noncurrent	90	167	541	22
Financial derivative contracts	Derivatives - current	32,452	39,142	38,527	23,769
	Derivatives - noncurrent	2,737	5,350	2,099	2,294
Fair value of derivatives not designated as hedging instruments		$ 55,448	$ 84,037	$ 56,072	$ 42,843
Total fair value of derivatives		$ 55,449	$ 84,066	$ 56,088	$ 42,848

At June 30, 2014, the gross notional amount of the foreign currency transactions was approximately $4.9 million, and ineffectiveness in the hedge relationship is immaterial to the financial results of NJR.

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Offsetting of Derivatives

NJR transacts under master netting arrangements or similar agreements that allow it to offset derivative assets and liabilities with the same counterparty, however NJR's policy is to present its derivative assets and liabilities on a gross basis in the Unaudited Condensed Consolidated Balance Sheets. The tables below summarize the reported gross amounts, the amounts that NJR has the right to offset but elects not to, financial collateral, as well as the net amounts NJR could present in the Unaudited Condensed Consolidated Balance Sheets but elects not to.

(Thousands)	Amounts Presented in Balance Sheets (1)	Offsetting Derivative Instruments (2)	Financial Collateral Received/Pledged (3)	Net Amounts (4)
As of June 30, 2014:				
Derivative assets:				
NJRES				
Physical forward commodity contracts	$12,304	$(7,261)	$—	$5,043
Financial commodity contracts	35,189	(35,189)	—	—
Foreign currency contracts	1	(1)	—	—
Total NJRES	$47,494	$(42,451)	$—	$5,043
NJNG				
Financial commodity contracts	$7,955	$(2,201)	$1,256	$7,010
Derivative liabilities:				
NJRES				
Physical forward commodity contracts	$37,344	$(7,958)	$(500)	$28,886
Financial commodity contracts	44,492	(35,189)	(9,301)	2
Foreign currency contracts	29	(1)	—	28
Total NJRES	$81,865	$(43,148)	$(9,801)	$28,916
NJNG				
Financial commodity contracts	$2,201	$(2,201)	$—	$—
As of September 30, 2013:				
Derivative assets:				
NJRES				
Physical forward commodity contracts	$11,823	$(3,549)	$(100)	$8,174
Financial commodity contracts	40,626	(26,063)	6,870	21,433
Foreign currency contracts	16	(5)	—	11
Total NJRES	$52,465	$(29,617)	$6,770	$29,618
NJNG				
Financial commodity contracts	$3,623	$(2,185)	$214	$1,652
Derivative liabilities:				
NJRES				
Physical forward commodity contracts	$14,595	$(3,549)	$(500)	$10,546
Financial commodity contracts	26,063	(26,063)	—	—
Foreign currency contracts	5	(5)	—	—
Total NJRES	$40,663	$(29,617)	$(500)	$10,546
NJNG				

Financial commodity contracts	$2,185	$(2,185)	$—	$—

(1) Derivative assets and liabilities are presented on a gross basis in the balance sheet as the Company does not elect balance sheet offsetting under ASC 210-20.

(2) Offsetting derivative instruments include: transactions with NAESB netting election, transactions held by FCM's with net margining and transactions with ISDA netting.

(3) Financial collateral includes cash balances at FCM's 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.

NJRES utilizes financial derivatives to economically hedge the gross margin associated with the purchase of physical gas for injection into storage and the subsequent sale of physical gas at a later date. The gains or (losses) on the financial transactions that are economic hedges of the cost of the purchased gas are recognized prior to the gains or (losses) on the physical transaction,

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which are recognized in earnings when the natural gas is sold. 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 NJRES, although the Company's intended economic results relating to the entire transaction are unaffected.

