

SOUTH JERSEY INDUSTRIES INC

Form 10-K

February 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

☐ 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.	Name of exchange on which registered	Securities registered pursuant to Section 12(b) of the Act:	Securities registered pursuant to Section 12(g) of the Act:
1-6364	South Jersey Industries, Inc. 1 South Jersey Plaza Folsom, NJ 08037 (609) 561-9000 South Jersey Gas Company 1 South Jersey Plaza Folsom, NJ 08037 (609) 561-9000	New Jersey	22-1901645	New York Stock Exchange	Common Stock - \$1.25 par value per share (Title of each class)	None
000-22211	South Jersey Gas Company 1 South Jersey Plaza Folsom, NJ 08037 (609) 561-9000	New Jersey	21-0398330	N/A	None	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

South Jersey Industries, Inc.: Yes ☒ No ☐

South Jersey Gas Company: Yes ☐ No ☒

Indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act: Yes ☐ No ☒

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 each registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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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 each registrant was required to submit and post such files).

Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

South Jersey Industries, Inc.: o

South Jersey Gas Company: x

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.

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South Jersey Industries, Inc.:

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

South Jersey Gas Company:

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Smaller reporting company ☐ Emerging growth company ☐

Indicate by check mark whether any of the registrants are a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

South Jersey Industries, Inc. (common stock - \$1.25 par value) - The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2017 was \$2,710,972,523. As of February 15, 2018, there were 79,595,317 shares of the registrant's common stock outstanding. South Jersey Gas Company common stock (\$2.50 par value) outstanding as of February 15, 2018 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 I(1)(a) and (b) of Form 10-K; therefore, South Jersey Gas Company files this form with the reduced disclosure format.

Documents Incorporated by Reference:

In Part III of Form 10-K: Portions of South Jersey Industries, Inc.'s definitive proxy statement for its 2018 annual meeting of shareholders to be filed with the Securities and Exchange Commission are incorporated by reference into Part III of this Form 10-K.

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INTRODUCTION

FILING FORMAT

This Annual Report on Form 10-K 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 SJI and all of its subsidiaries, including SJG, which is a wholly-owned subsidiary of SJI.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Management's Discussion) included under Item 7 is divided into two major sections: SJI and SJG. Financial information in this Annual Report on Form 10-K included in Item 8 includes separate financial statements (i.e., statements of income, statements of comprehensive income, statements of cash flows, balance sheets, and statements of changes in equity and comprehensive income) for SJI and SJG. The Notes to Consolidated Financial Statements are presented on a combined basis for both SJI and SJG.

Forward Looking Statements

Certain statements contained in this Annual Report on Form 10-K may qualify as "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements in this Report other than statements of historical fact, including statements regarding future results of operations or financial position, expected sources of incremental margin, strategy, financing needs, future capital expenditures and the outcome or effect of ongoing litigation, should be considered forward-looking statements made in good faith by South Jersey Industries (SJI or the Company) and South Jersey Gas Company (SJG), as applicable, and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. When used in this Report, or any other documents or oral presentations, words such as "anticipate," "believe," "estimate," "expect," "forecast," "goal," "intend," "objective," "plan," "project," "seek," "strategy," "target," "will" expressions are intended to identify forward-looking statements. These forward-looking statements are based on the beliefs and assumptions of management at the time that these statements were made and are inherently uncertain. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. These risks and uncertainties include, but are not limited to the risks set forth under "Risk Factors" in Part I, Item 1A of this Report and elsewhere throughout this Report. These cautionary statements should not be construed by you to be exhaustive and they are made only as of the date of this Report. While the Company believes these forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. Further, neither SJI nor SJG undertakes no obligation to update or revise any of its forward-looking statements whether as a result of new information, future events or otherwise.

Available Information

Information regarding SJI and SJG can be found at SJI's website, www.sjindustries.com. We make available free of charge on or through our website SJI's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). The SEC maintains a website that contains these reports at <http://www.sec.gov>. Also, copies of SJI's annual report will be made available, free of charge, upon written request. The content on any website referred to in this filing is not incorporated by reference into this Report unless expressly noted otherwise.

Units of Measurement

For Natural Gas:

1 Bcf	= One billion cubic feet
1dt	= One decatherm
1 MMdts	= One million decatherms
dts/d	= Decatherms per day
MDWQ	= Maximum daily withdrawal quantity

For Electric:

1 MMmwh	= One million megawatt hours
1 mwh	= One megawatt hour

South Jersey Industries, Inc.
Part I

PART I

Item 1. Business Description of Business

South Jersey Industries, Inc. (SJI or the Company), a New Jersey corporation, was formed in 1969 for the purpose of owning and holding all of the outstanding common stock of South Jersey Gas Company, a public utility, and acquiring and developing non-utility lines of business.

SJI 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. It currently operates projects in New Jersey, Maryland, Massachusetts and Vermont. The significant wholly-owned subsidiaries of Marina include:

• 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-to-energy production facilities in Atlantic, Burlington, Salem and Sussex Counties 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) serviced residential and small commercial HVAC systems, installed small commercial HVAC systems, provided plumbing services and serviced appliances under warranty via a subcontractor arrangement as well as on a time and materials basis. On September 1, 2017, SJESP sold certain assets of its residential and small commercial HVAC and plumbing business to a third party. SJESP will receive commissions paid on service contracts from the third party on a go forward basis. This transaction did not 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.

In October 2017, SJI announced that it had entered into agreements to acquire the assets of Elizabethtown Gas and Elkton Gas from Pivotal Utility Holdings, Inc., a subsidiary of Southern Company Gas. SJI is acquiring the assets of both companies for total consideration of \$1.7 billion. The transaction is expected to close in mid-2018, and is subject to approvals by the New Jersey Board of Public Utilities (BPU) and the Maryland Public Service Commission (PSC), with limited approvals also required from the Federal Energy Regulatory Commission (FERC) and the Federal Communications Commission (FCC), as well as certain anti-trust filings and approvals.

Additional Information on the nature of SJI's and SJG's businesses can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations," under Item 7 of this Report.

South Jersey Industries, Inc.
Part I

Financial Information About Reportable Segments

Information regarding Reportable Segments is incorporated by reference to Note 8 of the consolidated financial statements included under Item 8 of this Report.

Sources and Availability of Raw Materials

South Jersey Gas Company

Transportation and Storage Agreements

SJG has direct connections to the interstate pipeline systems of both Transcontinental Gas Pipe Line Company, LLC (Transco) and Columbia Gas Transmission, LLC (Columbia). During 2017, SJG purchased and had delivered approximately 55.4 MMdts of natural gas for distribution to both on-system and off-system customers and for injections into storage. Of this total, 31.9 MMdts were transported on the Transco pipeline system while 23.5 MMdts were transported on the Columbia pipeline system. Also during 2017, third-party suppliers delivered 27.4 MMdts to SJG's system on behalf of end use customers behind SJG's city gate stations. SJG secures other long-term services from Dominion Transmission, Inc. (Dominion), a pipeline upstream of the Transco and Columbia systems. Services provided by Dominion are utilized to deliver gas into either the Transco or Columbia systems for ultimate delivery to SJG. In addition, effective December 1, 2017, SJG initiated a new firm transportation service with Tennessee Gas Pipeline Company, L.L.C. (Tennessee). Gas transported by Tennessee will be delivered to the Columbia system for subsequent delivery to SJG. Services provided by all of the above-mentioned pipelines are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). Unless otherwise indicated, our intentions are to renew or extend these service agreements before they expire.

Transco:

Transco is SJG's largest supplier of long-term gas transmission services which includes both year-round and seasonal firm transportation (FT) service arrangements. When combined, these FT services enable SJG to purchase gas from third parties and have delivered to its city gate stations by Transco a total of 297,958 dts per day (dts/d). Of this total, 133,917 dts/d is long-haul FT (where gas can be transported from the production areas of the Southwest to the market areas of the Northeast) while 164,041 dts/d is market area FT. The terms of SJG's year-round agreements with Transco extend for various periods through 2025. Certain of these agreements are currently operating under their respective evergreen provisions.

Of the 297,958 dts/d of Transco services mentioned above, SJG has released a total of 10,000 dts/d of its long-haul and 20,000 dts/d of its market area FT service. These releases were made in association with SJG's Conservation Incentive Program (CIP) discussed further under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." In addition, SJG released a total of 35,000 dts/d of its long-haul FT and 5,000 dts/d of its market area FT as part of Asset Management Agreements (AMA). The AMA-related releases are discussed below under "Gas Supplies."

SJG currently has six long-term gas storage service agreements with Transco that, when combined, are capable of storing approximately 5.0 MMdts. Through these agreements, SJG can inject gas into market and production area storages during periods of low demand and extract gas at a Maximum Daily Withdrawal Quantity (MDWQ) of up to 107,407 dts during periods of high demand. The longest term of these storage service agreements extends through March 31, 2023.

Dominion:

SJG subscribes to a firm storage service from Dominion, under its Rate Schedule GSS. This storage has an MDWQ of 10,000 dts during the period between November 16 and March 31 of each winter season, with an associated total storage capacity of 423,000 dts. Gas withdrawn from Dominion GSS storage is delivered through both the Dominion and Transco (Leidy Line) pipeline systems for delivery to SJG service territory. The primary term of this agreement extends through March 31, 2019.

Columbia:

SJG subscribes to four firm transportation agreements with Columbia which currently provide for an aggregate of 124,022 dts/d. The term of 9,000 dts/d of this capacity extends through October 31, 2022; the term of 45,022 dts/d extends through October 31, 2019; and the remaining 70,000 dts/d extends through October 31, 2030.

South Jersey Industries, Inc.
Part I

SJG also subscribes to a firm storage service with Columbia under its Rate Schedule Federal Supply Schedule (FSS) along with an associated firm transportation service under Rate Schedule SST, each of which extends through October 31, 2019. SJG has a total FSS MDWQ of 52,891 dts and a related 3,473,022 dts of storage capacity. SJG released to SJRG 19,029 dts/d of its FSS MDWQ along with 1,249,485 dts of its FSS storage capacity. Additionally, SJG released to SJRG 19,029 dts/d of its associated Columbia SST transportation service. Both releases made by SJG were in connection with its CIP and extend through September 30, 2018.

Gas Supplies

During 2017, SJG entered into an AMA with a gas marketer which extends through March 31, 2018. Under this agreement, SJG released to the marketer its firm transportation rights equal to 30,000 dts/d of transportation capacity on Transco. The marketer manages this capacity and provides SJG with up to 30,000 dts/d of firm deliverability each day through March 31, 2018. The marketer's intent was to optimize the capacity released to SJG under this AMA and pay SJG an asset management fee.

Also during 2017, SJG entered into an additional AMA with a separate gas marketer which extends through October 31, 2018. Under this agreement, SJG has released to the marketer 10,000 dts/d of its firm transportation capacity rights. As part of this transition the total quantity is split into two arrangements of 5,000 dts/d each under a separate Transco contract. The marketer manages its capacity and provides SJG with up to 10,000 dts/d of firm deliverability everyday through March 31, 2018 in one case and through October 31, 2018 as to the other. The marketers will seek to optimize the capacity released to it under this AMA and pay SJG an asset management fee.

SJG has a long-term gas purchase agreement with a gas producer, the primary term of which extends through October 31, 2019. The maximum daily quantities (MDQ) available for purchase under this agreement initially start at 6,250 dts/d and will increase to an MDQ of 25,000 dts/d. Gas purchased from this producer will be sourced in the Appalachian supply areas and delivered into the Columbia pipeline system for delivery to SJG.

SJG also has a long-term gas purchase agreement with an additional gas producer, with a primary term which extends ten years. The MDQ available for purchase under this agreement has started, effective December 1, 2017, at 55,000 dts/d and will increase to an MDQ of 70,000 dts/d. Gas purchased from this producer will be sourced in Northeast Pennsylvania and delivered into the Columbia pipeline system for delivery to SJG.

As part of its gas purchasing strategy, SJG uses financial contracts to hedge against forward price risk. These contracts are recoverable through SJG's Basic Gas Supply Service Clause (BGSS), subject to the New Jersey Board of Public Utilities (BPU) approval.

Supplemental Gas Supplies

SJG operates peaking facilities, located in McKee City, NJ, where it liquefies, stores and vaporizes liquefied natural gas (LNG) for injection into its distribution system. SJG's LNG facility has a storage capacity equivalent to 434,300 dts of natural gas and has an installed capacity to vaporize up to 118,250 dts of LNG per day for injection into its distribution system.

Peak-Day Supply

SJG plans for a winter season peak-day demand on the basis of an average daily temperature of 2 degrees Fahrenheit (F) or 63 Heating Degree Days. Gas demand on such a design day for the 2017-2018 winter season is estimated to be

527,490 dts (excluding industrial customers). SJG projects that it has adequate supplies and interstate pipeline entitlements to meet its design day requirements. SJG experienced its highest peak-day demand for calendar year 2017 of 480,820 dts (including industrial customers) on December 31, while experiencing an average temperature of 12.9 degrees F that day.

Natural Gas Prices

SJG's average cost of natural gas purchased and delivered in 2017, 2016 and 2015, including demand charges, was \$3.75 per dt, \$3.40 per dt and \$4.71 per dt, respectively.

South Jersey Industries, Inc.
Part I

South Jersey Energy Company

Transportation and Storage Agreements - Natural Gas

Access to gas suppliers and cost of gas are significant to the operations of SJE. No material part of the business of SJE is dependent upon a single customer or a few customers. SJE purchases delivered gas only, primarily from SJRG. Consequently, SJE maintains no transportation or storage agreements.

Electric Supply

Due to the liquidity in the market, SJE primarily purchases delivered electric in the day-ahead and real-time markets through regional transmission organizations.

South Jersey Resources Group

Transportation and Storage Agreements

National Fuel Gas Supply Corporation:

SJRG has multiple storage service agreements with National Fuel Gas Supply Corporation (National Fuel). Two contracts totaling 2,581,420 dts of capacity have evergreen provisions that extend year to year. One additional contract covering 224,576 dts of storage capacity extends through March 31, 2020, while a final contract covering 150,040 dts of capacity expires March 31, 2023.

SJRG holds long-term firm transportation agreements with National Fuel associated with the above-mentioned agreements which expire between January 31, 2022 and October 31, 2027. Under these agreements, National Fuel provides various receipts and deliveries in Pennsylvania, which total 66,682 dts/d. National Fuel will also provide SJRG with 25,661 dts/d of maximum daily withdrawal transportation quantity, with a primary delivery point of the Transcontinental Gas Pipeline.

Transcontinental Gas Pipeline (Transco):

SJRG has a storage agreement with Transco for storage service at Transco's WSS facility which expires October 31, 2018. Under this contract, up to 24,479 dts/d may be injected and up to 46,380 dts/d may be withdrawn. Total storage capacity under the agreement is 4,406,135 dts.

SJRG holds various firm transportation agreements with Transco. SJRG has 10,000 dts/d of capacity from Leidy, PA to Con Edison, NY expiring March 31, 2043. SJRG also holds evergreen capacity of 41,400 dts/d with receipts in Texas and deliveries in New Jersey, which also expires March 31, 2043.

SJRG has transportation agreements with Transco acquired through a capacity release program from SJG of 47,500 dts/d from Pennsylvania to SJG, and 10,000 dts/d from Texas to SJG. These agreements expire between March 31, 2018 and April 30, 2020.

Dominion Gas Transmission:

SJRG has a firm transportation agreement with Dominion which expires October 31, 2022. Under this agreement, Dominion will provide SJRG with 5,000 dts/d of deliveries to Leidy, PA and receipts at Lebanon, OH.

Columbia Gas Transmission:

SJRG holds various firm transportation agreements with Columbia. SJRG has 50,000 dts/d capacity with receipts from Marcellus to southern NJ expiring October 31, 2018. SJRG also has 36,866 dts/d of capacity from Marcellus to southern NJ and PA expiring between October 31, 2019 and October 31, 2024.

South Jersey Industries, Inc.
Part I

SJRG has a storage agreement with Columbia for service under Columbia's FSS rate schedule. Under this evergreen agreement, Columbia will provide SJRG with storage capacity of 1,249,515 dts. Under this agreement, 19,029 dts/d may be withdrawn from storage and 9,514 dts/d may be injected.

SJRG holds firm transportation related to the above mentioned storage agreement which provides for receipts from storage and deliveries to New Jersey of 19,029 dts/d. Under this evergreen contract, these services with Columbia were released to SJRG by SJG.

Columbia Gulf Transmission:

SJRG holds a firm transportation agreement with Columbia Gulf which expires October 31, 2019. Under this agreement, Columbia Gulf provides receipts in Louisiana with deliveries at Leach, Kentucky in the amount of 15,000 dts/d.

Tennessee Gas Transmission:

SJRG holds firm transportation agreements with the Tennessee Gas Pipeline which expire between October 31, 2018 and May 31, 2033. Under these agreements, the Tennessee Gas Pipeline provides various receipts and deliveries in Pennsylvania, which total 199,770 dts/d.

Texas Eastern Transmission (Tetco):

SJRG holds firm transportation agreements with Tetco. SJRG has an agreement for Tetco to provide 56,250 dts/d of capacity expiring October 31, 2025, and an additional evergreen contract of 15,125 dts/d of capacity expiring March 31, 2019.

Gas Supplies

SJRG has entered into several long-term natural gas supply agreements to purchase a minimum of 604,000 dts/d and up to 954,000 dts/d, depending upon production levels, for terms ranging from three to ten years at index-based prices.

Patents and Franchises

South Jersey Gas Company

SJG holds nonexclusive franchises granted by municipalities in the seven-county area of southern New Jersey that it serves. No other natural gas public utility presently serves the territory covered by SJG's franchises. Otherwise, patents, trademarks, licenses, franchises and concessions are not material to the business of SJG.

Seasonal Aspects

South Jersey Gas Company

SJG experiences seasonal fluctuations in sales when selling natural gas for heating purposes. SJG meets this seasonal fluctuation in demand from its firm customers by buying and storing gas during the summer months, and by drawing from storage and purchasing supplemental supplies during the heating season. As a result of this seasonality, SJG's revenues and net income are significantly higher during the first and fourth quarters than during the second and third quarters of the year.

Non-Utility Companies

Among SJI's non-utility activities, wholesale (including fuel supply management) and retail gas marketing have seasonal patterns similar to SJG's. Activities such as energy services and energy project development do not follow seasonal patterns. Other activities, such as retail electric marketing, can have seasonal earnings patterns that are different from the utility. The first and fourth quarters remain the periods where most of SJI's revenue and net income is produced.

South Jersey Industries, Inc.
Part I

Working Capital Practices

Reference is made to “Liquidity and Capital Resources” included in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” of this Report.

Customers

No material part of the Company's business is dependent upon a single customer or a few customers, the loss of which would be expected to have a material adverse effect on the results of operations of SJI or of SJG on a consolidated basis.

Backlog

Backlog is not material to an understanding of SJI's business or that of any of its subsidiaries.

Government Contracts

No material portion of the business of SJI or any of its subsidiaries is subject to renegotiation of profits or termination of contracts or subcontracts at the election of any government.

Competition

Information on competition for SJI and its subsidiaries can be found in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” of this Report.

Research

During the last three fiscal years, neither SJI nor any of its subsidiaries engaged in research activities to any material extent.

Environmental Matters

Information on environmental matters for SJI and its subsidiaries can be found in Note 15 of the consolidated financial statements included under Item 8 of this Report.

Employees

SJI and its subsidiaries had a total of approximately 760 employees as of December 31, 2017, approximately 530 of which were SJG employees. Of that total, approximately 300 of both SJI and SJG employees are unionized (all of SJI's unionized employees are with SJG). SJI has collective bargaining agreements with 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 employees represented by the IBEW operate under a collective bargaining agreement that runs through February 2018, for which negotiations are still ongoing. SJG's remaining unionized employees are represented by the IAM and operate under a collective bargaining agreement that runs through August 2021.

Financial Information About Foreign and Domestic Operations and Export Sales

SJI has no foreign operations and export sales have not been a significant part of SJI's business.

South Jersey Industries, Inc.
Part I

Item 1A. Risk Factors

SJI and its subsidiaries, including SJG, operate in an environment that involves risks, many of which are beyond our control. SJI has identified the following risk factors that could cause SJI's operating results and financial condition to be materially adversely affected. In addition, new risks may emerge at any time, and SJI cannot predict those risks or the extent to which they may affect SJI's businesses or financial performance. To the extent such risk factors may affect SJI's utility business, SJG, such risk factors may also affect SJG's business or performance.

SJI is a holding company and its assets consist primarily of investments in subsidiaries. Should SJI's subsidiaries be unable to pay dividends or make other payments to SJI for financial, regulatory, legal or other reasons, SJI's ability to pay dividends on its common stock could be limited. SJI's stock price could be adversely affected as a result.

SJI's business activities, including those of SJG, are concentrated in southern New Jersey. Changes in the economies of southern New Jersey and surrounding regions could negatively impact the growth opportunities available to SJI and the financial condition of the customers and prospects of SJI and SJG.

Changes in the regulatory environment or unfavorable rate regulation at its utility may have an unfavorable impact on SJI's and SJG's financial performance or condition. SJG is regulated by the New Jersey Board of Public Utilities (BPU) which has authority over many of the activities of the utility business including, but not limited to, the rates it charges to its customers, the amount and type of securities it can issue, the nature of investments it can make, the nature and quality of services it provides, safety standards and other matters. The extent to which the actions of regulatory commissions restrict or delay SJG's ability to earn a reasonable rate of return on invested capital and/or fully recover operating costs may adversely affect SJI's and SJG's results of operations, financial condition and cash flows.

