SOUTH JERSEY INDUSTRIES INC
Form 10-Q
August 04, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

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	Exact name of registrant as specified in its charter and principal office address and telephone number	State of Incorporation	I.R.S. Employer Identification No.
1-6364	South Jersey Industries, Inc. 1 South Jersey Plaza Folsom, NJ 08037 (609) 561-9000	New Jersey	22-1901645
000-22211	South Jersey Gas Company 1 South Jersey Plaza Folsom, NJ 08037 (609) 561-9000	New Jersey	21-0398330

Indicate by check mark whether each 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 such 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 each 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 such registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
South Jersey Industries, Inc.:
Large accelerated filer x Accelerated filer o Non-accelerated filer o
Smaller reporting company o Emerging growth company o

South Jersey Gas Company:
Large accelerated filer o Accelerated filer o Non-accelerated filer x
Smaller reporting company o Emerging growth company o

If an emerging growth company, indicate by check mark if either 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 o

Indicate by check mark whether either registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x
South Jersey Industries, Inc. common stock ($1.25 par value) outstanding as of August 1, 2017 was 79,549,014 shares. South Jersey Gas Company common stock ($2.50 par value) outstanding as of August 1, 2017 was 2,339,139 shares. All of South Jersey Gas Company's outstanding shares of common stock are held by South Jersey Industries, Inc.
South Jersey Gas Company is a wholly-owned subsidiary of South Jersey Industries, Inc. and meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q. As such, South Jersey Gas Company files its Quarterly Report on Form 10-Q with the reduced disclosure format authorized by General Instruction H.

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INTRODUCTION

FILING FORMAT

This Quarterly Report on Form 10-Q is a combined report being filed separately by two registrants: South Jersey Industries, Inc. (SJI) and South Jersey Gas Company (SJG). Information relating to SJI or any of its subsidiaries, other than SJG, is filed by SJI on its own behalf. SJG is only responsible for information about itself.

Except where the content clearly indicates otherwise, any reference in the report to "SJI," "the Company," "we," "us" or "our" is to the holding company or SJI and all of its subsidiaries, including SJG, which is a wholly-owned subsidiary of SJI.

Part 1 - Financial information in this Quarterly Report on Form 10-Q includes separate financial statements (i.e., balance sheets, statements of income, statements of comprehensive income and statements of cash flows) for SJI and SJG. The Notes to Unaudited Condensed Consolidated Financial Statements are presented on a combined basis for both SJI and SJG. Management's Discussion and Analysis of Financial Condition and Results of Operations (Management's Discussion) included under Item 2 is divided into two major sections: SJI and SJG.

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Item 1. Unaudited Condensed Consolidated Financial Statements

SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In Thousands Except for Per Share Data)

	Three Months Ended June 30, 2017	2016
Operating Revenues:		
Utility	$81,938	$68,273
Nonutility	162,436	86,129
Total Operating Revenues	244,374	154,402
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	32,331	19,508
- Nonutility	147,354	78,832
Operations	38,474	36,250
Maintenance	4,672	4,259
Depreciation	24,556	22,296
Energy and Other Taxes	1,551	1,243
Total Operating Expenses	248,938	162,388
Operating Loss	(4,564)	(7,986)
Other Income and Expense	2,317	4,361
Interest Charges	(10,979)	(8,229)
Losses Before Income Taxes	(13,226)	(11,854)
Income Taxes	5,544	7,189
Equity in Earnings (Losses) of Affiliated Companies	70	(133)
Loss from Continuing Operations	(7,612)	(4,798)
Loss from Discontinued Operations - (Net of tax benefit)	(47)	(29)
Net Loss	$(7,659)	$(4,827)
Basic Earnings Per Common Share:		
Continuing Operations	$(0.10)	$(0.06)
Discontinued Operations	—	—
Basic Earnings Per Common Share	$(0.10)	$(0.06)
Average Shares of Common Stock Outstanding - Basic	79,549	75,298
Diluted Earnings Per Common Share:		
Continuing Operations	$(0.10)	$(0.06)
Discontinued Operations	—	—
Diluted Earnings Per Common Share	$(0.10)	$(0.06)
Average Shares of Common Stock Outstanding - Diluted	79,549	75,298
Dividends Declared Per Common Share	$0.27	$0.26

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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	Six Months Ended June 30, 2017	2016
Operating Revenues:		
Utility	$277,707	$251,942
Nonutility	392,496	235,495
Total Operating Revenues	670,203	487,437
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	103,710	84,714
- Nonutility	363,117	166,601
Operations	78,100	75,047
Maintenance	9,653	8,643
Depreciation	48,879	42,997
Energy and Other Taxes	3,622	3,168
Total Operating Expenses	607,081	381,170
Operating Income	63,122	106,267
Other Income and Expense	7,982	6,564
Interest Charges	(27,724)	(17,389)
Income Before Income Taxes	43,380	95,442
Income Taxes	(16,326)	(32,078)
Equity in Earnings of Affiliated Companies	3,081	25
Income from Continuing Operations	30,135	63,389
Loss from Discontinued Operations - (Net of tax benefit)	(77)	(147)
Net Income	$30,058	$63,242
Basic Earnings Per Common Share:		
Continuing Operations	$0.38	$0.86
Discontinued Operations	—	—
Basic Earnings Per Common Share	$0.38	$0.86
Average Shares of Common Stock Outstanding - Basic	79,534	73,213
Diluted Earnings Per Common Share:		
Continuing Operations	$0.38	$0.86
Discontinued Operations	—	—
Diluted Earnings Per Common Share	$0.38	$0.86
Average Shares of Common Stock Outstanding - Diluted	79,670	73,506
Dividends Declared per Common Share	$0.54	$0.52

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In Thousands)

	Three Months Ended June 30,	
	2017	2016
Net Loss	$(7,659)	$(4,827)
Other Comprehensive Income, Net of Tax:*		
Unrealized Gain on Available-for-Sale Securities	—	55
Unrealized Gain on Derivatives - Other	7	49
Other Comprehensive Income - Net of Tax*	7	104
Comprehensive Loss	$(7,652)	$(4,723)

	Six Months Ended June 30,	
	2017	2016
Net Income	$30,058	$63,242
Other Comprehensive Income, Net of Tax:*		
Unrealized Gain on Available-for-Sale Securities	—	104
Unrealized Gain on Derivatives - Other	1,522	100
Other Comprehensive Income - Net of Tax*	1,522	204
Comprehensive Income	$31,580	$63,446

* Determined using a combined average statutory tax rate of 40%.

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In Thousands)

	Six Months Ended June 30,	
	2017	2016
Net Cash Provided by Operating Activities (See Note 1)	$123,658	$158,099
Cash Flows from Investing Activities:		
Capital Expenditures (See Note 1)	(142,029)	(119,905)
Proceeds from Sale of Property, Plant & Equipment	3,058	—
Investment in Long-Term Receivables	(4,602)	(5,702)
Proceeds from Long-Term Receivables	4,948	5,195
Notes Receivable	3,000	(74)
Purchase of Company-Owned Life Insurance	(8,074)	(652)
Investment in Affiliate	(19,461)	(5,820)
Net Repayment of Notes Receivable - Affiliate	243	1,266
Net Cash Used in Investing Activities (See Note 1)	(162,917)	(125,692)
Cash Flows from Financing Activities:		
Net Borrowings from (Repayments of) Short-Term Credit Facilities	200	(286,300)
Proceeds from Issuance of Long-Term Debt	321,000	61,000
Principal Repayments of Long-Term Debt	(277,400)	(13,078)
Payments for Issuance of Long-Term Debt	(2,060)	—
Net Settlement of Restricted Stock (See Note 1)	(751)	—
Dividends on Common Stock	(21,676)	(18,790)
Proceeds from Sale of Common Stock	—	214,463
Net Cash Provided by (Used in) Financing Activities	19,313	(42,705)
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(19,946)	(10,298)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period (See Note 1)	31,910	52,635
Cash, Cash Equivalents and Restricted Cash at End of Period (See Note 1)	$11,964	$42,337

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In Thousands)

	June 30, 2017	December 31, 2016
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$2,536,251	$2,424,134
Accumulated Depreciation	(480,248)	(471,222)
Nonutility Property and Equipment, at cost	824,775	821,942
Accumulated Depreciation	(173,009)	(151,084)
Property, Plant and Equipment - Net	2,707,769	2,623,770
Investments:		
Available-for-Sale Securities	32	32
Restricted	1,842	13,628
Investment in Affiliates	49,979	28,906
Total Investments	51,853	42,566
Current Assets:		
Cash and Cash Equivalents	10,122	18,282
Accounts Receivable	180,551	222,339
Unbilled Revenues	25,124	59,680
Provision for Uncollectibles	(12,218)	(12,744)
Notes Receivable	1,107	1,454
Notes Receivable - Affiliate	2,218	2,461
Natural Gas in Storage, average cost	47,521	53,857
Materials and Supplies, average cost	6,965	6,753
Prepaid Taxes	14,841	17,471
Derivatives - Energy Related Assets	46,361	72,391
Other Prepayments and Current Assets	33,870	31,369
Total Current Assets	356,462	473,313
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	445,312	410,746
Derivatives - Energy Related Assets	7,248	8,502
Notes Receivable - Affiliate	13,275	13,275
Contract Receivables	28,873	29,037
Notes Receivable	19,374	25,271
Goodwill	4,838	4,838
Identifiable Intangible Assets	15,255	15,820
Other	91,601	83,429
Total Regulatory and Other Noncurrent Assets	625,776	590,918
Total Assets	$3,741,860	$3,730,567

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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SOUTH JERSEY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In Thousands)

	June 30, 2017	December 31, 2016
Capitalization and Liabilities		
Equity:		
Common Stock	$99,436	$ 99,347
Premium on Common Stock	708,082	706,943
Treasury Stock (at par)	(264)	(266)
Accumulated Other Comprehensive Loss	(25,859)	(27,381)
Retained Earnings	497,854	510,597
Total Equity	1,279,249	1,289,240
Long-Term Debt	1,066,680	808,005
Total Capitalization	2,345,929	2,097,245
Current Liabilities:		
Notes Payable	296,300	296,100
Current Portion of Long-Term Debt	15,909	231,909
Accounts Payable	246,688	243,669
Customer Deposits and Credit Balances	48,792	48,068
Environmental Remediation Costs	59,706	46,120
Taxes Accrued	2,358	2,082
Derivatives - Energy Related Liabilities	23,082	60,082
Derivatives - Other	787	681
Dividends Payable	21,677	—
Interest Accrued	4,836	6,231
Pension Benefits	2,463	2,463
Other Current Liabilities	11,521	15,219
Total Current Liabilities	734,119	952,624
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes - Net	360,179	343,549
Pension and Other Postretirement Benefits	89,474	95,235
Environmental Remediation Costs	103,214	108,893
Asset Retirement Obligations	59,443	59,427
Derivatives - Energy Related Liabilities	4,660	4,540
Derivatives - Other	10,559	9,349
Regulatory Liabilities	24,655	49,121
Other	9,628	10,584
Total Deferred Credits and Other Noncurrent Liabilities	661,812	680,698

Commitments and Contingencies (Note 11)

Total Capitalization and Liabilities	$3,741,860	$3,730,567

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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SOUTH JERSEY GAS COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(In Thousands)

	Three Months Ended June 30,	
	2017	2016
Operating Revenues	$83,251	$68,762
Operating Expenses:		
Cost of Sales (Excluding depreciation)	33,644	19,997
Operations	23,034	22,525
Maintenance	4,672	4,259
Depreciation	12,873	11,490
Energy and Other Taxes	872	560
Total Operating Expenses	75,095	58,831
Operating Income	8,156	9,931
Other Income and Expense	1,618	1,079
Interest Charges	(6,077)	(4,552)
Income Before Income Taxes	3,697	6,458
Income Taxes	(1,431)	(1,415)
Net Income	$2,266	$5,043

The accompanying notes are an integral part of the unaudited condensed financial statements.