The following table reflects the effect of derivative instruments on the Unaudited Condensed Consolidated Statements of Operations as of:

(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:		2014	2013	2014	2013
NJRES:					
Physical commodity contracts	Operating revenues	$5,496	$3,595	$(52,502)	$(4,264)
Physical commodity contracts	Gas purchases	(7,728)	(8,809)	(87,202)	(6,253)
Financial derivative contracts	Gas purchases	2,293	39,601	(139,406)	38,134
Total unrealized and realized (losses)		$61	$34,387	$(279,110)	$27,617

The table above does not include gains and (losses) associated with NJNG's financial derivatives that totaled $1.5 million and $(4.7) million for the three months ended June 30, 2014 and 2013, respectively, and gains that totaled $14.3 million and $1.4 million for the nine months ended June 30, 2014 and 2013, respectively. These derivatives are part of NJNG's risk management activities that relate to its natural gas purchases and BGSS incentive programs. As these transactions are entered into pursuant to and recoverable through regulatory riders, any changes in the value of NJNG's financial derivatives are deferred in regulatory assets or liabilities resulting in no impact to earnings.

As previously noted, NJRES designates its foreign exchange 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 gas purchases on the Unaudited Condensed Consolidated Statements of Operations. The following tables reflect the effect of derivative instruments designated as cash flow hedges on OCI as of June 30:

(Thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Amount of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)		Amount of Gain or (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
Derivatives in cash flow hedging relationships:	2014	2013	2014	2013	2014	2013
Foreign currency contracts	$213	$(14)	$44	$(21)	$—	$—

(Thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) [1]		Amount of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)		Amount of Gain or (Loss) Recognized on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Nine Months Ended June 30,		Nine Months Ended June 30,		Nine Months Ended June 30,	
Derivatives in cash flow hedging relationships:	2014	2013	2014	2013	2014	2013
Foreign currency contracts	$(247)	$(85)	$209	$23	$—	$—

(1) The settlement of foreign currency transactions over the next twelve months is expected to result in the reclassification of $(28,000) from OCI into earnings. The maximum tenor is April 2015.

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

		Volume (Bcf)	
		June 30, 2014	September 30, 2013
NJNG	Futures	15.3	22.6
NJRES	Futures	(59.3)	(64.2)
	Options	0.6	1.5
	Physical	33.0	7.3

Broker Margin

Generally, exchange-traded futures contracts require posted collateral, referred to as margin, usually in the form of cash. The amount of margin required is comprised of a fixed initial amount based on the contract and a variable amount based on market price movements from the initial trade price. The Company maintains separate broker margin accounts for NJNG and NJRES. The balances by company, are as follows:

(Thousands)	Balance Sheet Location	June 30, 2014	September 30, 2013
NJNG	Broker margin - Current assets	$—	$213
NJNG	Broker margin - Current (liabilities)	$(2,278)	$—
NJRES	Broker margin - Current assets	$27,904	$6,368

Wholesale Credit Risk

NJNG and NJRES are exposed to credit risk as a result of their wholesale marketing activities. In addition, NJRCEV engages in SREC sales. 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 failed to perform the obligations under its contract (e.g., failed to deliver or pay for natural gas), then the Company could sustain a loss.

NJR monitors and manages the credit risk of its wholesale marketing 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 NJR's election not to extend credit or because exposure exceeds defined thresholds. Most of NJR'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.

The following is a summary of gross credit exposures grouped by investment and noninvestment grade counterparties, as of June 30, 2014. Internally-rated exposure applies to counterparties that are not rated by S&P or Moody's. In these cases, the Company's or guarantor's financial statements are reviewed, and similar methodologies and ratios used by S&P 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 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.

(Thousands)	Gross Credit Exposure
Investment grade	$ 172,089
Noninvestment grade	8,977
Internally rated investment grade	16,072
Internally rated noninvestment grade	13,262
Total	$ 210,400

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Conversely, certain of NJNG's and NJRES' 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. NJNG's credit rating, with respect to S&P, reflects the overall corporate credit profile of NJR. 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. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on June 30, 2014 and September 30, 2013, was $490,000 and $2 million, respectively, for which the Company had not posted collateral. If all thresholds related to the credit-risk-related contingent features underlying these agreements had been invoked on June 30, 2014 and September 30, 2013, the Company would have been required to post an additional $440,000 and $1.1 million, respectively, to its counterparties. 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.

