SOUTH JERSEY INDUSTRIES INC
Form 10-Q
November 05, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
(Mark one)

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

For the quarterly period ended September 30, 2015
OR

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

For the transition period from ________________ to __________________

Commission File Number 1-6364

SOUTH JERSEY INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

New Jersey	22-1901645
(State of incorporation)	(IRS employer identification no.)

1 South Jersey Plaza, Folsom, NJ 08037
(Address of principal executive offices, including zip code)
(609) 561-9000
(Registrant's telephone number, including area code)

Common Stock	
($1.25 par value per share)	New York Stock Exchange
(Title of each class)	(Name of exchange on which registered)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

As of November 2, 2015 there were 69,294,447 shares of the registrant's common stock outstanding.

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Item 1. Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended September 30, 2015	2014
Operating Revenues:		
Utility	$57,507	$60,756
Nonutility	83,555	61,671
Total Operating Revenues	141,062	122,427
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	21,808	23,205
- Nonutility	77,316	52,868
Operations	33,150	29,939
Maintenance	4,188	3,275
Depreciation	18,422	16,057
Energy and Other Taxes	1,231	1,196
Total Operating Expenses	156,115	126,540
Operating Loss	(15,053)	(4,113)
Other Income and Expense	2,241	3,419
Interest Charges	(8,107)	(6,768)
Loss Before Income Taxes	(20,919)	(7,462)
Income Taxes	10,968	8,325
Equity in Loss of Affiliated Companies	(2,581)	(5,139)
Loss from Continuing Operations	(12,532)	(4,276)
Loss from Discontinued Operations - (Net of tax benefit)	(91)	(120)
Net Loss	$(12,623)	$(4,396)
Basic Earnings Per Common Share:		
Continuing Operations	$(0.18)	$(0.07)
Discontinued Operations	—	—
Basic Earnings Per Common Share	$(0.18)	$(0.07)
Average Shares of Common Stock Outstanding - Basic	68,607	66,332
Diluted Earnings Per Common Share:		
Continuing Operations	$(0.18)	$(0.07)
Discontinued Operations	—	—
Diluted Earnings Per Common Share	$(0.18)	$(0.07)
Average Shares of Common Stock Outstanding - Diluted	68,607	66,332
Dividends Declared Per Common Share	$0.25	$0.24

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

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

	Nine Months Ended September 30,	
	2015	2014
Operating Revenues:		
Utility	$399,332	$339,988
Nonutility	302,393	265,911
Total Operating Revenues	701,725	605,899
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	191,683	150,905
- Nonutility	240,093	232,253
Operations	108,813	99,941
Maintenance	12,114	9,715
Depreciation	52,671	46,543
Energy and Other Taxes	4,693	4,390
Total Operating Expenses	610,067	543,747
Operating Income	91,658	62,152
Other Income and Expense	7,522	9,972
Interest Charges	(24,182)	(20,698)
Income Before Income Taxes	74,998	51,426
Income Taxes	(2,366)	5,966
Equity in Loss of Affiliated Companies	(17,970)	(3,756)
Income from Continuing Operations	54,662	53,636
Loss from Discontinued Operations - (Net of tax benefit)	(441)	(513)
Net Income	$54,221	$53,123
Basic Earnings Per Common Share:		
Continuing Operations	$0.80	$0.81
Discontinued Operations	(0.01)	—
Basic Earnings Per Common Share	$0.79	$0.81
Average Shares of Common Stock Outstanding - Basic	68,491	65,932
Diluted Earnings Per Common Share:		
Continuing Operations	$0.80	$0.81
Discontinued Operations	(0.01)	—
Diluted Earnings Per Common Share	$0.79	$0.81
Average Shares of Common Stock Outstanding - Diluted	68,689	66,082
Dividends Declared per Common Share	$0.75	$0.71

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

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

	Three Months Ended September 30,	
	2015	2014
Net Loss	$(12,623)	$(4,396)
Other Comprehensive Loss, Net of Tax:*		
Unrealized Loss on Available-for-Sale Securities	(177)	(613)
Unrealized Gain on Derivatives - Other	52	66
Other Comprehensive (Loss) Income of Affiliated Companies	(96)	63
Other Comprehensive Loss - Net of Tax*	(221)	(484)
Comprehensive Loss	$(12,844)	$(4,880)

	Nine Months Ended September 30,	
	2015	2014
Net Income	$54,221	$53,123
Other Comprehensive Income (Loss), Net of Tax:*		
Unrealized Loss on Available-for-Sale Securities	(153)	(397)
Unrealized Gain on Derivatives - Other	171	198
Other Comprehensive Loss of Affiliated Companies	(132)	(37)
Other Comprehensive Loss - Net of Tax*	(114)	(236)
Comprehensive Income	$54,107	$52,887

* For 2015, determined using a combined average statutory tax rate of 40%. For 2014, determined using a combined statutory tax rate of 41%.

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

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

	Nine Months Ended September 30,	
	2015	2014
Net Cash Provided by Operating Activities	$151,886	$109,042
Cash Flows from Investing Activities:		
Capital Expenditures	(234,550)	(203,918)
Purchase of Available for Sale Securities	(6,059)	—
Net Proceeds from Sale of (Purchase of) Restricted Investments in Margin Account	22,947	(4,815)
Net Sale of Restricted Investments from Escrowed Loan Proceeds	101	—
Investment in Long-Term Receivables	(13,784)	(4,881)
Proceeds from Long-Term Receivables	6,556	5,075
Notes Receivable	(9,919)	—
Purchase of Company-Owned Life Insurance	(1,764)	(1,172)
Investment in Affiliate	(6,099)	—
Advances on Notes Receivable - Affiliate	(2,163)	(3,472)
Repayment of Notes Receivable - Affiliate	3,835	4,761
Net Cash Used in Investing Activities	(240,899)	(208,422)
Cash Flows from Financing Activities:		
Net Borrowings from (Repayments of) Short-Term Credit Facilities	105,700	(204,500)
Proceeds from Issuance of Long-Term Debt	80,000	329,000
Principal Repayments of Long-Term Debt	(74,100)	(21,000)
Payments for Issuance of Long-Term Debt	(8)	(2,159)
Dividends on Common Stock	(34,397)	(31,121)
Proceeds from Sale of Common Stock	9,705	29,125
Net Cash Provided by Financing Activities	86,900	99,345
Net Decrease in Cash and Cash Equivalents	(2,113)	(35)
Cash and Cash Equivalents at Beginning of Period	4,171	3,818
Cash and Cash Equivalents at End of Period	$2,058	$3,783

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

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

	September 30, 2015	December 31, 2014
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$2,151,526	$2,002,966
Accumulated Depreciation	(431,327)	(413,597)
Nonutility Property and Equipment, at cost	691,565	622,079
Accumulated Depreciation	(100,218)	(77,345)
Property, Plant and Equipment - Net	2,311,546	2,134,103
Investments:		
Available-for-Sale Securities	14,371	8,922
Restricted	43,365	65,451
Investment in Affiliates	53,237	68,351
Total Investments	110,973	142,724
Current Assets:		
Cash and Cash Equivalents	2,058	4,171
Accounts Receivable	213,113	251,892
Unbilled Revenues	22,035	62,608
Provision for Uncollectibles	(10,320)	(7,910)
Notes Receivable	9,919	—
Notes Receivable - Affiliate	13,765	14,657
Natural Gas in Storage, average cost	53,263	63,246
Materials and Supplies, average cost	1,937	2,125
Deferred Income Taxes - Net	67,421	57,748
Prepaid Taxes	17,303	14,106
Derivatives - Energy Related Assets	60,536	85,368
Other Prepayments and Current Assets	27,904	18,686
Total Current Assets	478,934	566,697
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	339,192	357,160
Derivatives - Energy Related Assets	17,138	13,905
Unamortized Debt Issuance Costs	8,813	9,795
Notes Receivable - Affiliate	36,019	36,799
Contract Receivables	26,081	19,236
Notes Receivable	7,882	7,882
Other	62,930	61,124
Total Regulatory and Other Noncurrent Assets	498,055	505,901
Total Assets	$3,399,508	$3,349,425

