

NEW JERSEY RESOURCES CORP
Form 10-K
November 20, 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 September 30, 2018
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 001 08359

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

New Jersey 22 2376465
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

1415 Wyckoff Road, Wall, New Jersey 07719 732 938 1000
(Address of principal executive offices) (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:
Common Stock \$2.50 Par Value New York Stock Exchange
(Title of each class) (Name of each exchange on which registered)

Securities registered pursuant to Section 12 (g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
 Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the 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.

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

Large accelerated filer: Accelerated filer:

Non-accelerated filer: Smaller reporting company:

Emerging growth company:

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the registrant's common stock held by non-affiliates was \$3,451,945,383 based on the closing price of \$40.10 per share on March 31, 2018, as reported on the New York Stock Exchange.

The number of shares outstanding of \$2.50 par value common stock as of November 16, 2018 was 88,505,199.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Shareowners (Proxy Statement) to be held on January 23, 2019, are incorporated by reference into Part I and Part III of this report.

New Jersey Resources Corporation

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* Portions of Item 10 and Items 11-14 are Incorporated by Reference from the Proxy Statement.

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GLOSSARY OF KEY

TERMS

Adelphia	Adelphia Gateway, LLC
AFUDC	Allowance for Funds Used During Construction
ARO	Asset Retirement Obligations
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bcf	Billion Cubic Feet
BGSS	Basic Gas Supply Service
BPU	New Jersey Board of Public Utilities
CIP	Conservation Incentive Program
CME	Chicago Mercantile Exchange
CR&R	Commercial Realty & Resources Corp.
Degree-day	The measure of the variation in the weather based on the extent to which the average daily temperature falls below 65 degrees Fahrenheit
DM	Dominion Energy Midstream Partners, L.P., a master limited partnership
DM Common Units	Common units representing limited partnership interests in DM
DRP	NJR Direct Stock Purchase and Dividend Reinvestment Plan
Dths	Dekatherms
EDA	New Jersey Economic Development Authority
EDA Bonds	Collectively, Series 2011A, Series 2011B and Series 2011C Bonds issued to NJNG by the EDA
EDECA	Electric Discount and Energy Competition Act
EE	Energy Efficiency
FASB	Financial Accounting Standards Board
FCM	Futures Commission Merchant
FERC	Federal Energy Regulatory Commission
Financial Margin	A non-GAAP financial measure, which represents revenues earned from the sale of natural gas less costs of natural gas sold including any transportation and storage costs, and excludes any accounting impact from the change in the fair value of certain derivative instruments
FMB	First Mortgage Bonds
GAAP	Generally Accepted Accounting Principles of the United States
HCCTR	Health Care Cost Trend Rate
Home Services and Other	Home Services and Other Operations (formerly Retail and Other Operations)
ICE	Intercontinental Exchange
IEC	Interstate Energy Company, LLC
Iroquois	Iroquois Gas Transmission L.P.
IRS	Internal Revenue Service
ISDA	The International Swaps and Derivatives Association
ITC	Investment Tax Credit
LIBOR	London Inter-Bank Offered Rate
LNG	Liquefied Natural Gas
Loan Agreement	Loan Agreement between the EDA and NJNG
MGP	Manufactured Gas Plant
MLP	Master Limited Partnership

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MMBtu	Million British Thermal Units
Moody's	Moody's Investors Service, Inc.
Mortgage Indenture	The Amended and Restated Indenture of Mortgage, Deed of Trust and Security Agreement between NJNG and U.S. Bank National Association dated as of September 1, 2014
MW	Megawatts
MWh	Megawatt Hour
NAESB	The North American Energy Standards Board
NFE	Net Financial Earnings
NJ RISE	New Jersey Reinvestment in System Enhancement
NJCEP	New Jersey's Clean Energy Program
NJDEP	New Jersey Department of Environmental Protection
NJNG	New Jersey Natural Gas Company or Natural Gas Distribution segment
NJNG Credit Facility	The \$250 million unsecured committed credit facility expiring in May 2019
NJR Credit Facility	The \$425 million unsecured committed credit facility expiring in September 2020
NJR or The Company	New Jersey Resources Corporation

New Jersey Resources Corporation

GLOSSARY OF KEY TERMS

(cont.)