SJI and SJG may not be able to respond effectively to competition, which may negatively impact their financial performance or condition. Regulatory initiatives may provide or enhance opportunities for competitors that could reduce utility income obtained from existing or prospective customers. Also, competitors in all of SJI's business lines may be able to provide superior or less costly products or services based upon currently available or newly developed technologies.

Warm weather, high commodity costs, or customer conservation initiatives could result in reduced demand for some of SJI's and SJG's energy products and services. SJG currently has a conservation incentive program clause that protects its revenues and gross margin against usage that is lower than a set level. Should this clause be terminated without replacement, lower customer energy utilization levels would likely reduce SJI's and SJG's net income. Further, during periods of warmer temperatures, demand and volatility in the natural gas market could decrease, which would negatively impact their financial results.

High natural gas prices could cause more of SJI's and SJG's receivables to be uncollectible. Higher levels of uncollectibles from either residential or commercial customers would negatively impact SJI's and SJG's income and could result in higher working capital requirements.

SJI's and SJG's net income could decrease if it is required to incur additional costs to comply with new governmental safety, health or environmental legislation. SJI and SJG are subject to extensive and changing federal and state laws and regulations that impact many aspects of its business; including the storage, transportation and distribution of natural gas, as well as the remediation of environmental contamination at former manufactured gas plant facilities.

South Jersey Industries, Inc.
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Climate change legislation could impact SJI's and SJG's financial performance and condition. Climate change is receiving ever increasing attention from both scientists and legislators. The debate is ongoing as to the extent to which our climate is changing, the potential causes of this change and its future impacts. Some attribute global warming to increased levels of greenhouse gases, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. The outcome of federal and state actions to address global climate change could result in a variety of regulatory programs, including additional charges to fund energy efficiency activities or other regulatory actions. These actions could affect the demand for natural gas and electricity, result in increased costs to our business and impact the prices we charge our customers. Because natural gas is a fossil fuel with low carbon content, it is possible that future carbon constraints could create additional demands for natural gas, both for production of electricity and direct use in homes and businesses. Any adoption by federal or state governments mandating a substantial reduction in greenhouse gas emissions could have far-reaching and significant impacts on the energy industry. We cannot predict the potential impact of such laws or regulations on our future consolidated financial condition, results of operations or cash flows.

SJI's wholesale commodity marketing and retail electric businesses are exposed to the risk that counterparties that owe money or energy to SJI will not be able to meet their obligations for operational or financial reasons. SJI could be forced to buy or sell commodity at a loss as a result of such failure. Such a failure, if large enough, could also impact SJI's liquidity.

Increasing interest rates would negatively impact the net income of SJI and SJG. Several of SJI's subsidiaries, including SJG, are capital intensive, resulting in the incurrence of significant amounts of debt financing. Some of the long-term debt of SJI and its subsidiaries is issued at fixed rates or has utilized interest rate swaps to mitigate changes in variable rates. However, long-term debt of SJI and SJG at variable rates, along with all variable rate short-term borrowings, are exposed to the impact of rising interest rates.

The inability to obtain capital, particularly short-term capital from commercial banks, could negatively impact the daily operations and financial performance of SJI and SJG. SJI and SJG use short-term borrowings under committed credit facilities provided by commercial banks to supplement cash provided by operations, to support working capital needs, and to finance capital expenditures, as incurred. SJG also relies upon short-term borrowings issued under a commercial paper program supported by a committed bank credit facility to support working capital needs, and to finance capital expenditures, as incurred. If the customary sources of short-term capital were no longer available due to market conditions, SJI and its subsidiaries may not be able to meet their working capital and capital expenditure requirements and borrowing costs could increase.

A downgrade in either SJI's or SJG's credit ratings could negatively affect our ability to access adequate and cost-effective capital. Our ability to obtain adequate and cost-effective capital depends to a significant degree on our credit ratings, which are greatly influenced by our financial condition and results of operations. If the rating agencies downgrade either SJI's or SJG's credit ratings, particularly below investment grade, our borrowing costs would increase. In addition, we would likely be required to pay higher interest rates in future financings and potential funding sources would likely decrease. To the extent that a decline in SJG's credit rating has a negative effect on SJI, SJI could be required to provide additional support to certain counterparties.

Hedging activities of the Company designed to protect against commodity price or interest rate risk may cause fluctuations in reported financial results and SJI's stock price could be adversely affected as a result. Although SJI enters into various contracts to hedge the value of energy assets, liabilities, firm commitments or forecasted transactions, the timing of the recognition of gains or losses on these economic hedges in accordance with accounting principles generally accepted in the United States of America does not always match up with the gains or losses on the items being hedged. The difference in accounting can result in volatility in reported results, even though the expected

profit margin is essentially unchanged from the dates the transactions were consummated.

The inability to obtain natural gas or electricity from suppliers would negatively impact the financial performance of SJI and SJG. Several of SJI's subsidiaries, including SJG, have businesses based upon the ability to deliver natural gas or electricity to customers. Disruption in the production or transportation to SJI or SJG from its suppliers could prevent SJI or SJG from completing sales to its customers.

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Transporting and storing natural gas involves numerous risks that may result in accidents and other operating risks and costs. SJI's and SJG's gas distribution activities involve a variety of inherent hazards and operating risks, such as leaks, accidents, mechanical problems, natural disasters or terrorist activities which could cause substantial financial losses. In addition, these risks could result in loss of human life, significant damage to property, environmental pollution and impairment of operations, which in turn could lead to substantial losses. In accordance with customary industry practice, SJI and SJG maintain insurance against some, but not all, of these risks and losses. The occurrence of any of these events, even if fully covered by insurance, could adversely affect SJI's or SJG's financial position, results of operations and cash flows.

Adverse results in legal proceedings could be detrimental to the financial condition of SJI or SJG. The outcomes of legal proceedings can be unpredictable and can result in adverse judgments.

Renewable energy projects at Marina receive significant benefit from regulatory incentives. A significant portion of the expected return on investment of these renewable energy projects is dependent upon the future market for renewable energy credits (RECs). The benefits from RECs are produced during the entire life of the project. As a result, earnings from existing projects would be adversely affected without a liquid REC market. Therefore, these projects are exposed to the risk that favorable regulatory incentives expire or are adversely modified. A decrease in the future value of electricity and Solar RECs (SRECs) impacted by market conditions and/or legislative changes may negatively impact Marina's return on its investments as well as lead to impairment of the respective assets.

Constraints in available pipeline capacity, particularly in the Marcellus Shale producing region, may negatively impact SJI's financial performance. Natural gas production and/or pipeline transportation disruptions in the Marcellus region, where SJI has natural gas receipt requirements, may cause temporary take-away constraints resulting in higher transportation costs and the sale of shale gas at a loss.

SJI's and SJG's business could be adversely impacted by strikes or work stoppages by its unionized employees. The gas utility operations of SJG are dependent upon employees represented by unions and covered under collective bargaining agreements. A work stoppage could negatively impact operations, which could impact financial results as well as customer relationships.

The risk of terrorism may adversely affect the economy as well as SJI's and SJG's business. An act of terror could result in disruptions of natural gas supplies and cause instability in the financial and capital markets. This could adversely impact SJI's or SJG's ability to deliver products or raise capital and could adversely impact its results of operations.

Failure to obtain proper approvals and property rights in the PennEast pipeline could hinder SJI's equity investment in the project. Construction, development and operation of energy investments, specifically the PennEast pipeline, are subject to federal and state regulatory oversight and require certain property rights from public and private property owners, as well as regulatory approvals, including environmental and other permits and licenses. SJI, as well as our joint venture partners in the PennEast pipeline, may be unable to obtain all such needed property rights, permits and licenses to successfully construct and develop the pipeline, and failing to do so could cause SJI's equity investment in the project to become impaired. Such impairment could have a materially adverse effect on SJI's financial condition and results of operations.

Our business could be harmed by cybersecurity threats and related disruptions. We rely extensively on information technology systems to process transactions, transmit and store information and manage our business. Disruption or failure of our information technology systems could shut down our facilities or otherwise harm our ability to safely deliver natural gas to our customers, serve our customers effectively, manage our assets, or otherwise materially

disrupt our business. Cyber threats are constantly evolving, increasing the difficulty of detecting and successfully defending against them. SJI and SJG have experienced such attacks in the past; however, based on information currently available to SJI and SJG, none have had a material impact on our business, financial condition, results of operations or cash flows. In response, we have invested in expanded cybersecurity systems and procedures designed to safeguard the continuous and uninterrupted performance of our information technology systems and protect against unauthorized access. However, all information technology systems are potentially vulnerable to security threats, including hacking, viruses, other malicious software, and other unlawful attempts to disrupt or gain access to such systems. There is no guarantee that our cybersecurity systems and procedures will prevent or detect the unauthorized access by experienced computer programmers, hackers or others. An attack on or failure of our information technology systems could result in the unauthorized disclosure, theft, misuse or destruction of customer or employee data or business or confidential information, or disrupt the performance of our information technology

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systems. These events could expose us to potential liability, litigation, governmental inquiries, investigations or regulatory actions, harm our brand and reputation, diminish customer confidence, disrupt operations, and subject us to payment of fines or other penalties, legal claims by our clients and significant remediation costs.

Our stated long-term goals are based on various assumptions and beliefs that may not prove to be accurate, and we may not achieve our stated long-term goals by 2020 or at all. Our current long-term goals are to (i) grow Economic Earnings to \$160 million by 2020; (ii) improve the quality of our earnings; (iii) maintain the strength of our balance sheet; and (iv) maintain a low-to-moderate risk profile. The goal of \$160 million does not include the expected financial impact of the acquisition of Elizabethtown Gas and Elkton Gas discussed below. Management established those goals in conjunction with our board of directors based upon a number of different internal and external factors that characterize and influence our current and expected future activities. For example, these long-term goals are based on certain assumptions regarding our participation in a current project to build an approximately 118-mile natural gas pipeline in Pennsylvania and New Jersey. However, construction on this project is not expected to begin until 2018 and is estimated to be completed in the second half of 2019, but may be subject to delay. As a result, no assurance can be given that this project will be completed on time or at all. Also, as noted below, the acquisition of Elizabethtown Gas and Gas is subject to many approvals, and no assurance can be given that the acquisition will be consummated, or, if consummated, that these two entities will perform as expected. Further, the economy of Southern New Jersey has remained depressed relative to other regions, which could cause increased customer delinquencies or otherwise negatively affect achievement of our long-term earnings goals. The 2017 New Jersey gubernatorial election resulted in a change in administration which could lead to unfavorable state and local regulatory changes that could delay approvals, require environmental remediation or capital or other expenditures or otherwise adversely affect our results of operations, financial condition or cash flows. Other factors, assumptions and beliefs of management and our board of directors on which our long-term goals were based may also prove to differ materially from actual future results. Accordingly, we may not achieve our stated long-term goals by 2020 or at all, or our stated long-term goals may be negatively revised as a result of less than expected progress toward achieving these goals, and you are therefore cautioned not to place undue reliance on these goals.

Our acquisition of Elizabethtown Gas and Elkton Gas may not be consummated, and if consummated, may not perform as expected. We have entered into agreements to acquire the assets of New Jersey-based Elizabethtown Gas and Maryland-based Elkton Gas. Completion of the transaction is subject to a number of risks and uncertainties and we can provide no assurance that the various closing conditions to the acquisition agreement will be satisfied, including that the required governmental and other necessary approvals will be obtained. Although we have obtained a bridge commitment, subject to certain conditions, to fund the acquisition, our ability to raise the necessary funds to provide permanent financing through the issuance of equity or debt securities is subject to market conditions and other risks and uncertainties, and there can be no assurance that we will be able to raise the necessary funds on terms we consider favorable, or at all. The inability to complete the transaction, or to obtain permanent financing on terms that are favorable, or at all, could have a material adverse effect on our results of operations, financial condition and prospects. Historically, acquisitions have not been a part of our growth strategy. Although the acquired businesses have significant operating histories, we will have no history of owning and operating these businesses and limited or no experience operating in the territories served by these businesses. We can provide no assurance that the acquired businesses will perform as expected, that integration or other one-time costs will not be greater than expected, that we will not incur unforeseen obligations or liabilities or that the rate of return from such businesses will justify our decision to invest capital to acquire them.

❖ We may experience difficulties in integrating the operations of Elizabethtown Gas and Elkton Gas into our business and in realizing the expected benefits of the proposed acquisition. The success of the proposed acquisition of Elizabethtown Gas and Elkton Gas, if completed, will depend in part on our ability to realize the anticipated business opportunities from combining the operations of Elizabethtown Gas and Elkton Gas with our business in an efficient

and effective manner. The integration process could take longer than anticipated and could result in the loss of key employees, the disruption of each company's ongoing businesses, tax costs or inefficiencies, or inconsistencies in standards, controls, information technology systems, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers, employees or other third parties, or our ability to achieve the anticipated benefits of the transaction, and could harm our financial performance. If we are unable to successfully or timely integrate the operations of Elizabethtown Gas and Elkton Gas with our business, we may incur unanticipated liabilities and be unable to realize the revenue growth, synergies and other anticipated benefits resulting from the proposed transaction, and our business, results of operations and financial condition could be materially and adversely affected.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The principal property of SJI consists of SJG's gas transmission and distribution systems that include mains, service connections and meters. The transmission facilities carry the gas from the connections with Transco and Columbia to SJG's distribution systems for delivery to customers. As of December 31, 2017, there were approximately 146.2 miles of mains in the transmission systems and 6,645 miles of mains in the distribution systems.

SJG owns approximately 154 acres of land in Folsom, New Jersey which is the site of SJI's corporate headquarters. Approximately 140 acres of this property is deed restricted. SJG also has office and service buildings at six other locations in its territory. There is a liquefied natural gas storage, liquefaction and vaporization facility at one of these locations.

As of December 31, 2017, SJG's utility plant had a gross book value of \$2.7 billion and a net book value, after accumulated depreciation, of \$2.2 billion. In 2017, SJG spent \$248.9 million on additions to utility plant and there were retirements of property having an aggregate gross book cost of \$26.6 million.

Virtually all of SJG's transmission pipeline, distribution mains and service connections are under streets or highways or on the property of others. The transmission and distribution systems are maintained under franchises or permits or rights-of-way, many of which are perpetual. SJG's properties (other than property specifically excluded) are subject to a lien of mortgage under which its first mortgage bonds are outstanding. We believe these properties are generally well maintained and in good operating condition.

Nonutility property and equipment with a net book value of \$546.1 million consists primarily of Marina's energy projects.

South Jersey Fuel, Inc., an inactive subsidiary, owns land in Deptford Township and owns real estate in Upper Township, New Jersey.

Item 3. Legal Proceedings

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 2 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 plaintiff 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 \$20.4 million and \$53.6 million, respectively, through December 31, 2017. We believe that the amount to be paid by SJG reflects a gas cost that ultimately 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 consolidated balance sheets of both SJI and SJG as of December 31, 2017. The amount associated with SJRG was also recorded as an Accounts Payable on the consolidated balance sheets of SJI as of December 31, 2017, with charges of \$49.6 million to Cost of Sales - Nonutility on the consolidated statements of income of SJI for the year ended December 31, 2017. SJI also recorded \$4.0 million to Interest Charges on the consolidated statements of income for the year ended

December 31, 2017. The plaintiff supplier filed a second related lawsuit against SJG and SJRG in the United States District Court for the District of Colorado on December 21, 2017, alleging that SJG and SJRG have continued to breach the gas supply contracts notwithstanding the judgment in the prior lawsuit. The plaintiff supplier is seeking recovery of the amounts disputed by SJI since the earlier judgment, and a declaration regarding the price under the disputed contracts going forward until the contracts terminate in October 2019. SJI moved to stay the second lawsuit pending resolution of the post-judgment motions in the first lawsuit and any appeal of that lawsuit. All legal reserves related to this second lawsuit are recorded as part of the accrued amounts disclosed above.

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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. The counterparty claimed that it was owed approximately \$13.3 million, plus interest, from SJRG under a sharing credit within the contract. SJI settled with the counterparty for \$9.5 million, which amount was recorded to Cost of Sales - Nonutility on SJI's consolidated statements of income for the year ended December 31, 2017. SJI made the payment in September 2017.

SJI was also involved in a tariff rate dispute with a counterparty, whereby SJI contended that the counterparty was overcharging for storage demand charges over a ten-year period. In November 2017, SJI received a favorable decision from the FERC on this matter, which resulted in a total pre-tax income impact of \$9.3 million. Of this amount, \$7.4 million related to the actual overcharges and was recorded as a decrease to Cost of Sales - Nonutility on the consolidated statements of income for the year ended December 31, 2017. The remaining \$1.9 million related to interest income and was recorded in Other Income on the consolidated statements of income for the year ended December 31, 2017. SJI received payment from the counterparty in November 2017.

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 disputes that are noted above, SJI has accrued approximately \$3.0 million and \$3.1 million related to all claims in the aggregate as of December 31, 2017 and 2016, respectively, of which SJG has accrued approximately \$0.7 million and \$0.6 million as of December 31, 2017 and 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.

Item 4. Mine Safety Disclosures

Not applicable.

Item 4A. Executive Officers of the Registrant

Set forth below are the names, ages and positions of SJI's executive officers along with their business experience during the past five years. All executive officers of SJI are elected annually and serve at the discretion of the Board of Directors. All information is as of the date of the filing of this Report.

Name, age and position with the Company	Period Served
Michael J. Renna, Age 50	
Chief Executive Officer	April 2015 - Present
Director	January 2014 - Present
President	January 2014 - Present
Chief Operating Officer	January 2014 - April 2015
Senior Vice President	January 2013 - January 2014
Stephen H. Clark, Age 59	
Executive Vice President	January 2017 - Present
Senior Vice President	April 2015 - December 2016
Chief Financial Officer	November 2013 - Present
Vice President	January 2013 - November 2013

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Treasurer	January 2004 - April 2014
Kenneth A. Lynch, Age 52	
Chief Risk Officer	January 2017 - Present
Senior Vice President	April 2015 - Present
Chief Accounting Officer	January 2013 - December 2016
Kathleen A. McEndy, Age 64	
Chief Administrative Officer	June 2015 - Present
Senior Vice President	April 2015 - Present

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Chief Human Resources Officer	March 2013 - June 2015
Vice President	March 2013 - April 2015
Principal, The McEndy Group, LLC	January 2009 - March 2013
 Gregory M. Nuzzo, Age 43	
President, South Jersey Energy Solutions	January 2017 - Present
Chief Operating Officer, South Jersey Energy Solutions	January 2017 - Present
Senior Vice President	April 2015 - Present
Vice President	April 2014 - April 2015
Senior Vice President, South Jersey Energy Solutions	January 2013 - December 2016
Senior Vice President, South Jersey Resources Group	January 2013 - March 2014
 David Robbins, Jr., Age 55	
President, South Jersey Gas Company	January 2017 - Present
Senior Vice President	April 2015 - Present
Vice President	April 2014 - April 2015
Senior Vice President, South Jersey Energy Solutions	January 2013 - December 2016
Chief Operating Officer, South Jersey Energy Solutions	January 2013 - April 2014
 Steven R. Cocchi, Age 40	
Chief Strategy & Development Officer	January 2018 - Present
Interim General Counsel	August 2017 - December 2017
Senior Vice President, Strategy and Growth	April 2017 - Present
Vice President, Strategy and Growth	January 2017 - April 2017
Vice President, Rates and Regulatory Affairs	April 2015 - January 2017
Director, Rates and Revenue Requirements	October 2011 - April 2015
 Melissa Orsen, Age 42	
Senior Vice President & General Counsel	January 2018 - Present
Chief Executive Officer, New Jersey Economic Development Authority	March 2015 - December 2017
Deputy Commissioner, New Jersey Department of Community Affairs	March 2014 - March 2015
Chief of Staff & Lieutenant Governor, Office of the New Jersey Governor	January 2011 - March 2014

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

South Jersey Industries, Inc.

Market Price of Common Stock and Related Information

Quarter Ended	Market Price Per Share		Dividends Declared Per Share	Quarter Ended	Market Price Per Share		Dividends Declared Per Share
	High	Low			High	Low	
2017				2016			
March 31	\$35.97	\$31.39	\$ 0.273	March 31	\$29.14	\$22.06	\$ 0.264
June 30	\$38.40	\$33.93	\$ 0.273	June 30	\$31.64	\$26.29	\$ 0.264
September 30	\$36.41	\$32.83	\$ 0.273	September 30	\$32.03	\$28.17	\$ 0.264
December 31	\$36.01	\$30.75	\$ 0.280	December 31	\$34.85	\$27.51	\$ 0.273

These quotations are based on the list of composite transactions of the New York Stock Exchange. Our stock is traded on the New York Stock Exchange under the symbol SJI. We have declared and expect to continue to declare regular quarterly cash dividends. As of December 31, 2017, the latest available date, our records indicate there were 6,517 shareholders of record.

Stock Performance Graph

The performance graph below illustrates a five-year comparison of cumulative total returns based on an initial investment of \$100 in South Jersey Industries, Inc. common stock, as compared with the S&P 500 Stock Index and the S&P Utility Index for the five-year period through December 31, 2017.

This performance chart assumes:

- \$100 invested on December 31, 2012 in South Jersey Industries, Inc. common stock, in the S&P 500 Stock Index and in the S&P Utility Index; and
- All dividends are reinvested.