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

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

	September 30, 2015	December 31, 2014
Capitalization and Liabilities		
Equity:		
Common Stock	$85,909	$85,418
Premium on Common Stock	449,792	438,384
Treasury Stock (at par)	(290)	(330)
Accumulated Other Comprehensive Loss	(30,372)	(30,258)
Retained Earnings	441,789	439,218
Total Equity	946,828	932,432
Long-Term Debt	937,391	859,491
Total Capitalization	1,884,219	1,791,923
Current Liabilities:		
Notes Payable	351,400	245,700
Current Portion of Long-Term Debt	77,909	149,909
Accounts Payable	189,122	272,998
Customer Deposits and Credit Balances	20,886	17,958
Environmental Remediation Costs	46,307	30,430
Taxes Accrued	2,353	2,328
Derivatives - Energy Related Liabilities	86,793	109,744
Dividends Payable	17,268	—
Interest Accrued	6,121	7,088
Pension Benefits	1,515	1,550
Other Current Liabilities	7,287	12,480
Total Current Liabilities	806,961	850,185
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes - Net	350,062	344,520
Investment Tax Credits	37	149
Pension and Other Postretirement Benefits	103,046	115,373
Environmental Remediation Costs	82,575	97,742
Asset Retirement Obligations	43,055	42,502
Derivatives - Energy Related Liabilities	23,490	19,926
Derivatives - Other	11,518	10,732
Regulatory Liabilities	62,461	41,899
Finance Obligation	18,912	19,659
Other	13,172	14,815
Total Deferred Credits and Other Noncurrent Liabilities	708,328	707,317
Commitments and Contingencies (Note 11)		

Total Capitalization and Liabilities	$3,399,508	$3,349,425

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

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Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

South Jersey Resources Group, LLC (SJRG) markets natural gas storage, commodity and transportation assets 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.

South Jersey Energy Service Plus, LLC (SJESP) services residential and small commercial HVAC systems, installs small commercial HVAC systems, provides plumbing services and services appliances under warranty via a subcontractor arrangement as well as on a time and materials basis.

SJI Midstream, LLC (Midstream) was formed in 2014 to invest in a project to build a 100-mile natural gas pipeline in Pennsylvania and New Jersey.

BASIS OF PRESENTATION — The condensed consolidated financial statements include the accounts of SJI, its wholly-owned subsidiaries and subsidiaries in which SJI has a controlling interest. SJI eliminates all significant intercompany accounts and transactions. In management's opinion, the condensed consolidated financial statements reflect all normal and recurring adjustments needed to fairly present SJI's financial position, operating results and cash flows at the dates and for the periods presented. SJI's businesses are subject to seasonal fluctuations and, accordingly, this interim financial information should not be the basis for estimating the full year's operating results. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC), the accompanying unaudited condensed consolidated financial statements contain certain condensed financial information and exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These financial statements should be read in conjunction with SJI's 2014 Annual Report on Form 10-K for a more complete discussion of the Company's accounting policies and certain other information.

On February 26, 2015, the Board of Directors approved an amendment to SJI's Certificate of Incorporation to increase the authorized number of shares of common stock from 60,000,000 shares to 120,000,000 shares. The principal purpose of the increase was to permit a two-for-one split of all the issued shares of SJI's common stock, effected pursuant to a stock dividend of one share of common stock for each outstanding share of common stock, payable May 8, 2015 to shareholders of record at the close of business on April 17, 2015. All references to number of shares and per share information in the condensed consolidated financial statements and related notes have been adjusted for all periods presented to reflect this stock split.

REVENUE AND THROUGHPUT-BASED TAXES — SJG collects certain revenue-based energy taxes from its customers. Such taxes include New Jersey State Sales Tax and Public Utilities Assessment (PUA). State sales tax is recorded as a liability when billed to customers and is not included in revenue or operating expenses. The PUA is included in both utility revenue and energy and other taxes and totaled $0.2 million for each of the three months ended September 30, 2015 and 2014, and $1.0 million and $0.8 million for the nine months ended September 30, 2015 and 2014, respectively.

IMPAIRMENT OF LONG-LIVED ASSETS - SJI reviews the carrying amount of long-lived assets for possible impairment whenever events or changes in circumstances indicate that such amounts may not be recoverable. For the nine months ended September 30, 2015 and 2014, no impairments were identified.

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GAS EXPLORATION AND DEVELOPMENT - The Company capitalizes all costs associated with gas property acquisition, exploration and development activities under the full cost method of accounting. Capitalized costs include costs related to unproved properties, which are not amortized until proved reserves are found or it is determined that the unproved properties are impaired. All costs related to unproved properties are reviewed quarterly to determine if impairment has occurred. No impairment charges were recorded during the nine months ended September 30, 2015 or 2014. As of both September 30, 2015 and December 31, 2014, $8.9 million related to interests in proved and unproved properties in Pennsylvania, net of amortization, is included with Nonutility Property and Equipment and Other Noncurrent Assets on the condensed consolidated balance sheets.

TREASURY STOCK – SJI uses the par value method of accounting for treasury stock. As of September 30, 2015 and December 31, 2014, SJI held 231,749 and 263,578 shares of treasury stock, respectively. These shares are related to deferred compensation arrangements where the amounts earned are held in the stock of SJI.

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

NEW ACCOUNTING PRONOUNCEMENTS — Other than as described below, no new accounting pronouncement issued or effective during 2015 or 2014 had, or is expected to have, a material impact on the condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and in most industry-specific topics. The new guidance identifies how and when entities should recognize revenue. The new rules establish a core principle requiring the recognition of revenue to depict the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Management is currently determining the impact that adoption of this guidance will have on the Company's financial statement results.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40); Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The new guidance requires management of a company to evaluate whether there is substantial doubt about the company's ability to continue as a going concern. This ASU is effective for the annual reporting period ending after December 15, 2016, and for interim and annual reporting periods thereafter, with early adoption permitted. The Company does not expect this standard to have an impact on its consolidated financial statements upon adoption.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis, which changes the analysis to be performed in determining whether certain types of legal entities should be consolidated. Specifically, the standard amends the evaluation of whether (a) fees paid to a decision maker or a service provider represent a variable interest, (b) a limited partnership or similar entity has the characteristics of a Variable Interest Entity ("VIE") and (c) a reporting entity is the primary beneficiary of a VIE. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. Management is currently determining the impact that adoption of this guidance will have on the Company's financial statement results.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Management is currently determining the impact that adoption of this guidance will have on the Company's financial statement results.

Also in April 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40). This ASU provides guidance to customers (a) in determining whether a cloud computing arrangement includes a software license, and (b) on how the arrangement should be accounted for, depending on whether or not it includes a software license. The amended guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Management is currently determining the impact that adoption of this guidance will have on the Company's financial statement results.