NJRCEV	NJR Clean Energy Ventures Corporation
NJRES	NJR Energy Services Company
NJRHS	NJR Home Services Company
NJRRS	NJR Retail Services Company
Non-GAAP	Not in accordance with Generally Accepted Accounting Principles of the United States
NPNS	Normal Purchase/Normal Sale
NYMEX	New York Mercantile Exchange
O&M	Operation and Maintenance
OPEB	Other Postemployment Benefit Plans
PBO	Projected Benefit Obligation
PennEast	PennEast Pipeline Company, LLC
PEP	Pension Equalization Plan
PIM	Pipeline Integrity Management
PPA	Power Purchase Agreement
Prudential Facility	NJR's unsecured, uncommitted private placement shelf note agreement with Prudential Investment Management, Inc.
PTC	Production Tax Credit
RAC	Remediation Adjustment Clause
REC	Renewable Energy Certificate
S&P	Standard & Poor's Financial Services, LLC
SAFE I	Safety Acceleration and Facility Enhancement Program, Phase I
SAFE II	Safety Acceleration and Facility Enhancement Program, Phase II
Sarbanes-Oxley	Sarbanes-Oxley Act of 2002
SAVEGREEN	The SAVEGREEN Project®
Savings Plan	Employees' Retirement Savings Plan
SBC	Societal Benefits Charge
SEC	Securities and Exchange Commission
SREC	Solar Renewable Energy Certificate
SRL	Southern Reliability Link
Steckman Ridge Superstorm Sandy	Collectively, Steckman Ridge GP, LLC and Steckman Ridge, LP Post-Tropical Cyclone Sandy
Talen	Talen Energy Marketing, LLC or Talen Generation, LLC
Tetco	Texas Eastern Transmission
The Exchange Act	The Securities Exchange Act of 1934, as amended
The Tax Act	An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, previously known as The Tax Cuts and Jobs Act of 2017
Trustee	U.S. Bank National Association
TSR	Total Shareholder Return
U.S.	The United States of America
Union	International Brotherhood of Electrical Workers Local 1820
USF	Universal Service Fund

New Jersey Resources Corporation

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INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report, including, without limitation, statements as to management expectations, assumptions and beliefs presented in Part I, Item 1. Business and Item 3. Legal Proceedings, and in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Quantitative and Qualitative Disclosures About Market Risk, and in the notes to the financial statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995.

Forward-looking statements can also be identified by the use of forward-looking terminology such as "anticipate," "estimate," "may," "could," "might," "intend," "expect," "believe," "will" "plan" or "should" or comparable terminology and are based upon management's current expectations, assumptions and beliefs as of this date concerning future developments and their potential effect on us. There can be no assurance that future developments will be in accordance with management's expectations, assumptions or beliefs, or that the effect of future developments on us will be those anticipated by management.

We caution readers that the expectations, assumptions and beliefs that form the basis for forward-looking statements regarding customer growth, customer usage, qualifications for ITCs and SRECs, future rate case proceedings, financial condition, results of operations, cash flows, capital requirements, future capital expenditures, market risk, effective tax rate and other matters for fiscal 2019 and thereafter include many factors that are beyond our ability to control or estimate precisely, such as estimates of future market conditions, the behavior of other market participants and changes in the debt and equity capital markets. The factors that could cause actual results to differ materially from our expectations, assumptions and beliefs include, but are not limited to, those discussed in Part I, Item 1A. Risk Factors, as well as the following:

- risks associated with our investments in clean energy projects, including the availability of regulatory incentives and federal tax credits, the availability of viable projects, our eligibility for ITCs, the future market for SRECs and electricity prices, and operational risks related to projects in service;
- our ability to obtain governmental and regulatory approvals, land-use rights, electric grid connection (in the case of clean energy projects) and/or financing for the construction, development and operation of our unregulated energy investments, pipeline transportation systems and NJNG and Midstream infrastructure projects, including NJ RISE, SRL, PennEast and Adelphia, in a timely manner;
- risks associated with acquisitions and the related integration of acquired assets with our current operations, including our planned Adelphia acquisition;
- volatility of natural gas and other commodity prices and their impact on NJNG customer usage, NJNG's BGSS incentive programs, our Energy Services segment operations and our risk management efforts;
- our ability to comply with current and future regulatory requirements;
- the level and rate at which NJNG's costs and expenses are incurred and the extent to which they are approved for recovery from customers through the regulatory process, including through future base rate case filings;
- the impact of a disallowance of recovery of environmental-related expenditures and other regulatory changes;
- the performance of our subsidiaries;
- operating risks incidental to handling, storing, transporting and providing customers with natural gas;
- access to adequate supplies of natural gas and dependence on third-party storage and transportation facilities for natural gas supply;
- the regulatory and pricing policies of federal and state regulatory agencies;
- timing of qualifying for ITCs due to delays or failures to complete planned solar projects and the resulting effect on our effective tax rate and earnings;