5. FAIR VALUE

Fair Value of Assets and Liabilities

The fair value of cash and temporary investments, commercial paper and borrowings under revolving credit facilities are estimated to equal their carrying amounts due to the short maturity of those instruments. Non-current loan receivables are recorded based on what the company expects to receive, which approximates fair value. 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 and excluding capital leases, is as follows:

(Thousands)	June 30, 2014	September 30, 2013
Carrying value	$582,845	$529,845
Fair market value	$616,071	$556,518

NJR 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, 2014, NJR discloses its debt within Level 2 of the fair value hierarchy.

Fair Value Hierarchy

NJR applies fair value measurement guidance to its financial assets and liabilities, as appropriate, which include financial derivatives and physical commodity contracts qualifying as derivatives, available for sale securities and other financial assets and liabilities. In addition, authoritative accounting literature prescribes the use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the source of the data used to develop the price inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to inputs that are based on unobservable market data and include the following:

Level 1	Unadjusted quoted prices for identical assets or liabilities in active markets. NJR's Level 1 assets and liabilities include exchange traded futures and options contracts, listed equities, and money market funds. Exchange traded futures and options contracts include all energy contracts traded on the NYMEX/CME and ICE that NJR refers internally to as basis swaps, fixed swaps, futures and options that are cleared through a FCM.
Level 2	Other significant observable inputs such as interest rates or price data, including both commodity and basis pricing that is observed either directly or indirectly from publications or pricing services. NJR's Level 2 assets and liabilities include over-the-counter physical forward commodity contracts and swap contracts 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

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non-FCM counterparties (basis swaps, fixed swaps and/or options). 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 was considered to be a "model", it would still be considered to be a Level 2 input as:

1) The data is widely accepted and public

2) The data is non-proprietary and sourced from an independent third party

3) The data is observable and published

These additional adjustments are generally not considered to be significant to the ultimate recognized values.

Level 3 Inputs derived from a significant amount of unobservable market data; these include NJR's best estimate of fair value and are derived primarily through the use of internal valuation methodologies.

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, 2014:				
Assets:				
Physical forward commodity contracts	$—	$12,304	$—	$12,304
Financial derivative contracts - natural gas	43,144	—	—	43,144
Financial derivative contracts - foreign exchange	—	1	—	1
Available for sale equity securities - energy industry (1)	12,082	—	—	12,082
Other (2)	1,373	—	—	1,373
Total assets at fair value	$56,599	$12,305	$—	$68,904
Liabilities:				
Physical forward commodity contracts	$—	$37,344	$—	$37,344
Financial derivative contracts - natural gas	46,693	—	—	46,693
Financial derivative contracts - foreign exchange	—	29	—	29
Total liabilities at fair value	$46,693	$37,373	$—	$84,066
As of September 30, 2013:				
Assets:				
Physical forward commodity contracts	$—	$11,823	$—	$11,823
Financial derivative contracts - natural gas	44,249	—	—	44,249
Financial derivative contracts - foreign exchange	—	16	—	16
Available for sale equity securities - energy industry (1)	11,716	—	—	11,716
Other (2)	1,129	—	—	1,129

Total assets at fair value	$57,094	$11,839	$—	$68,933
Liabilities:				
Physical forward commodity contracts	$—	$14,595	$—	$14,595
Financial derivative contracts - natural gas	28,248	—	—	28,248
Financial derivative contracts - foreign exchange	—	5	—	5
Total liabilities at fair value	$28,248	$14,600	$—	$42,848

(1) Included in Other noncurrent assets on the Unaudited Condensed Consolidated Balance Sheets.
(2) Includes various money market funds.

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6. INVESTMENTS IN EQUITY INVESTEES

Investment in equity investees includes NJR's equity method and cost method investments.

Equity Method Investments

(Thousands)	June 30, 2014	September 30, 2013
Steckman Ridge	$ 128,255	$ 129,707
Iroquois	24,257	23,084
Total	$ 152,512	$ 152,791

As of June 30, 2014, the investment in Steckman Ridge includes loans with a total outstanding principal balance of $70.4 million. The loans accrue interest at a variable rate that resets quarterly and are due October 1, 2023.

NJRES and NJNG have entered into transportation, storage and park and loan agreements with Steckman Ridge and Iroquois. See Note 14. Related Party Transactions for more information on these intercompany transactions.