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In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This ASU states that inventory for which cost is determined using a method other than last-in, first-out (LIFO) or the retail method should be subsequently measured at the lower of cost or net realizable value (NRV), rather than at the lower of cost or market. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. Management is currently determining the impact that adoption of this guidance will have on the Company's financial statement results.

In August 2015, the FASB issued ASU 2015-13, Derivatives and Hedging (Topic 815): Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets. This ASU clarifies that for a contract involving the purchase or sale of electricity on a forward basis, companies have the option to elect the normal purchases and normal sales scope exception. Since such contracts meet the physical delivery criterion when the delivery location is within a nodal energy market (i.e., an interconnected electricity grid operated by an independent system operator with established price points at each node or hub location), the ASU notes that it does not constitute net settlement and, consequently, does not cause such a contract to fail to meet the physical delivery criterion. The standard is effective immediately and should be applied prospectively to qualifying contracts existing on August 10, 2015, the date the ASU was issued. The adoption of this standard did not have an impact on the Company's financial statement results.

In August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. This ASU states that, given the absence of authoritative guidance for debt issuance costs related to line-of-credit arrangements within ASU 2015-03 (defined above), the SEC staff would not object to an entity deferring and presenting such costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of credit arrangement. The adoption of this standard did not have an impact on the Company's financial statement results.

2. STOCK-BASED COMPENSATION PLAN:

On April 30, 2015, the shareholders of SJI approved the adoption of the Company's 2015 Omnibus Equity Compensation Plan (Plan), replacing the Amended and Restated 1997 Stock-Based Compensation Plan that had terminated on January 26, 2015. Under the Plan, shares may be issued to SJI’s officers (Officers), non-employee directors (Directors) and other key employees. No options were granted or outstanding during the nine months ended September 30, 2015 and 2014. No stock appreciation rights have been issued under the plans. During the nine months ended September 30, 2015 and 2014, SJI granted 158,929 and 136,906 restricted shares, respectively, to Officers and other key employees under the plans. Performance-based restricted shares vest over a three-year period and are subject to SJI achieving certain market and earnings-based performance targets as compared to a peer group average, which can cause the actual amount of shares that ultimately vest to range from 0% to 200% of the original share units granted.

In 2015, SJI also granted time-based shares of restricted stock, one-third of which vests annually over a three-year period and is limited to 100% payout. Vesting of time-based grants is contingent upon SJI achieving a return on equity (ROE) of at least 7% during the initial year of the grant and meeting the service requirement. Provided that the 7% ROE requirement is met in the initial year, payout is solely contingent upon the service requirement being met in years two and three of the grant. In 2015, Officers and other key employees were granted 47,678 shares of time-based restricted stock, which are included in the shares noted above.

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

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

During the nine months ended September 30, 2015 and 2014, SJI granted 26,338 and 23,220 restricted shares, respectively, to Directors. Shares issued to Directors vest over twelve months and contain no performance conditions. As a result, 100% of the shares granted generally vest.

The following table summarizes the nonvested restricted stock awards outstanding at September 30, 2015 and the assumptions used to estimate the fair value of the awards:

	Grants	Shares Outstanding	Fair Value Per Share	Expected Volatility		Risk-Free Interest Rate	
Officers & Key Employees -	2013 - TSR	45,622	$22.19	21.1	%	0.40	%
	2013 - EPS	45,622	$25.59	N/A		N/A	
	2014 - TSR	51,349	$21.31	20.0	%	0.80	%
	2014 - EPS	51,349	$27.22	N/A		N/A	
	2015 - TSR	34,574	$26.31	16.0	%	1.10	%
	2015 - EPS, ROE, Time	88,919	$29.47	N/A		N/A	
Directors -	2015	26,338	$29.21	N/A		N/A	

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

The following table summarizes the total stock-based compensation cost for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Officers & Key Employees	$654	$584	$1,964	$1,751
Directors	205	159	577	475
Total Cost	859	743	2,541	2,226

Capitalized	(92)	(70)	(270)	(210)
Net Expense	$767	$673	$2,271	$2,016

As of September 30, 2015, there was $3.8 million of total unrecognized compensation cost related to nonvested stock-based compensation awards granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.8 years.

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The following table summarizes information regarding restricted stock award activity during the nine months ended September 30, 2015, excluding accrued dividend equivalents:

	Officers &Other Key Employees	Directors	Weighted Average Fair Value
Nonvested Shares Outstanding, January 1, 2015	223,876	23,220	$24.40
Granted	158,929	26,338	$28.67
Cancelled/Forfeited	(65,370)	—	$26.56
Vested	—	(23,220)	$27.26
Nonvested Shares Outstanding, September 30, 2015	317,435	26,338	$26.10

Performance targets during the three-year vesting period were not attained for the January 2011 grant that vested at December 31, 2013 or the January 2012 grant that vested at December 31, 2014. As a result, no shares were awarded in 2014 or 2015. During the nine months ended September 30, 2015 and 2014, SJI granted 26,338 and 23,220 shares to its Directors at a market value of $0.8 million and $0.6 million, respectively. The Company has a policy of issuing new shares to satisfy its obligations under the Plan; therefore, there are no cash payment requirements resulting from the normal operation of the Plan. However, a change in control could result in such shares becoming nonforfeitable or immediately payable in cash. At the discretion of the Officers, Directors and other key employees, the receipt of vested shares can be deferred until future periods. These deferred shares are included in Treasury Stock on the condensed consolidated balance sheets.

3. DISCONTINUED OPERATIONS AND AFFILATIONS:

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

SJI conducts tests annually to estimate the environmental remediation costs for these properties.

Summarized operating results of the discontinued operations for the three and nine months ended September 30, 2015 and 2014, were (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Loss Before Income Taxes:				
Sand Mining	$(17)	$(79)	$(381)	$(562)
Fuel Oil	(123)	(105)	(286)	(227)
Income Tax Benefits	49	64	226	276
Loss from Discontinued Operations — Net	$(91)	$(120)	$(441)	$(513)
Earnings (Loss) Per Common Share from Discontinued Operations — Net:				
Basic and Diluted	$—	$—	$(0.01)	$—

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

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

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

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PennEast Pipeline Company, LLC (PennEast) - Midstream has a 20% investment in PennEast, which is planning to construct an approximately 100-mile natural gas pipeline that will extend from Northeastern Pennsylvania into New Jersey, with a target completion of late 2017.

During the first nine months of 2015 and 2014, the Company received net repayments from unconsolidated affiliates of $4.4 million and $1.3 million, respectively. As of September 30, 2015 and December 31, 2014, the outstanding balance of Notes Receivable – Affiliate was $49.8 million and $51.5 million, respectively. As of September 30, 2015, approximately $38.9 million of these notes are secured by property, plant and equipment of the affiliates, accrue interest at 7.5% and are to be repaid through 2025, and the remaining $10.9 million of these notes are unsecured and accrue interest at variable rates.

SJI holds significant variable interests in these entities but is not the primary beneficiary. Consequently, these entities are accounted for under the equity method because SJI does not have both (a) the power to direct the activities of the entity that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. As of September 30, 2015, the Company had a net asset of approximately $52.4 million included in Investment in Affiliates and Other Noncurrent Liabilities on the condensed consolidated balance sheets related to equity method investees, in addition to Notes Receivable – Affiliate as discussed above. SJI's maximum exposure to loss from these entities as of September 30, 2015 is limited to its combined equity contributions and the Notes Receivable-Affiliate in the amount of $103.0 million plus the guarantees discussed in Note 11.