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	Six Months Ended June 30,	
	2017	2016
Operating Revenues	$280,065	$256,528
Operating Expenses:		
Cost of Sales (Excluding depreciation)	106,068	89,300
Operations	47,788	48,594
Maintenance	9,653	8,643
Depreciation	25,587	22,700
Energy and Other Taxes	2,167	1,587
Total Operating Expenses	191,263	170,824
Operating Income	88,802	85,704
Other Income and Expense	3,239	1,915
Interest Charges	(11,955)	(9,339)
Income Before Income Taxes	80,086	78,280
Income Taxes	(31,342)	(28,819)
Net Income	$48,744	$49,461

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SOUTH JERSEY GAS COMPANY
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In Thousands)

	Three Months Ended June 30,	
	2017	2016
Net Income	$2,266	$5,043
Other Comprehensive Income - Net of Tax: *		
Unrealized Gain on Available-for-Sale Securities	—	3
Unrealized Gain on Derivatives - Other	7	7
Other Comprehensive Income - Net of Tax *	7	10
Comprehensive Income	$2,273	$5,053

	Six Months Ended June 30,	
	2017	2016
Net Income	$48,744	$49,461
Other Comprehensive Income - Net of Tax: *		
Unrealized Gain on Available-for-Sale Securities	—	7
Unrealized Gain on Derivatives - Other	14	14
Other Comprehensive Income - Net of Tax *	14	21
Comprehensive Income	$48,758	$49,482

* Determined using a combined average statutory tax rate of 40%.

The accompanying notes are an integral part of the unaudited condensed financial statements.

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SOUTH JERSEY GAS COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In Thousands)

	Six Months Ended June 30,	
	2017	2016
Net Cash Provided by Operating Activities	$75,514	$97,394
Cash Flows from Investing Activities:		
Capital Expenditures	(127,209)	(107,676)
Note Receivable	—	(74)
Purchase of Company-Owned Life Insurance	(4,875)	—
Investment in Long-Term Receivables	(4,602)	(5,702)
Proceeds from Long-Term Receivables	4,948	5,195
Net Cash Used in Investing Activities (See Note 1)	(131,738)	(108,257)
Cash Flows from Financing Activities:		
Net Repayments of Short-Term Credit Facilities	(101,500)	(121,100)
Proceeds from Issuance of Long-Term Debt	321,000	61,000
Principal Repayments of Long-Term Debt	(200,000)	—
Payments for Issuance of Long-Term Debt	(2,029)	—
Additional Investment by Shareholder	40,000	65,000
Net Cash Provided by Financing Activities	57,471	4,900
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	1,247	(5,963)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period (See Note 1)	1,391	7,544
Cash, Cash Equivalents and Restricted Cash at End of Period (See Note 1)	$2,638	$1,581

The accompanying notes are an integral part of the unaudited condensed financial statements.

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SOUTH JERSEY GAS COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)
(In Thousands)

	June 30, 2017	December 31, 2016
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$2,536,251	$2,424,134
Accumulated Depreciation	(480,248)	(471,222)
Property, Plant and Equipment - Net	2,056,003	1,952,912
Investments:		
Restricted Investments	1,542	32
Total Investments	1,542	32
Current Assets:		
Cash and Cash Equivalents	1,096	1,359
Accounts Receivable	76,400	69,651
Accounts Receivable - Related Parties	738	1,355
Unbilled Revenues	11,343	41,754
Provision for Uncollectibles	(12,010)	(12,570)
Natural Gas in Storage, average cost	12,728	11,621
Materials and Supplies, average cost	947	914
Prepaid Taxes	14,129	16,428
Derivatives - Energy Related Assets	7,998	5,434
Other Prepayments and Current Assets	15,349	13,853
Total Current Assets	128,718	149,799
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	445,312	410,746
Long-Term Receivables	25,794	25,758
Derivatives - Energy Related Assets	—	373
Other	16,374	12,303
Total Regulatory and Other Noncurrent Assets	487,480	449,180
Total Assets	$2,673,743	$2,551,923

The accompanying notes are an integral part of the unaudited condensed financial statements.

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SOUTH JERSEY GAS COMPANY
CONDENSED BALANCE SHEETS (UNAUDITED)
(In Thousands, except per share amounts)

	June 30, 2017	December 31, 2016
Capitalization and Liabilities		
Equity:		
Common Stock	$5,848	$5,848
Other Paid-In Capital and Premium on Common Stock	355,743	315,827
Accumulated Other Comprehensive Loss	(14,920)	(14,934)
Retained Earnings	582,024	533,159
Total Equity	928,695	839,900
Long-Term Debt	742,525	423,177
Total Capitalization	1,671,220	1,263,077
Current Liabilities:		
Notes Payable	2,800	104,300
Current Portion of Long-Term Debt	15,909	215,909
Accounts Payable - Commodity	30,635	23,815
Accounts Payable - Other	49,464	45,370
Accounts Payable - Related Parties	7,663	11,216
Derivatives - Energy Related Liabilities	1,881	1,372
Derivatives - Other Current	382	386
Customer Deposits and Credit Balances	46,845	45,816
Environmental Remediation Costs	59,320	45,018
Taxes Accrued	1,392	855
Pension Benefits	2,428	2,428
Interest Accrued	3,889	5,369
Other Current Liabilities	3,946	8,011
Total Current Liabilities	226,554	509,865
Regulatory and Other Noncurrent Liabilities:		
Regulatory Liabilities	24,655	49,121
Deferred Income Taxes - Net	500,913	469,408
Environmental Remediation Costs	102,362	108,029
Asset Retirement Obligations	58,676	58,674
Pension and Other Postretirement Benefits	77,384	81,800
Derivatives - Energy Related Liabilities	297	—
Derivatives - Other Noncurrent	6,915	6,979
Other	4,767	4,970
Total Regulatory and Other Noncurrent Liabilities	775,969	778,981

Commitments and Contingencies (Note 11)

Total Capitalization and Liabilities	$2,673,743	$2,551,923

The accompanying notes are an integral part of the unaudited condensed financial statements.

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Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

GENERAL - South Jersey Industries, Inc. (SJI or the Company) currently provides a variety of energy-related products and services primarily through the following wholly-owned subsidiaries:

South Jersey Gas Company (SJG) is a regulated natural gas utility. SJG distributes natural gas in the seven southernmost counties of New Jersey.

South Jersey Energy Company (SJE) acquires and markets natural gas and electricity to retail end users and provides total energy management services to commercial, industrial and residential customers.

South Jersey Resources Group, LLC (SJRG) markets natural gas storage, commodity and transportation assets along with fuel management services on a wholesale basis in the mid-Atlantic, Appalachian and southern states.

South Jersey Exploration, LLC (SJEX) owns oil, gas and mineral rights in the Marcellus Shale region of Pennsylvania.

Marina Energy, LLC (Marina) develops and operates on-site energy-related projects. The significant wholly-owned subsidiaries of Marina are:

•ACB Energy Partners, LLC (ACB) owns and operates a natural gas fueled combined heating, cooling and power facility located in Atlantic City, New Jersey.

•AC Landfill Energy, LLC (ACLE), BC Landfill Energy, LLC (BCLE), SC Landfill Energy, LLC (SCLE) and SX Landfill Energy, LLC (SXLE) own and operate landfill gas-fired electric production facilities in Atlantic, Burlington, Salem and Sussex Counties located in New Jersey.

•MCS Energy Partners, LLC (MCS), NBS Energy Partners, LLC (NBS) and SBS Energy Partners, LLC (SBS) own and operate solar-generation sites located in New Jersey.

South Jersey Energy Service Plus, LLC (SJESP) services residential and small commercial HVAC systems, installs small commercial HVAC systems, provides plumbing services and services appliances under warranty via a subcontractor arrangement as well as on a time and materials basis. In May 2017, SJESP entered into an agreement to sell certain assets of its residential and small commercial HVAC and plumbing business to a third party. This transaction, which is expected to be completed by August 31, 2017, is not expected to have a material impact on the consolidated financial statements.

SJI Midstream, LLC (Midstream) invests in infrastructure and other midstream projects, including a current project to build an approximately 118-mile natural gas pipeline in Pennsylvania and New Jersey.

BASIS OF PRESENTATION - SJI's condensed consolidated financial statements include the accounts of SJI, its wholly-owned subsidiaries (including SJG) and subsidiaries in which SJI has a controlling interest. SJI eliminates all significant intercompany accounts and transactions. In management’s opinion, the unaudited condensed consolidated financial statements of SJI and SJG reflect all normal and recurring adjustments needed to fairly present their respective financial positions, operating results and cash flows at the dates and for the periods presented. SJI’s and SJG's businesses are subject to seasonal fluctuations and, accordingly, this interim financial information should not be the basis for estimating the full year’s operating results. As permitted by the rules and regulations of the Securities and

Exchange Commission (SEC), the accompanying unaudited condensed consolidated financial statements of SJI and SJG contain certain condensed financial information and exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These financial statements should be read in conjunction with SJI’s and SJG's Annual Reports on Form 10-K for the year ended December 31, 2016 for a more complete discussion of the accounting policies and certain other information.