	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
S&P 500	\$ 100	\$ 132	\$ 151	\$ 153	\$ 171	\$ 208
S&P Utilities	\$ 100	\$ 113	\$ 146	\$ 139	\$ 162	\$ 181
SJI	\$ 100	\$ 115	\$ 125	\$ 104	\$ 154	\$ 147

Information required by this item is also found in Note 6 of the consolidated financial statements included under Item 8 of this Report.

SJI has a history of paying quarterly dividends and has a stated goal of increasing its dividend annually.

In 2017, non-employee members of SJI's Board of Directors received an aggregate of 30,394 shares of restricted stock, valued at that time at \$1,022,454, as part of their compensation for serving on the Board.

Issuer Purchases of Equity Securities - There were no purchases by SJI of its own common stock during the year ended December 31, 2017.

South Jersey Gas Company

All of the outstanding common stock of SJG (its only class of equity securities) is owned by SJI. The common stock is not traded on any stock exchange.

SJG is restricted under its First Mortgage Indenture, as supplemented, as to the amount of cash dividends or other distributions that may be paid on its common stock. As of December 31, 2017, these restrictions did not affect the amount that may be distributed from SJG's retained earnings. SJG declared and paid cash dividends of \$20.0 million in 2017 to SJI. No dividends were declared or paid on SJG's common stock in 2016.

Item 6. Selected Financial Data

Five-Year Summary of Selected Financial Data
(In Thousands Where Applicable)South Jersey Industries, Inc. and Subsidiaries
Year Ended December 31,

The following financial data has been obtained from SJI's consolidated financial statements (in thousands, except for ratios, shares data and earnings per share):

	2017	2016	2015	2014	2013
Operating Results:					
Operating Revenues	\$1,243,068	\$1,036,500	\$959,568	\$886,996	\$731,421
Operating Income	\$4,410	\$189,276	\$156,894	\$127,603	\$69,636
(Loss) Income from Continuing Operations	\$(3,404)	\$119,061	\$105,610	\$97,628	\$82,389
Discontinued Operations - Net (1)	(86)	(251)	(503)	(582)	(796)
Net (Loss) Income	\$(3,490)	\$118,810	\$105,107	\$97,046	\$81,593
Total Assets	\$3,865,086	\$3,730,567	\$3,480,900	\$3,349,425	\$2,924,855
Capitalization:					
Equity	\$1,192,409	\$1,289,240	\$1,037,539	\$932,432	\$827,000
Long-Term Debt	1,122,999	808,005	1,006,394	859,491	680,400
Total Capitalization	\$2,315,408	\$2,097,245	\$2,043,933	\$1,791,923	\$1,507,400
Ratio of Earnings to Fixed Charges (2)	0.5	x 5.4	x 3.8x	3.8x	3.0x
Diluted Earnings Per Common Share (Based on Average Diluted Shares Outstanding) (3):					
Continuing Operations	\$(0.04)	\$1.56	\$1.53	\$1.47	\$1.29
Discontinued Operations - Net (1)	—	—	(0.01)	(0.01)	(0.01)
Diluted Earnings Per Common Share (3)	\$(0.04)	\$1.56	\$1.52	\$1.46	\$1.28
(Loss) Return on Average Equity (4)	(0.3)	% 10.2	% 10.7	% 11.1	% 10.5
Share Data:					
Number of Shareholders of Record	6.5	6.7	6.7	6.9	6.9
Average Common Shares (3)	79,541	76,362	68,735	66,278	63,978
Common Shares Outstanding at Year End (3)	79,549	79,478	70,966	68,334	65,430
Dividend Reinvestment Plan:					
Number of Shareholders	5.0	5.2	5.2	5.2	5.2
Number of Participating Shares (3)	3,607	3,627	4,170	4,082	4,118

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Book Value at Year End (3)	\$14.99	\$16.22	\$14.62	\$13.65	\$12.64
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Dividends Declared per Common Share (3)	\$1.10	\$1.07	\$1.02	\$0.96	\$0.90
Market Price at Year End (3)	\$31.23	\$33.69	\$23.52	\$29.46	\$27.98
Market-to-Book Ratio (3)	2.1	x 2.1	x 1.6x	2.2x	2.2x
Consolidated Economic Earnings (5)					
(Loss) Income from Continuing Operations	\$(3,404)	\$119,061	\$105,610	\$97,628	\$82,389
Minus/Plus:					
Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized Losses/(Gains) on Inventory Injection Hedges (6)	14,558	(26,867)	(8,355)	8,211	23,422
Net Loss from Affiliated Companies, Not Part of Ongoing Operations (6,7)	—	—	—	—	1,252
Net Loss from Affiliated Companies (6,8)	—	—	(2,540)	2,540	—
Unrealized Loss on Property, Plant and Equipment (9)	91,299	—	—	—	—
Net Losses from Legal Proceedings (10)	56,075	—	—	—	—
Acquisition Costs (11)	19,564	—	—	—	—
Other (6,12)	2,227	(165)	(165)	(165)	(165)
Income Taxes (13)	(70,834)	10,813	4,424	(4,235)	(9,804)
Additional Tax Adjustments (14)	(11,420)	—	—	—	—
Economic Earnings	\$98,065	\$102,842	\$98,974	\$103,979	\$97,094
(Loss) Earnings per Share from Continuing Operations (3)	\$(0.04)	\$1.56	\$1.53	\$1.47	\$1.29
Minus/Plus:					
Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized Losses/(Gains) on Inventory Injection Hedges (6)	0.18	(0.35)	(0.12)	0.12	0.36
Net Loss from Affiliated Companies, Not Part of Ongoing Operations (6,7)	—	—	—	—	0.02
Net Loss from Affiliated Companies (6,8)	—	—	(0.04)	0.04	—
Unrealized Loss on Property, Plant and Equipment (9)	1.14	—	—	—	—
Net Losses from Legal Proceedings (10)	0.70	—	—	—	—
Acquisition Costs (11)	0.25	—	—	—	—
Other (6,12)	0.03	—	—	—	—
Income Taxes (13)	(0.89)	0.13	0.07	(0.06)	(0.16)
Additional Tax Adjustments (14)	(0.14)	—	—	—	—
Economic Earnings per Share (3)	\$1.23	\$1.34	\$1.44	\$1.57	\$1.51

(1) Represents discontinued business segments: sand mining and distribution operations sold in 1996 and fuel oil operations with related environmental liabilities in 1986 (See Note 3 to the consolidated financial statements).

(2) Calculated as Income from Continuing Operations before Income Taxes and Interest Expense divided by Total Fixed Charges, which consists of Interest Expense and Capitalized Interest.

(3) All share and per share amounts were adjusted for all periods presented for the 2-for-1 stock split, effected in the form of a stock dividend, effective on May 8, 2015. See Note 1 to the consolidated financial statements.

(4) Calculated based on Income from Continuing Operations.

This section includes the non-generally accepted accounting principles ("non-GAAP") financial measures of Economic Earnings and Economic Earnings per share. See "Management's Discussion and Analysis of Financial (5) Condition and Results of Operations" in Item 7 of this Report for a discussion regarding the use of non-GAAP financial measures and a reconciliation of income from Continuing Operations and earnings per share to Economic Earnings and Economic Earnings per share, respectively.

Certain reclassifications have been made to the prior period numbers in these tables to conform to the current (6) period presentation. The 2013-2015 numbers in these line items have been adjusted to be presented before income taxes.

(7) Resulting from the termination of the contract at LVE Energy Partners, LLC to design, build, own and operate a district energy system and central energy center for a planned resort in Las Vegas, Nevada.

Resulting from a reserve for uncollectible accounts recorded by an Energen subsidiary that owned and operated a central energy center and energy distribution system for a hotel, casino and entertainment complex in Atlantic City, New Jersey (see Note 7 to the consolidated financial statements). In 2014, this charge was excluded from (8) Economic Earnings as the total economic impact of the proceedings had not been realized. During the second quarter 2015, the Company, through its investment in Energen, reduced the carrying value of the investment in this project. As such, this charge is included in Economic Earnings in 2015.

Represents several impairment charges recorded during the year, including impairments on solar generating facilities, landfill gas-to-energy (LFGTE) long-lived assets, LFGTE assets customer relationships, and goodwill (9) (see Note 1 to the consolidated financial statements). The economic impact of these charges will not be realized until a future period.

Represents net losses from three separate legal proceedings: (a) \$55.6 million of pre-tax charges, including interest and legal fees, resulting from a ruling in a legal proceeding related to a pricing dispute between SJI and a gas supplier that began in October 2014; (b) a \$9.8 million pre-tax charge, including legal fees, resulting from a settlement with a counterparty over a dispute related to a three-year capacity management contract; and (c) a \$9.3 (10) million pre-tax gain resulting from a favorable FERC decision, including interest, over a tariff rate dispute with a counterparty, whereby SJI contended that the counterparty was overcharging for storage demand charges over a ten-year period. See Note 15 to the consolidated financial statements. Since these net losses relate to transactions that primarily occurred in prior periods, these net losses are excluded from Economic Earnings.

Represents costs incurred on the agreement to acquire the assets of Elizabethtown Gas and Elkton Gas (see Note 1 (11) to the consolidated financial statements). Since the economic impact will not be realized until future periods, this amount is excluded from Economic Earnings.

Included in this amount are amendments made to an existing interest rate derivative linked to unrealized losses previously recorded in Accumulated Other Comprehensive Loss (AOCL), which SJI reclassified from AOCL to Interest Charges on the consolidated statements of income as a result of the prior hedged transactions being (12) deemed probable of not occurring. Since the economic impact will not be realized until future periods, this amount is excluded from Economic Earnings. Also included is additional depreciation expense within Economic Earnings on two solar generating facilities where an impairment charge was recorded in the past, which reduced the depreciable basis and recurring depreciation expense, and the related reduction in depreciation expense is being added back.

(13) Determined using a combined average statutory tax rate of approximately 39% for 2017 and 40% for 2016 and 2015.

(14) Represents one-time tax adjustments, most notably for Tax Reform, which was signed into law in December 2017. See Note 4 to the consolidated financial statements.

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The following financial data has been obtained from SJG's financial statements (in thousands, except for ratios and customers):

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Operating Revenues	\$517,254	\$461,055	\$534,290	\$501,875	\$446,480
Operating Income	136,487	\$122,455	\$119,585	\$113,690	\$105,822
Net Income	\$72,557	\$69,045	\$66,578	\$66,483	\$62,236
Average Shares of Common Stock Outstanding	2,339	2,339	2,339	2,339	2,339
Ratio of Earnings to Fixed Charges (1)	5.4x	5.5x	5.4x	5.4x	5.3x
	As of December 31,				
	2017	2016	2015	2014	2013
Property, Plant and Equipment, Net	\$2,154,083	\$1,952,912	\$1,770,766	\$1,589,369	\$1,424,775
Total Assets	\$2,865,974	\$2,551,923	\$2,288,204	\$2,185,672	\$1,909,126
Capitalization:					
Common Equity	\$921,433	\$839,900	\$707,927	\$680,568	\$610,969
Long-Term Debt	758,052	423,177	584,082	507,091	454,000
Total Capitalization	\$1,679,485	\$1,263,077	\$1,292,009	\$1,187,659	\$1,064,969
Total Customers	383,633	377,625	373,100	366,854	362,256

(1) The ratio of earnings to fixed charges represents, on a pre-tax basis, the number of times earnings cover fixed charges. Earnings consist of net income, to which has been added fixed charges and taxes based on income of SJG. Fixed charges consist of interest charges and capitalized interest.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Management's Discussion and Analysis of Financial Condition and Results of Operations (Management's Discussion) analyzes the financial condition, results of operations and cash flows of South Jersey Industries, Inc. (SJI) and its subsidiaries. It also includes management's analysis of past financial results and potential factors that may affect future results, potential future risks and approaches that may be used to manage them. Except where the content clearly indicates otherwise, "SJI," "we," "us" or "our" refers to the holding company or the consolidated entity of SJI and all of its subsidiaries.

Management's Discussion is divided into the following two major sections:

SJI - This section describes the financial condition and results of operations of South Jersey Industries, Inc. and its subsidiaries on a consolidated basis. It includes discussions of our regulated operations, including South Jersey Gas Company (SJG), and our non-regulated operations.

- SJG - This section describes the financial condition and results of operations of SJG, a subsidiary of SJI, which comprises the gas utility operations segment.

Both sections of Management's Discussion - SJI and SJG - are designed to provide an understanding of each company's respective operations and financial performance and should be read in conjunction with each other as well as in conjunction with the respective company's financial statements and the combined Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Unless otherwise noted, earnings per share amounts are presented on a diluted basis, and are based on weighted average common and common equivalent shares outstanding.

OVERVIEW - South Jersey Industries, Inc. (SJI or the Company) is an energy services holding company that provides a variety of products and services through the following wholly-owned subsidiaries:

South Jersey Gas Company (SJG)

SJG, a New Jersey corporation, is an operating public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also sells natural gas and pipeline transportation capacity (off-system sales) on a wholesale basis to various customers on the interstate pipeline system and transports natural gas purchased directly from producers or suppliers to their customers. SJG contributed approximately \$72.6 million to SJI's net income on a consolidated basis in 2017.

SJG's service territory covers approximately 2,500 square miles in the southern part of New Jersey. It includes 115 municipalities throughout Atlantic, Cape May, Cumberland and Salem Counties and portions of Burlington, Camden and Gloucester Counties, with an estimated permanent population of 1.2 million. SJG benefits from its proximity to Philadelphia, PA and Wilmington, DE on the western side of its service territory and the popular shore communities on the eastern side. Continuing expansion of SJG's infrastructure throughout its seven-county region has fueled annual customer growth and creates opportunities for future extension into areas not yet served by natural gas.

SJG believes there is an ongoing transition of southern New Jersey's oceanfront communities from seasonal resorts to year round economies. In mainland communities, building expansions in the medical, education and retail sectors

contributed to SJG's growth. At present, SJG serves approximately 71% of households within its territory with natural gas. SJG also serves southern New Jersey's diversified industrial base that includes processors of petroleum and agricultural products; chemical, glass and consumer goods manufacturers; and high technology industrial parks.

As of December 31, 2017, SJG served 383,633 residential, commercial and industrial customers in southern New Jersey, compared with 377,625 customers at December 31, 2016. No material part of SJG's business is dependent upon a single customer or a few customers. Gas sales, transportation and capacity release for 2017 amounted to 151.3 MMdts, of which 54.3 MMdts were firm sales and transportation, 1.1 MMdts were interruptible sales and transportation and 95.9 MMdts were off-system sales and capacity release. The breakdown of firm sales and transportation includes 43.7% residential, 21.6% commercial, 20.9% industrial, and 13.8% cogeneration and electric generation. As of December 31, 2017, SJG served 358,026 residential customers, 25,184 commercial customers and 423 industrial customers. This includes 2017 net additions of 5,599 residential customers and 409 commercial and industrial customers.

SJG makes wholesale gas sales to gas marketers for resale and ultimate delivery to end users. These “off-system” sales are made possible through the issuance of the Federal Energy Regulatory Commission (FERC) Orders No. 547 and 636. Order No. 547 issued a blanket certificate of public convenience and necessity authorizing all parties, which are not interstate pipelines, to make FERC jurisdictional gas sales for resale at negotiated rates, while Order No. 636 allowed SJG to deliver gas at delivery points on the interstate pipeline system other than its own city gate stations and release excess pipeline capacity to third parties. During 2017, off-system sales amounted to 25.6 MMdts and capacity release amounted to 70.3 MMdts.

Supplies of natural gas available to SJG that are in excess of the quantity required by those customers who use gas as their sole source of fuel (firm customers) make possible the sale and transportation of gas on an interruptible basis to commercial and industrial customers whose equipment is capable of using natural gas or other fuels, such as fuel oil and propane. The term “interruptible” is used in the sense that deliveries of natural gas may be terminated by SJG at any time if this action is necessary to meet the needs of higher priority customers as described in SJG's tariffs. In 2017, usage by interruptible customers, excluding off-system customers, amounted to 1.1 MMdts, or approximately 1% of the total throughput.

South Jersey Energy Solutions, LLC

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. SJI established South Jersey Energy Solutions, LLC (SJES) as a direct subsidiary for the purpose of serving as a holding company for all of SJI's non-utility businesses. The following businesses are wholly-owned subsidiaries of SJES:

South Jersey Energy Company (SJE)

SJE provides services for the acquisition and transportation of natural gas and electricity for retail end users and markets total energy management services. SJE markets natural gas and electricity to commercial and industrial customers. SJE became active in the residential market for electricity beginning in March 2016 as a result of several municipal aggregation bids won in the second half of 2015. Most customers served by SJE are located within New Jersey, northwestern Pennsylvania and New England. In 2017, SJE contributed approximately \$1.3 million to SJI's net income on a consolidated basis.

South Jersey Resources Group, LLC (SJRG)

SJRG markets natural gas storage, commodity and transportation assets along with fuel management services on a wholesale basis. Customers include energy marketers, electric and gas utilities, power plants and natural gas producers. SJRG's marketing activities occur mainly in the mid-Atlantic, Appalachian and southern regions of the country.

SJRG also conducts price risk management activities by entering into a variety of physical and financial transactions including forward contracts, swap agreements, option contracts and futures contracts. In 2017, SJRG had a net loss of approximately \$23.5 million which reduced SJI's net income on a consolidated basis by such amount.

South Jersey Exploration, LLC (SJEX)

SJEX owns oil, gas and mineral rights in the Marcellus Shale region of Pennsylvania. SJEX is a wholly-owned subsidiary of SJES and is also considered part of SJI's wholesale energy operations. In 2017, SJEX contributed approximately \$0.2 million to SJI's net income on a consolidated basis.

Marina Energy LLC (Marina)

Marina develops and operates on-site energy-related projects. Marina's largest wholly-owned operating project provides cooling, heating and emergency power to the Borgata Hotel Casino & Spa in Atlantic City, NJ. Marina also owns numerous solar generation projects.

Other entities that are wholly owned by Marina are ACB Energy Partners, LLC (ACB), AC Landfill Energy, LLC (ACLE), BC Landfill Energy, LLC (BCLE), SC Landfill Energy, LLC (SCLE), SX Landfill Energy, LLC (SXLE), MCS Energy Partners, LLC (MCS), NBS Energy Partners, LLC (NBS) & SBS Energy Partners, LLC (SBS).

ACB owns and operates a natural gas fueled combined heating, cooling and power facility located in Atlantic City, New Jersey.

ACLE, BCLE, SCLE and SXLE own and operate landfill gas-to-energy production facilities in Atlantic, Burlington, Salem and Sussex Counties in New Jersey.

MCS, NBS and SBS own and operate solar-generation sites located in New Jersey.

In 2017, Marina had a net loss of approximately \$60.5 million which reduced SJI's net income on a consolidated basis by such amount.

South Jersey Energy Service Plus, LLC (SJESP)

SJESP serviced residential and small commercial HVAC systems, installed small commercial HVAC systems, provided plumbing services and serviced appliances under warranty via a subcontractor arrangement as well as on a time and materials basis. On September 1, 2017, SJESP sold certain assets of its residential and small commercial HVAC and plumbing business to a third party. SJESP will receive commissions paid on service contracts from the third party on a go forward basis. This transaction did not have a material impact on the consolidated financial statements. In 2017, SJESP contributed approximately \$0.2 million to SJI's net income on a consolidated basis.

SJI Midstream, LLC (Midstream)

Midstream owns a 20% equity investment in PennEast Pipeline Company, LLC, through which SJI, along with other investors, expect to construct an approximately 118-mile natural gas pipeline that will extend from Northeastern Pennsylvania into New Jersey. Construction is expected to begin in 2018 and is estimated to be completed in the second half of 2019. In 2017, Midstream contributed approximately \$4.6 million to SJI's net income on a consolidated basis.

Other

Energy & Minerals, Inc. (EMI) principally manages liabilities associated with its discontinued operations of nonutility subsidiaries.

In October 2017, SJI announced that it had entered into agreements to acquire the assets of Elizabethtown Gas and Elkton Gas from Pivotal Utility Holdings, Inc., a subsidiary of Southern Company Gas. SJI is acquiring the assets of both companies for total consideration of \$1.7 billion. The transaction is expected to close in mid-2018, and is subject to approvals by the New Jersey Board of Public Utilities (BPU) and the Maryland Public Service Commission (PSC), with limited approvals also required from the Federal Energy Regulatory Commission (FERC) and the Federal Communications Commission (FCC), as well as certain anti-trust filings and approvals. Costs incurred through

December 31, 2017 were \$12.0 million, after-tax, which reduced SJI's net income on a consolidated basis by such amount.

Primary Factors Affecting SJI's Business

SJI's stated long-term goals are to: 1) Grow Economic Earnings to \$160 million by 2020; 2) Improve the quality of earnings; 3) Maintain the strength of the balance sheet; and 4) Maintain a low-to-moderate risk profile. Management established those goals in conjunction with SJI's Board of Directors based upon a number of different internal and external factors that characterize and influence SJI's current and expected future activities.

The following is a summary of the primary factors we expect to have the greatest impact on SJI's performance and ability to achieve the long-term goals going forward:

Business Model - In developing SJI's current business model, our focus has been on our core utility and natural extensions of that business. That focus enables us to concentrate on business activities that match our core competencies. Going forward we expect to pursue business opportunities that fit this model.

