

SOUTH JERSEY INDUSTRIES INC

Form 10-Q

August 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2015

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 1-6364

SOUTH JERSEY INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

New Jersey

(State of incorporation)

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)

22-1901645

(IRS employer identification no.)

Common Stock

(\$1.25 par value per share)

(Title of each class)

New York Stock Exchange

(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  No

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  No

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

Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

Yes  No

As of August 3, 2015 there were 68,542,760 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 |          |
|--|--------------------|----------|
|  | June 30,           |          |
|  | 2015               | 2014     |
| Operating Revenues:                                      |                    |          |
| Utility  | \$75,294           | \$68,903 |
| Nonutility   | 102,416            | 64,368   |
| Total Operating Revenues                                 | 177,710            | 133,271  |
| Operating Expenses:                                      |                    |          |
| Cost of Sales - (Excluding depreciation)                 |                    |          |
| - Utility  | 24,901             | 24,623   |
| - Nonutility   | 66,044             | 54,324   |
| Operations   | 33,802             | 30,652   |
| Maintenance  | 3,928              | 3,181    |
| Depreciation   | 17,430             | 15,495   |
| Energy and Other Taxes                                   | 1,265              | 1,241    |
| Total Operating Expenses                                 | 147,370            | 129,516  |
| Operating Income   | 30,340             | 3,755    |
| Other Income and Expense                                 | 3,040              | 4,185    |
| Interest Charges   | (7,474             | ) (6,846 |
| Income Before Income Taxes                               | 25,906             | 1,094    |
| Income Taxes   | 3,279              | 9,510    |
| Equity in Loss of Affiliated Companies                   | (15,844            | ) (903   |
| Income from Continuing Operations                        | 13,341             | 9,701    |
| Loss from Discontinued Operations - (Net of tax benefit) | (74                | ) (80    |
| Net Income   | \$13,267           | \$9,621  |
| Basic Earnings Per Common Share:                         |                    |          |
| Continuing Operations                                    | \$0.19             | \$0.15   |
| Discontinued Operations                                  | —                  | —        |
| Basic Earnings Per Common Share                          | \$0.19             | \$0.15   |
| Average Shares of Common Stock Outstanding - Basic       | 68,467             | 65,926   |
| Diluted Earnings Per Common Share:                       |                    |          |
| Continuing Operations                                    | \$0.19             | \$0.15   |
| Discontinued Operations                                  | —                  | —        |
| Diluted Earnings Per Common Share                        | \$0.19             | \$0.15   |
| Average Shares of Common Stock Outstanding - Diluted     | 68,653             | 66,074   |
| 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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|  | Six Months Ended |           |
|--|------------------|-----------|
|  | June 30,<br>2015 | 2014      |
| Operating Revenues:                                      |                  |           |
| Utility  | \$341,824        | \$279,232 |
| Nonutility   | 218,838          | 204,240   |
| Total Operating Revenues                                 | 560,662          | 483,472   |
| Operating Expenses:                                      |                  |           |
| Cost of Sales - (Excluding depreciation)                 |                  |           |
| - Utility  | 169,875          | 127,700   |
| - Nonutility   | 162,777          | 179,385   |
| Operations   | 75,663           | 70,002    |
| Maintenance  | 7,926            | 6,440     |
| Depreciation   | 34,249           | 30,486    |
| Energy and Other Taxes                                   | 3,461            | 3,194     |
| Total Operating Expenses                                 | 453,951          | 417,207   |
| Operating Income   | 106,711          | 66,265    |
| Other Income and Expense                                 | 5,281            | 6,553     |
| Interest Charges   | (16,075)         | (13,930)  |
| Income Before Income Taxes                               | 95,917           | 58,888    |
| Income Taxes   | (13,334)         | (2,359)   |
| Equity in (Loss) Earnings of Affiliated Companies        | (15,389)         | 1,383     |
| Income from Continuing Operations                        | 67,194           | 57,912    |
| Loss from Discontinued Operations - (Net of tax benefit) | (350)            | (393)     |
| Net Income   | \$66,844         | \$57,519  |
| Basic Earnings Per Common Share:                         |                  |           |
| Continuing Operations                                    | \$0.98           | \$0.88    |
| Discontinued Operations                                  | —                | —         |
| Basic Earnings Per Common Share                          | \$0.98           | \$0.88    |
| Average Shares of Common Stock Outstanding - Basic       | 68,432           | 65,728    |
| Diluted Earnings Per Common Share:                       |                  |           |
| Continuing Operations                                    | \$0.98           | \$0.88    |
| Discontinued Operations                                  | —                | —         |
| Diluted Earnings Per Common Share                        | \$0.98           | \$0.88    |
| Average Shares of Common Stock Outstanding - Diluted     | 68,636           | 65,880    |
| Dividends Declared per Common Share                      | \$0.50           | \$0.47    |

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<br>June 30, |           |   |
|---|--------------------------------|-----------|---|
|   | 2015                           | 2014      |   |
| Net Income  | \$ 13,267                      | \$ 9,621  |   |
| Other Comprehensive Income, Net of Tax:*                  |                                |           |   |
| Unrealized (Loss) Gain on Available-for-Sale Securities   | (64                            | ) 154     |   |
| Unrealized Gain on Derivatives - Other                    | 111                            | 66        |   |
| Other Comprehensive Income (Loss) of Affiliated Companies | 59                             | (82       | ) |
| Other Comprehensive Income - Net of Tax*                  | 106                            | 138       |   |
| Comprehensive Income                                      | \$ 13,373                      | \$ 9,759  |   |
|   | Six Months Ended<br>June 30,   |           |   |
|   | 2015                           | 2014      |   |
| Net Income  | \$ 66,844                      | \$ 57,519 |   |
| Other Comprehensive Income, Net of Tax:*                  |                                |           |   |
| Unrealized Gain on Available-for-Sale Securities          | 24                             | 216       |   |
| Unrealized Gain on Derivatives - Other                    | 119                            | 132       |   |
| Other Comprehensive Loss of Affiliated Companies          | (36                            | ) (100    | ) |
| Other Comprehensive Income - Net of Tax*                  | 107                            | 248       |   |
| Comprehensive Income                                      | \$ 66,951                      | \$ 57,767 |   |

\* 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)

|  | Six Months Ended |           |
|--|------------------|-----------|
|  | June 30,         |           |
|  | 2015             | 2014      |
| Net Cash Provided by Operating Activities                          | \$ 102,059       | \$ 89,669 |
| Cash Flows from Investing Activities:                              |                  |           |
| Capital Expenditures   | (141,585)        | (134,945) |
| Purchase of Available for Sale Securities                          | (6,059)          | —         |
| Net Proceeds from Sale of Restricted Investments in Margin Account | 12,581           | 3,333     |
| Investment in Long-Term Receivables                                | (3,381)          | (3,410)   |
| Proceeds from Long-Term Receivables                                | 2,040            | 3,536     |
| Notes Receivable   | (9,887)          | —         |
| Purchase of Company Owned Life Insurance                           | (765)            | (526)     |
| Investment in Affiliate  | (1,766)          | —         |
| Advances on Notes Receivable - Affiliate                           | (1,514)          | (1,922)   |
| Repayment of Notes Receivable - Affiliate                          | 4,612            | 5,639     |
| Net Cash Used in Investing Activities                              | (145,724)        | (128,295) |
| Cash Flows from Financing Activities:                              |                  |           |
| Net Borrowings from (Repayments of) Short-Term Credit Facilities   | 120,300          | (147,200) |
| Proceeds from Issuance of Long-Term Debt                           | —                | 189,000   |
| Principal Repayments of Long-Term Debt                             | (64,000)         | —         |
| Payments for Issuance of Long-Term Debt                            | —                | (1,204)   |
| Dividends on Common Stock  | (17,192)         | (15,510)  |
| Proceeds from Sale of Common Stock                                 | 3,596            | 17,119    |
| Net Cash Provided by Financing Activities                          | 42,704           | 42,205    |
| Net (Decrease) Increase in Cash and Cash Equivalents               | (961)            | 3,579     |
| Cash and Cash Equivalents at Beginning of Period                   | 4,171            | 3,818     |
| Cash and Cash Equivalents at End of Period                         | \$ 3,210         | \$ 7,397  |