Cost Method Investments

During the fourth quarter of fiscal 2012, NJR invested $8.8 million in OwnEnergy, a developer of onshore wind projects, for an 18.7 percent ownership interest and the right, but not the obligation, to purchase certain qualified projects. This investment is accounted for in accordance with the cost method of accounting. The Company does not estimate the fair value of its cost method investment since it is impracticable to do so. As of June 30, 2014, the Company has not identified any events or changes in circumstances that may have a significant adverse effect on the fair value of its investment in OwnEnergy.

On October 11, 2013, NJRCEV acquired the development rights of the Two Dot wind project in Montana, which is its first onshore wind project. NJRCEV invested approximately $22 million to construct the 9.7 MW wind project, which was completed in June 2014. In the second fiscal quarter of 2014, NJRCEV acquired the development rights to its second wind project, a $42 million, 20 MW wind farm currently under construction in Carroll County, Iowa, which NJRCEV expects to be operational in the second quarter of fiscal 2015.

7. 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)	2014	2013	2014	2013
Net (loss) income	$ (14,274)	$ 29,155	$ 166,390	$ 134,830
Basic earnings per share				
Weighted average shares of common stock outstanding-basic	42,117	41,608	42,072	41,697
Basic (loss) earnings per common share	$(0.34)	$0.70	$3.95	$3.23
Diluted earnings per share				
Weighted average shares of common stock outstanding-basic	42,117	41,608	42,072	41,697

Incremental shares [1]	—	124	384	123
Weighted average shares of common stock outstanding-diluted	42,117	41,732	42,456	41,820
Diluted earnings per common share [2]	$(0.34)	$0.70	$3.92	$3.22

(1) Incremental shares consist of stock options, stock awards and performance shares.

(2) Since there was a net loss for the three months ended June 30, 2014, incremental shares of 384 were not included in the computation of diluted loss per common share, as their effect would have been anti-dilutive. There were no anti-dilutive shares excluded from the calculation of diluted earnings per share for the nine months ended June 30, 2014, and for the three and nine months ended June 30, 2013.

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8. COMMON STOCK EQUITY

Changes in common stock equity during the nine months ended June 30, 2014, are as follows:

(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, 2013	41,962	$112,563	$300,196	$(1,621)	$(128,638)	$604,884	$887,384
Net income						166,390	166,390
Other comprehensive income				675			675
Common stock issued under stock plans	324	214	4,187		9,685		14,086
Tax benefits from stock plans			348				348
Cash dividend declared ($1.26 per share)						(53,024)	(53,024)
Treasury stock and other	(118)				(2,774)		(2,774)
Balance as of June 30, 2014	42,168	$112,777	$304,731	$(946)	$(121,727)	$718,250	$1,013,085

Accumulated Other Comprehensive Income

The following table presents the changes in the components of accumulated other comprehensive income, net of related tax effects:

(Thousands)	Available for Sale Securities	Cash Flow Hedges	Postemployment Benefit Obligation	Total
Balance as of September 30, 2013	$5,400	$12	$(7,033)	$(1,621)
Other comprehensive income, net of tax				
Other comprehensive income (loss), before reclassifications, net of tax of $(150), $91, $0, $(59)	216	(156)	—	60
Amounts reclassified from accumulated other comprehensive income, net of tax of $0, $(77), $(334), $(411)	—	132 (1)	483 (2)	615
Net current-period other comprehensive income (loss), net of tax of $(150), $14, $(334), $(470)	216	(24)	483	675
Balance as of June 30, 2014	$5,616	$(12)	$(6,550)	$(946)
Balance as of September 30, 2012	$4,921	$51	$(15,743)	$(10,771)
Other comprehensive income, net of tax				
Other comprehensive income (loss), before reclassifications, net of tax of $(390), $31, $0, $(359)	565	(54)	—	511
Amounts reclassified from accumulated other comprehensive income, net of tax of $155, $(8) $(608), $(461)	(225)	15 (1)	1,005 (2)	795
	340	(39)	1,005	1,306

Net current-period other comprehensive income (loss), net of tax of $(235), $23, $(608), $(820)				
Balance as of June 30, 2013	$5,261	$12	$(14,738)	$(9,465)

(1) Consists of realized losses related to foreign currency derivatives, which are reclassified to gas purchases in the Unaudited Condensed Consolidated Statements of Operations.