Customer Growth - Southern New Jersey, our primary area of operations, has not been immune to the issues impacting the new housing market nationally. Residential new construction activity remains steady, supported by growth in higher density and multi-family units. Customers for SJG grew 1.6% for 2017 as SJG continues its focus on customer conversions. In 2017, the 6,108 consumers converting their homes and businesses from other heating fuels, such as electric, propane or oil, represented approximately 71% of the total new customer acquisitions for the year. In comparison, conversions over the past five years averaged 5,480 annually. Customers in SJG's service territory typically base their decisions to convert on comparisons of fuel costs, environmental considerations and efficiencies. While oil and propane prices have become more competitive with natural gas in the past two years, affecting the number of conversions, SJG began a comprehensive partnership with the State's Office of Clean Energy to educate consumers on energy efficiency and to promote the rebates and incentives available to natural gas users.

Regulatory Environment - SJG is primarily regulated by the New Jersey Board of Public Utilities (BPU). The BPU approves the rates that SJG charges its rate-regulated customers for services provided and the terms of service under which SJG operates. The rates and established terms of service are designed to enable SJG to obtain a fair and reasonable return on capital invested. SJG's BPU approved Conservation Incentive Program (CIP), effective October 1, 2006, protects SJG's net income from severe fluctuations in gas used by residential, commercial and small industrial customers. In addition, in February 2013, the BPU issued an Order approving the Accelerated Infrastructure Replacement Program (AIRP), a \$141.2 million program to replace cast iron and unprotected bare steel mains and services over a four -year period. As of December 1, 2016, all AIRP investments are reflected in base rates. Additionally, the BPU issued an Order approving an extension of the AIRP for a 5-year period ("AIRP II"), commencing October 1, 2016, with authorized investments of up to \$302.5 million to continue replacing cast iron and unprotected bare steel mains and associated services. SJG earns a return on AIRP II investments once they are placed in service and thereafter, once they are included in rate base, through annual filings. The BPU also issued an Order in August 2014 approving the Storm Hardening and Reliability Program (SHARP), a \$103.5 million program to replace low-pressure distribution mains and services with high-pressure mains and services in coastal areas that are susceptible to flooding during major storms over a three-year period. In September 2017, The BPU issued an Order approving an increase in annual revenues from base rates of \$3.6 million to reflect the roll-in of \$33.3 million SHARP investments made from July 2016 through June 2017, effective October 1, 2017. In November 2017, SJG filed a petition with the BPU to continue its storm hardening program, proposing a three-year effort and total investment of \$110.25 million. SJG proposed to recover the SHARP II through annual base rate adjustments, with no impact to customers billing until October 2019. The related petition is currently pending BPU approval.

Effective November 1, 2017, the BPU granted a base rate increase of \$39.5 million (see Note 10 to the consolidated financial statements).

Weather Conditions and Customer Usage Patterns - Usage patterns can be affected by a number of factors, such as wind, precipitation, temperature extremes and customer conservation. SJG's earnings are largely protected from fluctuations in temperatures by the CIP. The CIP has a stabilizing effect on utility earnings as SJG adjusts revenues when actual usage per customer experienced during an annual period varies from an established baseline usage per customer. Our nonutility retail marketing business is directly affected by weather conditions, as it does not have regulatory mechanisms that address weather volatility. The impact of different weather conditions on the earnings of our nonutility businesses is dependent on a range of different factors. Consequently, weather may impact the earnings of SJI's various subsidiaries in different, or even opposite, ways. Further, the profitability of individual subsidiaries

may vary from year-to-year despite experiencing substantially similar weather conditions.

Changes in Natural Gas, Electricity and Solar Renewable Energy Credit (SREC) Prices - The utility's gas costs are passed on directly to customers without any profit margin added by SJG. The price the utility charges its periodic customers is set annually, with a regulatory mechanism in place to make limited adjustments to that price during the course of a year. In the event that gas cost increases would justify customer price increases greater than those permitted under the regulatory mechanism, SJG can petition the BPU for an incremental rate increase. High prices can make it more difficult for SJG's customers to pay their bills and may result in elevated levels of bad-debt expense. Among our nonutility activities, the business most likely to be impacted by changes in natural gas prices is our wholesale gas marketing business. Wholesale gas marketing typically benefits from volatility in gas prices during different points in time. The actual price of the commodity does not typically have an impact on the performance of this business line. Our ability to add and retain customers at our retail marketing business is affected by the relationship between the price that the utility charges customers for gas or electric and the cost available in the market at specific points in time. However, retail marketing accounts for a very small portion of SJI's overall activities. Marina Energy's SREC portfolio typically benefits

from increases in individual SREC spot markets for any current or future energy year. Positive spot market movement affords Marina a potential opportunity to sell open production and improve upon or solidify future SREC revenue streams for particular SREC products.

Fuel Supply Management - SJRG has acquired pipeline transportation capacity that allows SJRG to match end users, many of which are merchant generators, with producers looking to find a long-term solution for their supply. We currently have eleven fuel supply management transactions under contract and expect to continue expanding this business.

Midstream Investments - Design, engineering and environmental assessments continue moving forward on a natural gas pipeline in Pennsylvania and New Jersey. In September 2015, Midstream, along with other partners in the project, submitted an application to FERC for a permit to proceed with construction. In January 2018, the Certificate of Public Convenience and Necessity was approved by the FERC. This authorizes PennEast, of which Midstream has a 20% equity interest, to construct, install, own, operate and maintain this pipeline. In February 2018, the New Jersey Department of Environmental Protection filed a motion to the FERC for reconsideration of this approval. We expect to make additional investments in similar midstream projects.

Changes in Interest Rates - SJI has operated in a relatively low interest rate environment over the past several years. Rising interest rates would raise the expense associated with existing variable-rate debt and all issuances of new debt. We have sought to mitigate the impact of a potential rising rate environment by directly issuing fixed-rate debt, or by entering into derivative transactions to hedge against rising interest rates.

Labor and Benefit Costs - Labor and benefit costs have a significant impact on SJI's profitability. Benefit costs, especially those related to pension and health care, have risen in recent years. We seek to manage these costs by revising health care plans offered to existing employees, capping postretirement health care benefits, and changing health care and pension packages offered to new hires. We expect savings from these changes to gradually increase as new hires replace retiring employees. SJI's workforce totaled approximately 760 employees at the end of 2017, approximately 530 of which were SJG employees. Of that total, approximately 300 of both SJI and SJG employees are unionized (all of SJI's unionized employees are with SJG).

Balance Sheet Strength - SJI's and SJG's goal is to maintain a strong balance sheet. SJI's average equity-to-capitalization ratio was approximately 47% and 48% as calculated for the four quarters of 2017 and 2016, respectively. SJG's average equity-to-capitalization ratio was approximately 54% and 52% as calculated for the four quarters of 2017 and 2016, respectively. A strong balance sheet assists us in maintaining the financial flexibility necessary to take advantage of growth opportunities and to address volatile economic and commodity markets while maintaining a low-to-moderate risk platform.

CRITICAL ACCOUNTING POLICIES - ESTIMATES AND ASSUMPTIONS - As described in the notes to our consolidated financial statements, management must make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related disclosures. Actual results could differ from those estimates. Five types of transactions presented in our consolidated financial statements require a significant amount of judgment and estimation. These relate to regulatory accounting, derivatives, environmental remediation costs, pension and other postretirement benefit costs, and revenue recognition.

Regulatory Accounting - SJI's largest subsidiary, SJG, maintains its accounts according to the Uniform System of Accounts as prescribed by the BPU. As a result of the ratemaking process, SJG is required to follow Financial Accounting Standards Board (FASB) ASC Topic 980 - "Regulated Operations." SJG is required under Topic 980 to recognize the impact of regulatory decisions on its financial statements. SJG is required under its Basic Gas Supply Service (BGSS) clause to forecast its natural gas costs and customer consumption in setting its rates. Subject to BPU approval, SJG is able to recover or return the difference between gas cost recoveries and the actual costs of gas

through a BGSS charge to customers. SJG records any over/under recoveries as a regulatory asset or liability on the consolidated balance sheets and reflects them in the BGSS charge to customers in subsequent years. SJG also enters into derivatives that are used to hedge natural gas purchases. The offset to the resulting derivative assets or liabilities is recorded as a regulatory asset or liability on the consolidated balance sheets. See additional detailed discussions on Rates and Regulatory Actions in Note 10 to the consolidated financial statements.

Derivatives - SJI recognizes assets or liabilities for contracts that qualify as derivatives that are entered into by its subsidiaries when such contracts are executed. We record contracts at their fair value in accordance with FASB ASC Topic 815 - "Derivatives and Hedging." We record changes in the fair value of the effective portion of derivatives qualifying as cash flow hedges, net of tax, in Accumulated Other Comprehensive Loss (AOCL) and recognize such changes in the income statement when the hedged item affects earnings. Changes in the fair value of derivatives not designated as hedges are recorded in earnings in the current period. Currently we do not have any energy-related derivative instruments designated as cash flow hedges. Hedge accounting has been discontinued for the remaining interest rate derivatives. As a result, unrealized gains and losses on these derivatives, that

were previously recorded in AOCL on the consolidated balance sheets, are being recorded into earnings over the remaining life of the derivative.

Certain derivatives that result in the physical delivery of the commodity may meet the criteria to be accounted for as normal purchases and normal sales, if so designated, in which case the contract is not marked-to-market, but rather is accounted for when the commodity is delivered. Due to the application of regulatory accounting principles generally accepted in the United States of America (GAAP), derivatives related to SJG's gas purchases that are marked-to-market are recorded through the BGSS. SJG periodically enters into financial derivatives to hedge against forward price risk. These derivatives are recorded at fair value with an offset to regulatory assets and liabilities through SJG's BGSS, subject to BPU approval (See Notes 10 and 11 to the consolidated financial statements). We adjust the fair value of the contracts each reporting period for changes in the market.

As discussed in Notes 16 and 17 of the consolidated financial statements, energy-related derivative instruments are traded in both exchange-based and non-exchange-based markets. Exchange-based contracts are valued using unadjusted quoted market sources in active markets and are categorized in Level 1 in the fair value hierarchy established by FASB ASC Topic 820 - "Fair Value Measurements and Disclosures." Certain non-exchange-based contracts are valued using indicative price quotations available through brokers or over-the-counter, on-line exchanges and are categorized in Level 2. These price quotations reflect the average of the bid-ask mid-point prices and are obtained from sources that management believes provide the most liquid market. Management reviews and corroborates the price quotations with at least one additional source to ensure the prices are observable market information, which includes consideration of actual transaction volumes, market delivery points, bid-ask spreads and contract duration. Derivative instruments that are used to limit our exposure to changes in interest rates on variable-rate, long-term debt are valued using quoted prices on commonly quoted intervals, which are interpolated for periods different than the quoted intervals, as inputs to a market valuation model. Market inputs can generally be verified and model selection does not involve significant management judgment, as a result, these instruments are categorized in Level 2 in the fair value hierarchy. For non-exchange-based derivatives that trade in less liquid markets with limited pricing information, model inputs generally would include both observable and unobservable inputs. In instances where observable data is unavailable, management considers the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 in the fair value hierarchy as the model inputs generally are not observable. Counterparty credit risk and the credit risk of SJI, are incorporated and considered in the valuation of all derivative instruments as appropriate. The effect of counterparty credit risk and the credit risk of SJI on the derivative valuations is not significant.

Significant Unobservable Inputs - Management uses the discounted cash flow model to value Level 3 physical and financial forward contracts, which calculates mark-to-market valuations based on forward market prices, original transaction prices, volumes, risk-free rate of return and credit spreads. Inputs to the valuation model are reviewed and revised as needed, based on historical information, updated market data, market liquidity and relationships, and changes in third party pricing sources. The validity of the mark-to-market valuations and changes in these values from period to period are examined and qualified against historical expectations by the risk management function. If any discrepancies are identified during this process, the mark-to-market valuations or the market pricing information is evaluated further and adjusted, if necessary.

Level 3 valuation methods for natural gas derivative contracts include utilizing another location in close proximity adjusted for certain pipeline charges to derive a basis value. The significant unobservable inputs used in the fair value measurement of certain natural gas contracts consist of forward prices developed based on industry-standard methodologies. Significant increases (decreases) in these forward prices for purchases of natural gas would result in a directionally similar impact to the fair value measurement and for sales of natural gas would result in a directionally opposite impact to the fair value measurement. Level 3 valuation methods for electric represent the value of the contract marked to the forward wholesale curve, as provided by daily exchange quotes for delivered electricity. The

significant unobservable inputs used in the fair value measurement of electric contracts consist of fixed contracted electrical load profiles; therefore, no change in unobservable inputs would occur. Unobservable inputs are updated daily using industry-standard techniques. Management reviews and corroborates the price quotations to ensure the prices are observable which includes consideration of actual transaction volumes, market delivery points, bid-ask spreads and contract duration.

Environmental Remediation Costs - We estimate a range of future costs based on projected investigation and work plans using existing technologies. In preparing consolidated financial statements, SJI records liabilities for future costs using the lower end of the range because a single reliable estimation point is not feasible due to the amount of uncertainty involved in the nature of projected remediation efforts and the long period over which remediation efforts will continue. We update estimates each year to take into account past efforts, changes in work plans, remediation technologies, government regulations and site specific requirements (see Note 15 to the consolidated financial statements).

Pension and Other Postretirement Benefit Costs - The costs of providing pension and other postretirement employee benefits are impacted by actual plan experience as well as assumptions of future experience. Employee demographics, plan contributions, investment performance, and assumptions concerning mortality, return on plan assets, discount rates and health care cost trends all have a significant impact on determining our projected benefit obligations. We evaluate these assumptions annually and adjust them accordingly. These adjustments could result in significant changes to the net periodic benefit costs of providing such benefits and the related liabilities recognized by SJI.

During 2016, a combination of factors resulted in lowering the Company's expected cost of providing pension and other postretirement healthcare costs in 2017. These include increasing discount rates and updated mortality tables released by the Society of Actuaries in late 2016.

During 2017, the Company's expected cost of providing pension and other postretirement healthcare in 2018 increased primarily due to updates to census data and decreasing discount rates resulting from lower market interest rates at the end of 2017. As a result, the Company is estimating a \$1.8 million net increase in the cost of providing these benefits in 2018. Additional information regarding investment returns and assumptions can be found in Pension and Other Postretirement Benefits in Note 12 to the consolidated financial statements.

Revenue Recognition - Gas and electricity revenues are recognized in the period the commodity is delivered to customers. SJG, SJRG and SJE bill customers monthly. A majority of SJG and SJE customers have their meters read on a cycle basis throughout the month. For SJG and SJE retail customers that are not billed at the end of each month, we record an estimate to recognize unbilled revenues for gas/electricity delivered from the date of the last meter reading to the end of the month. SJG's and SJE's unbilled revenue for natural gas is estimated each month based on monthly deliveries into the system; unaccounted for natural gas based on historical results; customer-specific use factors, when available; actual temperatures during the period; and applicable customer rates. SJE's unbilled revenue for retail electricity is based on customer-specific use factors and applicable customer rates. We bill SJG customers at rates approved by the BPU. SJE and SJRG customers are billed at rates negotiated between the parties.

SJRG presents revenues and expenses related to its energy trading activities on a net basis in Operating Revenues - Nonutility in the statements of consolidated income consistent with GAAP. This net presentation has no effect on operating income or net income.

SJESP will receive commissions paid on service contracts from the third party on a go forward basis. These commissions are recognized as revenue as they are earned.

Marina recognizes revenue on a monthly basis as services are provided and for on-site energy production that is delivered to its customers.

The BPU allows SJG to recover gas costs in rates through the BGSS price structure. SJG defers over/under recoveries of gas costs and includes them in subsequent adjustments to the BGSS rate. These adjustments result in over/under recoveries of gas costs being included in rates during future periods. As a result of these deferrals, utility revenue recognition does not directly translate to profitability. While SJG realizes profits on gas sales during the month of providing the utility service, significant shifts in revenue recognition may result from the various recovery clauses approved by the BPU. This revenue recognition process does not shift earnings between periods, as these clauses only provide for cost recovery on a dollar-for-dollar basis (see Notes 10 and 11 to the consolidated financial statements).

Each CIP year begins October 1 and ends September 30 of the subsequent year. On a monthly basis during a CIP year, SJG records adjustments to earnings based on weather and customer usage factors, as incurred. Subsequent to each year, SJG makes filings with the BPU to review and approve amounts recorded under the CIP. BPU-approved cash inflows or outflows generally will not begin until the next CIP year and have no impact on earnings at that time.

Tax Cuts and Jobs Act - On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Reform") was enacted into law, which changes various corporate income tax provisions within the existing Internal Revenue Code. The law became effective January 1, 2018 but is required to be accounted for in the period of enactment, which for SJI and SJG is the fourth quarter of 2017. SJI and SJG were impacted in several ways as a result of Tax Reform, including provisions related to the permanent reduction in the U.S. federal corporate income tax rate from 35% to 21%. See Note 4 to the consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS - See detailed discussions concerning New Accounting Pronouncements and their impact on SJI in Note 1 to the consolidated financial statements.

RATES AND REGULATION - As a public utility, SJG is subject to regulation by the BPU. Additionally, the Natural Gas Policy Act, which was enacted in November 1978, contains provisions for Federal regulation of certain aspects of SJG's business. SJG is affected by Federal regulation with respect to transportation and pricing policies applicable to pipeline capacity from Transcontinental Gas Pipe Line Company, LLC (SJG's major supplier), Columbia Gas Transmission, LLC and Dominion Transmission, Inc., since such services are provided under rates and terms established under the jurisdiction of the FERC. SJG's retail sales are made under rate schedules within a tariff filed with, and subject to the jurisdiction of, the BPU. These rate schedules provide primarily for either block rates or demand/commodity rate structures. SJG's primary rate mechanisms include base rates, the BGSS, Accelerated Infrastructure Programs, Energy Efficiency Tracker (EET) and the CIP.

The CIP is a BPU-approved program that is designed to eliminate the link between SJG profits and the quantity of natural gas SJG sells, and to foster conservation efforts. With the CIP, SJG's profits are tied to the number of customers served and how efficiently SJG serves them, thus allowing SJG to focus on encouraging conservation and energy efficiency among its customers without negatively impacting net income. The CIP tracking mechanism adjusts earnings based on weather, and also adjusts SJG's earnings when actual usage per customer experienced during an annual period varies from an established baseline usage per customer.

Utility earnings are recognized during current periods based upon the application of the CIP. The cash impact of variations in customer usage will result in cash being collected from, or returned to, customers during the subsequent CIP year, which runs from October 1 to September 30.

The effects of the CIP on SJG's net income for the last three years and the associated weather comparisons were as follows (\$'s in millions):

	2017	2016	2015
Net Income Impact:			
CIP - Weather Related	\$ 8.7	\$ 5.9	\$ 0.9
CIP - Usage Related	3.3	4.0	(1.9)
Total Net Income Impact	\$ 12.0	\$ 9.9	\$ (1.0)
Weather Compared to 20-Year Average	11.5% warmer	8.1% warmer	3.1% warmer
Weather Compared to Prior Year	0.4% warmer	2.5% warmer	9.6% warmer

As part of the CIP, SJG is required to implement additional conservation programs, including customized customer communication and outreach efforts, targeted upgrade furnace efficiency packages, financing offers, and an outreach program to speak to local and state institutional constituents. SJG is also required to reduce gas supply and storage assets and their associated fees. Note that changes in fees associated with supply and storage assets have no effect on SJG's net income as these costs are passed through directly to customers on a dollar-for-dollar basis.

Earnings accrued and payments received under the CIP are limited to a level that will not cause SJG's return on equity to exceed 9.6% (excluding earnings from off-system gas sales and certain other tariff clauses) and CIP recoveries are limited by the annualized savings attained from reducing gas supply and storage assets.

See additional detailed discussions on Rates and Regulatory Actions in Note 10 to the consolidated financial statements.

ENVIRONMENTAL REMEDIATION - See detailed discussion concerning Environmental Remediation in Note 15 to the consolidated financial statements.

COMPETITION - SJG's franchises are non-exclusive. Currently, no other utility provides retail gas distribution services within SJG's territory. SJG does not expect any other utilities to do so in the foreseeable future because of the extensive investment required for utility plant and related costs. SJG competes with oil, propane and electricity suppliers for residential, commercial and industrial users, with alternative fuel source providers (wind, solar and fuel cells) based upon price, convenience and environmental factors, and with other marketers/brokers in the selling of wholesale natural gas services. The market for natural gas commodity sales is subject to competition due to deregulation. SJG's competitive position was enhanced while maintaining margins by using an unbundled tariff. This tariff allows full cost-of-service recovery when transporting gas for SJG's customers. Under this tariff, SJG profits from transporting, rather than selling, the commodity. SJG's residential, commercial and industrial customers can choose their supplier, while SJG recovers the cost of service through transportation service (See Customer Choice Legislation below).

SJRG competes in the wholesale natural gas market against a wide array of competitors on a cost competitive, term of service, and reliability basis. SJRG has been a reliable energy provider in this arena for more than 20 years.

Marina competes with other companies that develop and operate similar types of on-site energy production. Marina also faces competition from customers' preferences for alternative technologies for energy production, as well as those customers that address their energy needs internally.

SJE competes with utilities and other third-party marketers to sell the unregulated natural gas and electricity commodity to customers. Marketers compete largely on price, which is driven by the commodity market. While the utilities are typically indifferent as to where customers get their gas or electricity, the price they set for the commodity they sell creates competition for SJE. Based on its market share, SJE is one of the largest marketers of natural gas in southern New Jersey as of December 31, 2017. In addition, similar to SJG, SJE faces competition from other energy products.