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Certain reclassifications have been made to SJI's and SJG's prior period condensed consolidated statements of cash flows to conform to the current period presentation. Restricted cash is now combined with cash and cash equivalents when reconciling the beginning and end of period balances on the condensed consolidated statements of cash flows of SJI, as well as the condensed statements of cash flows for SJG, to conform to ASU 2016-18, which is described below under "New Accounting Pronouncements." This combination of restricted cash and cash and cash equivalents caused Cash Flows from Investing Activities for both SJI and SJG to be adjusted in order to remove items relating to capital expenditures and proceeds from restricted investments (SJI only), as well as the sale of restricted investments in a margin account (SJI and SJG).

Certain reclassifications have been made to SJI's prior period condensed consolidated statements of cash flows to conform to the current period presentation. Cash paid by an employer when directly withholding shares for tax-withholding purposes is now classified as a financing activity in the condensed consolidated statements of cash flows to conform to ASU 2016-09, which is described below under "New Accounting Pronouncements." This caused SJI's prior period Cash Flows Provided by Operating Activities to increase by $0.4 million and Net Cash Flows from Financing Activities to decrease by the same amount. Adoption of this guidance did not effect SJG's condensed statements of cash flows.

REVENUE-BASED TAXES - SJG collects certain revenue-based energy taxes from its customers. Such taxes include the New Jersey State Sales Tax and Public Utilities Assessment (PUA). State sales tax is recorded as a liability when billed to customers and is not included in revenue or operating expenses. The PUA is included in both utility revenue and energy and other taxes and totaled $0.2 million for both the three months ended June 30, 2017 and 2016, and $0.6 million and $0.5 million for the six months ended June 30, 2017 and 2016, respectively.

IMPAIRMENT OF LONG-LIVED ASSETS - SJI and SJG review the carrying amount of long-lived assets for possible impairment whenever events or changes in circumstances indicate that such amounts may not be recoverable. For the six months ended June 30, 2017, SJI recorded an impairment charge of $0.3 million within Operating Expenses on the condensed consolidated statements of income due to a reduction in the expected cash flows to be received from a solar generating facility within the on-site energy production segment. No impairments were identified at SJI for the three months ended June 30, 2017 or at SJG for the three and six months ended June 30, 2017. For the three and six months ended June 30, 2016, no impairments were identified at SJI or SJG.

GAS EXPLORATION AND DEVELOPMENT - SJI capitalizes all costs associated with gas property acquisition, exploration and development activities under the full cost method of accounting. Capitalized costs include costs related to unproved properties, which are not amortized until proved reserves are found or it is determined that the unproved properties are impaired. All costs related to unproved properties are reviewed quarterly to determine if impairment has occurred. No impairment charges were recorded during the three and six months ended June 30, 2017 or 2016. As of June 30, 2017 and December 31, 2016, $8.7 million and $8.8 million, respectively, related to interests in proved and unproved properties in Pennsylvania, net of amortization, is included with Nonutility Property and Equipment and Other Noncurrent Assets on SJI's condensed consolidated balance sheets.

TREASURY STOCK - SJI uses the par value method of accounting for treasury stock. As of June 30, 2017 and December 31, 2016, SJI held 211,217 and 212,617 shares of treasury stock, respectively. These shares are related to deferred compensation arrangements where the amounts earned are held in the stock of SJI.

INCOME TAXES - Deferred income taxes are provided for all significant temporary differences between the book and taxable bases of assets and liabilities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 - “Income Taxes.” A valuation allowance is established when it is determined that it is more likely than not that a deferred tax asset will not be realized. Investment tax credits related to renewable energy facilities of Marina are recognized on the flow-through method, which may result in variations in the customary relationship between income taxes and pre-tax income for interim periods.

GOODWILL - Goodwill represents the excess of the consideration paid over the fair value of identifiable net assets acquired. Goodwill is not amortized, but instead is subject to impairment testing on an annual basis, and between annual tests whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying amount. No such events have occurred during the three and six months ended June 30, 2017. Goodwill totaled $4.8 million on the condensed consolidated balance sheets of SJI as of both June 30, 2017 and December 31, 2016.

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NEW ACCOUNTING PRONOUNCEMENTS - Other than as described below, no new accounting pronouncement issued or effective during 2017 or 2016 had, or are expected to have, a material impact on the condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and in most industry-specific topics. The new guidance identifies how and when entities should recognize revenue. The new rules establish a core principle requiring the recognition of revenue to depict the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services. In connection with this new standard, the FASB has issued several amendments to ASU 2014-09, as follows:

- In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This standard improves the implementation guidance on principal versus agent considerations and whether an entity reports revenue on a gross or net basis.

- In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This standard clarifies identifying performance obligations and the licensing implementation guidance.

- In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. This standard provides additional guidance on (a) the objective of the collectibility criterion, (b) the presentation of sales tax collected from customers, (c) the measurement date of non-cash consideration received, (d) practical expedients in respect of contract modifications and completed contracts at transition, and (e) disclosure of the effects of the accounting change in the period of adoption.

- In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, which amends certain narrow aspects of the guidance, including the disclosure of remaining performance obligations and prior-period performance obligations, as well as other amendments to the guidance on loan guarantee fees, contract costs, refund liabilities, advertising costs and the clarification of certain examples.

The new guidance in ASU 2014-09, as well as all amendments discussed above, is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Management has formed an implementation team that is currently evaluating the impact that adoption of this guidance will have on the financial statements of SJI and SJG. We are in the process of assessing the impact of the guidance on our contracts in all our revenue streams by reviewing current accounting policies and practices to identify potential differences that would result from applying the new requirements to our revenue contracts. We expect that the majority of SJI and SJG revenue streams will be in scope of the new guidance, which includes SJG’s regulated revenue under tariffs, for which no change in current revenue recognition practices is expected. Revenues from contracts that SJI and SJG have with customers are currently recorded as gas or electricity is delivered to the customer, which is consistent with the new guidance under ASC 606. As a result, based on the review of customer contracts to date, SJI is not anticipating this guidance to have a material impact to SJI's or SJG's statements of consolidated income, cash flows or consolidated balance sheets upon adoption. The ASU does include expanded disclosure requirements, which we continue to analyze. We do not anticipate any significant changes to our business processes, systems or internal controls over financial reporting needed to support recognition and disclosure under the new guidance. We are continuing with our implementation plan and expect to transition to the new guidance beginning in 2018 using the modified retrospective approach.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which enhances the reporting model for financial instruments and includes amendments to address aspects of recognition, measurement, presentation and disclosure. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted for only certain portions of the new guidance. Management is currently determining the impact that adoption of this guidance will have on the financial statements of SJI and SJG.

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In March 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which establishes a new lease accounting model for lessees. The new standard requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. The new standard also will result in enhanced quantitative and qualitative disclosures, including significant judgments made by management, to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing leases. The accounting for leases by the lessor remains relatively the same. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. Management has formed an implementation team that is inventorying leases and evaluating the impact that adoption of this guidance will have on SJI's and SJG's financial statements, as well as the transition method that will be elected to adopt the guidance.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies various aspects of accounting for share-based payment arrangements. The standard was effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016, with early adoption permitted. Adoption of this guidance did not have a material impact on the financial statement results of SJI or SJG; however, cash flow presentation was modified for SJI to conform to this guidance, as described under "Basis of Presentation" above.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This standard requires recognition of the current and deferred income tax effects of an intra-entity asset transfer, other than inventory, when the transfer occurs, as opposed to current GAAP, which requires companies to defer the income tax effects of intra-entity asset transfers until the asset has been sold to an outside party. The income tax effects of intra-entity inventory transfers will continue to be deferred until the inventory is sold. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, with early adoption permitted. The standard is required to be adopted on a modified retrospective basis with a cumulative-effect adjustment recorded to retained earnings as of the beginning of the period of adoption. Management is currently determining the impact that adoption of this guidance will have on the financial statements of SJI and SJG.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This standard is intended to reduce diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows. This ASU requires that the statement of cash flows explain the change in total cash and cash equivalents and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning-of-period and end-of-period total amounts. This ASU also requires a reconciliation between the total of cash and cash equivalents and restricted cash presented on the statement of cash flows and the cash and cash equivalents balance presented on the balance sheets. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. Both SJI and SJG early adopted this ASU in the first quarter of 2017. Accordingly, cash flow presentations were modified for both entities to conform to this guidance, as described under "Basis of Presentation" above.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This new standard provides amended and clarifying guidance regarding whether an integrated set of assets and activities acquired is deemed the acquisition of a business (and, thus, accounted for as a business combination) or the acquisition of assets. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. Management is currently determining the impact that adoption of this guidance will have on the financial statements of SJI and SJG.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount. The amendments in this update are effective for annual and any interim impairment tests performed in periods beginning after December 31, 2019. Management is currently determining the impact that adoption of this guidance will have on the financial statements of SJI and SJG.

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU is designed to improve guidance related to the presentation of defined benefit costs in the income statement. In particular, this ASU requires an employer to report the service cost component in the same line item(s) as other compensation costs arising from services rendered by the pertinent employees during the period. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Management is currently determining the impact that adoption of this guidance will have on the financial statements of SJI and SJG.

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In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU clarifies and reduces both (i) diversity in practice and (ii) cost and complexity when applying the guidance in Topic 718, to a change to the terms and conditions of a share-based payment award. This standard is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. Management is currently determining the impact that adoption of this guidance will have on the financial statements of SJI and SJG.

2. STOCK-BASED COMPENSATION PLAN:

On April 30, 2015, the shareholders of SJI approved the adoption of SJI's 2015 Omnibus Equity Compensation Plan (Plan), replacing the Amended and Restated 1997 Stock-Based Compensation Plan that had terminated on January 26, 2015. Under the Plan, shares may be issued to SJI’s officers (Officers), non-employee directors (Directors) and other key employees. No options were granted or outstanding during the six months ended June 30, 2017 and 2016. No stock appreciation rights have been issued under the plans. During the six months ended June 30, 2017 and 2016, SJI granted 167,444 and 193,184 restricted shares, respectively, to Officers and other key employees under the Plan. Performance-based restricted shares vest over a three-year period and are subject to SJI achieving certain market and earnings-based performance targets, which can cause the actual amount of shares that ultimately vest to range from 0% to 200% of the original shares granted.

In 2015, SJI began granting time-based shares of restricted stock, one-third of which vest annually over a three-year period and which are limited to a 100% payout. Vesting of time-based grants is contingent upon SJI achieving a return on equity (ROE) of at least 7% during the initial year of the grant and meeting the service requirement. Provided that the 7% ROE requirement is met in the initial year, payout is solely contingent upon the service requirement being met in years two and three of the grant. During the six months ended June 30, 2017 and 2016, Officers and other key employees were granted 52,971 and 57,955 shares of time-based restricted stock, respectively, which are included in the shares noted above.