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

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

|  | June 30,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| Assets                                       |                  |                      |
| Property, Plant and Equipment:               |                  |                      |
| Utility Plant, at original cost              | \$2,101,634      | \$2,002,966          |
| Accumulated Depreciation                     | (426,190         | ) (413,597 )         |
| Nonutility Property and Equipment, at cost   | 654,129          | 622,079              |
| Accumulated Depreciation                     | (92,195          | ) (77,345 )          |
| Property, Plant and Equipment - Net          | 2,237,378        | 2,134,103            |
| Investments:                                 |                  |                      |
| Available-for-Sale Securities                | 15,121           | 8,922                |
| Restricted                                   | 53,752           | 65,451               |
| Investment in Affiliates                     | 51,970           | 68,351               |
| Total Investments                            | 120,843          | 142,724              |
| Current Assets:                              |                  |                      |
| Cash and Cash Equivalents                    | 3,210            | 4,171                |
| Accounts Receivable                          | 257,216          | 251,892              |
| Unbilled Revenues                            | 25,291           | 62,608               |
| Provision for Uncollectibles                 | (10,182          | ) (7,910 )           |
| Notes Receivable                             | 9,887            | —                    |
| Notes Receivable - Affiliate                 | 12,059           | 14,657               |
| Natural Gas in Storage, average cost         | 47,233           | 63,246               |
| Materials and Supplies, average cost         | 2,123            | 2,125                |
| Deferred Income Taxes - Net                  | 60,052           | 57,748               |
| Prepaid Taxes                                | 20,460           | 14,106               |
| Derivatives - Energy Related Assets          | 73,879           | 85,368               |
| Other Prepayments and Current Assets         | 26,897           | 18,686               |
| Total Current Assets                         | 528,125          | 566,697              |
| Regulatory and Other Noncurrent Assets:      |                  |                      |
| Regulatory Assets                            | 335,182          | 357,160              |
| Derivatives - Energy Related Assets          | 19,204           | 13,905               |
| Unamortized Debt Issuance Costs              | 9,106            | 9,795                |
| Notes Receivable - Affiliate                 | 36,300           | 36,799               |
| Contract Receivables                         | 23,584           | 19,236               |
| Notes Receivable                             | 7,882            | 7,882                |
| Other  | 61,342           | 61,124               |
| Total Regulatory and Other Noncurrent Assets | 492,600          | 505,901              |
| Total Assets                                 | \$3,378,946      | \$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)

|   | June 30,<br>2015 | December 31,<br>2014 |
|---|------------------|----------------------|
| Capitalization and Liabilities                          |                  |                      |
| Equity:   |                  |                      |
| Common Stock  | \$85,598         | \$85,418             |
| Premium on Common Stock                                 | 443,141          | 438,384              |
| Treasury Stock (at par)                                 | (287             | ) (330               |
| Accumulated Other Comprehensive Loss                    | (30,151          | ) (30,258            |
| Retained Earnings                                       | 471,676          | 439,218              |
| Total Equity  | 969,977          | 932,432              |
| Long-Term Debt  | 859,491          | 859,491              |
| Total Capitalization                                    | 1,829,468        | 1,791,923            |
| Current Liabilities:                                    |                  |                      |
| Notes Payable   | 366,000          | 245,700              |
| Current Portion of Long-Term Debt                       | 85,909           | 149,909              |
| Accounts Payable  | 193,719          | 272,998              |
| Customer Deposits and Credit Balances                   | 19,191           | 17,958               |
| Environmental Remediation Costs                         | 41,704           | 30,430               |
| Taxes Accrued   | 3,010            | 2,328                |
| Derivatives - Energy Related Liabilities                | 92,914           | 109,744              |
| Dividends Payable                                       | 17,205           | —                    |
| Interest Accrued  | 7,122            | 7,088                |
| Pension Benefits  | 1,515            | 1,550                |
| Other Current Liabilities                               | 6,261            | 12,480               |
| Total Current Liabilities                               | 834,550          | 850,185              |
| Deferred Credits and Other Noncurrent Liabilities:      |                  |                      |
| Deferred Income Taxes - Net                             | 355,219          | 344,520              |
| Investment Tax Credits                                  | 74               | 149                  |
| Pension and Other Postretirement Benefits               | 100,358          | 115,373              |
| Environmental Remediation Costs                         | 87,440           | 97,742               |
| Asset Retirement Obligations                            | 42,826           | 42,502               |
| Derivatives - Energy Related Liabilities                | 21,889           | 19,926               |
| Derivatives - Other                                     | 9,779            | 10,732               |
| Regulatory Liabilities                                  | 64,655           | 41,899               |
| Finance Obligation                                      | 19,170           | 19,659               |
| Other   | 13,518           | 14,815               |
| Total Deferred Credits and Other Noncurrent Liabilities | 714,928          | 707,317              |
| Commitments and Contingencies (Note 11)                 |                  |                      |

|                                      |             |             |
|--------------------------------------|-------------|-------------|
| Total Capitalization and Liabilities | \$3,378,946 | \$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 both the three months ended June 30, 2015 and 2014, and \$0.8 million and \$0.6 million for the six months ended June 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 six months ended June 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 six months ended June 30, 2015 or 2014. As of both June 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 June 30, 2015 and December 31, 2014, SJI held 229,536 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.

2. STOCK-BASED COMPENSATION PLAN:

Under the Amended and Restated 1997 Stock-Based Compensation Plan, shares may be issued to SJI's officers (Officers), non-employee directors (Directors) and other key employees. This plan terminated on January 26, 2015. On January 23, 2015, the Board of Directors approved a new stock-based compensation plan. The new plan was approved by shareholders on April 30, 2015. No options were granted or outstanding during the six months ended June 30, 2015 and 2014. No stock appreciation rights have been issued under the plans. During the six months ended June 30, 2015 and 2014, SJI granted 159,416 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 between 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 47,824 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.

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 six months ended June 30, 2015 and 2014, SJI granted 25,398 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.



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The following table summarizes the nonvested restricted stock awards outstanding at June 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            | 45,593             | \$22.19              | 21.1                | % 0.40 %                |
| -                        | 2013 - EPS            | 45,593             | \$25.59              | N/A                 | N/A                     |
|                          | 2014 - TSR            | 51,323             | \$21.31              | 20.0                | % 0.80 %                |
|                          | 2014 - EPS            | 51,323             | \$27.22              | N/A                 | N/A                     |
|                          | 2015 - TSR            | 34,696             | \$26.31              | 16.0                | % 1.10 %                |
|                          | 2015 - EPS, ROE, Time | 89,232             | \$29.47              | N/A                 | N/A                     |
| Directors -              | 2015                  | 25,398             | \$29.34              | 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 six months ended June 30, 2015 and 2014 (in thousands):

|                            | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |         |
|----------------------------|--------------------------------|-------|------------------------------|---------|
|                            | 2015                           | 2014  | 2015                         | 2014    |
| Officers & Key Employees   | \$511                          | \$586 | \$1,310                      | \$1,167 |
| Directors                  | 186                            | 158   | 372                          | 316     |
| Total Cost                 | 697                            | 744   | 1,682                        | 1,483   |
| Capitalized<br>Net Expense | (87)                           | )(70) | )(178)                       | )(140)  |
|                            | \$610                          | \$674 | \$1,504                      | \$1,343 |

As of June 30, 2015, there was \$4.6 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 2.0 years.