CUSTOMER CHOICE LEGISLATION - All residential natural gas customers in New Jersey can choose their natural gas commodity supplier under the terms of the "Electric Discount and Energy Competition Act of 1999." This bill created the framework and necessary time schedules for the restructuring of the state's electric and natural gas utilities. The Act established unbundling, where redesigned utility rate structures allow natural gas and electric consumers to choose their energy supplier. It also established time frames for instituting competitive services for customer account functions and for determining whether basic gas supply services should become competitive. Customers purchasing natural gas from a provider other than the local utility (the "marketer") are charged for the gas costs by the marketer and charged for the transportation costs by the utility. The total number of customers in SJG's service territory purchasing natural gas from a marketer averaged 30,423, 34,130 and 36,191 during 2017, 2016 and 2015, respectively.

RESULTS OF OPERATIONS:

SJI operates in several different reportable operating segments. These segments are as follows:

- Gas utility operations (SJG) consist primarily of natural gas distribution to residential, commercial and industrial customers. The results of SJG only are 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.
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Appliance service operations includes SJESP, which serviced residential and small commercial HVAC systems, installed small commercial HVAC systems, provided plumbing services and serviced appliances under warranty via a subcontractor arrangement as well as on a time and materials basis. On September 1, 2017, SJESP sold certain assets of its residential and small commercial HVAC and plumbing business to a third party. SJESP will receive commissions paid on service contracts from the third party on a go forward basis. This transaction did not have a material impact on the consolidated financial statements.

- 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.

- Costs incurred related to the agreement to acquire Elizabethtown Gas and Elkton Gas are recorded in the Corporate & Services segment.

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.

SJI's net income for 2017 decreased \$122.3 million, or 102.9%, to a net loss of \$3.5 million compared to 2016 primarily as a result of the following:

The net income contribution from on-site energy production at Marina decreased \$76.5 million to a net loss of \$60.5 million, primarily due to the following:

\$56.1 million decrease due to several impairment charges recorded during the year, including impairments on solar generating facilities, landfill gas-to-energy (LFGTE) long-lived assets, LFGTE assets customer relationships, and goodwill (see Note 1 to the consolidated financial statements).

\$9.1 million of investment tax credits on renewable energy facilities recorded in 2016, compared with none recorded in 2017, which is consistent with SJI's previously announced strategy of substantially reducing solar development.

\$4.5 million decrease related to gains on two settlements recorded at Marina in 2016 that did not recur in 2017 (see Note 7 to the consolidated financial statements).

\$1.7 million decrease related to the change in unrealized gains and losses on interest rate derivative contracts (see Note 16 to the consolidated financial statements).

The remaining decrease is primarily due to an overall increase in operating and interest expenses.

The net income contribution from the wholesale energy operations at SJRG decreased \$49.5 million to a net loss of \$23.5 million, primarily due to the following:

\$32.6 million decrease resulting from an unfavorable court ruling related to a pricing dispute between SJRG and a supplier, including interest (see Note 15 to the consolidated financial statements)

\$20.6 million decrease resulting from the change in unrealized gains and losses on derivatives used by the wholesale energy operations to mitigate natural gas commodity price risk, as discussed under "Operating Revenues - Energy Group" below.

\$5.8 million decrease resulting from a settlement of a legal dispute related to a three-year capacity management contract with a counterparty (see Note 15 to the consolidated financial statements)

\$1.5 million decrease due to legal fees recorded on the two legal disputes noted above

\$5.7 million increase resulting from a favorable FERC decision over a tariff rate dispute with a counterparty, including interest, whereby SJI contended that the counterparty was overcharging for storage demand charges over a ten year period (see Note 15 to the consolidated financial statements).

\$5.3 million increase due to higher margins earned on daily energy trading activities, colder weather conditions experienced in the fourth quarter of 2017 compared to the prior year, additional margins earned during 2017 on gas supply contracts with three electric generation facilities, and an overall decrease in operating expenses (excluding the legal fees discussed above).

SJI recorded \$12.0 million of expenses related to costs incurred on the agreement to acquire the assets of Elizabethtown Gas and Elkton Gas (see Note 1 to the consolidated financial statements). These include finders fees, consulting and legal charges, among others. These costs are recorded in the Corporate & Services segment.

The net income contribution from the retail gas and electric operations at SJE decreased \$6.2 million to \$1.3 million primarily due to the change in unrealized gains and losses on forward financial contracts used to mitigate price risk on retail gas as discussed under "Operating Revenues – Energy Group" below, along with the expiration of a large electric sales contract with a group of school boards.

SJI recorded \$13.5 million of tax gains related to the enactment of Tax Reform. See Note 4 to the consolidated financial statements.

The net income contribution from Midstream increased \$4.8 million to \$4.6 million primarily due to recognition of Allowance for Funds Used During Construction (AFUDC) at PennEast, of which Midstream has a 20% equity interest.

The net income contribution from gas utility operations at SJG increased \$3.5 million to \$72.6 million primarily due to increased margin resulting from investments included in the rate case, AIRP II and SHARP rolling into base rates during the fourth quarter of 2017, along with customer growth. This is partially offset by increases in depreciation, interest and operations expenses.

SJI recognized an additional gain of \$1.7 million related to the sale of real estate during 2017.

SJI's net income for 2016 increased \$13.7 million, or 13.0%, to \$118.8 million compared to 2015 primarily as a result of the following:

The net income contribution from retail gas and electric operations at SJE increased \$8.2 million to \$7.5 million, primarily due to the change in unrealized gains and losses on forward financial contracts used to mitigate price risk on retail gas and electric as discussed under "Operating Revenues – Nonutility" below.

The net income contribution from the wholesale energy operations at SJRG increased \$4.8 million to \$26.0 million, primarily due to an approximately \$2.7 million increase related to additional transportation capacity along with margins earned on gas supply contracts with two electric generation facilities compared to the prior year as described in "Gross Margin - Energy Group" below, along with an approximately \$2.1 million increase resulting from the change in unrealized gains and losses on derivatives used by the wholesale energy operations to mitigate natural gas commodity price risk as discussed under "Operating Revenues - Energy Group" below.

The net income contribution from gas utility operations at SJG increased \$2.5 million to \$69.1 million, primarily due to the rolling into base rates of SHARP and AIRP investments, along with customer growth.

The net income contribution from on-site energy production at Marina increased \$0.5 million to \$16.0 million, primarily due to the following:

\$15.2 million increase due to the impact of a reduction in the carrying amount of an investment at one of Energenic's operating subsidiaries, which occurred in 2015 (see Note 7 to the consolidated financial statements), along with other losses incurred at the Energenic operating subsidiaries in 2015.

\$9.3 million increase due to several new renewable energy projects that commenced operations over the past twelve months, along with higher prices on SRECs compared to the previous year as discussed in "Gross Margin - Energy Services" below.

\$4.5 million increase due to a settlement at Marina in 2016 (see Note 7 to the consolidated financial statements).

\$0.7 million increase due to the impact of several entities that became wholly owned by Marina as of December 31, 2015 (see Note 3 to the consolidated financial statements).

\$29.2 million decrease due to the impact of lower renewable energy investments on the investment tax credits available as compared to the prior year. This reduction is consistent with the Company's previously announced strategy of substantially reducing solar development in 2016.

The net income contribution from SJEX decreased \$1.4 million to \$0.1 million primarily due to a gain on the sale of a working interest in assets of Potato Creek in 2015, which did not recur in 2016.

A significant portion of the volatility in operating results is due to the impact of the accounting methods associated with SJI's derivative activities. SJI uses derivatives to limit its exposure to market risk on transactions to buy, sell, transport and store natural gas and to buy and sell retail electricity. SJI also uses derivatives to limit its exposure to increasing interest rates on variable-rate debt.

The types of transactions that typically cause the most significant volatility in operating results are as follows:

The wholesale energy operations at SJRG purchases and holds natural gas in storage and maintains capacity on interstate pipelines to earn profit margins in the future. The wholesale energy operations utilize derivatives to mitigate commodity price risk in order to substantially lock-in the profit margin that will ultimately be realized. However, both gas stored in inventory and pipeline capacity are not considered derivatives and are not subject to fair value accounting. Conversely, the derivatives used to reduce the risk associated with a change in the value of inventory and pipeline capacity are accounted for at fair value, with changes in fair value recorded in operating results in the period of change. As a result, earnings are subject to volatility as the market price of derivatives change, even when the underlying hedged value of inventory and pipeline capacity are unchanged. Additionally, volatility in earnings is created when realized gains and losses on derivatives used to mitigate commodity price risk on expected future purchases of gas injected into storage are recognized in earnings when the derivatives settle, but the cost of the related gas in storage is not recognized in earnings until the period of withdrawal. This volatility can be significant from period to period. Over time, gains or losses on the sale of gas in storage, as well as use of capacity, will be offset by losses or gains on the derivatives, resulting in the realization of the profit margin expected when the transactions were initiated.

The retail electric operations at SJE use forward contracts to mitigate commodity price risk on fixed price electric contracts with customers. In accordance with GAAP, the forward contracts are recorded at fair value, with changes in fair value recorded in earnings in the period of change. Several related customer contracts are not considered derivatives and, therefore, are not recorded in earnings until the electricity is delivered. As a result, earnings are subject to volatility as the market price of the forward contracts change, even when the underlying hedged value of the customer contract is unchanged. Over time, gains or losses on the sale of the fixed price electric under contract will be offset by losses or gains on the forward contracts, resulting in the realization of the profit margin expected when the transactions were initiated.

As a result, management also uses the non-generally accepted accounting principles (non-GAAP) financial measures of Economic Earnings and Economic Earnings per share when evaluating the results of operations for its nonutility operations. These non-GAAP financial measures should not be considered as an alternative to GAAP measures, such as net income, operating income, earnings per share from continuing operations or any other GAAP measure of liquidity or financial performance.

We define Economic Earnings as: Income from continuing operations, (a) less the change in unrealized gains and plus the change in unrealized losses on all derivative transactions; (b) less realized gains and plus realized losses on all commodity derivative transactions attributed to expected purchases of gas in storage to match the recognition of these gains and losses with the recognition of the related cost of the gas in storage in the period of withdrawal; (c) less the impact of transactions or contractual arrangements where the true economic impact will be realized in a future period; (d) as adjusted by the impact of a May 2017 jury verdict stemming from a pricing dispute with a gas supplier over costs, including interest charges and legal fees incurred; (e) as adjusted by the impact of a settlement of an outstanding legal claim stemming from a dispute related to a three-year capacity management contract with a counterparty, including legal fees incurred; (f) as adjusted by the impact of a favorable FERC decision over a tariff rate dispute with a counterparty, including interest earned; and (g) as adjusted for various costs related to the agreement to acquire the assets of Elizabethtown Gas and Elkton Gas. With respect to part (c) of the definition of Economic Earnings:

- For the year ended December 31, 2017, Economic Earnings excludes an approximately \$2.4 million pre-tax loss related to a new interest rate derivative and amendments made to an existing interest rate derivative linked to unrealized losses previously recorded in Accumulated Other Comprehensive Loss (AOCL). SJI reclassified this amount from AOCL to Interest Charges on the consolidated statements of income as a result of the prior hedged transactions being deemed probable of not occurring. Since the economic impact will not be realized until future periods, this amount is excluded from Economic Earnings. See Note 16 to the

consolidated financial statements.

For the year ended December 31, 2017, Economic Earnings excludes approximately \$91.3 million of pre-tax charges related to several impairment charges recorded during the year, including impairments on solar generating facilities, landfill gas-to-energy (LFGTE) long-lived assets, LFGTE assets customer relationships, and goodwill (see Note 1 to the consolidated financial statements). The economic impact of these charges will not be realized until a future period. An impairment charge was also recorded in 2012 within Income from Continuing Operations on a separate solar generating facility which reduced its depreciable basis and recurring depreciation expense, and this was also excluded from Economic Earnings.

For the year ended December 31, 2017, Economic Earnings excludes approximately \$11.4 million for the impact of one-time tax adjustments, most notably related to the Tax Cuts and Jobs Act (Tax Reform), which was signed into law in December 2017.

For the year ended December 31, 2015, Economic Earnings includes a pre-tax loss of \$2.5 million from affiliated companies that was excluded from Economic Earnings for the year ended December 31, 2014. These adjustments are the result of a reserve for uncollectible accounts recorded by an Energen subsidiary that owned and operated a central energy center and energy distribution system for a hotel, casino and entertainment complex in Atlantic City, New Jersey (see Note 7 to the consolidated financial statements). In 2014, this charge was excluded from Economic Earnings as the total economic impact of the proceedings had not been realized. During the second quarter of 2015, the Company, through its investment in Energen, reduced the carrying value of the investment in this project. As such, this charge is included in Economic Earnings for the year ended December 31, 2015.

Economic Earnings is a significant performance metric used by our management to indicate the amount and timing of income from continuing operations that we expect to earn after taking into account the impact of derivative instruments on the related transactions, and transactions or contractual arrangements where the true economic impact will be realized primarily in a future period or was realized in a previous period. Specifically regarding derivatives, we believe that this financial measure indicates to investors the profitability of the entire derivative-related transaction and not just the portion that is subject to mark-to-market valuation under GAAP. We believe that considering only the change in market value on the derivative side of the transaction can produce a false sense as to the ultimate profitability of the total transaction as no change in value is reflected for the non-derivative portion of the transaction.

Economic Earnings for 2017 decreased \$4.8 million, or 4.6%, to \$98.1 million compared to 2016, primarily as a result of the following:

The income contribution from on-site energy production at Marina decreased \$18.9 million to a net loss of \$3.2 million. This was primarily due to the impact of recording no investment tax credits on renewable energy facilities in 2017, compared with \$9.1 million in 2016, which is consistent with SJI's previously announced strategy of substantially reducing solar development. Also contributing was \$4.5 million for two settlements recorded at Marina during 2016 that did not recur in 2017 (see Note 7 to the consolidated financial statements). The remaining decrease is primarily due to an overall increase in operating and interest expenses.

The income contribution from the retail gas and electric operations at SJE decreased \$1.8 million to a net loss of \$0.5 million primarily due to the expiration of a large electric sales contract with a group of school boards.

The income contribution from the wholesale energy operations at SJRG increased \$5.3 million to \$21.6 million, primarily due to higher margins earned on daily energy trading activities, colder weather conditions experienced in the fourth quarter of 2017 compared to the prior year, additional margins earned during 2017 on gas supply contracts with three electric generation facilities, and an overall decrease in operating expenses (excluding the legal fees discussed above).

The income contribution from Midstream increased \$4.8 million to \$4.6 million primarily due to recognition of Allowance for Funds Used During Construction (AFUDC) at PennEast, of which Midstream has a 20% equity interest.

The income contribution from gas utility operations at SJG increased \$3.5 million to \$72.6 million primarily due to increased margin resulting from investments included in the rate case, AIRP II and SHARP rolling into base rates during the fourth quarter of 2017, along with customer growth. This is partially offset by increases in depreciation, interest and operations expenses.

SJI recognized an additional gain of \$1.7 million related to the sale of real estate during 2017.

Economic Earnings for 2016 increased \$3.9 million, or 3.9%, to \$102.8 million compared to 2015, primarily as a result of the following:

The income contribution from the wholesale energy operations at SJRG increased \$2.7 million to \$16.3 million, primarily due to additional transportation capacity along with margins earned on gas supply contracts with two electric generation facilities compared to the prior year as described in "Gross Margin - Energy Group" below.

The income contribution from gas utility operations at SJG increased \$2.5 million to \$69.1 million, primarily due to the rolling into base rates of SHARP and AIRP investments, along with customer growth.

The income contribution from on-site energy production at Marina increased \$1.7 million to \$15.7 million, primarily due to the following:

\$16.5 million increase due to the impact of a reduction in the carrying amount of an investment at one of Energen's operating subsidiaries, which occurred in 2015 (see Note 7 to the consolidated financial statements), along with other losses incurred at the Energen operating subsidiaries in 2015.

\$9.2 million increase due to several new renewable energy projects that commenced operations over the past twelve months, along with higher prices on SRECs compared to the previous year as discussed in "Gross Margin - Energy Services" below.

\$4.5 million increase due to a settlement at Marina in 2016 (see Note 7 to the consolidated financial statements).

\$0.7 million increase due to the impact of several entities that became wholly owned by Marina as of December 31, 2015 (see Note 3 to the consolidated financial statements).

\$29.2 million decrease due to the impact of lower renewable energy investments on the investment tax credits available as compared to the prior year. This reduction is consistent with the Company's previously announced strategy of substantially reducing solar development in 2016.

The net income contribution from SJEX decreased \$1.4 million to \$0.1 million primarily due to a gain on the sale of a working interest in assets of Potato Creek in 2015, which did not recur in 2016.

The following table presents a reconciliation of our income from continuing operations and earnings per share from continuing operations to Economic Earnings and Economic Earnings per share (in thousands, except per share data):

	2017	2016	2015
(Loss) Income from Continuing Operations	\$(3,404)	\$119,061	\$105,610
Minus/Plus:			
Unrealized Mark-to-Market Losses/(Gains) on Derivatives*	14,226	(27,550)	(8,444)
Realized Losses on Inventory Injection Hedges*	332	683	89
Net Loss from Affiliated Companies (A)*	—	—	(2,540)
Unrealized Loss on Property, Plant and Equipment (B)	91,299	—	—
Net Losses from Legal Proceedings (C)	56,075	—	—
Acquisition Costs (D)	19,564	—	—
Other (E)*	2,227	(165)	(165)
Income Taxes (F)	(70,834)	10,813	4,424
Additional Tax Adjustments (G)	(11,420)	—	—
Economic Earnings	\$98,065	\$102,842	\$98,974
(Loss) Earnings per Share from Continuing Operations	\$(0.04)	\$1.56	\$1.53
Minus/Plus:			
Unrealized Mark-to-Market Losses/(Gains) on Derivatives*	0.18	(0.36)	(0.12)
Realized Losses on Inventory Injection Hedges*	—	0.01	—
Net Loss from Affiliated Companies (A)*	—	—	(0.04)
Unrealized Loss on Property, Plant and Equipment (B)	1.14	—	—
Net Losses from Legal Proceedings (C)	0.70	—	—
Acquisition Costs (D)	0.25	—	—
Other (E)*	0.03	—	—
Income Taxes (F)	(0.89)	0.13	0.07
Additional Tax Adjustments (G)	(0.14)	—	—

Economic Earnings per Share	\$1.23	\$1.34	\$1.44
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The effect of derivative instruments not designated as hedging instruments under GAAP in the statements of consolidated income (see Note 16 to the consolidated financial statements) is as follows (gains (losses) in thousands):

	2017	2016	2015
(Losses) gains on energy-related commodity contracts	\$(13,667)	\$26,935	\$8,401
(Losses) gains on interest rate contracts	(677)	647	96
Total before income taxes	(14,344)	27,582	8,497
Unrealized mark-to-market gains (losses) on derivatives held by affiliated companies, before taxes	118	(32)	(53)
Total unrealized mark-to-market (losses) gains on derivatives*	(14,226)	27,550	8,444
Realized losses on inventory injection hedges*	(332)	(683)	(89)
Net Loss from Affiliated Companies (A)*	—	—	2,540
Unrealized Loss on Property, Plant and Equipment (B)	(91,299)	—	—
Net Losses from Legal Proceedings (C)	(56,075)	—	—
Acquisition Costs (D)	(19,564)	—	—
Other (E)*	(2,227)	165	165
Income Taxes (F)	70,834	(10,813)	(4,424)
Additional Tax Adjustments (G)	11,420	—	—
Total reconciling items between (losses) income from continuing operations and Economic Earnings	\$(101,469)	\$16,219	\$6,636

*Certain reclassifications have been made to the prior period numbers in these tables to conform to the current period presentation. The 2015 numbers in these line items have been adjusted to be presented before income taxes.

(A) Resulting from a reserve for uncollectible accounts recorded by an Energen subsidiary that owned and operated a central energy center and energy distribution system for a hotel, casino and entertainment complex in Atlantic City, New Jersey (see Note 7 to the consolidated financial statements). In 2014, this charge was excluded from Economic Earnings as the total economic impact of the proceedings had not been realized. During the second quarter 2015, the Company, through its investment in Energen, reduced the carrying value of the investment in this project. As such, this charge is included in Economic Earnings in 2015.

(B) Represents several impairment charges recorded during the year, including impairments on solar generating facilities, landfill gas-to-energy (LFGTE) long-lived assets, LFGTE assets customer relationships, and goodwill (see Note 1 to the consolidated financial statements). The economic impact of these charges will not be realized until a future period.

(C) Represents net losses from three separate legal proceedings: (a) \$55.6 million of pre-tax charges, including interest and legal fees, resulting from a ruling in a legal proceeding related to a pricing dispute between SJI and a gas supplier that began in October 2014; (b) a \$9.8 million pre-tax charge, including legal fees, resulting from a settlement with a counterparty over a dispute related to a three-year capacity management contract; and (c) a \$9.3 million pre-tax gain resulting from a favorable FERC decision, including interest, over a tariff rate dispute with a counterparty, whereby SJI contended that the counterparty was overcharging for storage demand charges over a ten-year period. See Note 15 to the consolidated financial statements. Since these net losses relate to transactions that primarily occurred in prior periods, these net losses are excluded from Economic Earnings.

(D) Represents costs incurred on the agreement to acquire the assets of Elizabethtown Gas and Elkton Gas (see Note 1 to the consolidated financial statements). Since the economic impact will not be realized until future periods, this amount is excluded from Economic Earnings.