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

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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, committed unsecured credit facilities and private placement debt shelf facilities. Amounts available under credit facilities are reduced by bank or commercial paper borrowings, as applicable, and any outstanding letters of credit. Neither NJNG nor the results of its operations are obligated or pledged to support the NJR credit or debt shelf facilities.

Credit Facilities

On January 24, 2014, NJR entered into an agreement for a $50 million unsecured committed credit line. The credit line was put in place primarily to provide additional working capital to NJRES to meet any potential margin calls that may arise in NJRES' normal course of business. Effective January 31, 2014, NJR utilized the accordion option available under the NJR Credit Facility to increase the amount of credit available from $325 million to $425 million and the additional credit line was thereby terminated on the same date.

On May 15, 2014, NJNG entered into a $250 million, five-year, revolving, unsecured credit facility expiring in May 2019, which replaced an existing credit facility that was scheduled to expire in August 2014. The new NJNG Credit Facility permits the borrowing of revolving loans and swing loans, as well as the issuance of letters of credit. It also permits an increase to the facility, from time to time, with the existing or new lenders, in a minimum of $15 million increments up to a maximum of $50 million at the lending banks' discretion. As of June 30, 2014, 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 $168.3 million.

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

(Thousands)	June 30, 2014		September 30, 2013		Expiration Dates
NJR					
Bank revolving credit facility [1]	$425,000		$325,000		August 2017
Notes outstanding at end of period	$93,500		$97,000		
Weighted average interest rate at end of period	1.16	%	1.00	%	
Amount available at end of period [2]	$304,830		$210,110		
Bank term loan [3]	$100,000		$100,000		September 2014
Loan outstanding at end of period	$—		$100,000		
Weighted average interest rate at end of period	—	%	0.74	%	
Amount available at end of period	$100,000		$—		
Bank letter of credit facility [3] [4]	$—		$10,000		June 2014
NJNG					
Bank credit facility dedicated to EDA Bonds [1] [4]	$100,000		$100,000		August 2015
Bank revolving credit facility [1]	$250,000		$250,000		May 2019
Commercial paper outstanding at end of period	$81,000		$168,600		
Weighted average interest rate at end of period	0.11	%	0.13	%	
Amount available at end of period [5]	$168,269		$81,400		

(1)

Committed credit facilities, which require commitment fees on the unused amounts.

(2) Letters of credit outstanding total $26.7 million and $17.9 million as of June 30, 2014 and September 30, 2013, respectively, which reduces amount available by the same amount.

(3) Uncommitted, expired on June 5, 2014.

(4) There were no borrowings outstanding as of June 30, 2014 and September 30, 2013, respectively.

(5) Letters of credit outstanding total $731,000 and $266,000 as of June 30, 2014 and September 30, 2013, respectively, which reduces the amount available by the same amount.

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NJR Long-term Debt

On May 12, 2011, NJR entered into an unsecured, uncommitted $100 million private placement shelf note agreement allowing NJR to issue senior notes during a two-year issuance period, which expired on May 10, 2013. As of June 30, 2014, NJR had two series of notes outstanding under this agreement, $25 million at 1.94 percent, which will mature on September 15, 2015 and $25 million at 2.51 percent, which will mature on September 15, 2018.

On June 30, 2011, NJR entered into an unsecured, uncommitted $75 million private placement shelf note agreement allowing NJR to issue senior notes during a three-year issuance period, which expired on June 30, 2014. As of June 30, 2014, NJR had $50 million at 3.25 percent outstanding, which will mature on September 17, 2022, under this agreement.

On September 26, 2013, NJR entered into an unsecured, uncommitted $100 million private placement shelf note agreement allowing NJR to issue senior notes during a three-year issuance period ending September 26, 2016. As of June 30, 2014, $100 million remains available for borrowing under this facility.

On July 23, 2014, NJR executed a commitment letter with Prudential for the issuance of $100 million in ten-year notes at 3.48 percent. The issuance of these notes is contingent upon the execution of a note purchase agreement and subject to customary closing conditions.