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

|   | Officers<br>& Other Key<br>Employees | Directors | Weighted<br>Average<br>Fair Value |
|---|--------------------------------------|-----------|-----------------------------------|
| Nonvested Shares Outstanding, January 1, 2015 | 223,876                              | 23,220    | \$24.40                           |
| Granted                                       | 159,416                              | 25,398    | \$28.69                           |

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|   |         |         |           |
|---|---------|---------|-----------|
| Cancelled/Forfeited                         | (65,532 | ) —     | \$26.56   |
| Vested                                      | —       | (23,220 | ) \$27.26 |
| Nonvested Shares Outstanding, June 30, 2015 | 317,760 | 25,398  | \$26.10   |

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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 six months ended June 30, 2015 and 2014, SJI granted 25,398 and 23,220 shares to its Directors at a market value of \$0.7 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 AFFILIATIONS:**

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 six months ended June 30, 2015 and 2014, were (in thousands, except per share amounts):

|   | Three Months Ended |          | Six Months Ended |          |
|---|--------------------|----------|------------------|----------|
|   | June 30,           |          | June 30,         |          |
|   | 2015               | 2014     | 2015             | 2014     |
| Loss Before Income Taxes:               |                    |          |                  |          |
| Sand Mining                             | \$(17              | ) \$(103 | ) \$(364         | ) \$(483 |
| Fuel Oil                                | (97                | ) (20    | ) (163           | ) (122   |
| Income Tax Benefits                     | 40                 | 43       | 177              | 212      |
| Loss from Discontinued Operations — Net | \$(74              | ) \$(80  | ) \$(350         | ) \$(393 |
| Earnings (Loss) Per Common Share from   |                    |          |                  |          |
| Discontinued Operations — Net:          |                    |          |                  |          |
| Basic and Diluted                       | \$—                | \$—      | \$—              | \$—      |

**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.

PennEast Pipeline Company, LLC (PennEast) - Midstream has a 20% investment in PennEast, which expects to construct an approximately 100-mile natural gas pipeline that will extend from Northeastern Pennsylvania into New Jersey, estimated to be completed in 2017.

During the first six months of 2015 and 2014, the Company received net repayments from unconsolidated affiliates of \$1.3 million and \$3.7 million, respectively. As of June 30, 2015 and December 31, 2014, the outstanding balance of

Notes Receivable – Affiliate was \$48.4 million and \$51.5 million, respectively. As of June 30, 2015, approximately \$39.2 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 \$9.2 million of these notes are unsecured and accrue interest at variable rates.

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SJI holds significant variable interests in these entities but is not the primary beneficiary. Consequently, these entities are accounted for under the equity method because SJI does not have both (a) the power to direct the activities of the entity that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. As of June 30, 2015, the Company had a net asset of approximately \$51.1 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 June 30, 2015 is limited to its combined equity contributions and the Notes Receivable-Affiliate in the amount of \$100.3 million plus the guarantees discussed in Note 11.

**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                | 116,884    |
| Stock-Based Compensation Plan             | 26,338     |
| Ending Balance, June 30                   | 68,478,082 |

The par value (\$1.25 per share) of stock issued was recorded in Common Stock and the net excess over par value of approximately \$4.8 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 186,147 and 148,664 for the three months ended June 30, 2015 and 2014, respectively, and 203,455 and 151,556 for the six months ended June 30, 2015 and 2014, respectively. These shares relate to SJI's restricted stock as discussed in Note 2.

**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 \$3.6 million and \$17.1 million of equity capital through the DRP during the six months ended June 30, 2015 and 2014, respectively.

**5. FINANCIAL INSTRUMENTS:**

**RESTRICTED INVESTMENTS** — In accordance with the terms of certain Marina and SJG loan agreements, unused proceeds are required to be escrowed pending approval of construction expenditures. As of June 30, 2015 and December 31, 2014, the escrowed proceeds, 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 June 30, 2015 and December 31, 2014, the balances in these accounts totaled \$51.1 million and \$63.7 million, respectively. The carrying amounts of the Restricted Investments approximate their fair values at June 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.

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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 three months ended June 30, 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 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 June 30, 2015, the Company, through its investment in Energenic, had a remaining net asset of approximately \$2.2 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.

**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 \$14.0 million and \$15.0 million as of June 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 \$1.1 million and \$1.3 million as of June 30, 2015 and December 31, 2014, respectively. 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 June 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 June 30, 2015, approximately \$8.0 million, or 8.6%, 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 June 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 \$19.2 million and \$19.7 million, net of amortization, within Finance Obligation on the condensed consolidated balance sheets at June 30, 2015 and December 31, 2014, respectively.

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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 June 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 June 30, 2015 and December 31, 2014, were \$986.4 million and \$1,058.5 million, respectively. The carrying amounts of SJI's long-term debt, including current maturities, as of June 30, 2015 and December 31, 2014, were \$945.4 million and \$1,009.4 million, respectively.

## 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.

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 |          | Six Months Ended |           |
|---------------------------------|--------------------|----------|------------------|-----------|
|                                 | June 30,           |          | June 30,         |           |
|                                 | 2015               | 2014     | 2015             | 2014      |
| Operating Revenues:             |                    |          |                  |           |
| Gas Utility Operations          | \$75,812           | \$69,159 | \$343,470        | \$279,704 |
| Energy Group:                   |                    |          |                  |           |
| Wholesale Energy Operations     | 33,276             | (2,936 ) | 68,621           | 32,436    |
| Retail Gas and Other Operations | 18,065             | 24,875   | 56,143           | 76,381    |
| Retail Electric Operations      | 36,186             | 27,879   | 65,963           | 68,272    |
| Subtotal Energy Group           | 87,527             | 49,818   | 190,727          | 177,089   |
| Energy Services:                |                    |          |                  |           |
| On-Site Energy Production       | 15,136             | 14,397   | 28,708           | 25,743    |
| Appliance Service Operations    | 2,699              | 2,637    | 5,056            | 5,291     |
| Subtotal Energy Services        | 17,835             | 17,034   | 33,764           | 31,034    |
| Corporate & Services            | 7,765              | 6,452    | 16,851           | 14,323    |

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|                          |           |           |           |           |
|--------------------------|-----------|-----------|-----------|-----------|
| Subtotal                 | 188,939   | 142,463   | 584,812   | 502,150   |
| Intersegment Sales       | (11,229 ) | (9,192 )  | (24,150 ) | (18,678 ) |
| Total Operating Revenues | \$177,710 | \$133,271 | \$560,662 | \$483,472 |

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|                                     | Three Months Ended |           | Six Months Ended |           |
|-------------------------------------|--------------------|-----------|------------------|-----------|
|                                     | June 30,           |           | June 30,         |           |
|                                     | 2015               | 2014      | 2015             | 2014      |
| Operating Income (Loss):            |                    |           |                  |           |
| Gas Utility Operations              | \$ 11,961          | \$ 9,005  | \$ 85,150        | \$ 72,445 |
| Energy Group:                       |                    |           |                  |           |
| Wholesale Energy Operations         | 15,158             | (8,468    | ) 15,488         | (10,123   |
| Retail Gas and Other Operations     | 153                | (191      | ) 3,240          | 1,777     |
| Retail Electric Operations          | 174                | (840      | ) (8             | ) (894    |
| Subtotal Energy Group               | 15,485             | (9,499    | ) 18,720         | (9,240    |
| Energy Services:                    |                    |           |                  |           |
| On-Site Energy Production           | 2,177              | 3,636     | 1,695            | 2,376     |
| Appliance Service Operations        | 247                | 357       | 195              | 262       |
| Subtotal Energy Services            | 2,424              | 3,993     | 1,890            | 2,638     |
| Corporate and Services              | 470                | 256       | 951              | 422       |
| Total Operating Income              | \$ 30,340          | \$ 3,755  | \$ 106,711       | \$ 66,265 |
| Depreciation and Amortization:      |                    |           |                  |           |
| Gas Utility Operations              | \$ 14,239          | \$ 12,757 | \$ 28,406        | \$ 25,433 |
| Energy Group:                       |                    |           |                  |           |
| Wholesale Energy Operations         | 15                 | 46        | 47               | 86        |
| Retail Gas and Other Operations     | 20                 | 20        | 40               | 42        |
| Subtotal Energy Group               | 35                 | 66        | 87               | 128       |
| Energy Services:                    |                    |           |                  |           |
| On-Site Energy Production           | 7,457              | 6,165     | 14,508           | 11,940    |
| Appliance Service Operations        | 73                 | 67        | 147              | 134       |
| Subtotal Energy Services            | 7,530              | 6,232     | 14,655           | 12,074    |
| Corporate and Services              | 458                | 235       | 700              | 454       |
| Total Depreciation and Amortization | \$ 22,262          | \$ 19,290 | \$ 43,848        | \$ 38,089 |
| Interest Charges:                   |                    |           |                  |           |
| Gas Utility Operations              | \$ 5,113           | \$ 4,292  | \$ 10,303        | \$ 8,634  |
| Energy Group:                       |                    |           |                  |           |
| Wholesale Energy Operations         | (112               | ) (5      | ) 130            | 116       |
| Retail Gas and Other Operations     | 47                 | 68        | 120              | 194       |
| Subtotal Energy Group               | (65                | ) 63      | 250              | 310       |
| Energy Services:                    |                    |           |                  |           |
| On-Site Energy Production           | 1,661              | 2,147     | 3,976            | 4,275     |
| Corporate and Services              | 2,939              | 1,790     | 5,927            | 3,640     |
| Subtotal                            | 9,648              | 8,292     | 20,456           | 16,859    |
| Intersegment Borrowings             | (2,174             | ) (1,446  | ) (4,381         | ) (2,929  |
| Total Interest Charges              | \$ 7,474           | \$ 6,846  | \$ 16,075        | \$ 13,930 |