the results of legal or administrative proceedings with respect to claims, rates, environmental issues, gas cost prudence reviews and other matters;

changes in rating agency requirements and/or credit ratings and their effect on availability and cost of capital to our Company;

risks related to cyberattacks or failure of information technology systems;

the impact of volatility in the equity and credit markets on our access to capital;

the impact to the asset values and resulting higher costs and funding obligations of our pension and postemployment benefit plans as a result of potential downturns in the financial markets, lower discount rates, revised actuarial assumptions or impacts associated with the Patient Protection;

commercial and wholesale credit risks, including the availability of creditworthy customers and counterparties, and liquidity in the wholesale energy trading market;

accounting effects and other risks associated with hedging activities and use of derivatives contracts;

our ability to optimize our physical assets;

weather and economic conditions;

changes to tax laws and regulations;

any potential need to record a valuation allowance for our deferred tax assets;

our ability to comply with debt covenants;

demographic changes in our service territory and their effect on our customer growth;

the impact of natural disasters, terrorist activities and other extreme events on our operations and customers;

the costs of compliance with present and future environmental laws, including potential climate change-related legislation;

environmental-related and other uncertainties related to litigation or administrative proceedings;

risks related to our employee workforce; and

risks associated with the management of our joint ventures and partnerships, and investment in a master limited partnership.

While we periodically reassess material trends and uncertainties affecting our results of operations and financial condition in connection with the preparation of management's discussion and analysis of results of operations and financial condition contained in our Quarterly and Annual Reports on Form 10-Q and Form 10-K, respectively, we do not, by including this statement, assume any obligation to review or revise any particular forward-looking statement referenced herein in light of future events.

New Jersey Resources Corporation
Part I

ITEM 1.
BUSINESS

ORGANIZATIONAL STRUCTURE

New Jersey Resources Corporation is a New Jersey corporation formed in 1981 pursuant to a corporate reorganization. We are an energy services holding company whose principal business is the distribution of natural gas through a regulated utility, providing other retail and wholesale energy services to customers and investing in clean energy projects and midstream assets. We are an exempt holding company under section 1263 of the Energy Policy Act of 2005.

Our primary subsidiaries include:

New Jersey Natural Gas Company provides regulated retail natural gas service to approximately 538,700 residential and commercial customers in central and northern New Jersey and participates in the off-system sales and capacity release markets. NJNG, a local natural gas distribution company, is regulated by the BPU and comprises the Company's Natural Gas Distribution segment and is referred to herein as NJNG or Natural Gas Distribution.

NJR Clean Energy Ventures Corporation includes the results of operations and assets related to the Company's unregulated capital investments in clean energy projects, including commercial and residential solar projects and onshore wind investments. NJRCEV comprises the Company's Clean Energy Ventures segment and is referred to herein as Clean Energy Ventures.

NJR Energy Services Company maintains and transacts around a portfolio of physical assets consisting of natural gas storage and transportation contracts in the U.S. and Canada. NJRES also provides unregulated wholesale energy management services to other energy companies and natural gas producers. NJRES comprises our Energy Services segment and is referred to herein as Energy Services. NJR Retail Services Company provided unregulated retail natural gas supply and transportation services to commercial and industrial customers in Delaware, Maryland, Pennsylvania and New Jersey from July 2017 through February 2018. NJRRS was sold to an unrelated third party on February 28, 2018, and was included as part of our Energy Services segment for fiscal 2018 and 2017.

NJR Midstream Holdings Corporation, which comprises the Midstream segment, invests in energy-related ventures through its subsidiaries. Investments include NJR Steckman Ridge Storage Company, which holds our 50 percent combined ownership interest in Steckman Ridge, located in Pennsylvania; NJNR Pipeline, which holds our DM Common Units; and NJR Pipeline Company, which includes Adelphia Gateway, LLC and our 20 percent ownership interest in PennEast. See Note 6. Investments in Equity Investees for more information.

NJR Home Services Company provides heating, ventilation and cooling service, sales and installation of appliances to approximately 110,000 service contract customers, as well as solar installation projects, and is the primary contributor to Home Services and Other operations.

New Jersey Resources Corporation
Part I

ITEM 1. BUSINESS
(Continued)

REPORTING SEGMENTS

We operate within four reporting segments: Natural Gas Distribution, Clean Energy Ventures, Energy Services and Midstream.