The following table presents summarized income statement information of the total balances for Energenic (of which SJI has only a 50% equity interest) accounted for under the equity method (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	$18,183	$27,160	$63,812	$83,380
Cost of Sales	$5,048	$5,390	$16,452	$20,588
Loss from continuing operations	$(4,984)	$(4,154)	$(42,367)	$(4,139)
Net Loss	$(4,984)	$(4,154)	$(42,367)	$(4,139)

4. COMMON STOCK:

The following shares were issued and outstanding:

	2015
Beginning Balance, January 1 (See Note 1)	68,334,860
New Issues During the Period:	
Dividend Reinvestment Plan	366,262
Stock-Based Compensation Plan	26,338
Ending Balance, September 30	68,727,460

The par value ($1.25 per share) of stock issued was recorded in Common Stock and the net excess over par value of approximately $11.4 million was recorded in Premium on Common Stock.

EARNINGS PER COMMON SHARE (EPS) - Basic EPS is based on the weighted-average number of common shares outstanding. The incremental shares required for inclusion in the denominator for the diluted EPS calculation were 198,222 and 150,592 for the nine months ended September 30, 2015 and 2014, respectively. For the three months ended September 30, 2015 and 2014, incremental shares of 187,758 and 148,664, respectively, were not included in the denominator for the diluted EPS calculation because they would have an antidilutive effect on EPS. These shares relate to SJI's restricted stock as discussed in Note 2.

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DIVIDEND REINVESTMENT PLAN (DRP) - The Company offers a DRP which allows participating shareholders to purchase shares of SJI common stock by automatic reinvestment of dividends or optional purchases. Shares of common stock offered by the DRP have been issued directly by SJI from its authorized but unissued shares of common stock. The Company raised $9.7 million and $29.1 million of equity capital through the DRP during the nine months ended September 30, 2015 and 2014, respectively.

5. FINANCIAL INSTRUMENTS:

RESTRICTED INVESTMENTS — Marina is required to maintain escrow accounts related to ongoing capital projects as well as unused loan proceeds pending approval of construction expenditures. As of September 30, 2015 and December 31, 2014, the escrowed funds, including interest earned, totaled $2.6 million and 1.7 million, respectively.

The Company maintains margin accounts with selected counterparties to support its risk management activities. The balances required to be held in these margin accounts increase as the net value of the outstanding energy-related contracts with the respective counterparties decrease. As of September 30, 2015 and December 31, 2014, the balances in these accounts totaled $40.8 million and $63.7 million, respectively. The carrying amounts of the Restricted Investments approximate their fair values at September 30, 2015 and December 31, 2014, which would be included in Level 1 of the fair value hierarchy (See Note 13 - Fair Value of Financial Assets and Financial Liabilities).

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

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

As a result, management of the Company and Energenic have evaluated the carrying value of the investment in this project and a related note receivable. Based on the current situation, 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 nine months ended September 30, 2015 on the condensed consolidated statements of income. Estimating the fair value of an investment is highly judgmental and involves the use of significant estimates and assumptions. Actual results may differ significantly from those used to develop this estimate.

As of September 30, 2015, the Company, through its investment in Energenic, had a remaining net asset of approximately $2.0 million included in Investment in Affiliates on the condensed consolidated balance sheets related to this project. In addition, the Company had approximately $13.9 million included in Notes Receivable - Affiliate on the condensed consolidated balance sheets, due from Energenic, which is secured by certain assets of the central energy center. This note is subject to a reimbursement agreement that secures reimbursement for the Company, 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 complex and will evaluate the carrying value of the investment and the note receivable as future events occur.

NOTE RECEIVABLE - In June 2015, SJG advanced $10.0 million to a not-for-profit organization formed to spur economic development in Atlantic City, New Jersey. The Note bears interest at 1.0% for an initial term of six months, with the borrower's option to extend the term for two additional terms of three months each. SJG holds a first lien security interest on land in Atlantic City as collateral against this Note. The carrying amount of this receivable approximates its fair value at September 30, 2015, which would be included in Level 2 of the fair value hierarchy (See Note 13 - Fair Value of Financial Assets and Financial Liabilities).

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LONG-TERM RECEIVABLES — SJG provides financing to customers for the purpose of attracting conversions to natural gas heating systems from competing fuel sources. The terms of these loans call for customers to make monthly payments over a period of up to five years with no interest. The carrying amounts of such loans were $13.3 million and $15.0 million as of September 30, 2015 and December 31, 2014, respectively. The current portion of these receivables is reflected in Accounts Receivable and the non-current portion is reflected in Contract Receivables on the condensed consolidated balance sheets. The carrying amounts noted above are net of unamortized discounts resulting from imputed interest in the amount of $1.3 million as of both September 30, 2015 and December 31, 2014. The annualized amortization to interest is not material to the Company's condensed consolidated financial statements. The carrying amounts of these receivables approximate their fair value at September 30, 2015 and December 31, 2014, which would be included in Level 2 of the fair value hierarchy (See Note 13 - Fair Value of Financial Assets and Financial Liabilities).

CREDIT RISK - As of September 30, 2015, approximately $8.8 million, or 11.4%, of the current and noncurrent Derivatives – Energy Related Assets are transacted with one counterparty. This counterparty has contracts with a large number of diverse customers which minimizes the concentration of this risk. A portion of these contracts may be assigned to SJI in the event of default by the counterparty.

FINANCE OBLIGATION - During 2010, ACB Energy Partners LLC (ACB), a wholly-owned subsidiary of Energenic, of which Marina has a 50% equity interest, completed construction of a combined heat and power generating facility to serve, under an energy services agreement, a thermal plant owned by Marina. Construction period financing was provided by Marina. As substantially all of the costs of constructing the facility were funded by the financing provided by Marina, Marina was considered the owner of the facility for accounting purposes during the construction period. When an entity is considered the accounting owner during the construction period, a sale of the asset effectively occurs when construction of the asset is completed. However, due to its continuing involvement in the facility through its equity interest in Energenic, Marina continues to be considered the owner of the facility for accounting purposes under ASC Topic 360 Property, Plant and Equipment. As a result, the transaction is being accounted for as a financing arrangement under ASC Topic 840 Leases and, therefore, the Company has included costs to construct the facility within Nonutility Property, Plant and Equipment on the condensed consolidated balance sheets of $23.7 million as of both September 30, 2015 and December 31, 2014. In addition, the Company included repayments from ACB to Marina on the construction loan within the Finance Obligation on the condensed consolidated balance sheets. Marina does not have a fixed payment obligation to ACB; as a result, the Finance Obligation is classified as a noncurrent liability on the condensed consolidated balance sheets. The costs to construct the facility and the repayments of the construction loan are amortized over the term of the energy services agreement. The impact on the condensed consolidated statements of income is not significant. As a result, the Company recorded $18.9 million and $19.7 million, net of amortization, within Finance Obligation on the condensed consolidated balance sheets at September 30, 2015 and December 31, 2014, respectively.

FINANCIAL INSTRUMENTS NOT CARRIED AT FAIR VALUE - The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. The carrying amounts of SJI's financial instruments approximate their fair values at September 30, 2015 and December 31, 2014, except as noted below.