Grants containing market-based performance targets use SJI's total shareholder return (TSR) relative to a peer group to measure performance. As TSR-based grants are contingent upon market and service conditions, SJI is required to measure and recognize stock-based compensation expense based on the fair value at the date of grant on a straight-line basis over the requisite three-year period of each award. In addition, SJI identifies specific forfeitures of share-based awards, and compensation expense is adjusted accordingly over the requisite service period. Compensation expense is not adjusted based on the actual achievement of performance goals. The fair value of TSR-based restricted stock awards on the date of grant is estimated using a Monte Carlo simulation model.

Through 2014, grants containing earnings-based targets were based on SJI's earnings growth rate per share (EGR) relative to a peer group to measure performance. In 2015, earnings-based performance targets included pre-defined EGR and ROE goals to measure performance. Beginning in 2016, performance targets include pre-defined compounded earnings annual growth rate (CEGR) for SJI. As EGR-based, ROE-based and CEGR-based grants are contingent upon performance and service conditions, SJI is required to measure and recognize stock-based compensation expense based on the fair value at the date of grant over the requisite three-year period of each award. The fair value is measured as the market price at the date of grant. The initial accruals of compensation expense are based on the estimated number of shares expected to vest, assuming the requisite service is rendered and probable outcome of the performance condition is achieved. That estimate is revised if subsequent information indicates that the actual number of shares is likely to differ from previous estimates. Compensation expense is ultimately adjusted based on the actual achievement of service and performance targets.

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During the six months ended June 30, 2017 and 2016, SJI granted 30,394 and 35,197 restricted shares, respectively, to Directors. Shares issued to Directors vest over twelve months and contain no performance conditions. As a result, 100% of the shares granted generally vest.

The following table summarizes the nonvested restricted stock awards outstanding for SJI at June 30, 2017 and the assumptions used to estimate the fair value of the awards:

	Grants	Shares Outstanding	Fair Value Per Share	Expected Volatility	Risk-Free Interest Rate
Officers & Key Employees -	2015 - TSR	33,537	$26.31	16.0 %	1.10 %
	2015 - EGR, ROE, Time	61,586	$29.47	N/A	N/A
	2016 - TSR	66,101	$22.53	18.1 %	1.31 %
	2016 - CEGR, Time	103,650	$23.52	N/A	N/A
	2017 - TSR	57,237	$32.17	20.8 %	1.47 %
	2017 - CEGR, Time	110,207	$33.69	N/A	N/A
Directors -	2017	30,394	$33.64	N/A	N/A

Expected volatility is based on the actual volatility of SJI’s share price over the preceding three-year period as of the valuation date. The risk-free interest rate is based on the zero-coupon U.S. Treasury Bond, with a term equal to the three-year term of the Officers’ and other key employees’ restricted shares. As notional dividend equivalents are credited to the holders during the three-year service period, no reduction to the fair value of the award is required. As the Directors’ restricted stock awards contain no performance conditions and dividends are paid or credited to the holder during the requisite service period, the fair value of these awards are equal to the market value of the shares on the date of grant.

The following table summarizes the total stock-based compensation cost to SJI for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Officers & Key Employees	$1,117	$798	$2,187	$1,615
Directors	256	227	512	420
Total Cost	1,373	1,025	2,699	2,035
Capitalized	(104)	(106)	(192)	(212)
Net Expense	$1,269	$919	$2,507	$1,823

As of June 30, 2017, there was $7.9 million of total unrecognized compensation cost related to nonvested stock-based compensation awards granted under the plans. That cost is expected to be recognized over a weighted average period of 2.0 years.

The following table summarizes information regarding restricted stock award activity for SJI during the six months ended June 30, 2017, excluding accrued dividend equivalents:

	Officers &Other Key Employees	Directors	Weighted Average Fair Value
Nonvested Shares Outstanding, January 1, 2017	295,515	35,197	$ 24.96
Granted	167,444	30,394	$ 33.24
Vested	(30,641)	(35,197)	$ 24.75
Nonvested Shares Outstanding, June 30, 2017	432,318	30,394	$ 28.53

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During the six months ended June 30, 2017 and 2016, SJI awarded 65,628 shares to its Officers and other key employees at a market value of $2.2 million, and 13,247 shares at a market value of $0.3 million, respectively. During the six months ended June 30, 2017 and 2016, SJI also granted 30,394 and 35,197 shares to its Directors at a market value of $1.0 million and $0.8 million, respectively.

SJI has a policy of issuing new shares to satisfy its obligations under the Plan; therefore, there are no cash payment requirements resulting from the normal operation of the Plan. However, a change in control could result in such shares becoming nonforfeitable or immediately payable in cash. At the discretion of the Officers, Directors and other key employees, the receipt of vested shares can be deferred until future periods. These deferred shares are included in Treasury Stock on the condensed consolidated balance sheets.

South Jersey Gas Company - Officers and other key employees of SJG participate in the stock-based compensation plans of SJI. During the six months ended June 30, 2017 and 2016, SJG officers and other key employees were granted 24,001 and 32,732 shares of SJI restricted stock, respectively. The cost of outstanding stock awards for SJG during the six months ended June 30, 2017 and 2016 was $0.3 million and $0.2 million, respectively. Approximately one-half of these costs were capitalized on SJG's condensed balance sheets to Utility Plant.

3. AFFILIATIONS, DISCONTINUED OPERATIONS AND RELATED-PARTY TRANSACTIONS:

AFFILIATIONS — The following affiliated entities are accounted for under the equity method:

PennEast Pipeline Company, LLC (PennEast) - Midstream has a 20% investment in PennEast, which is planning to construct an approximately 118-mile natural gas pipeline that will extend from Northeastern Pennsylvania into New Jersey, with construction to begin in 2018.

Energenic – US, LLC (Energenic) - Marina and a joint venture partner formed Energenic, in which Marina has a 50% equity interest. Energenic developed and operated on-site, self-contained, energy-related projects.

Millennium Account Services, LLC (Millennium) - SJI and a joint venture partner formed Millennium, in which SJI has a 50% equity interest. Millennium reads utility customers' meters on a monthly basis for a fee.

Potato Creek, LLC (Potato Creek) - SJI and a joint venture partner formed Potato Creek, in which SJI has a 30% equity interest. Potato Creek owns and manages the oil, gas and mineral rights of certain real estate in Pennsylvania.

During the first six months of 2017 and 2016, SJI made net investments in unconsolidated affiliates of $19.2 million and $4.6 million, respectively. As of June 30, 2017 and December 31, 2016, the outstanding balance of Notes Receivable – Affiliate was $15.5 million and $15.7 million, respectively. As of June 30, 2017, $13.7 million of these notes were secured by property, plant and equipment of the affiliates, accrue interest at 7.5% and are to be repaid through 2025. The remaining $1.8 million of these notes are unsecured and accrue interest at variable rates.

SJI holds significant variable interests in these entities but is not the primary beneficiary. Consequently, these entities are accounted for under the equity method because SJI does not have both (a) the power to direct the activities of the entity that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. As of June 30, 2017, SJI had a net asset of approximately $50.0 million included in Investment in Affiliates on the condensed consolidated balance sheets related to equity method investees, in addition to Notes Receivable – Affiliate as discussed above. SJI's maximum exposure to loss from these entities as of June 30, 2017, is limited to its combined equity contributions and the Notes Receivable-Affiliate in the aggregate amount of $65.5 million.

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DISCONTINUED OPERATIONS - Discontinued Operations consist of the environmental remediation activities related to the properties of South Jersey Fuel, Inc. (SJF) and the product liability litigation and environmental remediation activities related to the prior business of The Morie Company, Inc. (Morie). SJF is a subsidiary of Energy & Minerals, Inc. (EMI), an SJI subsidiary, which previously operated a fuel oil business. Morie is the former sand mining and processing subsidiary of EMI. EMI sold the common stock of Morie in 1996.

SJI conducts tests annually to estimate the environmental remediation costs for these properties (see Note 11).

Summarized operating results of the discontinued operations for the three and six months ended June 30, 2017 and 2016, were (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Loss before Income Taxes:				
Sand Mining	$(15)	$(18)	$(32)	$(164)
Fuel Oil	(57)	(27)	(86)	(62)
Income Tax Benefits	25	16	41	79
Loss from Discontinued Operations — Net	$(47)	$(29)	$(77)	$(147)
Earnings Per Common Share from Discontinued Operations — Net:				
Basic and Diluted	$—	$—	$—	$—

SJG RELATED-PARTY TRANSACTIONS - There have been no significant changes in the nature of SJG's related-party transactions since December 31, 2016. See Note 5 to the Financial Statements in Item 8 of SJG's Form 10-K for the year ended December 31, 2016 for a detailed description of the related parties and their associated transactions.

A summary of related party transactions involving SJG, excluding pass-through items, included in SJG's Operating Revenues were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues/Affiliates:				
SJRG	$1,248	$421	$2,211	$4,422
Marina	65	68	147	164
Other	21	21	42	42
Total Operating Revenue/Affiliates	$1,334	$510	$2,400	$4,628

Related-party transactions involving SJG, excluding pass-through items, included in SJG's Cost of Sales and Operating Expenses were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Costs of Sales/Affiliates (Excluding depreciation)				

SJRG	$496	$1,514	$10,946	$9,503
Operations Expense/Affiliates:				
SJI	$4,988	$5,315	$11,038	$9,870
Millennium	712	701	1,420	1,395
Other	(41)	(49)	(80)	(106)
Total Operations Expense/Affiliates	$5,659	$5,967	$12,378	$11,159

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4. COMMON STOCK:

The following shares were issued and outstanding for SJI:

	2017
Beginning Balance, January 1	79,478,055
New Issuances During the Period:	
Stock-Based Compensation Plan	70,959
Ending Balance, June 30	79,549,014

The par value ($1.25 per share) of stock issued was recorded in Common Stock and the net excess over par value of approximately $1.1 million was recorded in Premium on Common Stock.

In May 2016, SJI issued and sold 8,050,000 shares of its common stock, par value $1.25 per share pursuant to a public offering, raising net proceeds of approximately $203.6 million. The net proceeds from this offering were or will be used for capital expenditures, primarily for regulated businesses, including infrastructure investments at its utility business.

There were 2,339,139 shares of SJG's common stock (par value $2.50 per share) outstanding as of June 30, 2017. SJG did not issue any new shares during the period. SJI owns all of the outstanding common stock of SJG.

SJI's EARNINGS PER COMMON SHARE (EPS) - SJI's Basic EPS is based on the weighted-average number of common shares outstanding. The incremental shares required for inclusion in the denominator for the diluted EPS calculation were 136,332 and 292,782 for the six months ended June 30, 2017 and 2016, respectively. For the three months ended June 30, 2017 and 2016, incremental shares of 150,852 and 297,061 were not included in the denominator for the diluted EPS calculation because they would have an antidilutive effect on EPS. These additional shares relate to SJI's restricted stock as discussed in Note 2.