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|                                 | Three Months Ended |            | Six Months Ended |                   |
|---------------------------------|--------------------|------------|------------------|-------------------|
|                                 | June 30,           |            | June 30,         |                   |
|                                 | 2015               | 2014       | 2015             | 2014              |
| Income Taxes:                   |                    |            |                  |                   |
| Gas Utility Operations          | \$3,292            | \$2,379    | 29,464           | 24,906            |
| Energy Group:                   |                    |            |                  |                   |
| Wholesale Energy Operations     | 5,986              | (2,628     | ) 6,853          | (3,181            |
| Retail Gas and Other Operations | 92                 | 80         | 1,668            | 1,016             |
| Retail Electric Operations      | 71                 | (343       | ) (3             | ) (365            |
| Subtotal Energy Group           | 6,149              | (2,891     | ) 8,518          | (2,530            |
| Energy Services:                |                    |            |                  |                   |
| On-Site Energy Production       | (12,861            | ) (9,404   | ) (24,908        | ) (20,429         |
| Appliance Service Operations    | 105                | 211        | 97               | 188               |
| Subtotal Energy Services        | (12,756            | ) (9,193   | ) (24,811        | ) (20,241         |
| Corporate and Services          | 36                 | 195        | 163              | 224               |
| Total Income Taxes              | \$(3,279           | ) \$(9,510 | ) \$13,334       | \$2,359           |
| Property Additions:             |                    |            |                  |                   |
| Gas Utility Operations          | \$62,175           | \$59,067   | \$105,501        | \$91,598          |
| Energy Group:                   |                    |            |                  |                   |
| Wholesale Energy Operations     | 375                | 8          | 379              | 10                |
| Retail Gas and Other Operations | 392                | 229        | 1,121            | 397               |
| Subtotal Energy Group           | 767                | 237        | 1,500            | 407               |
| Energy Services:                |                    |            |                  |                   |
| On-Site Energy Production       | 26,040             | 16,426     | 30,421           | 25,575            |
| Appliance Service Operations    | 212                | 6          | 328              | 6                 |
| Subtotal Energy Services        | 26,252             | 16,432     | 30,749           | 25,581            |
| Corporate and Services          | 537                | 803        | 1,601            | 1,581             |
| Total Property Additions        | \$89,731           | \$76,539   | \$139,351        | \$119,167         |
|                                 |                    |            | June 30, 2015    | December 31, 2014 |
| Identifiable Assets:            |                    |            |                  |                   |
| Gas Utility Operations          |                    |            | \$2,266,233      | \$2,185,672       |
| Energy Group:                   |                    |            |                  |                   |
| Wholesale Energy Operations     |                    |            | 269,922          | 366,119           |
| Retail Gas and Other Operations |                    |            | 35,801           | 53,073            |
| Retail Electric Operations      |                    |            | 47,730           | 23,682            |
| Subtotal Energy Group           |                    |            | 353,453          | 442,874           |
| Energy Services:                |                    |            |                  |                   |
| On-Site Energy Production       |                    |            | 685,765          | 675,937           |
| Appliance Service Operations    |                    |            | 3,425            | 3,105             |
| Subtotal Energy Services        |                    |            | 689,190          | 679,042           |
| Discontinued Operations         |                    |            | 1,600            | 1,758             |
| Corporate and Services          |                    |            | 571,333          | 527,691           |
| Intersegment Assets             |                    |            | (502,863         | ) (487,612        |
| Total Identifiable Assets       |                    |            | \$3,378,946      | \$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 January 2015, SJG filed a petition with the BPU seeking to continue offering energy efficiency programs through June 2018 with a proposed total budget of \$56.0 million and with the same rate recovery mechanism that exists for its current energy efficiency programs. This petition is currently pending.

In April 2015, SJG filed a petition requesting to increase annual revenues from base rates by \$4.6 million to reflect the roll-in of investments made through June 2015 under its Storm Hardening and Reliability Program ("SHARP"), with rates to become effective on October 1, 2015. This petition is currently pending.

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 Basic Gas Supply Service ("BGSS") and Conservation Incentive Program ("CIP") rate adjustment petition, requesting 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. This petition is currently pending.

Also 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 ("EETPs"). SJG's original EETPs, approved by the BPU in 2009, and its EETP 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.

The various 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.

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.

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

|   | June 30, 2015    | December 31, 2014 |
|---|------------------|-------------------|
| Environmental Remediation Costs:                        |                  |                   |
| Expended - Net  | \$29,145         | \$29,540          |
| Liability for Future Expenditures                       | 125,769          | 124,308           |
| Deferred Asset Retirement Obligation Costs              | 31,799           | 31,584            |
| Deferred Pension and Other Postretirement Benefit Costs | 99,040           | 99,040            |
| Deferred Gas Costs - Net                                | 20,194           | 32,202            |
| Societal Benefit Costs Receivable                       | —                | 385               |
| Deferred Interest Rate Contracts                        | 6,615            | 7,325             |
| Energy Efficiency Tracker                               | 852              | 11,247            |
| Pipeline Supplier Service Charges                       | 4,608            | 5,441             |
| Pipeline Integrity Cost                                 | 3,851            | 3,431             |
| AFUDC - Equity Related Deferrals                        | 11,330           | 10,781            |
| Other Regulatory Assets                                 | 1,979            | 1,876             |
| <b>Total Regulatory Assets</b>                          | <b>\$335,182</b> | <b>\$357,160</b>  |

**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 the first six months of 2015 as a result of lower natural gas prices. SJG's BGSS mechanism is designed to over-collect 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 six months of 2015 resulting from extremely cold weather.

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

|  | June 30, 2015   | December 31, 2014 |
|--|-----------------|-------------------|
| Excess Plant Removal Costs             | \$34,701        | \$35,940          |
| Conservation Incentive Program Payable | 17,255          | 4,700             |
| Societal Benefit Costs                 | 12,699          | —                 |
| Other Regulatory Liabilities           | —               | 1,259             |
| <b>Total Regulatory Liabilities</b>    | <b>\$64,655</b> | <b>\$41,899</b>   |

**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.

**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 six months of 2015 resulting in a payable. This is primarily the result of extremely cold weather experienced in the region.