(E) Included in this amount are amendments made to an existing interest rate derivative linked to unrealized losses previously recorded in AOCL, which SJI reclassified from AOCL to Interest Charges on the consolidated statements of income as a result of the prior hedged transactions being deemed probable of not occurring. Since the economic

impact will not be realized until future periods, this amount is excluded from Economic Earnings. Also included is additional depreciation expense within Economic Earnings on two solar generating facilities where an impairment charge was recorded in the past, which reduced the depreciable basis and recurring depreciation expense, and the related reduction in depreciation expense is being added back.

(F) Determined using a combined average statutory tax rate of approximately 39% for 2017 and 40% for 2016 and 2015.

(G) Represents one-time tax adjustments, most notably for Tax Reform, which was signed into law in December 2017. See Note 4 to the consolidated financial statements.

Gas Utility Operations - The following tables summarize the composition of gas utility operations operating revenues and Utility Margin for the years ended December 31 (in thousands, except for customer and degree day data):

	December 31, 2017			December 31, 2016			December 31, 2015		
Utility Operating Revenues:									
Firm Sales-									
Residential	\$269,721	52	%	\$259,881	56	%	\$317,491	59	%
Commercial	61,514	12	%	55,795	12	%	69,845	13	%
Industrial	4,235	1	%	3,126	1	%	4,083	1	%
Cogeneration and Electric Generation	5,519	1	%	5,257	1	%	5,666	1	%
Firm Transportation -									
Residential	14,162	3	%	14,989	3	%	16,594	3	%
Commercial	34,986	7	%	32,423	7	%	30,602	6	%
Industrial	20,576	4	%	19,594	4	%	22,106	4	%
Cogeneration and Electric Generation	4,360	1	%	4,472	1	%	4,920	1	%
Total Firm Revenues	415,073	81	%	395,537	85	%	471,307	88	%
Interruptible Sales	25	—		18	—		300	—	
Interruptible Transportation	867	—		928	—		1,373	—	
Off-System Sales	92,376	18	%	51,661	11	%	49,624	9	%
Capacity Release	7,695	1	%	11,778	3	%	10,296	2	%
Other	1,218	—	%	1,133	1	%	1,390	1	%
	517,254	100	%	461,055	100	%	534,290	100	%
Less: Intercompany Sales	4,772			7,236			5,527		
Total Utility Operating Revenues	512,482			453,819			528,763		
Less:									
Cost of Sales - Utility	204,432			174,390			245,290		
Less: Intercompany Cost of Sales	4,772			7,236			5,527		
Total Cost of Sales - Utility (Excluding Depreciation)	199,660			167,154			239,763		
Conservation Recoveries *	7,003			9,202			21,226		
RAC recoveries *	11,014			9,326			9,134		
EET Recoveries*	1,284			2,718			3,611		
Revenue Taxes	1,162			1,109			1,250		
Utility Margin**	\$292,359			\$264,310			\$253,779		
Utility Margin:									
Residential	\$180,106	62	%	\$162,820	62	%	\$169,455	67	%
Commercial and Industrial	76,491	26	%	69,396	26	%	72,149	28	%
Cogeneration and Electric Generation	4,762	1	%	4,898	2	%	4,738	2	%
Interruptible	63	—		79	—		120	—	
Off-system Sales & Capacity Release	5,051	2	%	4,731	2	%	4,270	2	%
Other Revenues	2,107	1	%	2,213	1	%	2,582	1	%
Margin Before Weather Normalization & Decoupling	268,580	92	%	244,137	93	%	253,314	100	%
CIP mechanism	20,062	7	%	16,615	6	%	(1,798)	(1)	%
EET mechanism	3,717	1	%	3,558	1	%	2,263	1	%

Utility Margin**	\$292,359	100 %	\$264,310	100 %	\$253,779	100 %
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* Represents expenses for which there is a corresponding credit in operating revenues. Therefore, such recoveries have no impact on SJG's financial results.

** Utility Margin is a non-GAAP financial measure and is further defined under the caption "Utility Margin" below.

Operating Revenues - Gas Utility Operations 2017 vs. 2016 - Revenues increased \$56.2 million, or 12.2%, during 2017 compared with 2016. Excluding intercompany transactions, revenues increased \$58.7 million, or 12.9%, during 2017 compared with 2016. The main driver for the increased revenue is higher firm sales and Off-System Sales (OSS). Total firm revenue increased \$19.5 million, or 4.9%, in 2017 compared with 2016 as a result of 6,008 additional customers compared with 2016. Additionally, firm sales increased due to base rate increases related to the settlement of SJG's base rate case, effective November 1, 2017, as discussed in Note 10 to the consolidated financial statements. While changes in gas costs and BGSS recoveries/refunds fluctuate from period to period, SJG does not profit from the sale of the commodity. Therefore, corresponding fluctuations in Operating Revenue or Cost of Sales have no impact on SJG profitability, as further discussed below under the caption "Utility Margin." While warmer weather decreased firm sales volume and revenue, the revenue decrease has little impact on SJG profitability under the operation of the CIP, as discussed below under the caption "Utility Margin."

Higher OSS volumes and higher unit prices resulted in a \$40.7 million, or 78.8%, increase in OSS revenues during 2017 compared with 2016. The impact of changes in OSS activity does not have a material impact on the earnings of SJG, as SJG is required to return 85% of the profits of such activity to its ratepayers.

Operating Revenues - Gas Utility Operations 2016 vs. 2015 - Revenues decreased \$74.9 million, or 14.2%, during 2016 compared with 2015 after eliminating intercompany transactions. Total firm revenue was \$75.8 million, or 16.1%, lower in 2016 compared to the prior year due to several factors. Firm throughput was lower during 2016, compared to the prior year. The impact of this reduction in throughput lowered SJG's recovery of natural gas costs through its BGSS mechanism by \$38.3 million. In addition, SJG reduced its BGSS rate effective October 1, 2015 and 2016 by 18.6% and 32.9%, respectively, further reducing revenue by \$34.7 million during 2016. Finally, SJG provided a \$20.0 million and \$10.0 million BGSS bill credit to its residential and small commercial customers in January 2016 and December 2016, respectively, of which \$28.0 million reduced revenue for 2016, after consideration for sales tax. While changes in natural gas costs and BGSS recoveries/refunds fluctuate from period to period, SJG does not profit from the sale of the commodity. Therefore, fluctuations in Utility Operating Revenue and Cost of Sales, such as those discussed above, did not have an impact on SJG's profitability. The addition of 4,525 customers in 2016 partially offset the decreases mentioned above. While warmer weather decreased firm sales volume and revenue, the revenue decrease has little impact on SJG profitability under the operation of the CIP, as discussed below under the caption "Utility Margin."

Higher OSS volumes resulted in a \$2.0 million, or 4.1%, increase in OSS revenues during 2016, compared with 2015. The impact of changes in OSS activity does not have a material impact on the earnings of SJG, as SJG is required to return 85% of the profits of such activity to its ratepayers. Earnings from OSS can be seen in the "Utility Margin" table above.

Utility Margin - Management uses Utility Margin, a non-GAAP financial measure, when evaluating the operating results of SJG. Utility Margin is defined as natural gas revenues less natural gas costs, regulatory rider expenses and related volumetric and revenue-based energy taxes. Management believes that Utility Margin provides a more meaningful basis for evaluating utility operations than revenues since natural gas costs, regulatory rider expenses and related energy taxes are passed through to customers. Natural gas costs are charged to operating expenses on the basis of therm sales at the prices approved by the BPU through SJG's BGSS clause. Non-GAAP financial measures are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not as a substitute for, the comparable GAAP measure.

Utility Margin increased \$28.0 million, or 10.6%, during 2017 compared with 2016. The rolling into base rates of SHARP and AIRP II investments of approximately \$187.5 million contributed approximately \$14.2 million of additional Utility Margin in 2017. In addition, the rolling into base rates of certain infrastructure and system improvement investments and the related expenses, effective November 1, 2017, contributed approximately \$10.8 million of additional Utility Margin in 2017. Net customer additions of 6,008 over the twelve-month period ended December 31, 2017, representing 1.6% growth over the prior year, contributed approximately \$2.4 million in additional Utility Margin.

The CIP tracking mechanism adjusts earnings when actual usage per customer experienced during the period varies from an established baseline usage per customer. The CIP mechanism protected \$20.1 million, or \$12.0 million after taxes, during 2017, due to weather that was 11.5% warmer than average and customer usage variations.

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Total Utility Margin in 2016 increased \$10.5 million, or 4.1%, from 2015. The rolling into base rates of SHARP investments of approximately \$36.6 million on October 1, 2015 contributed approximately \$3.5 million of additional Utility Margin in 2016. In addition, the rolling into base rates of AIRP investments of \$74.5 million on December 1, 2016 contributed approximately \$1.5 million of additional Utility Margin in 2016. Net customer additions of 4,525 over the twelve-month period ended December 31, 2016, representing 1.2% growth over the prior year, contributed approximately \$4.0 million in additional Utility Margin.

The CIP mechanism protected \$16.6 million, or \$9.9 million after taxes, during 2016, due to weather that was 8.1% warmer than average and customer usage variations.

Operating Revenues - Energy Group 2017 vs. 2016 - Combined revenues for Energy Group, net of intercompany transactions, increased \$147.2 million, or 30.3%, to \$632.6 million in 2017 compared with 2016.

Revenues from retail gas operations at SJE, net of intercompany transactions, increased \$18.0 million, or 19.9%, to \$108.7 million in 2017 compared with 2016, primarily due to a 26.3% increase in the average monthly NYMEX settle price, along with a 19.3% increase in sales volumes driven by additional contracts entered into in 2017. This was partially offset with the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings, as defined above, and represented a total decrease of \$6.3 million compared to the prior year period.

Revenues from retail electric operations at SJE, net of intercompany transactions, decreased \$2.8 million, or 1.6%, to \$172.1 million in 2017 compared with 2016 primarily due to the expiration of a large contract with a group of school boards. Also contributing to this decrease was the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total decrease of \$0.8 million compared to the prior year period.

SJE uses forward financial contracts to mitigate commodity price risk on fixed price electric contracts. In accordance with GAAP, the forward financial contracts are recorded at fair value, with changes in fair value recorded in earnings in the period of change. The related customer contracts are not considered derivatives and, therefore, are not recorded in earnings until the electricity is delivered. As a result, earnings are subject to volatility as the market price of the forward financial contracts change, even when the underlying hedged value of the customer contract is unchanged. Over time, gains or losses on the sale of the fixed price electric under contract will be offset by losses or gains on the forward financial contracts, resulting in the realization of the profit margin expected when the transactions were initiated. The retail electric operations at SJE serve both fixed and market-priced customers.

Revenues from wholesale energy operations at SJRG, net of intercompany transactions, increased \$131.7 million to \$351.6 million in 2017 compared with 2016. This increase was primarily due to revenues earned on gas supply contracts with three electric generation facilities, which represented a total increase of \$168.1 million. Partially offsetting this increase was the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total decrease of \$33.5 million in 2017 compared with 2016.

Operating Revenues - Energy Services 2017 vs. 2016 - Combined revenues for Energy Services, net of intercompany transactions, increased \$0.7 million, or 0.7%, to \$98.0 million in 2017 compared with 2016.

Revenues from on-site energy production at Marina, net of intercompany transactions, increased \$2.1 million, or 2.4%, to \$91.5 million in 2017 compared with 2016, primarily due to an increase in solar renewable energy credits (SRECs) transferred as a result of more solar projects being online compared with 2016. Solar revenues, net of

intercompany transactions, which is included in revenues from on-site energy production above, increased \$1.3 million, or 2.4%, to \$56.5 million in 2017 compared with 2016.

SRECs represent the renewable energy attribute of the solar electricity generated that can be sold to customers. Marina does not recognize revenue, or the related margin, until the SREC is certified and transferred to the customer's electronic account. Customers may purchase SRECs to comply with solar requirements under various state renewable energy regulations. Approximately 73% of Marina's 2017 solar production is in New Jersey, 9% is in Massachusetts, 15% is in Maryland, and 3% is in Vermont.

Marina hedges a portion of its anticipated SREC production through the use of forward sales contracts. The hedged percentage of projected SREC production related to in-service assets in New Jersey is 93% and 68% for energy years ending May 31, 2018 and 2019, respectively, and in Massachusetts is 54% for energy year ending December 31, 2018. SREC production related to in-service assets in Maryland and Vermont is currently unhedged.

Installed capacity was 201 MW and 198 MW at December 31, 2017 and 2016, respectively.

Revenues from appliance service operations at SJESP, net of intercompany transactions, decreased \$1.4 million in 2017 compared with 2016 primarily due to the sale of certain assets of SJESP's residential and small commercial HVAC and plumbing business to a third party, which was completed on September 1, 2017 (see Note 1 to the consolidated financial statements).

Operating Revenues - Energy Group 2016 vs. 2015 - Combined revenues for Energy Group, net of intercompany transactions, increased \$125.3 million, or 34.8%, to \$485.4 million in 2016 compared with 2015.

Revenues from retail gas operations at SJE, net of intercompany transactions, increased \$3.7 million, or 4.3%, to \$90.6 million in 2016 compared with 2015. The increase in gas revenues was primarily due to the net change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total increase of \$12.2 million in 2016 compared with 2015. This was partially offset with a 7.7% decrease in the average monthly NYMEX settle price.

Revenues from retail electric operations at SJE, net of intercompany transactions, increased \$30.2 million, or 20.8%, to \$174.9 million in 2016 compared with 2015, primarily due to a 17.9% increase in sales volumes, which was driven by additional electric contracts entered into during 2016. Also contributing was the net change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total increase of \$2.3 million in 2016 compared with 2015.

SJE uses forward financial contracts to mitigate commodity price risk on fixed price electric contracts. In accordance with GAAP, the forward financial contracts are recorded at fair value, with changes in fair value recorded in earnings in the period of change. The related customer contracts are not considered derivatives and, therefore, are not recorded in earnings until the electricity is delivered. As a result, earnings are subject to volatility as the market price of the forward financial contracts change, even when the underlying hedged value of the customer contract is unchanged. Over time, gains or losses on the sale of the fixed price electric under contract will be offset by losses or gains on the forward financial contracts, resulting in the realization of the profit margin expected when the transactions were initiated. The retail electric operations at SJE serve both fixed and market-priced customers.

Revenues from the wholesale energy operations at SJRG, net of intercompany transactions, increased \$91.6 million to \$220.7 million in 2016 compared with 2015, primarily due to revenues earned on gas supply contracts with two electric generation facilities, along with additional transportation capacity. Also contributing was the net change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total increase of \$3.9 million in 2016 compared with 2015. These were partially offset with a 7.7% decrease in the average monthly NYMEX settle price. As discussed in Note 1 to the consolidated financial statements, revenues and expenses related to the energy trading activities of SJRG are presented on a net basis in Operating Revenues - Nonutility on the statements of consolidated income.

Operating Revenues - Energy Services 2016 vs. 2015 - Combined revenues for Energy Services, net of intercompany transactions, increased \$26.6 million, or 37.6%, to \$97.3 million in 2016 compared with 2015.

Revenues from on-site energy production at Marina, net of intercompany transactions, increased \$29.9 million, or 50.2%, to \$89.4 million in 2016 compared with 2015. These increases were primarily due to higher prices on SREC's compared to the previous periods, an increase in SRECs transferred due to new solar projects and the revenues earned at several entities that became wholly owned by Marina as of December 31, 2015. Solar revenues, net of intercompany transactions, which is included in revenues from on-site energy production above, increased \$15.3 million, or 38.5%, to \$55.1 million in 2016 compared with 2015.

SRECs represent the renewable energy attribute of the solar electricity generated, which can be sold to customers. Marina does not recognize revenue, or the related margin, until the SREC is certified and transferred to a customer's electronic account. Customers may purchase SRECs to comply with solar requirements under various state renewable energy regulations. Approximately 76% of Marina's solar production is in New Jersey.

Marina hedges a portion of its anticipated SREC production through the use of forward sales contracts. The hedged percentage of projected SREC production related to in-service assets in New Jersey is 92% and 66% for energy years ending May 31, 2017 and 2018, respectively.

Installed capacity was 198 MW and 135 MW at December 31, 2016 and 2015, respectively.

Revenues from appliance service operations at SJESP, net of intercompany transactions, decreased \$3.3 million, or 29.4%, to \$7.9 million in 2016 compared with 2015, primarily due to lower installation jobs compared to the prior year.

Gross Margin - Nonutility - Gross margin for the nonutility businesses is defined as revenue less all costs that are directly related to the production, selling and delivery of SJI's products and services. These costs primarily include natural gas and electric commodity costs as well as certain payroll and related benefits. On the statements of consolidated income, revenue is reflected in Operating Revenues - Nonutility and the costs are reflected in Cost of Sales - Nonutility. As discussed in Note 1 to the consolidated financial statements, revenues and expenses related to the energy trading activities of the wholesale energy operations at SJRG are presented on a net basis in Operating Revenues - Nonutility on the statements of consolidated income.

Gross Margin - Energy Group 2017 vs. 2016 - For 2017, combined gross margins for Energy Group decreased \$87.6 million to a loss of \$6.9 million compared with 2016. This decrease is primarily due to the following:

- Gross margin from SJE's retail gas and other operations decreased \$6.0 million to \$7.5 million in 2017 compared with 2016. This was primarily due to the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total decrease of \$6.3 million in 2017 compared with 2016.

- Gross margin from SJE's retail electric operations decreased \$3.0 million to \$7.5 million in 2017 compared with 2016. This decrease was primarily due to lower sales volumes resulting from the expiration of a large contract with a group of school boards, along with the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total decrease of \$0.8 million.

- Gross margin from the wholesale energy operations at SJRG decreased \$78.8 million to a loss of \$22.1 million in 2017 compared with 2016, primarily due to the following:

- \$49.6 million decrease resulting from an unfavorable court ruling related to a pricing dispute between SJRG and a supplier (see Note 15 to the consolidated financial statements), which is excluded for Economic Earnings.

- \$33.5 million decrease resulting from the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings.

- \$9.5 million decrease resulting from a settlement of a legal dispute related to a three-year capacity management contract, which is excluded for Economic Earnings.

- \$7.4 million increase resulting from favorable FERC decision over a tariff rate dispute with a counterparty, whereby SJI contended that the counterparty was overcharging for storage demand charges over a ten year period, which is excluded for Economic Earnings.

The remaining \$6.4 million increase resulted from higher margins earned on daily energy trading activities, colder weather conditions in the fourth quarter of 2017, and additional margins earned during 2017 on gas supply contracts with three electric generation facilities.

The wholesale energy operations at SJRG expect to continue to add incremental margin from marketing and related opportunities in the Marcellus region, capitalizing on its established presence in the area. Future margins could fluctuate significantly due to the volatile nature of wholesale gas prices. As of December 31, 2017, the wholesale energy operations had 8.7 Bcf of storage and 584,254 dts/day of firm transportation under contract.

Gross Margin - Energy Services 2017 vs. 2016 - For 2017, combined gross margins for Energy Services increased \$2.8 million to \$90.9 million compared with 2016. This increase is primarily due to the following:

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Gross margin from on-site energy production at Marina increased \$4.1 million to \$88.2 million in 2017 compared with 2016, primarily due to an increase in SRECs transferred as a result of more solar projects being online compared to the same period in 2016, along with better production.

Gross margin from appliance service operations at SJESP decreased \$1.4 million in 2017 compared with 2016

- primarily due to the sale of certain assets of SJESP's residential and small commercial HVAC and plumbing business to a third party, which was completed on September 1, 2017 (see Note 1 to the consolidated financial statements).

Gross Margin - Energy Group 2016 vs. 2015 - For 2016, combined gross margins for Energy Group, net of intercompany transactions, increased \$23.5 million to \$80.7 million compared with 2015. This increase is primarily due to the following:

- Gross Margin from SJE's retail gas and other operations increased \$11.1 million to \$13.5 million in 2016 compared with 2015, primarily due to the net change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total increase of \$12.2 million in 2016 compared with 2015. The partially offsetting decrease does not represent a significant change.

- Gross Margin from SJE's retail electric operations increased \$4.4 million to \$10.5 million in 2016 compared with 2015, primarily due to margins earned on additional electric contracts entered into in 2016. Also contributing was the net change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total increase of \$2.3 million in 2016 compared with 2015.

Gross Margin from the wholesale energy operations at SJRG increased \$8.1 million to \$56.7 million in 2016 compared with 2015. The increase in gross margin was primarily due to additional transportation capacity along with margins earned on gas supply contracts with two electric generation facilities. Also contributing was the net change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total increase of \$3.9 million in 2016 compared with 2015.

The wholesale energy operations at SJRG expect to continue to add incremental margin from marketing and related opportunities in the Marcellus region, capitalizing on its established presence in the area. Future margins could fluctuate significantly due to the volatile nature of wholesale gas prices. As of December 31, 2016, the wholesale energy operations had 7.9 Bcf of storage and 511,587 dts/day of transportation under contract.

Gross Margin - Energy Services 2016 vs. 2015 - For 2016, combined gross margins for Energy Services, net of intercompany transactions, increased \$34.1 million to \$88.2 million compared with 2015. This increase is primarily due to the following:

- Gross Margin from on-site energy production at Marina increased \$34.6 million to \$84.0 million in 2016 compared with 2015. Gross margin as a percentage of Operating Revenues increased 10.9 percentage points in 2016 compared with 2015. These increases are primarily due to several higher margin renewable energy projects that began operations over the past twelve months, along with higher prices on SRECs compared to the previous year. Also contributing to the increase were margins earned at several entities that became wholly owned by Marina as of December 31, 2015.