DIVIDEND REINVESTMENT PLAN (DRP) - SJI offers a DRP which allows participating shareholders to purchase shares of SJI common stock by automatic reinvestment of dividends or optional purchases. Prior to May 1, 2016 shares of common stock offered by the DRP had been issued directly by SJI from its authorized but unissued shares of common stock. SJI raised $10.8 million of equity capital through the DRP during the six months ended June 30, 2016. Effective May 1, 2016, SJI switched to purchasing shares on the open market to fund share purchases by DRP participants. SJI does not intend to issue any new equity capital via the DRP in 2017.

5. FINANCIAL INSTRUMENTS:

RESTRICTED INVESTMENTS — Marina is required to maintain escrow accounts related to ongoing capital projects as well as unused loan proceeds pending approval of construction expenditures. As of June 30, 2017 and December 31, 2016, the escrowed funds, including interest earned, totaled $0.3 million and $1.9 million, respectively, which are recorded in Restricted Investments on the condensed consolidated balance sheets.

SJI and SJG maintain margin accounts with selected counterparties to support their risk management activities. The balances required to be held in these margin accounts increase as the net value of the outstanding energy-related contracts with the respective counterparties decrease. As of June 30, 2017, SJI's balances in these accounts totaled $1.5 million held by the counterparty, which is recorded in Restricted Investments on the condensed consolidated balance sheets, and $2.8 million held by SJI as collateral, which is recorded in Other Current Liabilities on the condensed consolidated balance sheets. As of December 31, 2016, SJI's balances in these accounts totaled $11.7 million held by the counterparty and was recorded in Restricted Investments on the condensed consolidated balance sheets. As of June 30, 2017, SJG's balance held by the counterparty totaled $1.5 million and was recorded in Restricted Investments on the condensed balance sheets. As of December 31, 2016, SJG's balance held by SJG as collateral was $3.6 million which was recorded in Accounts Payable - Other on the condensed balance sheets.

The carrying amounts of the Restricted Investments for both SJI and SJG approximate their fair values at June 30, 2017 and December 31, 2016, which would be included in Level 1 of the fair value hierarchy (see Note 13).

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The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown in the statement of cash flows (in thousands):

	As of June 30, 2017	
Balance Sheet Line Item	SJI	SJG
Cash and Cash Equivalents	$10,122	$1,096
Restricted Investments	1,842	1,542
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$11,964	$2,638

	As of December 31, 2016	
Balance Sheet Line Item	SJI	SJG
Cash and Cash Equivalents	$18,282	$1,359
Restricted Investments	13,628	32
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$31,910	$1,391

INVESTMENT IN AFFILIATES - During 2011, subsidiaries of Energenic, in which Marina has a 50% equity interest, entered into 20-year contracts to build, own and operate a central energy center and energy distribution system for a new hotel, casino and entertainment complex in Atlantic City, New Jersey. The complex commenced operations in April 2012, and as a result, Energenic subsidiaries began providing full energy services to the complex.

In June 2014, the parent company of the hotel, casino and entertainment complex filed petitions in U.S. Bankruptcy Court to facilitate a sale of substantially all of its assets. The complex ceased normal business operations in September 2014. Energenic subsidiaries continued to provide limited energy services to the complex during the shutdown period under a temporary agreement with the trustee. The hotel, casino and entertainment complex was sold in April 2015. As of December 31, 2015, the Energenic subsidiaries were providing limited services to the complex under a short-term agreement with the new owner. However, the Energenic subsidiaries had not been able to secure a permanent or long-term energy services agreement with the new owner.

The central energy center and energy distribution system owned by the Energenic subsidiaries was financed in part by the issuance of bonds during 2011. These bonds were collateralized primarily by certain assets of the central energy center and revenue from the energy services agreement with the hotel, casino and entertainment complex. During 2015, due to the cessation of normal business operations of the complex and the inability of the Energenic subsidiaries to meet its obligations under the bonds, the trustee for the bondholders filed suit to foreclose on certain assets of the central energy center. In November 2015 during settlement discussions, the bondholders alleged, among other things, that they were entitled to recover from Energenic itself, any amounts owed under the bonds that were not covered by the collateral, including principal, interest and attorney’s fees. The bondholders’ assertion was based on inconsistent language in the bond documents. In January 2016, Energenic and certain subsidiaries reached a multi-party settlement with the bondholders. This agreement resolves all outstanding litigation and transfers ownership of the bondholders’ collateral to the owners of the entertainment complex. The Company's share of this settlement was $7.5 million, which was accrued by Energenic as of December 31, 2015 and paid in 2016. The Company entered into agreements with its insurance carrier and external legal advisors to recover, net of legal costs, approximately $7.0 million of costs associated with the bondholder settlement discussed above. The Company received $2.1 million in the second quarter of 2016, which is included in Other Income on the statements of consolidated income for the year ended December 31, 2016, and $5.3 million was received in the third quarter of 2016 and is included in Equity in Earnings of Affiliated Companies on the statements of consolidated income for the year ended December 31, 2016, as the loss recorded in the prior year was included in this line item on the statements of consolidated income for the year ended December 31, 2015.

As of June 30, 2017, SJI had approximately $13.7 million included in Notes Receivable - Affiliate on the condensed consolidated balance sheets, due from Energenic, which is secured by its cogeneration assets for energy service projects. This note is subject to a reimbursement agreement that secures reimbursement for SJI, from its joint venture partner, of a proportionate share of any amounts that are not repaid.

Management will continue to monitor the situation surrounding the cogeneration assets and will evaluate the carrying value of the investment and the note receivable as future events occur.

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LONG-TERM RECEIVABLES - SJG provides financing to customers for the purpose of attracting conversions to natural gas heating systems from competing fuel sources. The terms of these loans call for customers to make monthly payments over periods ranging from five to ten years, with no interest. The carrying amounts of such loans were $8.1 million and $9.5 million as of June 30, 2017 and December 31, 2016, respectively. The current portion of these receivables is reflected in Accounts Receivable and the non-current portion is reflected in Contract Receivables on the condensed consolidated balance sheets. The carrying amounts noted above are net of unamortized discounts resulting from imputed interest in the amount of $0.8 million and $0.9 million as of June 30, 2017 and December 31, 2016, respectively. The annualized amortization to interest is not material to SJI’s or SJG's condensed consolidated financial statements. The carrying amounts of these receivables approximate their fair value at June 30, 2017 and December 31, 2016, which would be included in Level 2 of the fair value hierarchy (see Note 13).

CREDIT RISK - As of June 30, 2017, SJI had approximately $9.2 million, or 17.1%, of the current and noncurrent Derivatives – Energy Related Assets transacted with two counterparties. One counterparty has contracts with a large number of diverse customers which minimizes the concentration of this risk. A portion of these contracts may be assigned to SJI in the event of default by the counterparty. The second counterparty is investment-grade rated with a rating of Baa1.

FINANCIAL INSTRUMENTS NOT CARRIED AT FAIR VALUE - The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. The carrying amounts of SJI's and SJG's financial instruments approximate their fair values at June 30, 2017 and December 31, 2016, except as noted below.

- For Long-Term Debt, in estimating the fair value, SJI and SJG use the present value of remaining cash flows at the balance sheet date. SJI and SJG based the estimates on interest rates available at the end of each period for debt with similar terms and maturities (Level 2 in the fair value hierarchy, see Note 13).
- The estimated fair values of SJI's long-term debt (which includes SJG and all consolidated subsidiaries), including current maturities, as of June 30, 2017 and December 31, 2016, were $1,106.7 million and $1,080.8 million, respectively. The carrying amounts of SJI's long-term debt, including current maturities, as of June 30, 2017 and December 31, 2016, were $1,082.6 million and $1,039.9 million, respectively. SJI's carrying amounts as of June 30, 2017 and December 31, 2016 are net of unamortized debt issuance costs of $8.5 million and $7.6 million, respectively.
- The estimated fair values of SJG's long-term debt, including current maturities, as of June 30, 2017 and December 31, 2016, were $777.1 million and $673.1 million, respectively. The carrying amount of SJG's long-term debt, including current maturities, as of June 30, 2017 and December 31, 2016, was $758.4 million and $639.1 million, respectively. The carrying amounts as of June 30, 2017 and December 31, 2016 are net of unamortized debt issuance costs of $7.6 million and $6.0 million, respectively.

OTHER FINANCIAL INSTRUMENTS - The carrying amounts of SJI's and SJG's other financial instruments approximate their fair values at June 30, 2017 and December 31, 2016.

6. SEGMENTS OF BUSINESS:

SJI operates in several different reportable operating segments which reflect the financial information regularly evaluated by the chief operating decision maker. These segments are as follows:

- Gas utility operations (SJG) consist primarily of natural gas distribution to residential, commercial and industrial customers. The result of SJG are only included in this operating segment.
- Wholesale energy operations include the activities of SJRG and SJEX.
- SJE is involved in both retail gas and retail electric activities.
  Retail gas and other operations include natural gas acquisition and transportation service business lines.
  Retail electric operations consist of electricity acquisition and transportation to commercial, industrial and residential customers.

- On-site energy production consists of Marina's thermal energy facility and other energy-related projects. Also included in this segment are the activities of ACB, ACLE, BCLE, SCLE, SXLE, MCS, NBS and SBS.
- Appliance service operations includes SJESP, which services residential and small commercial HVAC systems, installs small commercial HVAC systems, provides plumbing services and services appliances under warranty via a subcontractor arrangement as well as on a time and materials basis. In May 2017, SJESP entered into an agreement to sell certain assets of its residential and small commercial HVAC and plumbing business to a third party. This transaction is expected to be completed by August 31, 2017.
- Midstream was formed to invest in infrastructure and other midstream projects, including a current project to build a natural gas pipeline in Pennsylvania and New Jersey. The activities of Midstream are a part of the Corporate and Services segment.

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SJI groups its nonutility operations into two categories: Energy Group and Energy Services. Energy Group includes wholesale energy, retail gas and other, and retail electric operations. Energy Services includes on-site energy production and appliance service operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are treated as if the sales or transfers were to third parties at current market prices.