- For Long-Term Debt, in estimating the fair value, we use the present value of remaining cash flows at the balance sheet date. We based the estimates on interest rates available to SJI at the end of each period for debt with similar terms and maturities (Level 2 in the fair value hierarchy, see Note 13 - Fair Value of Financial Assets and Financial Liabilities). The estimated fair values of SJI's long-term debt, including current maturities, as of September 30, 2015 and December 31, 2014, were $1,072.3 million and $1,058.5 million, respectively. The carrying amounts of SJI's long-term debt, including current maturities, as of September 30, 2015 and December 31, 2014, were $1,015.3 million and $1,009.4 million, respectively.

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6. SEGMENTS OF BUSINESS:

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

- Gas utility operations (SJG) consists primarily of natural gas distribution to residential, commercial and industrial customers.
- 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 and industrial customers.
- On-site energy production consists of Marina's thermal energy facility and other energy-related projects.
- Appliance service operations includes SJESP's servicing of appliances under warranty via a subcontractor arrangement as well as on a time and materials basis.
- The activities of Midstream are a part of 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. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are treated as if the sales or transfers were to third parties at current market prices.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating Revenues:				
Gas Utility Operations	$58,634	$60,952	$402,104	$340,656
Energy Group:				
Wholesale Energy Operations	9,352	(3,538)	77,973	28,898
Retail Gas and Other Operations	11,757	18,900	67,900	95,281
Retail Electric Operations	44,240	29,961	110,203	98,233
Subtotal Energy Group	65,349	45,323	256,076	222,412
Energy Services:				
On-Site Energy Production	18,898	16,453	47,606	42,196
Appliance Service Operations	2,290	2,319	7,346	7,610
Subtotal Energy Services	21,188	18,772	54,952	49,806
Corporate & Services	6,925	7,001	23,776	21,324
Subtotal	152,096	132,048	736,908	634,198
Intersegment Sales	(11,034)	(9,621)	(35,183)	(28,299)
Total Operating Revenues	$141,062	$122,427	$701,725	$605,899

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	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Operating (Loss) Income:				
Gas Utility Operations	$(2,501)	$3,368	$82,649	$75,813
Energy Group:				
Wholesale Energy Operations	(11,813)	(10,314)	3,675	(20,437)
Retail Gas and Other Operations	(4,821)	(390)	(1,581)	1,387
Retail Electric Operations	1,034	373	1,026	(521)
Subtotal Energy Group	(15,600)	(10,331)	3,120	(19,571)
Energy Services:				
On-Site Energy Production	2,265	2,171	3,960	4,547
Appliance Service Operations	216	60	411	322
Subtotal Energy Services	2,481	2,231	4,371	4,869
Corporate and Services	567	619	1,518	1,041
Total Operating (Loss) Income	$(15,053)	$(4,113)	$91,658	$62,152
Depreciation and Amortization:				
Gas Utility Operations	$14,911	$12,942	$43,317	$38,375
Energy Group:				
Wholesale Energy Operations	191	37	238	123
Retail Gas and Other Operations	39	19	79	61
Subtotal Energy Group	230	56	317	184
Energy Services:				
On-Site Energy Production	7,650	6,540	22,158	18,480
Appliance Service Operations	85	68	232	202
Subtotal Energy Services	7,735	6,608	22,390	18,682
Corporate and Services	261	(41)	961	413
Total Depreciation and Amortization	$23,137	$19,565	$66,985	$57,654
Interest Charges:				
Gas Utility Operations	$4,809	$4,046	$15,112	$12,680
Energy Group:				
Wholesale Energy Operations	150	74	280	190
Retail Gas and Other Operations	—	43	120	237
Subtotal Energy Group	150	117	400	427
Energy Services:				
On-Site Energy Production	2,433	1,835	6,409	6,110
Corporate and Services	2,857	2,376	8,784	6,016
Subtotal	10,249	8,374	30,705	25,233
Intersegment Borrowings	(2,142)	(1,606)	(6,523)	(4,535)
Total Interest Charges	$8,107	$6,768	$24,182	$20,698

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	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Income Taxes:				
Gas Utility Operations	$(2,871)	$534	26,593	25,440
Energy Group:				
Wholesale Energy Operations	(4,615)	(3,896)	2,238	(7,077)
Retail Gas and Other Operations	(2,038)	(121)	(370)	895
Retail Electric Operations	422	152	419	(213)
Subtotal Energy Group	(6,231)	(3,865)	2,287	(6,395)
Energy Services:				
On-Site Energy Production	(2,015)	(5,092)	(26,923)	(25,521)
Appliance Service Operations	94	39	191	227
Subtotal Energy Services	(1,921)	(5,053)	(26,732)	(25,294)
Corporate and Services	55	59	218	283
Total Income Taxes	$(10,968)	$(8,325)	$2,366	$(5,966)
Property Additions:				
Gas Utility Operations	$55,335	$56,414	$160,836	$148,012
Energy Group:				
Wholesale Energy Operations	4	—	383	10
Retail Gas and Other Operations	642	563	1,763	960
Subtotal Energy Group	646	563	2,146	970
Energy Services:				
On-Site Energy Production	36,805	22,194	67,226	47,769
Appliance Service Operations	51	8	379	14
Subtotal Energy Services	36,856	22,202	67,605	47,783
Corporate and Services	193	1,144	1,794	2,725
Total Property Additions	$93,030	$80,323	$232,381	$199,490

	September 30, 2015	December 31, 2014
Identifiable Assets:		
Gas Utility Operations	$2,288,303	$2,185,672
Energy Group:		
Wholesale Energy Operations	240,476	366,119
Retail Gas and Other Operations	37,658	53,073
Retail Electric Operations	46,148	23,682
Subtotal Energy Group	324,282	442,874
Energy Services:		
On-Site Energy Production	711,194	675,937
Appliance Service Operations	4,080	3,105
Subtotal Energy Services	715,274	679,042
Discontinued Operations	1,582	1,758
Corporate and Services	590,392	527,691
Intersegment Assets	(520,325)	(487,612)
Total Identifiable Assets	$3,399,508	$3,349,425

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7. RATES AND REGULATORY ACTIONS:

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

In May 2015, the BPU approved an $18.2 million decrease in annual revenues collected from customers through the Societal Benefits Clause ("SBC") charge and the Transportation Initiation Clause ("TIC") charge, comprised of a $6.2 million decrease in revenues from the Remediation Adjustment Clause (“RAC”) component of the SBC, an $11.5 million decrease in revenues from the Clean Energy Program (“CLEP”) component of the SBC and a $0.5 million decrease in TIC revenues, effective June 1, 2015. The decreases in the RAC and CLEP components of the SBC are primarily driven by the accumulation of prior year over-recoveries, as rate recovery exceeded program costs. The decrease in the TIC is being caused by a decrease in costs. The SBC and TIC allow SJG to recover costs associated with certain State-mandated programs.

In June 2015, SJG filed its annual Energy Efficiency Tracker (“EET”) rate adjustment petition, requesting a $7.6 million decrease in revenues to continue recovering the costs of, and the allowed return on, prior investments associated with energy efficiency programs ("EEPs"). SJG's original EEPs, approved by the BPU in 2009, and its EEP extension, approved by the BPU in 2013, ended in July 2013 and June 2015, respectively. The revenue requirements associated with these prior investments decrease over time as they are amortized and recovered. Also contributing to the revenue decrease is the forecasted October 2015 over-recovery of $1.7 million, which further reduces the revenue requirement for the upcoming EET year. This petition is currently pending.