- Gross Margin from the appliance service operations at SJESP did not change significantly in 2016 compared with 2015.

Operations Expense - A summary of net changes in operations expense follows (in thousands):

	2017 vs. 2016	2016 vs. 2015
Gas Utility Operations	\$3,383	\$(12,227)
Nonutility:		
Energy Group:		
Wholesale Energy Operations	(130))1,175
Retail Gas and Other Operations	1,221	3,239
Retail Electric Operations	273	(1,778)
Subtotal Energy Group	1,364	2,636
Energy Services:		
On-Site Energy Production	5,918	11,282
Appliance Service Operations	(928))(586)
Subtotal Energy Services	4,990	10,696
Total Nonutility	6,354	13,332
Corporate & Services and Intercompany Eliminations	12,506	2,180
Total Operations Expense	\$22,243	\$3,285

Gas utility operations expense increased \$3.4 million in 2017 compared with 2016. The increase was primarily due to higher corporate support, governance and compliance costs, higher compensation costs and higher costs related to the operation of SJG's compressed natural gas stations. The increases were partially offset by a decrease associated with the New Jersey Clean Energy Program and Energy Efficiency Programs which are recovered on a dollar-for-dollar basis; therefore, SJG experiences an offsetting decrease in revenue during 2017.

Gas utility operations expense decreased \$12.2 million in 2016 compared with 2015. This decrease was primarily due to lower expenses associated with the New Jersey Clean Energy Program and Energy Efficiency Programs. Such costs are recovered on a dollar-for-dollar basis; therefore, SJG experiences an offsetting decrease in revenue during 2016. This was due to a reduction in the approved level of recovery of such costs, as well as lower recoveries resulting from warmer weather. Also contributing to the decrease from the prior year were expenses associated with write-offs of uncollectible customer accounts receivable, which resulted from fewer customer accounts being eligible to be written off in 2016 as a result of an improvement in the aging of receivables.

Nonutility operations expense increased \$6.4 million in 2017 compared with 2016, primarily due to additional personnel, governance and compliance costs incurred to support continued growth.

The Corporate & Services segment contributed a \$12.5 million increase in total operations expense primarily due to costs incurred on the agreement to acquire the assets of Elizabethtown Gas and Elkton Gas (see Note 1 to the consolidated financial statements). These include finders fees, consulting and legal charges, among others. This is partially offset by intercompany eliminations.

Nonutility operations expense increased \$13.3 million in 2016 compared with 2015 primarily due to operating expenses incurred at several entities that became wholly owned by Marina as of December 31, 2015 along with operating expenses at several renewable energy projects that commenced operations over the past twelve months. Also contributing to the increase is additional personnel, governance and compliance costs incurred to support continued growth.

Other Operating Expenses - A summary of changes in other consolidated operating expenses (in thousands):

	2017 vs. 2016 vs.	
	2016	2015
Impairment Charges	\$91,299	\$—
Maintenance	\$2,178	\$1,366
Depreciation	\$10,329	\$17,938
Energy and Other Taxes	\$145	\$316

Impairment Charges - Marina incurred approximately \$91.3 million of non-cash impairment charges during the year, including impairments on solar generating facilities, landfill gas-to-energy (LFGTE) long-lived assets, LFGTE assets customer relationships, and goodwill (see Note 1 to the consolidated financial statements). These impairment charges were recorded in the On-Site Energy Production segment.

Maintenance Expense - Maintenance expense increased \$2.2 million during 2017 compared with 2016 primarily due to increased maintenance of services activity and higher levels of Remediation Adjustment Clause (RAC) amortization. This increase in RAC-related expenses does not affect earnings, as SJG recognizes an offsetting amount in revenues. Maintenance expense increased \$1.4 million during 2016 compared with 2015 primarily due to increased field activity related to the maintenance of services.

Depreciation Expense - Depreciation increased \$10.3 million in 2017 compared with 2016 primarily due to increased investment in property, plant and equipment by the gas utility operations at SJG and on-site energy production at Marina. Depreciation increased \$17.9 million in 2016 compared with 2015 primarily due to depreciation incurred at several entities that became wholly owned by Marina as of December 31, 2015, along with increased investment in property, plant and equipment by the gas utility operations at SJG and on-site energy production at Marina.

Energy and Other Taxes - The change in energy and other taxes in 2017 and 2016 compared with prior years was not significant.

Other Income and Expense - Other income increased \$5.5 million in 2017 compared with 2016 primarily due to higher AFUDC due to increased capital spending and a new AIRP II program at SJG, a gain recorded on a sale of real estate during the first quarter of 2017, as well as interest income earned from a favorable FERC decision over a tariff rate dispute at SJRG (see Note 15 to the consolidated financial statements). These were partially offset by a settlement at Marina during the second quarter of 2016 as discussed in Note 7 to the consolidated financial statements. The change in other income and expense in 2016 compared with 2015 was not significant.

Interest Charges - Interest charges increased \$22.6 million in 2017 compared with 2016 primarily due to the following:

- \$11.1 million due to higher amounts of long-term debt outstanding at SJI and SJG, along with higher interest rates on variable rate debt outstanding at SJI and SJG.
 - \$5.1 million of charges incurred on the Bridge Credit Facility entered into in conjunction with the agreement to acquire Elizabethtown Gas and Elkton Gas (see Note 1 to the consolidated financial statements).
 - \$4.0 million of interest charges incurred from an unfavorable court ruling related to a pricing dispute between SJRG and a supplier (see Note 15 to the consolidated financial statements),
 - \$2.4 million resulting from an amendment of an existing interest rate derivative contract previously linked to unrealized losses recorded in AOCL, which was reclassified to interest expense as a result of the prior hedged transactions being deemed probable of not occurring (see Note 16 to the consolidated financial statements).
- The change in interest charges in 2016 compared with 2015 was not significant.

Income Taxes - Income taxes changed from a \$54.2 million expense in 2016 to a \$24.9 million benefit in 2017 primarily due to \$13.5 million of adjustments made as a result of the Tax Cuts and Jobs Act, which was enacted in 2017 (see Note 4 to the consolidated financial statements), which are excluded from Economic Earnings. Also contributing was an overall loss before income taxes, as opposed to income in 2016, primarily due to several impairment charges taken as discussed under "Impairment Charges" above (also see Note 1 to the consolidated financial statements), along with an unfavorable court ruling related to a pricing dispute between SJRG and a supplier (see Note 15 to the consolidated financial statements). These were partially offset with the impact of recording no investment tax credits on renewable energy facilities in 2017 as opposed to \$9.1 million in 2016, which is consistent with SJI's previously announced strategy of substantially reducing solar development. Income tax expense increased \$52.8 million in 2016 compared with 2015 primarily due to a higher effective tax rate due to a decrease in the

investment tax credits available on renewable energy facilities at Marina, along with higher income before income taxes. Investment tax credits from renewable energy facilities at Marina of \$9.1 million and \$38.3 million were recognized for the years ended December 31, 2016 and 2015 , respectively.

Equity in Earnings of Affiliated Companies - The change in equity in earnings of affiliated companies in 2017 compared with 2016 was not significant. Equity in earnings of affiliated companies increased \$33.2 million to earnings of \$5.4 million in 2016 compared with 2015 primarily due to the impact of a reduction in the carrying amount of an investment at one of Energenic's operating subsidiaries, which occurred in the second quarter of 2015, along with a settlement at Marina in the third quarter of 2016 (see Note 7 to the consolidated financial statements).

Discontinued Operations - The losses are primarily comprised of environmental remediation and product liability litigation associated with previously disposed of businesses.

LIQUIDITY AND CAPITAL RESOURCES:

Liquidity needs are driven by factors that include natural gas commodity prices; the impact of weather on customer bills; lags in fully collecting gas costs from customers under the BGSS charge and other regulatory clauses, and environmental remediation expenditures through the Remediation Adjustment Clause (RAC); working capital needs of SJI's energy trading and marketing activities; the timing of construction and remediation expenditures and related permanent financings; the timing of equity contributions to unconsolidated affiliates; mandated tax payment dates; both discretionary and required repayments of long-term debt; and the amounts and timing of dividend payments.

Cash Flows from Operating Activities - Liquidity needs are first met with net cash provided by operating activities. Net cash provided by operating activities totaled \$190.3 million, \$262.6 million and \$186.7 million in 2017, 2016 and 2015, respectively. Net cash provided by operating activities varies from year-to-year primarily due to the impact of weather on customer demand and related gas purchases, customer usage factors related to conservation efforts and the price of the natural gas commodity, inventory utilization, and gas cost recoveries. Operating activities in 2017 produced less net cash than 2016, primarily due to under-recoveries in the BGSS clause at SJG. During the second quarter of 2017, SJG provided a customer BGSS bill credit based on a forecasted over-recovered clause balance at the end of the BGSS year. In addition, SJG experienced higher spending for environmental remediation. Finally, during the first quarter of 2017, SJI made a \$10.0 million payment to fund its pension plans. SJI did not make a pension payment in 2016. SJI strives to keep its pension plans fully funded. When factors such as lesser than expected asset performance and/or declining discount rates negatively impact the funding status of the plans, SJI increases its contributions to supplant that funding shortfall.

Net cash flow from operating activities increased in 2016 compared to 2015 primarily due to improvements in working capital due to higher customer receivable collections as well as lower gas purchases as a result of the warmer weather experienced during 2016. In addition, SJI did not make a pension payment in 2016. In 2015, SJI made a \$15.0 million pension contribution as a result of a decline in the discount rate and new mortality tables released at the end of 2014, both of which negatively impacted the funding status of its pension plans. The Company strives to keep its pension plans fully funded. When factors such as lesser than expected asset performance and/or declining discount rates negatively impact the funding status of the plans, the Company increases its contributions to compensate for that funding shortfall. Partially offsetting the increase was higher spending on environmental remediation at the utility and lower collections under utility regulatory clauses due to warmer weather experienced throughout 2016.

Cash Flows from Investing Activities - SJI has a continuing need for cash resources and capital, primarily to invest in new and replacement facilities and equipment. Net cash outflows from investing activities, which are primarily construction projects, for 2017, 2016 and 2015 amounted to \$287.3 million, \$280.3 million and \$387.3 million, respectively. We estimate the net cash outflows for investing activities for 2018, 2019 and 2020 to be approximately \$331.4 million, \$389.5 million and \$325.8 million, respectively. The high level of investing activities for 2018, 2019 and 2020 is due to a combination of the accelerated infrastructure investment programs and a major pipeline project to support an electric generation facility, both at SJG. Also contributing to the high level of investing activities are potential SJI Midstream investments, net of potential returns, in 2018 through 2020. SJI expects to use short-term borrowings under lines of credit from commercial banks and the commercial paper program to finance these investing activities as incurred. From time to time, SJI may refinance the short-term debt with long-term debt. Expected future expenditures related to the acquisition of Elizabethtown Gas and Elkton Gas are not included in the future investing activities noted above as those costs are still being evaluated, and the acquisition is still pending approvals. See Note 1 to the consolidated financial statements.

The Company made net investments in unconsolidated affiliates of \$32.1 million and \$7.5 million in 2017 and 2016, respectively.

During 2017, SJI received approximately \$3.1 million related to the sale of real estate. SJI recognized an after-tax gain on this sale of approximately \$1.7 million.

During 2017, SJI made an incremental \$7.5 million payment above the prior year to fund company-owned life insurance.

During 2017, SJI received the remaining balance in connection with an outstanding note receivable with a third party. Cash proceeds received in 2017 were \$22.9 million.

Cash Flows from Financing Activities - Short-term borrowings from the commercial paper program and lines of credit from commercial banks are used to supplement cash flows from operations, to support working capital needs and to finance capital expenditures as incurred. From time to time, short-term debt incurred to finance capital expenditures is refinanced with long-term debt.

Credit facilities and available liquidity as of December 31, 2017 were as follows (in thousands):

Company	Total Facility	Usage	Available Liquidity	Expiration Date
SJI:				
Syndicated Revolving Credit Facility	\$400,000	\$251,000(A)	\$149,000	August 2022 (C)
Revolving Credit Facility	50,000	50,000	—	September 2019 (D)
Total SJI	450,000	301,000	149,000	
SJG:				
Commercial Paper Program/Revolving Credit Facility	200,000	52,800 (B)	147,200	August 2022 (E)
Uncommitted Bank Line	10,000	—	10,000	August 2018
Total SJG	210,000	52,800	157,200	
Total	\$660,000	\$353,800	\$306,200	

(A) Includes letters of credit outstanding in the amount of \$6.6 million.

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

(C) In August 2017, SJI entered into a five year, unsecured \$400.0 million revolving credit agreement which is syndicated among several banks. In connection with this agreement, SJI terminated its previous \$400.0 million revolving credit agreement.

(D) In September 2017, SJI amended an unsecured revolving credit facility for two years. The facility now terminates in September 2019.

(E) In August 2017, SJG entered into a five year, unsecured \$200.0 million revolving credit agreement which is syndicated among several banks. In connection with this agreement, SJG terminated its previous \$200.0 million revolving credit agreement.

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. All committed facilities contain one financial covenant limiting the ratio of indebtedness to total capitalization (as defined in the respective credit agreements), measured on a quarterly basis. SJI and SJG were in compliance with these covenants as of December 31, 2017. Borrowings under these credit facilities are at market rates. SJI's weighted average interest rate on these borrowings, which changes daily, was 2.46%, 1.47% and 1.13% at December 31, 2017, 2016 and 2015, respectively. SJG's weighted average interest rate on

these borrowings, which changes daily, was 1.88%, 0.97% and 0.66% at December 31, 2017, 2016 and 2015, respectively.

SJI's average borrowings outstanding under these credit facilities (which includes SJG), not including letters of credit, during the years ended December 31, 2017 and 2016 were \$276.7 million and \$321.9 million, respectively. The maximum amounts outstanding under these credit facilities (which includes SJG), not including letters of credit, during the years ended December 31, 2017 and 2016 were \$373.8 million and \$467.7 million respectively.

SJG's average borrowings outstanding under its credit facilities, not including letters of credit, during the years ended December 31, 2017 and 2016 were \$17.6 million and \$71.5 million, respectively. The maximum amount outstanding under these credit facilities, not including letters of credit, during the years ended December 31, 2017 and 2016 were \$110.1 million and \$141.7 million, respectively.

Based upon the existing credit facilities and a regular dialogue with our banks, we believe there will continue to be sufficient credit available to meet our business' future liquidity needs.

The SJI and SJG principal credit 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 0.70 to 1, measured at the end of each fiscal quarter. However, as of December 31, 2017, several bank facilities for both SJI and SJG, as well as Senior Unsecured Notes issued by SJI, still contained 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. As a result, as of December 31, 2017, both SJI and SJG needed to ensure that the ratio of indebtedness to total capitalization (as defined in the respective credit agreements) did not exceed 0.65 to 1. SJI and SJG were in compliance with these covenants as of December 31, 2017. All of SJI's bank facilities and Senior Unsecured Notes were amended to the new ratio in January 2018.

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 the new \$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.

SJI supplements its operating cash flow, commercial paper program and credit lines with both debt and equity capital. Over the years, SJG has used long-term debt, primarily in the form of First Mortgage Bonds and Medium Term Notes (MTN's), secured by the same pool of utility assets, to finance its long-term borrowing needs. These needs are primarily capital expenditures for property, plant and equipment.

In January 2017, SJG entered into a Supplemental Indenture Amending and Restating First Mortgage Indenture (the "New Mortgage"), which amended and restated in its entirety that Indenture of Mortgage dated October 1, 1947. The New Mortgage provides for the issuance by SJG of bonds, notes or other securities that are secured by a lien on substantially all of the operating properties and franchises of SJG.

SJG had a \$200.0 million multiple-draw term facility offered by a syndicate of banks. This facility bore interest at a floating rate based on LIBOR plus a spread determined by SJG's credit ratings. The total outstanding amount under this facility as of December 31, 2016 was \$200.0 million, which was classified in current portion of long-term debt on the consolidated balance sheets as of December 31, 2016 as it was due in June 2017. In January 2017, SJG issued \$200.0 million aggregate principal amount of MTN's, Series E, 2017, due January 2047, with principal repayments beginning in 2025. The MTN's bear interest at an annual rate of 3.0% payable semiannually. Proceeds were used to pay down the above-mentioned \$200.0 million multiple-draw term facility which was set to expire in June 2017.

In January 2017, SJG entered into an unsecured, \$200.0 million multiple-draw term loan credit agreement ("Credit Agreement"), which is syndicated among seven banks. Term loans under the Credit Agreement bear interest at a variable base rate or a variable LIBOR rate, at SJG's election. Under the Credit Agreement, SJG can borrow up to an aggregate of \$200.0 million until July 2018, of which SJG borrowed \$200.0 million during 2017. All loans under the Credit Agreement become due in January 2019.

In May 2017, Marina voluntarily redeemed bonds issued by the New Jersey Economic Development Authority (NJEDA) in an aggregate principal amount of \$61.4 million, as follows: Thermal Energy Facilities Revenue Bonds (Marina Energy LLC - 2001 Project) Series A (\$20.0 million); Thermal Energy Facilities Federally Taxable Revenue Bonds (Marina Energy LLC - 2001 Project) Series B (\$25.0 million); and Thermal Energy Facilities Revenue Bonds (Marina Energy LLC Project) Series 2006A (\$16.4 million). In connection with the redemptions, separate related letter of credit reimbursement agreements were terminated (see Note 15 to the consolidated financial statements).

In June 2017, SJI redeemed at maturity \$16.0 million of 2.71% Senior Unsecured Notes.

In July 2017, SJG redeemed at maturity \$15.0 million of 4.657% MTNs.

In August 2017, SJI entered into a note purchase agreement that provides for the issuance of an aggregate of \$100.0 million of MTNs. Pursuant to the agreement, SJI issued \$50.0 million aggregate principal amount of MTNs, consisting of (a) \$25.0 million aggregate principal amount of 3.22% Senior Notes, Series 2017A-1, due August 2024, and (b) \$25.0 million aggregate principal amount of 3.46% Senior Notes, Series 2017B-1, due August 2027. The agreement also provided for the issuance of (a) \$25.0 million aggregate principal amount of 3.32% Senior Notes, Series 2017A-2, due January 2025 and (b) \$25.0

million aggregate principal amount of 3.56% Senior Notes, Series 2017B-2, due January 2028, that SJI issued in January 2018 (see Note 19 to the consolidated financial statements).

In October 2017, SJI entered into a 364-day, \$2.6 billion syndicated, committed Bridge Facility to finance the acquisition of the assets of Elizabethtown Gas and Elkton Gas (see Note 1 to the consolidated financial statements). In November 2017 and January 2018, as a result of amendments to various outstanding debt agreements, SJI reduced the bridge commitments to \$1.7 billion, or the amount of the purchase price for the assets SJI agreed to acquire. SJI incurred \$10.4 million of debt issuance costs, which, net of \$2.6 million of amortization, are recorded as a reduction to long-term debt on the consolidated balance sheets. The Bridge Facility is also subject to ticking fees every 90 days, and as a result SJI has paid \$2.5 million of ticking fees through December 31, 2017.

In January 2018, SJI verbally agreed to issue an aggregate \$250.0 million principal amount of Senior Unsecured Notes via a delayed draw private placement. The first tranche of \$90.0 million will close and fund by April 2018, at an interest rate of 3.18% and will mature in April 2021. The second tranche and third tranches, totaling \$160.0 million, will close and fund prior to the acquisition date but no later than July 2018. The second tranche is for \$80.0 million, matures in 2028, and the coupon rate will be 3.78% plus a 2 basis point premium per month after April 2018 until funding. The third tranche is for \$80.0 million, matures in 2030, and the coupon rate will be 3.88% plus a 2 basis point premium per month after April 2018 until funding. For the second and third tranches, the coupon rates will be fixed upon closing.

In January 2016, the Company paid \$12.7 million to retire outstanding debt of ACB.

In July 2016, SJG retired \$15.0 million of 4.66% MTN's at maturity.

In August 2016, SJG retired \$10.0 million of 5.437% MTN's at maturity.

In August 2016, the Company paid an aggregate \$8.3 million to retire outstanding long-term debt for ACLE, SCLE and SXLE.

SJG makes payments of \$0.9 million annually through December 2025 toward the principal amount of 3.63% MTN's, including a payment made in 2017. As such, \$0.9 million of the total outstanding amount on this debt is classified in current portion of long-term debt on the consolidated balance sheets as it is due within one year (see Note 14 to the consolidated financial statements).

No other long-term debt was issued or retired during the years ended December 31, 2017 or 2016. In May 2016, the Company issued and sold 8,050,000 shares of its common stock, par value \$1.25 per share at 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.

Prior to May 1, 2016, SJI raised equity capital through its Dividend Reinvestment Plan (DRP). 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 in 2016. Effective May 1, 2016, SJI switched to purchasing shares on the open market to fund share purchases by DRP participants, and as a result SJI did not raise any equity capital through the DRP in 2017. SJI does not intend to issue equity capital via the DRP in 2018.