Information about SJI's operations in different reportable operating segments is presented below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenues:				
Gas Utility Operations	$83,251	$68,762	$280,065	$256,528
Energy Group:				
Wholesale Energy Operations	76,409	(1,309)	203,926	63,765
Retail Gas and Other Operations	21,759	22,305	58,637	52,038
Retail Electric Operations	42,620	43,065	91,577	82,556
Subtotal Energy Group	140,788	64,061	354,140	198,359
Energy Services:				
On-Site Energy Production	25,135	23,043	44,747	39,364
Appliance Service Operations	1,980	2,050	3,638	3,938
Subtotal Energy Services	27,115	25,093	48,385	43,302
Corporate and Services	11,013	8,417	22,609	17,293
Subtotal	262,167	166,333	705,199	515,482
Intersegment Sales	(17,793)	(11,931)	(34,996)	(28,045)
Total Operating Revenues	$244,374	$154,402	$670,203	$487,437

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating (Loss) Income:				
Gas Utility Operations	$8,156	$9,931	$88,802	$85,704
Energy Group:				
Wholesale Energy Operations	(18,191)	(31,149)	(29,817)	7,095
Retail Gas and Other Operations	(1,560)	6,250	(3,227)	5,491
Retail Electric Operations	1,155	2,277	2,461	2,862
Subtotal Energy Group	(18,596)	(22,622)	(30,583)	15,448
Energy Services:				
On-Site Energy Production	5,104	4,561	3,135	4,472
Appliance Service Operations	66	258	(6)	302
Subtotal Energy Services	5,170	4,819	3,129	4,774
Corporate and Services	706	(114)	1,774	341
Total Operating (Loss) Income	$(4,564)	$(7,986)	$63,122	$106,267
Depreciation and Amortization:				
Gas Utility Operations	$17,446	$15,788	$34,808	$31,414
Energy Group:				
Wholesale Energy Operations	33	204	61	408
Retail Gas and Other Operations	84	83	167	168
Subtotal Energy Group	117	287	228	576
Energy Services:				
On-Site Energy Production	11,674	10,895	23,267	20,814
Appliance Service Operations	56	91	110	175
Subtotal Energy Services	11,730	10,986	23,377	20,989
Corporate and Services	418	260	819	483
Total Depreciation and Amortization	$29,711	$27,321	$59,232	$53,462
Interest Charges:				
Gas Utility Operations	$6,077	$4,552	$11,955	$9,339
Energy Group:				
Wholesale Energy Operations	134	1	3,193	65
Retail Gas and Other Operations	64	78	149	210
Subtotal Energy Group	198	79	3,342	275
Energy Services:				
On-Site Energy Production	3,877	3,442	9,691	6,904
Corporate and Services	4,941	2,858	10,182	6,310
Subtotal	15,093	10,931	35,170	22,828
Intersegment Borrowings	(4,114)	(2,702)	(7,446)	(5,439)
Total Interest Charges	$10,979	$8,229	$27,724	$17,389

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Income Taxes:				
Gas Utility Operations	$1,431	$1,415	$31,342	$28,819
Energy Group:				
Wholesale Energy Operations	(6,384)	(12,258)	(12,703)	2,479
Retail Gas and Other Operations	(593)	2,450	(1,040)	2,282
Retail Electric Operations	472	931	1,007	1,170
Subtotal Energy Group	(6,505)	(8,877)	(12,736)	5,931
Energy Services:				
On-Site Energy Production	219	110	(2,850)	(2,902)
Appliance Service Operations	36	126	19	152
Subtotal Energy Services	255	236	(2,831)	(2,750)
Corporate and Services	(725)	37	551	78
Total Income Taxes	$(5,544)	$(7,189)	$16,326	$32,078
Property Additions:				
Gas Utility Operations	$66,128	$50,133	$128,408	$101,503
Energy Group:				
Wholesale Energy Operations	4	1	7	7
Retail Gas and Other Operations	133	354	428	725
Subtotal Energy Group	137	355	435	732
Energy Services:				
On-Site Energy Production	2,917	2,665	10,266	5,316
Appliance Service Operations	254	251	260	352
Subtotal Energy Services	3,171	2,916	10,526	5,668
Corporate and Services	839	564	1,084	727
Total Property Additions	$70,275	$53,968	$140,453	$108,630

	June 30, 2017	December 31, 2016
Identifiable Assets:		
Gas Utility Operations	$2,673,743	$2,551,923
Energy Group:		
Wholesale Energy Operations	165,932	233,019
Retail Gas and Other Operations	36,954	52,729
Retail Electric Operations	34,480	41,280
Subtotal Energy Group	237,366	327,028
Energy Services:		
On-Site Energy Production	719,556	767,710
Appliance Service Operations	2,571	2,879
Subtotal Energy Services	722,127	770,589
Discontinued Operations	1,778	1,756
Corporate and Services	708,131	649,795
Intersegment Assets	(601,285)	(570,524)
Total Identifiable Assets	$3,741,860	$3,730,567

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7. RATES AND REGULATORY ACTIONS:

SJG is subject to the rules and regulations of the New Jersey Board of Public Utilities (BPU).

In January 2017, SJG filed a base rate case with the BPU to increase its base rates in order to obtain a return on new capital investments made by SJG since the settlement of its last base rate case in 2014. SJG expects the base rate case to be concluded during 2017.

Also in January 2017, the BPU issued an order approving SJG's request to extend the expiration date of its Energy Efficiency Programs (EEPs) from August 2017 to December 2018, without any modification to the programs or the amount of the previously authorized budget of $36.3 million, inclusive of operation and maintenance expenses.

There have been no other significant regulatory actions or changes to SJG's rate structure since December 31, 2016. See Note 10 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K for the year ended December 31, 2016 and Note 3 to the Financial Statements in Item 8 of SJG's Annual Report on Form 10-K for the year ended December 31, 2016.

8. REGULATORY ASSETS AND REGULATORY LIABILITIES:

There have been no significant changes to the nature of SJG's regulatory assets and liabilities since December 31, 2016, which are described in Note 11 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K for the year ended December 31, 2016 and Note 4 to the Financial Statements in Item 8 of SJG's Annual Report on Form 10-K for the year ended December 31, 2016. SJI has no regulatory assets or regulatory liabilities other than those of SJG.

SJI's and SJG's Regulatory Assets consisted of the following items (in thousands):

	June 30, 2017	December 31, 2016
Environmental Remediation Costs:		
Expended - Net	$89,873	$ 71,997
Liability for Future Expenditures	161,681	153,047
Deferred Asset Retirement Obligation Costs	42,716	43,014
Deferred Pension and Other Postretirement Benefit Costs	85,693	85,693
Deferred Gas Costs - Net	3,598	—
Conservation Incentive Program Receivable	31,933	27,567
Societal Benefit Costs Receivable	443	—
Deferred Interest Rate Contracts	7,298	7,365
Energy Efficiency Tracker	511	219
Pipeline Supplier Service Charges	1,355	2,122
Pipeline Integrity Cost	5,061	4,810
AFUDC - Equity Related Deferrals	12,422	12,434
Other Regulatory Assets	2,728	2,478
Total Regulatory Assets	$445,312	$ 410,746

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ENVIRONMENTAL REMEDIATION COSTS - SJG has two regulatory assets associated with environmental costs related to the cleanup of 12 sites where SJG or its predecessors previously operated gas manufacturing plants. The first asset, "Environmental Remediation Cost: Expended - Net," represents what was actually spent to clean up the sites, less recoveries through the Remediation Adjustment Clause (RAC) and insurance carriers. These costs meet the deferral requirements of GAAP, as the BPU allows SJG to recover such expenditures through the RAC. The other asset, "Environmental Remediation Cost: Liability for Future Expenditures," relates to estimated future expenditures required to complete the remediation of these sites. SJG recorded this estimated amount as a regulatory asset with the corresponding current and noncurrent liabilities on the balance sheets under the captions "Current Liabilities" (both SJI and SJG), "Deferred Credits and Other Noncurrent Liabilities" (SJI) and "Regulatory and Other Noncurrent Liabilities" (SJG). The BPU allows SJG to recover the deferred costs over seven-year periods after they are spent. The increase from December 31, 2016 is a result of expenditures made during the first six months of 2017 and an increase in the expected future expenditures for remediation activities, primarily due to an increase in contractor costs at two of the sites currently under remediation.

DEFERRED GAS COSTS - NET - Over/Under collections of gas costs are monitored through SJG's Basic Gas Supply Service (BGSS) mechanism. Net undercollected gas costs are classified as a regulatory asset, and net overcollected gas costs are classified as a regulatory liability. Derivative contracts used to hedge natural gas purchases are also included in the BGSS, subject to BPU approval. The change in the BGSS from a $17.8 million regulatory liability at December 31, 2016 to a $3.6 million regulatory asset at June 30, 2017 was primarily due to an unfavorable court ruling related to a pricing dispute between SJG and a supplier (See Notes 11 and 16).

CONSERVATION INCENTIVE PROGRAM (CIP) RECEIVABLE – The CIP tracking mechanism adjusts earnings when actual usage per customer experienced during the period varies from an established baseline usage per customer. Actual usage per customer was less than the established baseline during the first six months of 2017, resulting in an increase in the receivable. This is primarily the result of warm weather experienced in the region.

SJI's and SJG's Regulatory Liabilities consisted of the following items (in thousands):

	June 30, 2017	December 31, 2016
Excess Plant Removal Costs	$24,655	$ 28,226
Deferred Revenues - Net	—	17,800
Societal Benefit Costs	—	3,095
Total Regulatory Liabilities	$24,655	$ 49,121

DEFERRED REVENUES - NET - See discussion under "Deferred Gas Costs - Net" above.

SOCIETAL BENEFIT COSTS (SBC) - This regulatory asset primarily represents the deferred expenses incurred under the New Jersey Clean Energy Program, which is a mechanism designed to recover costs associated with energy efficiency and renewable energy programs. Previous SBC rates produced recoveries greater than SBC costs, which resulted in the regulatory liability. The decrease in the liability from December 31, 2016 is due to an increase in rates.

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9. PENSION AND OTHER POSTRETIREMENT BENEFITS:

For the three and six months ended June 30, 2017 and 2016, net periodic benefit cost related to the employee and officer pension and other postretirement benefit plans for SJI consisted of the following components (in thousands):

	Pension Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Service Cost	$1,112	$1,106	$2,494	$2,421
Interest Cost	2,931	3,062	5,886	6,062
Expected Return on Plan Assets	(3,529)	(3,374)	(7,053)	(6,754)
Amortizations:				
Prior Service Cost	33	53	66	106
Actuarial Loss	2,528	2,388	5,141	4,697
Net Periodic Benefit Cost	3,075	3,235	6,534	6,532
Capitalized Benefit Cost	(1,129)	(1,213)	(2,400)	(2,400)
Deferred Benefit Cost	(139)	(161)	(300)	(322)
Total Net Periodic Benefit Expense	$1,807	$1,861	$3,834	$3,810

	Other Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Service Cost	$208	$195	$455	$425
Interest Cost	609	654	1,209	1,307
Expected Return on Plan Assets	(853)	(776)	(1,705)	(1,552)
Amortizations:				
Prior Service Cost	(86)	(86)	(172)	(172)
Actuarial Loss	307	261	619	555
Net Periodic Benefit Cost	185	248	406	563
Capitalized Benefit Cost	(46)	(45)	(101)	(146)
Total Net Periodic Benefit Expense	$139	$203	$305	$417

The Pension Benefits Net Periodic Benefit Cost incurred by SJG was approximately $2.3 million of the totals presented in the table above for both the three months ended June 30, 2017 and 2016, and $4.8 million of the totals presented in the table above for both the six months ended June 30, 2017 and 2016.