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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 \$12.7 million regulatory liability is due to current SBC rates which are producing revenue greater than SBC expenses. 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 six months ended June 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            |          | Six Months Ended |          |
|                                    | June 30,<br>2015              | 2014     | June 30,<br>2015 | 2014     |
| Service Cost                       | \$1,225                       | \$1,285  | \$2,668          | \$2,570  |
| Interest Cost                      | 2,814                         | 2,695    | 5,584            | 5,390    |
| Expected Return on Plan Assets     | (3,695                        | ) (3,265 | ) (7,394         | ) (6,530 |
| Amortizations:                     |                               |          |                  |          |
| Prior Service Cost                 | 53                            | 43       | 106              | 86       |
| Actuarial Loss                     | 2,648                         | 1,426    | 5,304            | 2,852    |
| Net Periodic Benefit Cost          | 3,045                         | 2,184    | 6,268            | 4,368    |
| Capitalized Benefit Cost           | (1,194                        | ) (854   | ) (2,433         | ) (1,708 |
| Deferred Benefit Cost              | (325                          | ) —      | (325             | ) —      |
| Total Net Periodic Benefit Expense | \$1,526                       | \$1,330  | \$3,510          | \$2,660  |
|                                    |                               |          |                  |          |
|                                    | Other Postretirement Benefits |          |                  |          |
|                                    | Three Months Ended            |          | Six Months Ended |          |
|                                    | June 30,<br>2015              | 2014     | June 30,<br>2015 | 2014     |
| Service Cost                       | \$231                         | \$250    | \$558            | \$500    |
| Interest Cost                      | 715                           | 740      | 1,487            | 1,480    |
| Expected Return on Plan Assets     | (749                          | ) (687   | ) (1,497         | ) (1,374 |
| Amortizations:                     |                               |          |                  |          |
| Prior Service Cost                 | 152                           | 38       | 304              | 76       |
| Actuarial Loss                     | 287                           | 243      | 671              | 486      |
| Net Periodic Benefit Cost          | 636                           | 584      | 1,523            | 1,168    |
| Capitalized Benefit Cost           | (271                          | ) (209   | ) (528           | ) (418   |
| Deferred Benefit Cost              | (79                           | ) —      | (79              | ) —      |
| Total Net Periodic Benefit Expense | \$286                         | \$375    | \$916            | \$750    |

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 costs are expected to be recovered through rates as part of SJG's next base rate case.

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.

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## 10. LINES OF CREDIT:

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

| Company  | Total Facility    | Usage             | Available Liquidity | Expiration Date   |
|--|-------------------|-------------------|---------------------|-------------------|
| <b>SJG:</b>  |                   |                   |                     |                   |
| Commercial Paper Program/Revolving Credit Facility | \$ 200,000        | \$ 127,600        | \$ 72,400           | May 2018          |
| Uncommitted Bank Lines                             | 10,000            | —                 | 10,000              | Various           |
| <b>Total SJG</b>                                   | <b>210,000</b>    | <b>127,600</b>    | <b>82,400</b>       |                   |
| <b>SJI:</b>  |                   |                   |                     |                   |
| Revolving Credit Facility                          | 400,000           | 251,500           | 148,500             | February 2018 (A) |
| <b>Total SJI</b>                                   | <b>400,000</b>    | <b>251,500</b>    | <b>148,500</b>      |                   |
| <b>Total</b>                                       | <b>\$ 610,000</b> | <b>\$ 379,100</b> | <b>\$ 230,900</b>   |                   |

(A) Includes letters of credit outstanding in the amount of \$13.1 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 0.96% and 1.16% at June 30, 2015 and 2014, respectively. Average borrowings outstanding under these credit facilities, not including letters of credit, during the six months ended June 30, 2015 and 2014 were \$274.3 million and \$320.2 million, respectively. The maximum amounts outstanding under these credit facilities, not including letters of credit, during the six months ended June 30, 2015 and 2014 were \$368.1 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 June 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 June 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 June 30, 2015, 50% of the currently outstanding debt is \$8.4 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 June 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 June 30, 2015, SJI had issued \$5.9 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 45.0% of our workforce at June 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 June 30, 2015, SJI provided \$13.1 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. The Company has also provided \$87.6 million of additional letters of credit under separate facilities outside



of the revolving credit facility to support variable-rate demand bonds issued through the New Jersey Economic Development Authority (NJEDA) to finance the expansion of SJG's natural gas distribution system and to finance Marina's initial thermal plant project.

**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 \$3.0 million and \$2.9 million related to all claims in the aggregate as of June 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.

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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 June 30, 2015, the Company had outstanding derivative contracts intended to limit the exposure to market risk on 53.1 MMDts (1 MMDts = one million decatherms) of expected future purchases of natural gas, 40.8 MMDts of expected future sales of natural gas, 3.1 MMmwh (1 MMmwh = one million megawatt hours) of expected future purchases of electricity and 3.1 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 274.7 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 June 30, 2015 and December 31, 2014, are as follows (in thousands):

| Derivatives not designated as hedging instruments under GAAP       | June 30, 2015 |             | December 31, 2014 |             |
|--|---------------|-------------|-------------------|-------------|
|  | Assets        | Liabilities | Assets            | Liabilities |
| Energy related commodity contracts:                                |               |             |                   |             |
| Derivatives – Energy Related – Current                             | \$73,879      | \$92,914    | \$85,368          | \$109,744   |
| Derivatives – Energy Related – Non-Current                         | 19,204        | 21,889      | 13,905            | 19,926      |
| Interest rate contracts:   |               |             |                   |             |
| Derivatives - Other  | —             | 9,779       | —                 | 10,732      |
| Total derivatives not designated as hedging instruments under GAAP | 93,083        | 124,582     | 99,273            | 140,402     |
| Total Derivatives  | \$93,083      | \$124,582   | \$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 June 30, 2015 and December 31, 2014, information related to these offsetting arrangements were as follows (in thousands):

As of June 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      | \$ 93,083                                      | \$—                                      | \$ 93,083  | \$(33,277 ) (A)                               | \$—                    | \$59,806    |
| Derivatives - Energy Related Liabilities | \$ (114,803 )                                  | \$—                                      | \$ (114,803 )                                      | \$33,277 (B)                                  | \$36,993               | \$(44,533 ) |
| Derivatives - Other                      | \$ (9,779 )                                    | \$—                                      | \$ (9,779 )  | \$—   | \$—                    | \$(9,779 )  |

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 June 30, 2015 and December 31, 2014 were related to derivative liabilities which can be net settled against derivative assets.

(B) The balances at June 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 six months ended June 30, 2015 and 2014 are as follows (in thousands):

|  | Three Months Ended |          | Six Months Ended |          |
|--|--------------------|----------|------------------|----------|
|  | June 30,           |          | June 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)                  | \$(187             | ) \$(112 | ) \$(210         | ) \$(224 |
| Gains (losses) recognized in income on ineffective portion (a) | \$—                | \$—      | \$—              | \$—      |

(a) Included in Interest Charges

|  | Three Months Ended |        | Six Months Ended |           |
|--|--------------------|--------|------------------|-----------|
|  | June 30,           |        | June 30,         |           |
| Derivatives Not Designated as Hedging Instruments under GAAP | 2015               | 2014   | 2015             | 2014      |
| Gains (losses) on energy related commodity contracts (a)     | \$ 14,685          | \$(195 | ) \$7,978        | \$(28,796 |
| Gains (losses) on interest rate contracts (b)                | 541                | (91    | ) 243            | (305      |
| Total  | \$ 15,226          | \$(286 | ) \$8,221        | \$(29,101 |

(a) Included in Operating Revenues - Non Utility

(b) Included in Interest Charges

Net realized loss of \$2.1 million and net realized gain of \$1.2 million associated with SJG's energy-related financial commodity contracts for the three months ended June 30, 2015 and 2014, respectively, and a loss of \$4.8 million and a gain of \$3.6 million for the six months ended June 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 June 30, 2015, is \$40.0 million. If the credit risk-related contingent features underlying these agreements were triggered on June 30, 2015, the Company would have been required to settle the instruments immediately or post collateral to its counterparties of approximately \$35.3 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 June 30, 2015                          | Total      | Level 1   | Level 2   | Level 3   |
|--|------------|-----------|-----------|-----------|
| <b>Assets</b>                                |            |           |           |           |
| Available-for-Sale Securities (A)            | \$ 15,121  | \$ 6,024  | \$ 9,097  | \$—       |
| Derivatives – Energy Related Assets (B)      | 93,083     | 5,887     | 39,131    | 48,065    |
|  | \$ 108,204 | \$ 11,911 | \$ 48,228 | \$ 48,065 |
| <b>Liabilities</b>                           |            |           |           |           |
| Derivatives – Energy Related Liabilities (B) | \$ 114,803 | \$ 24,684 | \$ 39,510 | \$ 50,609 |
| Derivatives – Other (C)                      | 9,779      | —         | 9,779     | —         |
|  | \$ 124,582 | \$ 24,684 | \$ 49,289 | \$ 50,609 |
| <b>As of December 31, 2014</b>               |            |           |           |           |
| <b>Assets</b>                                |            |           |           |           |
| 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 |
| <b>Liabilities</b>                           |            |           |           |           |
| Derivatives – Energy Related Liabilities (B) | \$ 129,670 | \$ 49,009 | \$ 40,548 | \$ 40,113 |
| Derivatives – Other (C)                      | 10,732     | —         | 10,732    | —         |
|  | \$ 140,402 | \$ 49,009 | \$ 51,280 | \$ 40,113 |

(A) Available-for-Sale Securities include securities that are traded in active markets and securities that are not traded publicly. The securities traded in active markets are valued using the quoted principal market close prices that are provided by the trustees and are categorized in Level 1 in the fair value hierarchy. The remaining securities consist of funds that are not publicly traded. These funds, which consist of stocks and bonds that are traded individually in active markets, are valued using quoted prices for similar assets and are categorized in Level 2 in the fair value hierarchy.