SJI's capital structure was as follows:

As of	
December 31,	
2017	2016

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Equity	43.7	%	49.1	%
Long-Term Debt	43.6	%	39.6	%
Short-Term Debt	12.7	%	11.3	%
Total	100.0	%	100.0	%

For 2017, 2016 and 2015, SJI paid quarterly dividends to its common shareholders. SJI has paid dividends on its common stock for 66 consecutive years and has increased that dividend each year for the last 18 years. The Company currently seeks to grow that dividend consistent with earnings growth while targeting a payout ratio of between 55% and 70% of Economic Earnings. In setting the dividend rate, the Board of Directors of SJI considers future earnings expectations, payout ratio, and dividend yield relative to those at peer companies, as well as returns available on other income-oriented investments. However, there can be no assurance that SJI will be able to continue to increase the dividend, meet the targeted payout ratio or pay a dividend at all in the future.

COMMITMENTS AND CONTINGENCIES:

ENVIRONMENTAL REMEDIATION - Costs for remediation projects, net of recoveries from ratepayers, for 2017, 2016 and 2015 amounted to net cash outflows of \$39.9 million, \$39.7 million and \$22.1 million, respectively. Total net cash outflows for remediation projects are expected to be approximately \$57.5 million, \$48.4 million and \$12.6 million for 2018, 2019 and 2020, respectively. As discussed in Notes 10 and 15 to the consolidated financial statements, certain environmental costs are subject to recovery from ratepayers.

STANDBY LETTERS OF CREDIT — As of December 31, 2017, SJI provided \$6.6 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 \$25.1 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 NJEDA to finance the expansion of SJG's natural gas distribution system. In May 2017, Marina redeemed its variable-rate demand bonds, and the related letters of credit reimbursement agreements, which totaled \$62.3 million, were terminated (see Note 14 to the consolidated financial statements).

CONTRACTUAL OBLIGATIONS - SJG and SJRG have certain commitments for both pipeline capacity and gas supply for which they pay fees regardless of usage. Those commitments as of December 31, 2017, average \$87.7 million annually and total \$875.9 million over the contracts' lives. Approximately 33% of the financial commitments under these contracts expire during the next five years. These contracts are included in SJI's contractual obligations below. We expect to renew each of these contracts under renewal provisions as provided in each contract. SJG recovers all prudently incurred fees through rates via the BGSS clause.

In addition, in the normal course of business, SJG and SJRG have entered into long-term contracts for natural gas supplies. SJRG has committed to purchase a minimum of 604,000 dts/d and up to 954,000 dts/d of natural gas, from various suppliers, for terms ranging from three to ten years at index-based prices. SJG has committed to purchase a minimum of 6,250 dts/d and up to 25,000 dts/d of natural gas, from one supplier, for a term of eight years at index-based prices. SJG has also committed to a purchase of a minimum of 55,000 dts/d and up to 70,000 dts/d, for a term of ten years at index-based prices. The obligations for these purchases have not been included in SJI's contractual obligations discussed below because the actual volumes and prices are not fixed.

The following table summarizes our contractual cash obligations and their applicable payment due dates as of December 31, 2017 (in thousands):

Contractual Cash Obligations	Total	Up to 1 Year	Years 2 & 3	Years 4 & 5	More than 5 Years
Principal Payments on Long-Term Debt	\$1,204,173	\$63,809	\$526,818	\$93,993	\$519,553
Interest on Long-Term Debt	283,418	38,694	55,763	45,359	143,602
Construction Obligations	118,162	118,162	—	—	—
Operating Leases	1,472	745	624	103	—

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Commodity Supply Purchase Obligations	1,622,553	650,658	406,692	119,669	445,534
Environmental Remediation Costs	172,855	66,372	61,022	1,537	43,924
New Jersey Clean Energy Program	13,154	13,154	—	—	—
Other Purchase Obligations	2,437	2,437	—	—	—
Total Contractual Cash Obligations	\$3,418,224	\$954,031	\$1,050,919	\$260,661	\$1,152,613

Long-Term Debt in the table above does not include unamortized debt issuance costs of \$17.4 million, which are reclassified to Long-Term Debt on the consolidated balance sheets.

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Interest on long-term debt in the table above includes the related interest obligations through maturity on all outstanding long-term debt. Expected asset retirement obligations and the liability for unrecognized tax benefits are not included in the table above as the total obligation cannot be calculated due to the subjective nature of these costs and timing of anticipated payments. SJI contributed \$10.0 million to the pension plans, of which SJG contributed \$8.0 million, in January 2017. SJI did not make contributions to its employee pension plans in 2016. Future pension contributions cannot be determined at this time. SJG's regulatory obligation to contribute \$3.6 million annually to its postretirement benefit plans' trusts, as discussed in Note 12 to the consolidated financial statements, is also not included as its duration is indefinite.

The total potential consideration related to the agreements to acquire the assets of Elizabethtown Gas and Elkton Gas, along with expected future costs to complete the acquisition, are not included in the table above due to pending approvals as discussed earlier in Management's Discussion. Also see Note 1 to the consolidated financial statements.

Off-Balance Sheet Arrangements - An off-balance sheet arrangement is any contractual arrangement involving an unconsolidated entity under which the Company has either made guarantees or has certain other interests or obligations.

As of December 31, 2017, SJI had issued \$6.0 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.

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.

In 2015, management of the Company and Energenic evaluated the carrying value of the investment in this project and a related note receivable. Based on the inability of the Energenic subsidiaries to secure a permanent or long-term energy services agreement, the Company recorded a \$7.7 million (net of tax) non-cash charge to earnings during the second quarter of 2015 due to the reduction in the carrying value of the investment in this project recorded by Energenic. This charge is included in Equity in Loss of Affiliated Companies for the year ended December 31, 2015 on the statements of consolidated income.

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 December 31, 2017, SJI had approximately \$13.6 million included in Notes Receivable - Affiliate on the 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.

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 2 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 plaintiff 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 \$20.4 million and \$53.6 million, respectively, through December 31, 2017. We believe that the amount to be paid by SJG reflects a gas cost that ultimately 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 consolidated balance sheets of both SJI and SJG as of December 31, 2017. The amount associated with SJRG was also recorded as an Accounts Payable on the consolidated balance sheets of SJI as of December 31, 2017, with charges of \$49.6 million to Cost of Sales - Nonutility on the consolidated statements of income of SJI for the year ended December 31, 2017. SJI also recorded \$4.0 million to Interest Charges on the consolidated statements of income for the year ended December 31, 2017. The plaintiff supplier filed a second related lawsuit against SJG and SJRG in the United States District Court for the District of Colorado on December 21, 2017, alleging that SJG and SJRG have continued to breach the gas supply contracts notwithstanding the judgment in the prior lawsuit. The plaintiff supplier is seeking recovery of the amounts disputed by SJI since the earlier judgment, and a declaration regarding the price under the disputed contracts going forward until the contracts terminate in October 2019. SJI moved to stay the second lawsuit pending resolution of the post-judgment motions in the first lawsuit and any appeal of that lawsuit. All legal reserves related to this second lawsuit are recorded as part of the accrued amounts disclosed above.

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. The counterparty claimed that it was owed approximately \$13.3 million, plus interest, from SJRG under a sharing credit within the contract. SJI settled with the counterparty for \$9.5 million, which amount was recorded to Cost of Sales - Nonutility on SJI's consolidated statements of income for the year ended December 31, 2017. SJI made the payment in September 2017.

SJI was also involved in a tariff rate dispute with a counterparty, whereby SJI contended that the counterparty was overcharging for storage demand charges over a ten-year period. In November 2017, SJI received a favorable decision from the FERC on this matter, which resulted in a total pre-tax income impact of \$9.3 million. Of this amount, \$7.4 million related to the actual overcharges and was recorded as a decrease to Cost of Sales - Nonutility on the consolidated statements of income for the year ended December 31, 2017. The remaining \$1.9 million related to interest income and was recorded in Other Income on the consolidated statements of income for the year ended December 31, 2017. SJI received payment from the counterparty in November 2017.

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 disputes that are noted above, SJI has accrued approximately \$3.0 million and \$3.1 million related to all claims in the aggregate as of December 31, 2017 and 2016, respectively, of which SJG has accrued approximately \$0.7 million and \$0.6 million as of December 31, 2017 and 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.

SOUTH JERSEY GAS COMPANY

This section of Management's Discussion focuses on South Jersey Gas Company (SJG) for the reported periods. In many cases, explanations and disclosures for both SJI and SJG are substantially the same or specific disclosures for SJG are included in the Management's Discussion for SJI.

RESULTS OF OPERATIONS:

The results of operations for the gas utility operations at SJG are described in detail above; therefore, this section primarily focuses on statistical information and other information that is not discussed in the results of operations under South Jersey Industries, Inc. Refer to the section entitled "Results of Operations - Gas Utility Operations" for a detailed discussion of the results of operations for SJG.

The following table summarizes the composition of selected gas utility throughput for the years ended December 31, (in thousands, except for degree day data):

	December 31, 2017			December 31, 2016			December 31, 2015		
Utility Throughput - dth:									
Firm Sales -									
Residential	22,107	15	%	22,126	15	%	23,852	17	%
Commercial	5,294	3	%	4,956	3	%	5,980	4	%
Industrial	422	—		310	—		338	—	
Cogeneration and Electric Generation	1,300	1	%	1,485	1	%	1,449	1	%
Firm Transportation -									
Residential	1,635	1	%	1,975	1	%	2,427	2	%
Commercial	6,422	4	%	6,892	5	%	6,783	5	%
Industrial	10,894	7	%	11,612	8	%	11,780	9	%
Cogeneration and Electric Generation	6,199	4	%	7,451	5	%	5,870	4	%
Total Firm Throughput	54,273	35	%	56,807	38	%	58,479	42	%
Interruptible Sales	3	—		2	—		20	—	
Interruptible Transportation	1,140	1	%	1,149	1	%	1,338	1	%
Off-System	25,560	17	%	16,526	11	%	14,603	11	%
Capacity Release	70,315	47	%	73,913	50	%	62,349	46	%
Total Throughput - Utility	151,291	100	%	148,397	100	%	136,789	100	%
Number of Customers at Year End:									
Residential	358,026	93	%	352,427	93	%	348,093	93	%
Commercial	25,184	7	%	24,767	7	%	24,565	7	%
Industrial	423	—		431	—		442	—	
Total Customers	383,633	100	%	377,625	100	%	373,100	100	%
Annual Degree Days*	4,272			4,292			4,402		

*Each day, each degree of average daily temperature below 65 degrees Fahrenheit is counted as one heating degree-day. Annual degree-days is the sum of the daily totals.

Throughput - Gas Utility Operations 2017 vs. 2016 - Total gas throughput increased 2.9 MMdts, or 2.0%, in 2017 compared with 2016 primarily due to increases in Off-System Sales of 9.0 MMdth. The increase in Off-System volume is primarily related to additional Off-System contracts that were entered into April through October of 2017. The increase in Off-System volume was partially offset by a 3.6 MMdts decrease in capacity releases during 2017 compared to 2016. Additionally, third-party supplier deliveries also decreased by 2.8 MMdth during 2017 compared to 2016, primarily due to weather that was 0.4% warmer than the previous year.

Throughput - Gas Utility Operations 2016 vs. 2015 - Total gas throughput increased 11.6 MMdts, or 8.5%, from 2015 to 2016, primarily due to increases in capacity release. The increase in capacity release volume is primarily related to specific releases made of Columbia pipeline capacity that did not occur in 2015. An increase in third-party supplier deliveries on the Columbia pipeline to SJG's system freed up capacity at SJG and allowed for additional capacity release of 11.6 MMdts during 2016 compared to 2015. Off-System Sales (OSS) volume also increased 1.9 MMdts, or 13.2%, during 2016 compared to 2015, primarily due to increased opportunity to supply natural gas to gas-fired power generation facilities during the summer months of 2016. These increases were partially offset by a 1.7 MMdts, or 2.9%, decrease in firm throughput, primarily due to weather that was 3% warmer than the previous year.

Operating Revenues & Utility Margin - See SJI's Management Discussion section above.

Operating Expenses - A summary of changes in other operating expenses (in thousands):

	2017 vs. 2016	2016 vs. 2015
Operations	3,383	\$(12,227)
Maintenance	2,178	\$1,366
Depreciation	6,455	\$6,067
Energy and Other Taxes	109	\$(411)

Operations - See SJI's Management Discussion section above.

Maintenance - See SJI's Management Discussion section above.

Depreciation - Depreciation expense increased \$6.5 million and \$6.1 million in 2017 and 2016, respectively, compared with the prior year primarily due to continuing investment in utility plant. The increased spending in recent years is a direct result of New Jersey's infrastructure improvement efforts, which included the approval of SJG's AIRP and SHARP, in addition to significant investment in new technology systems.

Energy and Other Taxes - The change in energy and other taxes in 2017 and 2016 compared with prior years was not significant.

Other Income and Expense - Other Income and Expense increased \$2.6 million in 2017 compared with 2016, primarily due to higher AFUDC due to increased capital spending and a new AIRP II program. Changes in Other Income and Expense during 2016 compared with 2015 were not significant.

Interest Charges - Interest charges increased \$6.8 million in 2017 compared with 2016, primarily due to higher amounts of long-term debt outstanding (see Note 14 to the consolidated financial statements). Interest charges decreased \$2.0 million in 2016 compared with 2015 primarily due to higher capitalization of interest costs on construction during 2016. This was a result of accumulating capital investments under the AIRP. AIRP investments are approved by the BPU to accrue interest on construction until such time they are rolled into base rates. This is partially offset by interest on \$61.0 million of long-term debt issued in January 2016.

Income Taxes – Income tax expense generally fluctuates as income before taxes changes. Minor variations will occur period to period as a result of effective tax rate adjustments.

LIQUIDITY AND CAPITAL RESOURCES:

Liquidity and capital resources for SJG are substantially covered in the Management's Discussion of SJI (except for the items and transactions that relate to SJI and its nonutility subsidiaries). Those explanations are incorporated by reference into this discussion.

Liquidity needs for SJG are driven by factors that include natural gas commodity prices; the impact of weather on customer bills; lags in fully collecting gas costs from customers under the BGSS charge and environmental remediation expenditures through the RAC; the timing of construction and remediation expenditures and related permanent financings; mandated tax payment dates; both discretionary and required repayments of long-term debt; and the amounts and timing of dividend payments.

Cash Flows from Operating Activities - Liquidity needs are first met with net cash provided by operating activities. Net cash provided by operating activities totaled \$106.7 million, \$142.2 million and \$164.6 million for the years ended 2017, 2016 and 2015, respectively. Net cash provided by operating activities varies from year-to-year primarily due to the impact of weather on customer demand and related gas purchases, customer usage factors related to conversion efforts and the price of the natural gas commodity, inventory utilization, and gas cost recoveries. Operating activities for 2017 produced less net cash than the same period in 2016, primarily due to under-recoveries in the BGSS clause at SJG. During the second quarter of 2017, SJG provided a customer BGSS bill credit based on a forecasted over-recovered clause balance at the end of the BGSS year. In addition, SJG experienced higher spending for environmental remediation. Finally, during the first quarter of 2017, SJG made an \$8.0 million payment to fund its pension plans. SJG did not make a contribution to its pension plans in 2016.

Cash Flows from Investing Activities - SJG has a continuing need for cash resources for capital expenditures, primarily to invest in new and replacement facilities and equipment. SJG estimates the net cash outflows for capital expenditures for fiscal years 2018, 2019 and 2020 to be approximately \$276.8 million, \$262.9 million and \$363.9 million, respectively. For capital expenditures, including those under the AIRP and SHARP, SJG expects to use short-term borrowings under both its commercial paper program and lines of credit from commercial banks to finance capital expenditures as incurred. From time to time, SJG may refinance the short-term debt incurred to support capital expenditures with long-term debt.

During 2017, SJG made a \$4.9 million payment to fund company-owned life insurance.

Cash Flows from Financing Activities - SJG supplements its operating cash flow and credit lines with both debt and equity capital. Over the years, SJG has used long-term debt, primarily in the form of First Mortgage Bonds and MTN's, secured by the same pool of utility assets, to finance its long-term borrowing needs. These needs are primarily capital expenditures for property, plant and equipment.

SJI contributed equity infusions of \$40.0 million and \$65.0 million to SJG during the years ended December 31, 2017 and 2016, respectively. In December 2017, SJG declared and paid cash dividends of \$20.0 million to SJI.

SJG's capital structure was as follows:

	As of	
	December 31,	
	2017	2016
Common Equity	51.3%	53.0 %
Long-Term Debt	45.8%	40.4 %
Short-Term Debt	2.9%	6.6 %
Total	100.0%	100.0%

COMMITMENTS AND CONTINGENCIES:

Costs for remediation projects, net of recoveries from ratepayers, for 2017, 2016 and 2015 amounted to net cash outflows of \$39.9 million, \$39.7 million and \$22.1 million, respectively. Total net cash outflows for remediation

projects are expected to be \$57.2 million, \$48.2 million and \$12.5 million for 2018, 2019 and 2020, respectively. Environmental remediation costs are subject to recovery from ratepayers.

SJG has certain commitments for both pipeline capacity and gas supply for which SJG pays fees regardless of usage. Those commitments, as of December 31, 2017, averaged \$71.8 million annually and totaled \$461.8 million over the contracts' lives. Approximately 21% of the financial commitments under these contracts expire during the next five years. SJG expects to renew each of these contracts under renewal provisions as provided in each contract. SJG recovers all such prudently incurred fees through rates via the BGSS.

SJG has long-term contracts for natural gas supplies. SJG committed to purchase a minimum of 6,250 dts/d and up to 25,000 dts/d of natural gas, from one supplier, for an original term of eight years at index-based prices. SJG has also committed to a purchase of a minimum of 55,000 dts/d and up to 70,000 dts/d, for a term of ten years at index-based prices. The obligations for these purchases have not been included in SJG's contractual obligations table below because the actual volumes and prices are not fixed.

The following table summarizes SJG's contractual cash obligations and their applicable payment due dates as of December 31, 2017 (in thousands):

Contractual Cash Obligations	Total	Up to 1 Year	Years 2 & 3	Years 4 & 5	More than 5 Years
Principal Payments on Long-Term Debt	\$829,173	\$63,809	\$236,818	\$58,993	\$469,553
Interest on Long-Term Debt	250,187	28,063	43,698	40,202	138,224
Commodity Supply Purchase Obligations	494,395	94,406	118,828	59,773	221,388
Environmental Remediation Costs	171,696	66,040	60,697	1,386	43,573
Construction Obligations	112,275	112,275	—	—	—
Operating Leases	269	180	89	—	—
New Jersey Clean Energy Program	13,154	13,154	—	—	—
Other Purchase Obligations	2,437	2,437	—	—	—
Total Contractual Cash Obligations	\$1,873,586	\$380,364	\$460,130	\$160,354	\$872,738

Long-Term Debt in the table above does not include unamortized debt issuance costs of \$7.3 million, which are reclassified to Long-Term Debt on the balance sheets.

Expected asset retirement obligations and the liability for unrecognized tax benefits are not included in the table above as the total obligation cannot be calculated due to the subjective nature of these costs and timing of anticipated payments. SJG made contributions to its employee pension plans totaling \$8.0 million in January 2017; SJG did not make a pension plan contribution in 2016. Future pension contributions cannot be determined at this time. SJG's regulatory obligation to contribute \$3.6 million annually to its postretirement benefit plans' trusts, as discussed in Note 12 to the consolidated financial statements, is also not included as its duration is indefinite.

Pending Litigation - See SJG's disclosure in the Commitments and Contingencies section of SJI's Management Discussion above.

Off-Balance Sheet Arrangements - SJG has no off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risks

South Jersey Industries, Inc.

Commodity Market Risks - Certain regulated and nonregulated SJI subsidiaries are involved in buying, selling, transporting and storing natural gas, and buying and selling retail electricity and SREC's, for their own accounts as well as managing these activities for third parties. These subsidiaries are subject to market risk due to price fluctuations. To hedge against this risk, SJI enters into a variety of physical and financial transactions including forward contracts, swaps, futures and options agreements. To manage these transactions, SJI has a well-defined risk management policy approved by SJI's Board of Directors that includes volumetric and monetary limits. Management reviews reports detailing activity daily. Generally, the derivative activities described above are entered into for risk management purposes.

As part of its gas purchasing strategy, SJG uses financial contracts to hedge against forward price risk. These contracts are recoverable through SJG's BGSS, subject to BPU approval.

The retail gas operations of SJE transact commodities on a physical basis, and SJE typically does not enter into financial derivative positions directly. SJRG manages risk in the natural gas markets for SJE as well as for its own portfolio by entering into the types of transactions noted above. The retail electric operations of SJE use forward physical and financial contracts to mitigate commodity price risk on fixed price electric contracts. It is management's policy, to the extent practical, within predetermined risk management policy guidelines, to have limited unmatched positions on a deal or portfolio basis while conducting these activities. As a result of holding open positions to a minimal level, the economic impact of changes in value of a particular transaction is substantially offset by an opposite change in the related hedge transaction.

SJI has entered into certain contracts to buy, sell, and transport natural gas and to buy and sell retail electricity. SJI recorded the net pre-tax (loss) gain on these contracts of \$(13.7) million, \$26.9 million and \$8.4 million in earnings during 2017, 2016 and 2015, respectively, which are included with realized gains and losses in Operating Revenues - Nonutility on the consolidated statements of income.

The fair value and maturity of these energy-trading contracts determined under the mark-to-market method as of December 31, 2017 is as follows (in thousands):

Assets

Source of Fair Value	Maturity < 1 Year	Maturity 1 - 3 Years	Maturity Beyond 3 Years	Total
Prices actively quoted	\$ 5,022	\$ 131	\$ 2	\$5,155
Prices provided by other external sources	20,695	1,170	4	21,869
Prices based on internal models or other valuation methods	16,422	4,601	80	21,103