The Natural Gas Distribution segment consists of regulated natural gas services, off-system sales, capacity and storage management operations. The Energy Services segment consists of unregulated wholesale and retail energy operations. The Clean Energy Ventures segment consists of capital investments in clean energy projects. The Midstream segment consists of investments in the midstream natural gas market, such as natural gas transportation and storage facilities.

Net income by reporting segment and other business operations for the years ended September 30, are as follows:

* Energy Services' net income for fiscal 2017 was \$476,000 and does not show clearly in the above graph.

Assets composition by reporting segment and other business operations at September 30, are as follows:

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New Jersey Resources Corporation
Part I

ITEM 1. BUSINESS
(Continued)

Management uses NFE, a non-GAAP financial measure, when evaluating our operating results. NFE is a measure of the earnings based on eliminating timing differences surrounding the recognition of certain gains or losses to effectively match the earnings effects of the economic hedges with the physical sale of gas and, therefore, eliminates the impact of volatility to GAAP earnings associated with the derivative instruments. Energy Services economically hedges its natural gas inventory with financial derivative instruments and calculates the related tax effect based on the statutory rate.

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. The following is a reconciliation of consolidated net income, the most directly comparable GAAP measure, to NFE:

(Thousands)	2018	2017	2016
Net income	\$233,436	\$132,065	\$131,672
Add:			
Unrealized loss (gain) on derivative instruments and related transactions	26,770	(11,241)	46,883
Tax effect	(4,512)	4,062	(17,018)
Effects of economic hedging related to natural gas inventory	(22,570)	38,470	(36,816)
Tax effect	7,362	(13,964)	13,364
NFE ⁽¹⁾	\$240,486	\$149,392	\$138,085
Basic earnings per share	\$2.66	\$1.53	\$1.53
Add:			
Unrealized loss (gain) on derivative instruments and related transactions	0.31	(0.13)	0.55
Tax effect	(0.05)	0.05	(0.20)
Effects of economic hedging related to natural gas inventory	(0.26)	0.45	(0.43)
Tax effect	0.08	(0.17)	0.16
Basic NFE per share	\$2.74	\$1.73	\$1.61

NFE during fiscal 2018 was \$59.6 million, or \$0.68 per share, higher due to the revaluation of deferred taxes resulting from the reduction in the federal corporate tax rate related to the Tax Act.

NFE by reporting segment and other business operations for the years ended September 30, are as follows:

New Jersey Resources Corporation
Part I

ITEM 1. BUSINESS
(Continued)

Natural Gas Distribution

General

Our Natural Gas Distribution segment consists of regulated utility operations that provide natural gas service to approximately 538,700 customers. NJNG's service territory includes New Jersey's Monmouth and Ocean counties and parts of Burlington, Morris and Middlesex counties. It encompasses 1,516 square miles, covering 105 municipalities with an estimated population of 1.5 million people. It is primarily suburban, highlighted by approximately 100 miles of New Jersey coastline. It is in close proximity to New York City, Philadelphia and the metropolitan areas of northern New Jersey and is accessible through a network of major roadways and mass transportation.

NJNG's business is subject to various risks, such as those associated with adverse economic conditions, which can negatively impact customer growth, operating and financing costs, fluctuations in commodity prices, which can impact customer usage, customer conservation efforts, certain regulatory actions and environmental remediation. It is often difficult to predict the impact of trends associated with these risks. NJNG employs strategies to manage the challenges it faces, including pursuing customer conversions from other fuel sources and monitoring new construction markets through contact with developers, utilizing incentive programs through BPU-approved mechanisms to reduce gas costs, pursuing rate and other regulatory strategies designed to stabilize and decouple gross margin, and working actively with consultants and the NJDEP to manage expectations related to its obligations associated with its former MGP sites.

Operating Revenues/Throughput

For the fiscal years ended September 30, operating revenues and throughput by customer class are as follows:

	2018		2017		2016	
(\$ in thousands)	Operating Revenue ^{Bcf}		Operating Revenue ^{Bcf}		Operating Revenue ^{Bcf}	
Residential	\$441,48645.5		\$395,31540.7		\$345,59736.9	
Commercial and other	95,351	8.9	98,777	8.7	80,994	7.3
Firm transportation	65,256	15.5	73,206	14.4	69,696	14.1
Total residential and commercial	602,093	69.9	567,298	63.8	496,287	58.3
Interruptible	7,522	46.2	7,970	55.0	8,867	61.5
Total system	609,615	116.1	575,268	118.8	505,154	119.8
BGSS incentive programs ⁽¹⁾	122,250	42.8	120,369	49.5	89,192	56.6
Total	\$731,865					