(B) Derivatives – Energy Related Assets and Liabilities are traded in both exchange-based and non-exchange-based markets. Exchange-based contracts are valued using unadjusted quoted market sources in active markets and are categorized in Level 1 in the fair value hierarchy. Certain non-exchange-based contracts are valued using indicative price quotations available through brokers or over-the-counter, on-line exchanges and are categorized in Level 2. These price quotations reflect the average of the bid-ask mid-point prices and are obtained from sources that management believes provide the most liquid market. For non-exchange-based derivatives that trade in less liquid markets with limited pricing information, model inputs generally would include both observable and unobservable inputs. In instances where observable data is unavailable, management considers the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable.





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

Level 3 valuation methods for natural gas derivative contracts include utilizing another location in close proximity adjusted for certain pipeline charges to derive a basis value. The significant unobservable inputs used in the fair value measurement of certain natural gas contracts consist of forward prices developed based on industry-standard methodologies. Significant increases (decreases) in these forward prices for purchases of natural gas would result in a directionally similar impact to the fair value measurement and for sales of natural gas would result in a directionally opposite impact to the fair value measurement. Level 3 valuation methods for electric represent the value of the contract marked to the forward wholesale curve, as provided by daily exchange quotes for delivered electricity. The significant unobservable inputs used in the fair value measurement of electric contracts consist of fixed contracted electric load profiles; therefore, no change in unobservable inputs would occur. Unobservable inputs are updated daily using industry standard techniques. Management reviews and corroborates the price quotations to ensure the prices are observable which includes consideration of actual transaction volumes, market delivery points, bid-ask spreads and contract duration.

(C) Derivatives – Other are valued using quoted prices on commonly quoted intervals, which are interpolated for periods different than the quoted intervals, as inputs to a market valuation model. Market inputs can generally be verified and model selection does not involve significant management judgment.

The following table provides quantitative information regarding significant unobservable inputs in Level 3 fair value measurements (in thousands):

| Type                           | Fair Value at June 30, 2015     |             | Valuation Technique  | Significant Unobservable Input         | Range [Weighted Average]        |     |
|--------------------------------|---------------------------------|-------------|----------------------|--|---------------------------------|-----|
|                                | Assets                          | Liabilities |                      |  |                                 |     |
| Forward Contract - Natural Gas | \$28,216                        | \$32,591    | Discounted Cash Flow | Forward price (per dt)                 | \$(1.94) - \$11.27<br>[\$2.20]  | (A) |
| Forward Contract - Electric    | \$19,849                        | \$18,018    | Discounted Cash Flow | Fixed electric load profile (on-peak)  | 8.47% - 100.00%<br>[56.92%]     | (B) |
|                                |                                 |             |                      | Fixed electric load profile (off-peak) | 0.00% - 91.53%<br>[43.08%]      | (B) |
| Type                           | Fair Value at December 31, 2014 |             | Valuation Technique  | Significant Unobservable Input         | Range [Weighted Average]        |     |
|                                | Assets                          | Liabilities |                      |  |                                 |     |
| Forward Contract - Natural Gas | \$26,485                        | \$33,882    | Discounted Cash Flow | Forward price (per dt)                 | \$(2.04) - \$7.83<br>[\$(0.30)] | (A) |
| Forward Contract -             | \$8,020                         | \$6,231     | Discounted Cash Flow | Fixed electric load profile (on-peak)  | 8.06% - 100.00%<br>[55.97%]     | (B) |

Electric

Fixed electric load profile (off-peak) 0.00% - 91.94% (B)  
[44.03%]

(A) Represents the range, along with the weighted average, of forward prices for the sale and purchase of natural gas.  
(B) Represents the range, along with the weighted average, of the percentage of contracted usage that is loaded during on-peak hours versus off-peak.

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The changes in fair value measurements of Derivatives – Energy Related Assets and Liabilities for the three and six months ended June 30, 2015 and 2014, using significant unobservable inputs (Level 3), are as follows (in thousands):

|  | Three Months<br>Ended<br>June 30, 2015 | Six Months<br>Ended<br>June 30, 2015 |
|--|--|--------------------------------------|
| Balance at beginning of period                                     | \$ (17,311                             | ) \$ (5,608                          |
| Other changes in fair value from continuing and new contracts, net | 14,376                                 | (2,062                               |
| Transfers in/(out) of Level 3 (A)                                  | 2,054                                  | 2,054                                |
| Settlements  | (1,663                                 | ) 3,072                              |
| Balance at end of period   | \$ (2,544                              | ) \$ (2,544                          |

  

|  | Three Months<br>Ended<br>June 30, 2014 | Six Months<br>Ended<br>June 30, 2014 |
|--|--|--------------------------------------|
| Balance at beginning of period                                     | \$ (4,971                              | ) \$ 8,095                           |
| Other changes in fair value from continuing and new contracts, net | (2,252                                 | ) (14,376                            |
| Settlements  | 2,454                                  | 1,512                                |
| Balance at end of period   | \$ (4,769                              | ) \$ (4,769                          |

(A) Transfers between different levels of the fair value hierarchy may occur based on the level of observable inputs used to value the instruments from period to period. During the three and six months ended June 30, 2015, \$2.1 million of net derivative assets were transferred from Level 2 to Level 3, due to decreased observability of market data.

Total gains included in earnings for the three months ended June 30, 2015 that are attributable to the change in unrealized gains relating to those assets and liabilities included in Level 3 still held as of June 30, 2015, are \$14.4 million. Total gains/losses included in earnings for the six months ended June 30, 2015 that are attributable to the change in unrealized gains/losses relating to those assets and liabilities included in Level 3 still held as of June 30, 2015, are not significant. These gains/losses are included in Operating Revenues-Nonutility on the condensed consolidated statements of income.

#### 14. LONG-TERM DEBT:

The Company did not issue any long-term debt during the six months ended June 30, 2015.

In June 2015, the Company redeemed at maturity \$64.0 million aggregate principal amount of 2.39% Senior Notes. No other debt was redeemed during the six months ended June 30, 2015.