The Other Postretirement Benefits Net Periodic Benefit Cost incurred by SJG was approximately $0.1 million of the totals presented in the table above for both the three months ended June 30, 2017 and 2016, and $0.2 million and $0.3 million of the totals presented in the table above for the six months ended June 30, 2017 and 2016, respectively.

Capitalized benefit costs reflected in the table above relate to SJG’s construction program. Deferred benefit costs relate to SJG's deferral of incremental expense associated with the adoption of new mortality tables effective December 31, 2014, and subsequent adjustments thereto in both 2015 and 2016. Deferred benefit costs are expected to be recovered through rates as part of SJG's next base rate case.

SJI contributed $10.0 million to the pension plans, of which SJG contributed $8.0 million, in January 2017. No contributions were made to the pension plans by either SJI or SJG during the six months ended June 30, 2016. SJI and SJG do not expect to make any additional contributions to the pension plans in 2017; however, changes in future investment performance and discount rates may ultimately result in a contribution. Payments related to the unfunded supplemental executive retirement plan (SERP) are expected to be approximately $2.5 million in 2017. SJG also has a regulatory obligation to contribute approximately $3.6 million annually to the other postretirement benefit plans' trusts, less direct costs incurred.

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See Note 12 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K for the year ended December 31, 2016 for additional information related to SJI's pension and other postretirement benefits and Note 11 to the Financial Statements in Item 8 of SJG's Form 10-K for the year ended December 31, 2016 for additional information related to SJG's pension and other postretirement benefits.

10. LINES OF CREDIT:

Credit facilities and available liquidity as of June 30, 2017 were as follows (in thousands):

Company	Total Facility	Usage		Available Liquidity	Expiration Date	
SJI:						
Revolving Credit Facilities	$450,000	$303,300	(A)	$146,700	August 2017; February 2018	(C)
Total SJI	450,000	303,300		146,700		
SJG:						
Commercial Paper Program/Revolving Credit Facility	200,000	3,600	(B)	196,400	May 2018	
Uncommitted Bank Line	10,000	—		10,000	August 2017	(C)
Total SJG	210,000	3,600		206,400		
Total	$660,000	$306,900		$353,100		

(A) Includes letters of credit outstanding in the amount of $9.8 million.

(B) Includes letters of credit outstanding in the amount of $0.8 million.

(C) SJI and SJG anticipate that the credit facilities expiring in August 2017 will be renewed for a multi-year period.

The SJG facilities are restricted as to use and availability specifically to SJG; however, if necessary, the SJI facilities can also be used to support SJG's liquidity needs. Borrowings under these credit facilities are at market rates. SJI's weighted average interest rate on these borrowings, which changes daily, was 2.21% and 1.43% at June 30, 2017 and 2016, respectively. SJG's weighted average interest rate on these borrowings, which changes daily, was 1.36% and 0.67% at June 30, 2017 and 2016, respectively.

SJI's average borrowings outstanding under these credit facilities (which includes SJG), not including letters of credit, during the six months ended June 30, 2017 and 2016 were $272.4 million and $325.5 million, respectively. The maximum amounts outstanding under these credit facilities, not including letters of credit, during the six months ended June 30, 2017 and 2016 were $354.1 million and $467.7 million, respectively.

SJG's average borrowings outstanding under its credit facilities during the six months ended June 30, 2017 and 2016 were $20.2 million and $73.7 million, respectively. The maximum amounts outstanding under its credit facilities during the six months ended June 30, 2017 and 2016 were $110.1 million and $141.7 million, respectively.

The SJI and SJG facilities are provided by a syndicate of banks and contain one financial covenant limiting the ratio of indebtedness to total capitalization (as defined in the respective credit agreements) to not more than 0.65 to 1, measured at the end of each fiscal quarter. SJI and SJG were in compliance with this covenant as of June 30, 2017.

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SJG has a commercial paper program under which SJG may issue short-term, unsecured promissory notes to qualified investors up to a maximum aggregate amount outstanding at any time of $200.0 million. The notes have fixed maturities which vary by note, but may not exceed 270 days from the date of issue. Proceeds from the notes are used for general corporate purposes. SJG uses the commercial paper program in tandem with its $200.0 million revolving credit facility and does not expect the principal amount of borrowings outstanding under the commercial paper program and the credit facility at any time to exceed an aggregate of $200.0 million.

11. COMMITMENTS AND CONTINGENCIES:

GUARANTEES — As of June 30, 2017, SJI had issued $6.1 million of parental guarantees on behalf of an unconsolidated subsidiary. These guarantees generally expire within the next two years and were issued to enable the subsidiary to market retail natural gas.

GAS SUPPLY CONTRACTS - In the normal course of business, SJG and SJRG have entered into long-term contracts for natural gas supplies, firm transportation and gas storage service. The earliest date at which any of the primary terms of these contracts expire is October 2017. The transportation and storage service agreements with interstate pipeline suppliers were made under Federal Energy Regulatory Commission (FERC) approved tariffs. SJG's cumulative obligation for gas supply-related demand charges and reservation fees paid to suppliers for these services averages approximately $5.1 million per month and is recovered on a current basis through the BGSS. SJRG's cumulative obligation for demand charges and reservation fees paid to suppliers for these services is approximately $0.5 million per month. SJRG has also committed to purchase a minimum of 635,000 dts/d and up to 901,500 dts/d of natural gas, from various suppliers, for terms ranging from 3 to 10 years at index-based prices.

COLLECTIVE BARGAINING AGREEMENTS — Unionized personnel represent approximately 42% and 59% of SJI's and SJG's workforce at June 30, 2017, respectively. SJI has collective bargaining agreements with two unions that represent these employees: the International Brotherhood of Electrical Workers (IBEW) Local 1293 and the International Association of Machinists and Aerospace Workers (IAM) Local 76. SJG and SJESP employees represented by the IBEW operate under collective bargaining agreements that run through February 2018. SJG's remaining unionized employees are represented by the IAM and operate under collective bargaining agreements that run through August 2017. This agreement is currently under negotiation.

STANDBY LETTERS OF CREDIT — As of June 30, 2017, SJI provided $9.8 million of standby letters of credit through its revolving credit facility to enable SJE to market retail electricity and for various construction and operating activities. SJG provided a $0.8 million letter of credit under its revolving credit facility to support the remediation of environmental conditions at certain locations in SJG's service territory. SJG has provided $25.2 million of additional letters of credit under a separate facility outside of the revolving credit facility to support variable-rate demand bonds issued through the New Jersey Economic Development Authority (NJEDA) to finance the expansion of SJG’s natural gas distribution system. In May 2017, Marina redeemed its variable-rate demand bonds (see Note 14) and the related letters of credit reimbursement agreements, which totaled $62.3 million, were terminated.

PENDING LITIGATION — SJI and SJG are subject to claims arising in the ordinary course of business and other legal proceedings. SJI has been named in, among other actions, certain gas supply and capacity management contract disputes and certain product liability claims related to our former sand mining subsidiary.

SJI is currently involved in a pricing dispute related to two long-term gas supply contracts. On May 8, 2017, a jury from the United States District Court for the District of Colorado returned a verdict in favor of the supplier. On July 21, 2017, the Court entered Final Judgment against SJG and SJRG. As a result of this ruling, SJG and SJRG have accrued $16.7 million and $45.0 million, respectively, through June 30, 2017. We believe that the amount to be paid by SJG reflects a gas cost and will be recovered from SJG’s customers through adjusted rates. As such, this amount was recorded as both an Accounts Payable and a reduction of Regulatory Liabilities on the condensed consolidated balance sheets of both SJI and SJG as of June 30, 2017. The amount associated with SJRG was also recorded as an Accounts Payable on the condensed consolidated balance sheets of SJI as of June 30, 2017, with charges of $0.4 million and $41.0 million to Cost of Sales - Nonutility and $0.6 million and $4.0 million to Interest Charges on the condensed consolidated statements of income of SJI for the three and six months ended June 30, 2017, respectively. SJI intends to appeal this judgment. During the pendency of the appeal, SJI continues to dispute the supplier invoices received, and has created a reserve to reflect the difference between the invoiced and paid amounts.

SJI was involved in a dispute in the Court of Common Pleas of Philadelphia related to a three-year capacity management contract with a counterparty whereby SJI is the manager. The counterparty is claiming that it is owed approximately $13.3 million, plus interest, from SJRG under a sharing credit within the contract. SJI has accrued $9.5 million as of June 30, 2017 in anticipation of a potential settlement of this matter.

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Liabilities related to claims are accrued when the amount or range of amounts of probable settlement costs or other charges for these claims can be reasonably estimated. For matters other than the pricing dispute related to two long-term gas supply contracts, as well as the dispute related to a three-year capacity management contract, both noted above, SJI has accrued approximately $3.0 million and $3.1 million related to all claims in the aggregate as of June 30, 2017 and December 31, 2016, respectively, of which SJG has accrued approximately $0.7 million and $0.6 million as of June 30, 2017 and December 31, 2016, respectively. Although SJI and SJG do not presently believe that these matters will have a material adverse effect on its business, given the inherent uncertainties in such situations, SJI and SJG can provide no assurance regarding the outcome of litigation.

ENVIRONMENTAL REMEDIATION COSTS — SJG incurred and recorded costs for environmental cleanup of 12 sites where SJG or its predecessors operated gas manufacturing plants. SJG stopped manufacturing gas in the 1950s. SJI and some of its nonutility subsidiaries also recorded costs for environmental cleanup of sites where SJF previously operated a fuel oil business and Morie maintained equipment, fueling stations and storage. Other than the changes discussed in Note 8 to the condensed consolidated financial statements, there have been no changes to the status of SJI's environmental remediation efforts since December 31, 2016, as described in Note 15 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K for the year ended December 31, 2016 and in Note 12 to the Financial Statements in Item 8 of SJG's Annual Report on Form 10-K for the year ended December 31, 2016.