NJNG Long-term Debt

On March 13, 2014, NJNG issued $70 million of 3.58 percent senior notes due March 13, 2024, and $55 million of 4.61 percent senior notes due March 13, 2044, secured by FMB in the private placement market pursuant to a note purchase agreement entered into on February 7, 2014. The proceeds were used to pay down short-term debt and redeem its $60 million, 4.77 percent private placement bonds.

During the second quarter of fiscal 2014, management decided to redeem the $12 million, 5 percent Series HH bonds, which were callable as of December 1, 2013. The bonds were redeemed on May 27, 2014.

NJNG received $7.6 million and $7.1 million in December 2013 and 2012, respectively, in connection with the sale-leaseback of its natural gas meters. NJNG records a capital lease obligation that is paid over the term of the lease and has the option to purchase the meters back at fair value upon expiration of the lease.

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)	2014	2013	2014	2013	2014	2013	2014	2013

Service cost	$1,536	$1,718	$4,608	$5,154	$980	$1,171	$2,942	$3,513
Interest cost	2,517	2,235	7,550	6,705	1,434	1,287	4,300	3,861
Expected return on plan assets	(3,869)	(3,706)	(11,607)	(11,118)	(1,043)	(913)	(3,130)	(2,739)
Recognized actuarial loss	1,399	1,911	4,197	5,733	625	964	1,875	2,892
Prior service cost amortization	27	27	83	81	(89)	(281)	(267)	(267)
Recognized net initial obligation	—	—	—	—	3	199	8	21
Net periodic benefit cost	$1,610	$2,185	$4,831	$6,555	$1,910	$2,427	$5,728	$7,281

The Company does not expect to be required to make additional contributions to fund the pension plans over the next three fiscal years based on current actuarial assumptions; however, funding requirements are uncertain and can depend significantly on

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changes in actuarial assumptions, returns on plan assets, interest rates 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. NJR made a discretionary contribution of $20 million to the pension plans during fiscal 2013. There have been no discretionary contributions made during the nine months ended June 30, 2014.

In July 2014, the Company implemented a voluntary early retirement program to certain employees and expects to recognize a one-time expense of approximately $5.1 million for related postemployment benefit costs and other termination benefits in the fourth quarter of fiscal 2014.

11. INCOME TAXES

NJR evaluates its tax positions to determine the appropriate accounting and recognition of potential future obligations associated with unrecognized tax benefits. During the nine months ended June 30, 2014 and 2013, based on its analysis, the Company determined that there was no need to recognize any liabilities associated with uncertain tax positions.

The effective tax rates for the nine months ended June 30, 2014 and 2013, are 28.2 percent and 27.6 percent, respectively. The increased tax rate is due primarily to a significant year over year increase in the forecasted pre-tax income. This increase is partially offset by the impact of increased forecasted ITCs, net of deferred taxes of $17.9 million and $13.4 million for the fiscal years ended September 30, 2014 and 2013, respectively, and forecasted PTCs of $187,000 for the fiscal year ended September 30, 2014. There were no forecasted PTCs for the fiscal year ended September 30, 2013.

To calculate the estimated annual effective tax rate, NJR considers solar and wind projects that are probable of being completed and placed in service during the current fiscal year based on the best information available at each reporting period. The estimate includes an assessment of various factors, such as board of director approval, status of contractual agreements, permitting, regulatory approval and interconnection. Adjustments to the effective tax rate and management's estimates will occur as information and assumptions change.

As of June 30, 2014, the Company has state income tax net operating losses of approximately $116.8 million, which generally have a life of 20 years. The Company has recorded a deferred state tax asset of approximately $6.8 million on the Unaudited Condensed Consolidated Balance Sheets, reflecting the tax benefit associated with the loss carryforwards. In addition, as of June 30, 2014, the Company has recorded a valuation allowance of $238,000 because it believes that it is more likely than not that the deferred tax assets related to CR&R and NJR will expire unused. As of September 30, 2013, the Company had state income tax net operating losses of approximately $104.4 million, a deferred state tax asset of approximately $6.1 million and a valuation allowance of $262,000.

As of September 30, 2013, the Company had an ITC carryforward of approximately $40 million, which has a life of 20 years. The Company expects to utilize the entire carryforward.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Cash Commitments

NJNG has entered into long-term contracts, expiring at various dates through July 2032, for the supply, storage and delivery of natural gas. These contracts include current annual fixed charges of approximately $96.9 million at current contract rates and volumes, which are recoverable through BGSS.