In August 2015, the BPU approved a two year extension of SJG's EEPs through August 31, 2017, with a program budget of $36.3 million. SJG will recover the costs of these programs, and earn an allowed return on its investments, through the EET rate recovery mechanism that has been utilized for its EEPs since 2009. The BPU’s approval also permitted SJG to adjust its EET rate effective September 1, 2015 to increase annual revenues by $2.6 million to recover the projected costs of, and the allowed return on, the first year of its investments in the EEPs.

In September 2015, the BPU approved SJG’s request, related to its Storm Hardening and Reliability Program (“SHARP”), to increase annual revenues from base rates by $4.0 million to reflect approximately $36.6 million of investments made for storm hardening efforts for the period July 2014 through June 2015. This base rate adjustment became effective on October 1, 2015.

Also in September 2015, the BPU approved SJG's annual Basic Gas Supply Service (“BGSS”) and Conservation Incentive Program (“CIP”) rate adjustment petition, which requested a $39.7 million decrease in annual revenues to be implemented on October 1, 2015, comprised of a $28.4 million decrease in BGSS revenues and an $11.3 million decrease in CIP revenues. The level of BGSS revenues is based on forecasted gas costs and customer usage information for the upcoming BGSS/CIP year, which runs from October to September. SJG’s request is based on decreases in forecasted gas commodity costs for the upcoming BGSS/CIP year. The decrease in CIP revenues is caused primarily by higher than normal customer usage caused by weather that was 10.4% colder than normal during the 2014-2015 winter season.

Additionally, in September 2015, the BPU approved the statewide Universal Service Fund (“USF”) budget of $46.4 million for all the State’s gas utilities. SJG’s portion of the total budget is approximately $5.2 million. Effective October 1, 2015, the BPU approved a $3.4 million decrease to SJG’s USF recoveries.

The BGSS, CIP and USF revenue decreases noted above do not impact SJG's earnings. They represent decreases in the cash requirements of SJG corresponding to lower costs and/or the return of previously over-recovered costs associated with each respective mechanism.

There have been no other significant regulatory actions or changes to SJG's rate structure since December 31, 2014. See Note 10 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K for the year ended December 31, 2014.

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8. REGULATORY ASSETS & REGULATORY LIABILITIES:

There have been no significant changes to the nature of the Company's regulatory assets and liabilities since December 31, 2014 which are described in Note 11 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K for the year ended December 31, 2014.

Regulatory Assets consisted of the following items (in thousands):

	September 30, 2015	December 31, 2014
Environmental Remediation Costs:		
Expended - Net	$32,797	$29,540
Liability for Future Expenditures	125,466	124,308
Deferred Asset Retirement Obligation Costs	31,976	31,584
Deferred Pension and Other Postretirement Benefit Costs	99,040	99,040
Deferred Gas Costs - Net	19,187	32,202
Societal Benefit Costs Receivable	—	385
Deferred Interest Rate Contracts	7,918	7,325
Energy Efficiency Tracker	545	11,247
Pipeline Supplier Service Charges	4,192	5,441
Pipeline Integrity Cost	4,544	3,431
AFUDC - Equity Related Deferrals	11,188	10,781
Other Regulatory Assets	2,339	1,876
Total Regulatory Assets	$339,192	$357,160

DEFERRED GAS COSTS - NET - Over/under collections of gas costs are monitored through SJG's Basic Gas Supply Service (BGSS) mechanism. Net undercollected gas costs are classified as a regulatory asset and net overcollected gas costs are classified as a regulatory liability. Derivative contracts used to hedge natural gas purchases are also included in the BGSS, subject to BPU approval. The reduction in deferred gas costs from December 31, 2014 was due to gas costs recovered from customers exceeding the actual cost of the commodity incurred during 2015 as a result of lower natural gas prices and an increase in the BGSS rate effective October 2014. SJG's BGSS mechanism is designed to overcollect gas costs during the winter season when usage is highest.

ENERGY EFFICIENCY TRACKER - This regulatory asset primarily represents energy efficiency measures installed in customer homes and businesses. The decrease from December 31, 2014 is due to higher recoveries in the first nine months of 2015 resulting from extremely cold weather during the first half of the year.

Regulatory Liabilities consisted of the following items (in thousands):

	September 30, 2015	December 31, 2014
Excess Plant Removal Costs	$34,040	$35,940
Conservation Incentive Program Payable	18,616	4,700
Societal Benefit Costs	9,805	—
Other Regulatory Liabilities	—	1,259
Total Regulatory Liabilities	$62,461	$41,899

EXCESS PLANT REMOVAL COSTS - Represents amounts accrued in excess of actual utility plant removal costs incurred to date. The decrease in the balance from year end is due to an amortization as a credit to depreciation expense as required as part of SJG's September 2014 base rate increase.

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CONSERVATION INCENTIVE PROGRAM (CIP) PAYABLE – The CIP tracking mechanism adjusts earnings when actual usage per customer experienced during the period varies from an established baseline usage per customer. Actual usage per customer was greater than the established baseline during 2014 and more notably during the first nine months of 2015 resulting in a payable. This is primarily the result of extremely cold weather experienced in the region during the first half of the year.

SOCIETAL BENEFIT COSTS (SBC) - This regulatory liability primarily represents the excess recoveries over the expenses incurred under the New Jersey Clean Energy Program which is a mechanism designed to recover costs associated with energy efficiency and renewable energy programs. The change from a $0.4 million regulatory asset to a $9.8 million regulatory liability is due to current SBC rates which are producing recoveries greater than SBC costs. In July 2014, SJG made its annual 2014-2015 SBC filing requesting a decrease in SBC revenues, in part, to avoid this liability. The petition was approved and new rates went into effect on June 1, 2015.

9. PENSION AND OTHER POSTRETIREMENT BENEFITS:

For the three and nine months ended September 30, 2015 and 2014, net periodic benefit cost related to the employee and officer pension and other postretirement benefit plans consisted of the following components (in thousands):

	Pension Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Service Cost	$1,334	$813	$4,003	$3,383
Interest Cost	2,792	2,661	8,376	8,051
Expected Return on Plan Assets	(3,697)	(3,262)	(11,092)	(9,792)
Amortizations:				
Prior Service Cost	53	45	159	131
Actuarial Loss	2,652	1,398	7,956	4,250
Net Periodic Benefit Cost	3,134	1,655	9,402	6,023
Capitalized Benefit Cost	(1,216)	(577)	(3,649)	(2,285)
Deferred Benefit Cost	(341)	—	(666)	—
Total Net Periodic Benefit Expense	$1,577	$1,078	$5,087	$3,738

	Other Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Service Cost	$279	$168	$837	$668
Interest Cost	743	659	2,230	2,139
Expected Return on Plan Assets	(748)	(688)	(2,245)	(2,062)
Amortizations:				
Prior Service Cost	152	38	456	114
Actuarial Loss	336	245	1,007	731
Net Periodic Benefit Cost	762	422	2,285	1,590
Capitalized Benefit Cost	(264)	(42)	(792)	(460)
Deferred Benefit Cost	(89)	—	(168)	—
Total Net Periodic Benefit Expense	$409	$380	$1,325	$1,130

Capitalized benefit costs reflected in the table above relate to SJG’s construction program. Deferred benefit costs relate to SJG's deferral of incremental expense associated with the adoption of new mortality tables (RP-2014 base table with MP-2014 generational projection scale) in 2015. Deferred benefit costs are expected to be recovered through rates as part of SJG's next base rate case.