12. DERIVATIVE INSTRUMENTS:

Certain SJI subsidiaries, including SJG, are involved in buying, selling, transporting and storing natural gas and buying and selling retail electricity for their own accounts as well as managing these activities for third parties. These subsidiaries are subject to market risk on expected future purchases and sales due to commodity price fluctuations. SJI and SJG use a variety of derivative instruments to limit this exposure to market risk in accordance with strict corporate guidelines. These derivative instruments include forward contracts, swap agreements, options contracts and futures contracts.

As of June 30, 2017, SJI had outstanding derivative contracts as follows (1 MMdts = one million decatherms; 1 MMmWh = one million megawatt hours):

	SJI Consolidated	SJG
Derivative contracts intended to limit exposure to market risk to:		
Expected future purchases of natural gas (in MMdts)	50.9	10.8
Expected future sales of natural gas (in MMdts)	46.7	0.1
Expected future purchases of electricity (in MMmWh)	2.7	—
Expected future sales of electricity (in MMmWh)	2.3	—
Basis and Index related net purchase (sales) contracts (in MMdts)	92.2	1.1

These contracts, which have not been designated as hedging instruments under GAAP, are measured at fair value and recorded in Derivatives - Energy Related Assets or Derivatives - Energy Related Liabilities on the condensed consolidated balance sheets of SJI and SJG. For SJE and SJRG contracts, the net unrealized pre-tax gains (losses) for these energy-related commodity contracts are included with realized gains (losses) in Operating Revenues – Nonutility on the condensed consolidated statements of income for SJI. These gains (losses) were $(7.9) million and $(21.4) million for the three months ended June 30, 2017 and 2016, respectively, and $6.8 million and $(2.7) million for the six months ended June 30, 2017 and 2016, respectively. For SJG's contracts, the costs or benefits are recoverable through the BGSS clause, subject to BPU approval. As a result, the net unrealized pre-tax gains and losses for these energy-related commodity contracts are included with realized gains and losses in Regulatory Assets or Regulatory Liabilities on the condensed consolidated balance sheets of both SJI and SJG. As of June 30, 2017 and December 31, 2016, SJG had $5.8 million of unrealized gains and $4.4 million of unrealized losses, respectively, along with a net realized gain of $1.3 million and a net realized loss of $2.8 million, respectively, included in its BGSS related to energy-related commodity contracts.

SJI, including SJG, has also entered into interest rate derivatives to hedge exposure to increasing interest rates and the impact of those rates on cash flows of variable-rate debt. These interest rate derivatives, some of which had been designated as hedging instruments under GAAP, are measured at fair value and recorded in Derivatives - Other on the condensed consolidated balance sheets. Hedge accounting has been discontinued prospectively for these derivatives. As a result, any unrealized gains and losses on these derivatives, that were previously included in Accumulated Other Comprehensive Loss (AOCL) on the condensed consolidated balance sheets, are being recorded in earnings over the remaining life of the derivative.

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In March 2017, SJI entered into a new interest rate derivative and amended the existing interest rate derivative linked to unrealized losses previously recorded in AOCL. SJI reclassified $2.4 million of pre-tax unrealized loss in AOCL to Interest Charges on the condensed consolidated statements of income as a result of the prior hedged transactions being deemed probable of not occurring.

For SJG interest rate derivatives, the fair value represents the amount SJG would have to pay the counterparty to terminate these contracts as of those dates.

SJG previously used derivative transactions known as “Treasury Locks” to hedge against the impact on its cash flows of possible interest rate increases on debt issued in September 2005. The initial $1.4 million cost of the Treasury Locks has been included in AOCL and is being amortized over the 30-year life of the associated debt issue. As of June 30, 2017 and December 31, 2016, the unamortized balance was approximately $0.8 million and $0.9 million, respectively.

As of June 30, 2017, SJI’s active interest rate swaps were as follows:

Notional Amount	Fixed Interest Rate	Start Date	Maturity	Obligor
$20,000,000	3.049%	3/15/2017	3/15/2027	SJI
$20,000,000	3.049%	3/15/2017	3/15/2027	SJI
$10,000,000	3.049%	3/15/2017	3/15/2027	SJI
$12,500,000	3.530%	12/1/2006	2/1/2036	SJG
$12,500,000	3.430%	12/1/2006	2/1/2036	SJG

The unrealized gains and losses on interest rate derivatives that are not designated as cash flow hedges are included in Interest Charges in the condensed consolidated statements of income. However, for selected interest rate derivatives at SJG, management believes that, subject to BPU approval, the market value upon termination can be recovered in rates and, therefore, these unrealized losses have been included in Other Regulatory Assets in the condensed balance sheets.

The fair values of all derivative instruments, as reflected in the condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016, are as follows (in thousands):

SJI (includes SJG and all other consolidated subsidiaries):

Derivatives not designated as hedging instruments under GAAP	June 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Energy-related commodity contracts:				
Derivatives - Energy Related - Current	$46,361	$ 23,082	$72,391	$ 60,082
Derivatives - Energy Related - Non-Current	7,248	4,660	8,502	4,540
Interest rate contracts:				
Derivatives - Other - Current	—	787	—	681
Derivatives - Other - Noncurrent	—	10,559	—	9,349
Total derivatives not designated as hedging instruments under GAAP	$53,609	$ 39,088	$80,893	$ 74,652
Total Derivatives	$53,609	$ 39,088	$80,893	$ 74,652

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SJG:

Derivatives not designated as hedging instruments under GAAP	June 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Energy-related commodity contracts:				
Derivatives – Energy Related – Current	$7,998	$ 1,881	$5,434	$ 1,372
Derivatives – Energy Related – Non-Current	—	297	373	—
Interest rate contracts:				
Derivatives – Other Current	—	382	—	386
Derivatives – Other Noncurrent	—	6,915	—	6,979
Total derivatives not designated as hedging instruments under GAAP	$7,998	$ 9,475	$5,807	$ 8,737
Total Derivatives	$7,998	$ 9,475	$5,807	$ 8,737

SJI and SJG enter into derivative contracts with counterparties, some of which are subject to master netting arrangements, which allow net settlements under certain conditions. These derivatives are presented at gross fair values on the condensed consolidated balance sheets.

As of June 30, 2017 and December 31, 2016, information related to these offsetting arrangements were as follows (in thousands):

As of June 30, 2017

Description	Gross amounts of recognized assets/liabilities	Gross amount offset in the balance sheet	Net amounts of assets/liabilities in balance sheet	Gross amounts not offset in the balance sheet		Net amount
				Financial Instruments	Cash Collateral Posted	
SJI (includes SJG and all other consolidated subsidiaries):						
Derivatives - Energy Related Assets	$ 53,609	$ —	$ 53,609	$(13,958)(A)	$(2,674)	$36,977
Derivatives - Energy Related Liabilities	$ (27,742)	$ —	$ (27,742)	$13,958 (B)	$—	$(13,784)
Derivatives - Other	$ (11,346)	$ —	$ (11,346)	$—	$—	$(11,346)
SJG:						
Derivatives - Energy Related Assets	$ 7,998	$ —	$ 7,998	$(711)(A)	$(151)	$7,136
Derivatives - Energy Related Liabilities	$ (2,178)	$ —	$ (2,178)	$711 (B)	$—	$(1,467)
Derivatives - Other	$ (7,297)	$ —	$ (7,297)	$—	$—	$(7,297)

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As of December 31, 2016

Description	Gross amounts of recognized assets/liabilities	Gross amount offset in the balance sheet	Net amounts of assets/liabilities in balance sheet	Gross amounts not offset in the balance sheet: Financial Instruments	Gross amounts not offset in the balance sheet: Cash Collateral Posted	Net amount
SJI (includes SJG and all other consolidated subsidiaries):						
Derivatives - Energy Related Assets	$ 80,893	$ —	$ 80,893	$ (38,809) (A)	$ (3,474)	$ 38,610
Derivatives - Energy Related Liabilities	$ (64,622)	$ —	$ (64,622)	$ 38,809 (B)	$ —	$ (25,813)
Derivatives - Other	$ (10,030)	$ —	$ (10,030)	$ —	$ —	$ (10,030)
SJG:						
Derivatives - Energy Related Assets	$ 5,807	$ —	$ 5,807	$ (6) (A)	$ (3,587)	$ 2,214
Derivatives - Energy Related Liabilities	$ (1,372)	$ —	$ (1,372)	$ 6 (B)	$ —	$ (1,366)
Derivatives - Other	$ (7,365)	$ —	$ (7,365)	$ —	$ —	$ (7,365)

(A) The balances at June 30, 2017 and December 31, 2016 were related to derivative liabilities which can be net settled against derivative assets.

(B) The balances at June 30, 2017 and December 31, 2016 were related to derivative assets which can be net settled against derivative liabilities.

The effect of derivative instruments on the condensed consolidated statements of income for the three and six months ended June 30, 2017 and 2016 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives in Cash Flow Hedging Relationships under GAAP	2017	2016	2017	2016
SJI (includes SJG and all other consolidated subsidiaries):				
Interest Rate Contracts:				
Losses reclassified from AOCL into income (a)	$ (12)	$ (82)	$ (2,499)	$ (168)
SJG:				
Interest Rate Contracts:				
Losses reclassified from AOCL into income (a)	$ (12)	$ (12)	(24)	(24)

(a) Included in Interest Charges

	Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives Not Designated as Hedging Instruments under GAAP	2017	2016	2017	2016
SJI (includes SJG and all other consolidated subsidiaries):				
(Losses) gains on energy-related commodity contracts (a)	$ (7,855)	$ (21,371)	$ 6,832	$ (2,716)
Losses on interest rate contracts (b)	(379)	(229)	(1,384)	(656)

Total	$(8,234)	$(21,600)	$5,448	$(3,372)

(a) Included in Operating Revenues - Nonutility
(b) Included in Interest Charges

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Certain of SJI’s derivative instruments contain provisions that require immediate payment or demand immediate and ongoing collateralization on derivative instruments in net liability positions in the event of a material adverse change in the credit standing of SJI. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on June 30, 2017, is $4.4 million. If the credit-risk-related contingent features underlying these agreements were triggered on June 30, 2017, SJI would have been required to settle the instruments immediately or post collateral to its counterparties of approximately $3.6 million after offsetting asset positions with the same counterparties under master netting arrangements.

13. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

GAAP establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques. The levels of the hierarchy are described below:

- Level 1: Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

- Level 3: Unobservable inputs that reflect the reporting entity’s own assumptions.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and financial liabilities and their placement within the fair value hierarchy.

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For financial assets and financial liabilities measured at fair value on a recurring basis, information about the fair value measurements for each major category is as follows (in thousands):