For the purpose of securing storage and pipeline capacity, NJRES enters into storage and pipeline capacity contracts, which require the payment of certain demand charges by NJRES to maintain the ability to access such natural gas storage or pipeline capacity, during a fixed time period, which generally ranges from one to ten years. Demand charges are established by storage and pipeline operators and regulated by the FERC. These demand charges represent commitments to pay storage providers or pipeline companies for the right to store and transport natural gas utilizing their respective assets.

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Commitments as of June 30, 2014, for natural gas purchases and future demand fees for the next five fiscal year periods are as follows:

(Thousands)	2014	2015	2016	2017	2018	Thereafter
NJRES:						
Natural gas purchases	$252,840	$179,692	$15,790	$—	$—	$—
Storage demand fees	8,812	26,813	10,363	5,608	3,500	4,381
Pipeline demand fees	19,061	45,117	34,142	18,221	12,541	7,173
Sub-total NJRES	$280,713	$251,622	$60,295	$23,829	$16,041	$11,554
NJNG:						
Natural gas purchases	$27,690	$106,985	$5,937	$113	$—	$—
Storage demand fees	6,498	24,045	17,865	10,883	9,299	13,948
Pipeline demand fees	16,001	75,169	45,683	40,330	58,287	531,205
Sub-total NJNG	$50,189	$206,199	$69,485	$51,326	$67,586	$545,153
Total (1)	$330,902	$457,821	$129,780	$75,155	$83,627	$556,707

(1) Does not include amounts related to intercompany asset management agreements between NJRES and NJNG.

Legal Proceedings

Manufactured Gas Plant Remediation

NJNG is responsible for the remedial cleanup of five MGP sites, dating back to gas operations in the late 1800s and early 1900s that contain contaminated residues from former gas manufacturing operations. NJNG is currently involved in administrative proceedings with the NJDEP, as well as 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 Administrative Consent Orders or Memoranda of Agreement with the NJDEP.

NJNG may, subject to BPU approval, recover its remediation expenditures, including carrying costs, over rolling seven-year periods pursuant to a RA approved by the BPU. On July 23, 2013, NJNG requested approval of its MGP expenditures incurred through June 30, 2013, as well as a reduction in the SBC RA factor to recover $18.7 million annually. The petition was provisionally approved by the BPU on November 22, 2013, with rates effective December 1, 2013, and was approved on a final basis on July 23, 2014. As of June 30, 2014, $31.3 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 periodically, and at least annually, performs an environmental review of the MGP sites, including a review of potential liability for investigation and remedial action. NJNG estimated at the time of the review that total future expenditures to remediate and monitor the five 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 $159.8 million to $261.2 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 best estimated 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, 2014, NJNG recorded an MGP remediation liability and a corresponding regulatory asset of $183.6 million on the Unaudited Condensed Consolidated Balance Sheets, based on the best estimate. 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 any insurance recoveries.

NJNG will continue to seek recovery of MGP-related costs through the RA. However, because recovery of such costs is subject to BPU approval, there can be no assurance as to the ultimate recovery through the RA or the impact on the Company's results of operations, financial position or cash flows, which could be material. 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.

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General

The Company is party to various other claims, legal actions and complaints arising in the ordinary course of business. In the Company's opinion, the ultimate disposition of these matters will not have a material effect on its financial condition, results of operations or cash flows.

13. BUSINESS SEGMENT AND OTHER OPERATIONS DATA

NJR organizes its businesses based on its products and services as well as regulatory environment. As a result, the Company manages the businesses through the following reportable segments and other operations: the Natural Gas Distribution segment consists of regulated energy and off-system, capacity and storage management operations; the Energy Services segment consists of unregulated wholesale energy operations; the Clean Energy Ventures segment consists of capital investments in distributed power projects; the Midstream segment consists of NJR's investments in natural gas transportation and storage facilities; the Retail and Other operations consist of heating, cooling and water appliance installation and services, commercial real estate development, other investments and general corporate activities.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	2014	2013	2014	2013
Operating revenues				