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SJI contributed $15.0 million to the pension plans in January 2015. No contributions were made to the pension plans during 2014. Payments related to the unfunded supplemental executive retirement plan (SERP) are expected to approximate $1.5 million in 2015. SJG also has a regulatory obligation to contribute approximately $3.6 million annually to the other postretirement benefit plans' trusts, less direct costs incurred.

See Note 12 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K for the year ended December 31, 2014, for additional information related to SJI's pension and other postretirement benefits.

10. LINES OF CREDIT:

Credit facilities and available liquidity as of September 30, 2015 were as follows (in thousands):

Company	Total Facility	Usage		Available Liquidity	Expiration Date
SJG:					
Commercial Paper Program/Revolving Credit Facility	$200,000	$89,900	(A)	$110,100	May 2018
Uncommitted Bank Lines	10,000	—		10,000	Various
Total SJG	210,000	89,900		120,100	
SJI:					
Revolving Credit Facility	400,000	270,200	(B)	129,800	February 2018
Total SJI	400,000	270,200		129,800	
Total	$610,000	$360,100		$249,900	

(A) Includes letters of credit outstanding in the amount of $0.6 million.
(B) Includes letters of credit outstanding in the amount of $8.1 million.

The SJG facilities are restricted as to use and availability specifically to SJG; however, if necessary, the SJI facilities can also be used to support SJG's liquidity needs. Borrowings under these credit facilities are at market rates. The weighted average interest rate on these borrowings, which changes daily, was 1.03% and 0.83% at September 30, 2015 and 2014, respectively. Average borrowings outstanding under these credit facilities, not including letters of credit, during the nine months ended September 30, 2015 and 2014 were $310.8 million and $291.6 million, respectively. The maximum amounts outstanding under these credit facilities, not including letters of credit, during the nine months ended September 30, 2015 and 2014 were $432.4 million and $390.7 million, respectively.

The SJI and SJG facilities are provided by a syndicate of banks and contain one financial covenant limiting the ratio of indebtedness to total capitalization (as defined in the respective credit agreements) to not more than 0.65 to 1, measured at the end of each fiscal quarter. SJI and SJG were in compliance with this covenant as of September 30, 2015.

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

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11. COMMITMENTS AND CONTINGENCIES:

GUARANTEES — The Company has recorded a liability of $0.6 million which is included in Other Noncurrent Liabilities with a corresponding increase in Investment in Affiliates on the condensed consolidated balance sheets as of September 30, 2015 for the fair value of the following guarantees:

SJI has guaranteed certain obligations of WC Landfill Energy, LLC (WCLE) and BC Landfill Energy, LLC (BCLE), unconsolidated joint ventures in which Marina has a 50% equity interest through Energenic. WCLE and BCLE have entered into agreements through 2018 and 2027, respectively, with the respective county governments to lease and operate facilities that will produce electricity from landfill methane gas. Although unlikely, the maximum amount that SJI could be obligated for, in the event that WCLE and BCLE do not meet minimum specified levels of operating performance and no mitigating action is taken, or are unable to meet certain financial obligations as they become due, is approximately $4.2 million each year. SJI and its partner in these joint ventures have entered into reimbursement agreements that secure reimbursement for SJI of a proportionate share of any payments made by SJI on these guarantees. SJI holds variable interests in WCLE and BCLE but is not the primary beneficiary.

In December 2013, SJI entered into agreements to guarantee certain obligations of WCLE, SC Landfill Energy, LLC, SX Landfill Energy, LLC, FC Landfill Energy, LLC, and AC Landfill Energy, LLC (collectively, the "Landfills"), unconsolidated joint ventures in which Marina has a 50% equity interest through Energenic. The Landfills have entered into long-term debt agreements which run through 2020. Although unlikely, SJI could be liable through the guarantees for 50% of the outstanding debt along with any interest related to the debt in the event the Landfills do not meet minimum specified levels of operating performance and no mitigating action is taken, or the Landfills are unable to meet certain financial obligations as they become due. As of September 30, 2015, 50% of the currently outstanding debt is $8.2 million.

In May 2012, UMM Energy Partners, LLC (UMM), a wholly-owned subsidiary of Energenic, in which Marina has a 50% equity interest, entered into a 30-year contract with a public university to build, own and operate a combined heating, cooling and power system for its main campus in New Jersey. The system commenced commercial operations in September 2013. SJI has guaranteed certain obligations of UMM under the operating and lease agreements between UMM and the university, for the terms of the agreements, commencing with the first year of operations. As of September 30, 2015, SJI has guaranteed up to $2.4 million. This amount is adjusted each year based upon the Consumer Price Index. SJI and its partner in this joint venture have entered into reimbursement agreements that secure reimbursement for SJI of a proportionate share of any payments made by SJI on these guarantees. SJI holds variable interests in UMM but is not the primary beneficiary.

As of September 30, 2015, SJI had issued $5.7 million of parental guarantees on behalf of an unconsolidated subsidiary. These guarantees generally expire within the next two years and were issued to enable our subsidiary to market retail natural gas.

COLLECTIVE BARGAINING AGREEMENTS — Unionized personnel represent approximately 44.0% of our workforce at September 30, 2015. The Company has collective bargaining agreements with two unions that represent these employees: the International Brotherhood of Electrical Workers (IBEW) Local 1293 and the International Association of Machinists and Aerospace Workers (IAM) Local 76. SJG and SJESP employees represented by the IBEW operate under collective bargaining agreements that run through February 2017. The remaining unionized employees are represented by the IAM and operate under collective bargaining agreements that run through August 2017.

STANDBY LETTERS OF CREDIT — As of September 30, 2015, SJI provided $8.1 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 $0.6 million letter of credit under its revolving credit facility to support the remediation of environmental conditions at certain locations in SJG's service territory. The Company has also provided $87.6 million of additional letters of credit under separate facilities outside of the revolving credit facilities to support variable-rate demand bonds issued through the New Jersey Economic Development Authority (NJEDA) to finance the expansion of SJG’s natural gas distribution system and to finance Marina's initial thermal plant project.

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PENDING LITIGATION — The Company is subject to claims arising in the ordinary course of business and other legal proceedings. The Company has been named in, among other actions, certain product liability claims related to our former sand mining subsidiary. We accrue liabilities related to these claims when we can reasonably estimate the amount or range of amounts of probable settlement costs or other charges for these claims. The Company has accrued approximately $3.2 million and$2.9 million related to all claims in the aggregate as of September 30, 2015 and December 31, 2014, respectively. Management does not believe that it is reasonably possible that there will be a material change in the Company's estimated liability in the near term and does not currently anticipate the disposition of any known claims that would have a material effect on the Company's financial position, results of operations or cash flows.

ENVIRONMENTAL REMEDIATION COSTS — SJI incurred and recorded costs for environmental cleanup of 12 sites where SJG or its predecessors operated gas manufacturing plants. SJG stopped manufacturing gas in the 1950s. SJI and some of its nonutility subsidiaries also recorded costs for environmental cleanup of sites where SJF previously operated a fuel oil business and Morie maintained equipment, fueling stations and storage. There have been no changes to the status of the Company’s environmental remediation efforts since December 31, 2014 as described in Note 15 to the Consolidated Financial Statements in Item 8 of SJI’s Annual Report on Form 10-K for the year ended December 31, 2014.