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## 15. ACCUMULATED OTHER COMPREHENSIVE LOSS:

The following tables summarize the changes in accumulated other comprehensive loss (AOCL) for the three and six months ended June 30, 2015 (in thousands):

|   | Postretirement<br>Liability<br>Adjustment | Unrealized Gain<br>(Loss) on<br>Derivatives-Other | Unrealized Gain<br>(Loss) on<br>Available-for-Sale<br>Securities | Other<br>Comprehensive<br>Income (Loss)<br>of Affiliated<br>Companies | Total       |
|---|---|---|--|---|-------------|
| Balance at April 1, 2015 (a)                            | \$(27,663 )                               | \$ (2,442 )                                       | \$ 13  | \$(165 )  | \$(30,257 ) |
| Other comprehensive loss<br>before reclassifications    | —   | —   | (43 )  | —   | (43 )       |
| Amounts reclassified from<br>AOCL (b)                   | —   | 111   | (21 )  | 59  | 149         |
| Net current period other<br>comprehensive income (loss) | —   | 111   | (64 )  | 59  | 106         |
| Balance at June 30, 2015 (a)                            | \$(27,663 )                               | \$ (2,331 )                                       | \$ (51 )   | \$(106 )  | \$(30,151 ) |

|   | Postretirement<br>Liability<br>Adjustment | Unrealized Gain<br>(Loss) on<br>Derivatives-Other | Unrealized Gain<br>(Loss) on<br>Available-for-Sale<br>Securities | Other<br>Comprehensive<br>Income (Loss)<br>of Affiliated<br>Companies | Total       |
|---|---|---|--|---|-------------|
| Balance at January 1, 2015 (a)                          | \$(27,663 )                               | \$ (2,450 )                                       | \$ (75 )   | \$(70 )   | \$(30,258 ) |
| Other comprehensive income<br>before reclassifications  | —   | —   | 49   | —   | 49          |
| Amounts reclassified from AOCL<br>(b)                   | —   | 119   | (25 )  | (36 )   | 58          |
| Net current period other<br>comprehensive income (loss) | —   | 119   | 24   | (36 )   | 107         |
| Balance at June 30, 2015 (a)                            | \$(27,663 )                               | \$ (2,331 )                                       | \$ (51 )   | \$(106 )  | \$(30,151 ) |

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

(b) See table below.

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The following table provides details about reclassifications out of AOCL for the three and six months ended June 30, 2015:

|   | Amounts Reclassified from AOCL (in thousands) |                                | Affected Line Item in the Condensed Consolidated Statements of Income |
|---|---|--------------------------------|---|
|   | Three Months Ended June 30, 2015              | Six Months Ended June 30, 2015 |   |
| Unrealized Gain on Derivatives-Other - interest rate contracts designated as cash flow hedges | \$187   | \$210                          | Interest Charges  |
| Income Taxes  | (76   | ) (91                          | ) Income Taxes (a)  |
|   | \$111   | \$119                          |   |
| Unrealized Loss on Available-for-Sale Securities  | \$(35   | ) \$(42                        | ) Other Income  |
| Income Taxes  | 14  | 17                             | Income Taxes (a)  |
|   | \$(21   | ) \$(25                        | )   |
| Loss of Affiliated Companies  | \$98  | \$(60                          | ) Equity in Loss of Affiliated Companies                              |
| Income Taxes  | (39   | ) 24                           | Income Taxes (a)  |
|   | \$59  | \$(36                          | )   |
| Losses from reclassifications for the period net of tax                                       | \$149   | \$58                           |   |

(a) For 2015, determined using a combined average statutory tax rate of 40%.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements and Risk Factors — Certain statements contained in this Quarterly Report may qualify as “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this Report should be considered forward-looking statements made in good faith and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Words such as “anticipate”, “believe”, “expect”, “estimate”, “forecast”, “goal”, “intend”, “objective”, “plan”, “project”, “seek”, “strategy” and similar expressions are used to identify forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. These risks and uncertainties include, but are not limited to, the following: general economic conditions on an international, national, state and local level; weather conditions in our marketing areas; changes in commodity costs; changes in the availability of natural gas; “non-routine” or “extraordinary” disruptions in our distribution system; regulatory, legislative and court decisions; competition; the availability and cost of capital; costs and effects of legal proceedings and environmental liabilities; the failure of customers, suppliers or business partners to fulfill their contractual obligations; and changes in business strategies.

A discussion of these and other risks and uncertainties may be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and in other filings made by us with the Securities and Exchange Commission (SEC). These cautionary statements should not be construed by you to be exhaustive and they are made only as of the date of this Quarterly Report on Form 10-Q, or in any document incorporated by reference, at the date of such document. While South Jersey Industries, Inc. (SJI or the Company) believes these forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. Further, SJI undertakes no obligation to update or revise any of its forward-looking statements, whether as a result of new information, future events or otherwise.

Critical Accounting Policies — Estimates and Assumptions — Management must make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related disclosures. Actual results could differ from those estimates. Five types of transactions presented in our condensed consolidated financial statements require a significant amount of judgment and estimation. These relate to regulatory accounting, derivatives, environmental remediation costs, pension and other postretirement employee benefit costs, and revenue recognition. A discussion of these estimates and assumptions may be found in SJI's Annual Report on Form 10-K for the year ended December 31, 2014.

New Accounting Pronouncements — See detailed discussions concerning New Accounting Pronouncements and their impact on SJI in Note 1 to the condensed consolidated financial statements.

Regulatory Actions — Other than the changes discussed in Note 7 to the condensed consolidated financial statements, there have been no significant regulatory actions since December 31, 2014. See detailed discussion concerning Regulatory Actions in 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.

Environmental Remediation — There have been no significant changes to the status of the Company's environmental remediation efforts since December 31, 2014. See detailed discussion concerning Environmental Remediation Costs 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.



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RESULTS OF OPERATIONS:

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

- Gas utility operations (SJG) consist primarily of natural gas distribution to residential, commercial and industrial customers.
- Wholesale energy operations include the activities of South Jersey Resources Group, LLC (SJRG) and South Jersey Exploration, LLC (SJEX).
- South Jersey Energy Company (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 Energy, LLC ("Marina's") thermal energy facility and other energy-related projects.
- Appliance service operations includes South Jersey Energy Service Plus, LLC (SJESP's) servicing of appliances under warranty via a subcontractor arrangement as well as on a time and materials basis.

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.

Net Income for the three months ended June 30, 2015 increased \$3.6 million to \$13.3 million compared with the same period in 2014, primarily as a result of the following:

The income contribution from the wholesale energy operations at SJRG for the three months ended June 30, 2015 increased \$14.5 million to \$9.3 million due primarily to an approximately \$8.9 million increase resulting from the change in unrealized gains and losses on derivatives used by the wholesale energy operations to mitigate natural gas commodity price risk, as discussed under Operating Revenues - Energy Group below, along with an approximately \$5.6 million increase related to higher daily trading margins as discussed under "Gross Margin - Energy Group" below.

The income contribution from on-site energy production at Marina for the three months ended June 30, 2015 decreased \$11.9 million to a loss of \$1.7 million due primarily to the impact of a reduction in the carrying amount of an investment at one of Energenic's operating subsidiaries, of which Marina has a 50% equity interest (see Note 5 to the condensed consolidated financial statements). Also contributing to the decrease is lower investment tax credits due to a projected decrease in the credits available on renewable energy facilities as compared to the prior year.

Net Income for the six months ended June 30, 2015 increased \$9.3 million to \$66.8 million compared with the same period in 2014, primarily as a result of the following:

The income contribution from the wholesale energy operations at SJRG for the six months ended June 30, 2015 increased \$15.7 million to \$9.4 million due primarily to an approximately \$21.6 million increase resulting from the change in unrealized gains and losses on derivatives used by the wholesale energy operations to mitigate natural gas commodity price risk, as discussed under Operating Revenues - Energy Group below, partially offset by an approximately \$5.9 million decrease related to lower daily trading margins and lower storage volumes sold as discussed under "Gross Margin - Energy Group" below.

• The income contribution from the gas utility operations at SJG for the six months ended June 30, 2015 increased \$6.3 million to \$47.8 million due primarily to the settlement of SJG's base rate case, continued investment in SJG's



accelerated infrastructure programs and customer growth over the prior year.

The income contribution from on-site energy production at Marina for the six months ended June 30, 2015 decreased \$14.4 million to \$5.9 million due primarily to the impact of a reduction in the carrying amount of an investment at one of Energenic's operating subsidiaries, of which Marina has a 50% equity interest (see Note 5 to the condensed consolidated financial statements). Also contributing to the decrease is lower investment tax credits due to a projected decrease in the credits available on renewable energy facilities as compared to the prior year.