12. DERIVATIVE INSTRUMENTS:

Certain SJI subsidiaries are involved in buying, selling, transporting and storing natural gas and buying and selling retail electricity for their own accounts as well as managing these activities for third parties. These subsidiaries are subject to market risk on expected future purchases and sales due to commodity price fluctuations. The Company uses a variety of derivative instruments to limit this exposure to market risk in accordance with strict corporate guidelines. These derivative instruments include forward contracts, swap agreements, options contracts and futures contracts. As of September 30, 2015, the Company had outstanding derivative contracts intended to limit the exposure to market risk on 55.5 MMdts (1 MMdts = one million decatherms) of expected future purchases of natural gas, 44.8 MMdts of expected future sales of natural gas, 2.9 MMmwh (1 MMmwh = one million megawatt hours) of expected future purchases of electricity and 2.8 MMmwh of expected future sales of electricity. In addition to these derivative contracts, the Company has basis and index related purchase and sales contracts totaling 226.3 MMdts. These contracts, which have not been designated as hedging instruments under GAAP, are measured at fair value and recorded in Derivatives - Energy Related Assets or Derivatives - Energy Related Liabilities on the condensed consolidated balance sheets. The net unrealized pre-tax gains and losses for these energy-related commodity contracts are included with realized gains and losses in Operating Revenues – Nonutility.

The Company has also entered into interest rate derivatives to hedge exposure to increasing interest rates and the impact of those rates on cash flows of variable-rate debt. These interest rate derivatives, some of which have been designated as hedging instruments under GAAP, are measured at fair value and recorded in Derivatives - Other on the condensed consolidated balance sheets. Beginning in July 2012, hedge accounting was discontinued for these derivatives. As a result, unrealized gains and losses on these derivatives, that were previously included in Accumulated Other Comprehensive Loss (AOCL) on the consolidated balance sheets, will be reclassified into earnings over the remaining life of the derivative. These derivatives are expected to mature in 2026.

There have been no significant changes to the Company’s active interest rate swaps since December 31, 2014, which are described in Note 16 to the Consolidated Financial Statements in Item 8 of SJI’s Annual Report on Form 10-K for the year ended December 31, 2014.

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The fair values of all derivative instruments, as reflected in the condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014, are as follows (in thousands):

Derivatives not designated as hedging instruments under GAAP	September 30, 2015		December 31, 2014	
	Assets	Liabilities	Assets	Liabilities
Energy-related commodity contracts:				
Derivatives – Energy Related – Current	$60,536	$86,793	$85,368	$109,744
Derivatives – Energy Related – Non-Current	17,138	23,490	13,905	19,926
Interest rate contracts:				
Derivatives - Other	—	11,518	—	10,732
Total derivatives not designated as hedging instruments under GAAP	77,674	121,801	99,273	140,402
Total Derivatives	$77,674	$121,801	$99,273	$140,402

The Company enters into derivative contracts with counterparties, some of which are subject to master netting arrangements, which allow net settlements under certain conditions. The Company presents derivatives at gross fair values on the condensed consolidated balance sheets. As of September 30, 2015 and December 31, 2014, information related to these offsetting arrangements were as follows (in thousands):

As of September 30, 2015

Description	Gross amounts of recognized assets/liabilities	Gross amount offset in the balance sheet	Net amounts of assets/liabilities in balance sheet	Gross amounts not offset in the balance sheet			Net amount
				Financial Instruments		Cash Collateral Posted	
Derivatives - Energy Related Assets	$ 77,674	$—	$ 77,674	$(30,785	)(A)	$—	$46,889
Derivatives - Energy Related Liabilities	$ (110,283)	$—	$ (110,283)	$30,785	(B)	$30,856	$(48,642)
Derivatives - Other	$ (11,518)	$—	$ (11,518)	$—		$—	$(11,518)

As of December 31, 2014

Description	Gross amounts of recognized assets/liabilities	Gross amount offset in the balance sheet	Net amounts of assets/liabilities in balance sheet	Gross amounts not offset in the balance sheet			Net amount
				Financial Instruments		Cash Collateral Posted	
Derivatives - Energy Related Assets	$ 99,273	$—	$ 99,273	$(39,747	)(A)	$—	$59,526
Derivatives - Energy Related Liabilities	$ (129,670)	$—	$ (129,670)	$39,747	(B)	$53,897	$(36,026)
Derivatives - Other	$ (10,732)	$—	$ (10,732)	$—		$—	$(10,732)

(A) The balances at September 30, 2015 and December 31, 2014 were related to derivative liabilities which can be net settled against derivative assets.

(B) The balances at September 30, 2015 and December 31, 2014 were related to derivative assets which can be net settled against derivative liabilities.

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The effect of derivative instruments on the condensed consolidated statements of income for the three and nine months ended September 30, 2015 and 2014 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationships under GAAP	2015	2014	2015	2014
Interest Rate Contracts:				
Losses recognized in AOCL on effective portion	$—	$—	$—	$—
Losses reclassified from AOCL into income (a)	$(93)	$(112)	$(303)	$(336)
Gains (losses) recognized in income on ineffective portion (a)	$—	$—	$—	$—

(a) Included in Interest Charges

	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives Not Designated as Hedging Instruments under GAAP	2015	2014	2015	2014
Losses on energy-related commodity contracts (a)	$(11,992)	$(1,633)	$(4,014)	$(30,429)
(Losses) gains on interest rate contracts (b)	(435)	202	(192)	(103)
Total	$(12,427)	$(1,431)	$(4,206)	$(30,532)

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

Net realized loss of $1.6 million and $1.2 million associated with SJG's energy-related financial commodity contracts for the three months ended September 30, 2015 and 2014, respectively, and a loss of $6.4 million and a gain of$2.4 million for the nine months ended September 30, 2015 and 2014, respectively, are not included in the above table. These contracts are part of SJG's regulated risk management activities that serve to mitigate BGSS costs passed on to its customers. As these transactions are entered into pursuant to, and recoverable through, regulatory riders, any changes in the value of SJG's energy-related financial commodity contracts are deferred in Regulatory Assets or Liabilities, as applicable, and there is no impact to earnings.

Certain of the Company's derivative instruments contain provisions that require immediate payment or demand immediate and ongoing collateralization on derivative instruments in net liability positions in the event of a material adverse change in the credit standing of the Company. The aggregate fair value of all derivative instruments with credit risk-related contingent features that are in a liability position on September 30, 2015, is $44.3 million. If the credit risk-related contingent features underlying these agreements were triggered on September 30, 2015, the Company would have been required to settle the instruments immediately or post collateral to its counterparties of approximately $39.8 million after offsetting asset positions with the same counterparties under master netting arrangements.

13. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

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

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

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

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

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

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

As of September 30, 2015	Total	Level 1	Level 2	Level 3
Assets				
Available-for-Sale Securities (A)	$14,371	$5,759	$8,612	$—
Derivatives – Energy Related Assets (B)	77,674	9,991	27,351	40,332
	$92,045	$15,750	$35,963	$40,332
Liabilities				
Derivatives – Energy Related Liabilities (B)	$110,283	$34,536	$20,750	$54,997
Derivatives – Other (C)	11,518	—	11,518	—
	$121,801	$34,536	$32,268	$54,997

As of December 31, 2014	Total	Level 1	Level 2	Level 3
Assets				
Available-for-Sale Securities (A)	$8,922	$5,952	$2,970	$—
Derivatives – Energy Related Assets (B)	99,273	21,675	43,093	34,505
	$108,195	$27,627	$46,063	$34,505

Liabilities