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

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

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

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

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

We define Economic Earnings as: Income from continuing operations, (a) less the change in unrealized gains and plus the change in unrealized losses, as applicable and in each case after tax, on all derivative transactions, (b) less realized gains and plus realized losses, as applicable and in each case after tax, on all commodity derivative transactions attributed to expected purchases of gas in storage to match the recognition of these gains and losses with the recognition of the related cost of the gas in storage in the period of withdrawal, and (c) less the impact of transactions or contractual arrangements where the true economic impact will be realized in a future period. With respect to the third part of the definition of Economic Earnings:

For the three and six months ended June 30, 2015 and 2014, Economic Earnings includes additional depreciation expense on a solar generating facility. During 2012 an impairment charge was recorded within Income from Continuing Operations on a solar generating facility which reduced its depreciable basis and recurring depreciation expense. This impairment charge was excluded from Economic Earnings and, therefore, the related reduction in depreciation expense is being added back.

For the three and six months ended June 30, 2015, Economic Earnings includes net losses of \$2.3 million and \$1.5 million (net of tax), respectively, from affiliated companies that were previously not included in Economic Earnings. These adjustments are the result of a reserve for uncollectible accounts recorded by an Energenic subsidiary that owns and operates a central energy center and energy distribution system for a hotel, casino and entertainment complex in Atlantic City, New Jersey (see Note 5 to the condensed consolidated financial statements). In prior periods this charge was being excluded from Economic Earnings until the total economic impact of the proceedings were realized. During the second quarter of 2015, the Company, through its investment in Energenic, reduced the carrying value of the investment in this project. As such, this charge is now being included in Economic Earnings for the three and six months ended June 30, 2015.

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

Economic Earnings for the three months ended June 30, 2015 decreased \$8.1 million to \$1.9 million compared with the same period in 2014 primarily as a result of the following:

Economic Earnings from on-site energy production at Marina for the three months ended June 30, 2015 decreased \$14.5 million to a loss of \$4.2 million due primarily to the impact of a reduction in the carrying amount of an investment at one of Energenic's operating subsidiaries, of which Marina has a 50% equity interest (see Note 5 to the condensed consolidated financial statements). Also contributing to the decrease is lower investment tax credits due to a projected decrease in the credits available on renewable energy facilities as compared to the prior year.

Economic Earnings from the wholesale energy operations at SJRG for the three months ended June 30, 2015 increased \$5.6 million to \$0.3 million due primarily to higher daily trading margins as discussed under "Gross Margin - Energy Group" below.

Economic Earnings for the six months ended June 30, 2015 decreased \$15.4 million to \$60.8 million compared with the same period in 2014 primarily as a result of the following:

Economic Earnings from on-site energy production at Marina for the six months ended June 30, 2015 decreased \$16.3 million to \$4.3 million due primarily to the impact of a reduction in the carrying amount of an investment at one of Energenic's operating subsidiaries, of which Marina has a 50% equity interest (see Note 5 to the condensed consolidated financial statements). Also contributing to the decrease is lower investment tax credits due to a projected decrease in the credits available on renewable energy facilities as compared to the prior year.

Economic Earnings from the wholesale energy operations at SJRG for the six months ended June 30, 2015 decreased \$5.9 million to \$5.3 million due primarily to lower daily trading margins and lower storage volumes sold as discussed under "Gross Margin - Energy Group" below.

Economic Earnings from the gas utility operations at SJG for the six months ended June 30, 2015 increased \$6.3 million to \$47.8 million due primarily to the settlement of SJG's base rate case, continued investment in SJG's accelerated infrastructure programs and customer growth over the prior year.

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The following table presents a reconciliation of our income from continuing operations and earnings per share from continuing operations to Economic Earnings and Economic Earnings per share for the three and six months ended June 30 (in thousands except per share data):

|   | Three Months Ended |         | Six Months Ended |          |
|---|--------------------|---------|------------------|----------|
|   | June 30,<br>2015   | 2014    | June 30,<br>2015 | 2014     |
| Income from Continuing Operations                       | \$13,341           | \$9,701 | \$67,194         | \$57,912 |
| Minus/Plus:   |                    |         |                  |          |
| Unrealized Mark-to-Market (Gains)/Losses on Derivatives | (9,200             | ) 222   | (4,890           | ) 17,880 |
| Realized (Gains)/Losses on Inventory Injection Hedges   | 7                  | 98      | 37               | 420      |
| Net Loss from Affiliated Companies (A)                  | (2,266             | ) —     | (1,524           | ) —      |
| Other (B)   | (25                | ) (25   | ) (50            | ) (50    |
| Economic Earnings                                       | \$1,857            | \$9,996 | \$60,767         | \$76,162 |
| Earnings per Share from Continuing Operations (C)       | \$0.19             | \$0.15  | \$0.98           | \$0.88   |
| Minus/Plus:   |                    |         |                  |          |
| Unrealized Mark-to-Market (Gains)/Losses on Derivatives | (0.13              | ) —     | (0.07            | ) 0.28   |
| Net Loss from Affiliated Companies (A)                  | (0.03              | ) —     | (0.02            | ) —      |
| Economic Earnings per Share                             | \$0.03             | \$0.15  | \$0.89           | \$1.16   |

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The effect of derivative instruments not designated as hedging instruments under GAAP in the condensed consolidated statements of income (see Note 12 to the condensed consolidated financial statements) is as follows (gains (losses) in thousands):

|  | Three Months Ended |        | Six Months Ended |           |
|--|--------------------|--------|------------------|-----------|
|  | June 30,           |        | June 30,         |           |
|  | 2015               | 2014   | 2015             | 2014      |
| Gains (losses) on energy related commodity contracts   | \$ 14,685          | \$(195 | ) \$7,978        | \$(28,796 |
| Gains (losses) on interest rate contracts  | 541                | (91    | ) 243            | (305      |
| Total before income taxes  | 15,226             | (286   | ) 8,221          | (29,101   |
| Income taxes (D)   | (6,090             | ) 117  | (3,288           | ) 11,888  |
| Total after income taxes   | 9,136              | (169   | ) 4,933          | (17,213   |
| Unrealized mark-to-market gains (losses) on derivatives held by affiliated companies, net of tax (D) | 64                 | (53    | ) (43            | ) (667    |
| Total unrealized mark-to-market gains (losses) on derivatives  | 9,200              | (222   | ) 4,890          | (17,880   |
| Realized losses on inventory injection hedges, net of tax (D)  | (7                 | ) (98  | ) (37            | ) (420    |
| Net Loss from Affiliated Companies (A)   | 2,266              | —      | 1,524            | —         |
| Other (B)  | 25                 | 25     | 50               | 50        |
| Total reconciling items between income (losses) from continuing operations and economic earnings     | \$ 11,484          | \$(295 | ) \$6,427        | \$(18,250 |

(A) Resulting from a reserve for uncollectible accounts recorded by an Energen subsidiary that owns and operates a central energy center and energy distribution system for a hotel, casino and entertainment complex in Atlantic City, New Jersey (see Note 5 to the condensed consolidated financial statements). In prior periods this charge was being excluded from Economic Earnings until the total economic impact of the proceedings were realized. During the second quarter of 2015, the Company, through its investment in Energen, reduced the carrying value of the investment in this project. As such, this charge is now being included in Economic Earnings for the three and six months ended June 30, 2015.

(B) Represents additional depreciation expense within Economic Earnings on a solar generating facility. During 2012 an impairment charge was recorded within Income from Continuing Operations on a solar generating facility which reduced its depreciable basis and recurring depreciation expense. This impairment charge was excluded from Economic Earnings and, therefore, the related reduction in depreciation expense is being added back.

(C) All per share amounts were adjusted for the 2-for-1 stock split, effective on May 8, 2015. See Note 1 to the condensed consolidated financial statements.

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

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The following tables summarize the composition of selected gas utility operations data for the three and six months ended June 30 (in thousands, except for degree day data):

|                                       | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|---------------------------------------|--------------------------------|--------|------------------------------|--------|
|                                       | 2015                           | 2014   | 2015                         | 2014   |
| Utility Throughput – decatherms (dt): |                                |        |                              |        |
| Firm Sales -                          |                                |        |                              |        |
| Residential                           | 2,535                          | 2,830  | 17,289                       | 16,018 |
| Commercial                            | 673                            | 747    | 4,351                        | 3,482  |
| Industrial                            | 37                             | 33     | 265                          | 190    |
| Cogeneration & Electric Generation    | 402                            | 245    | 496                          | 555    |
| Firm Transportation -                 |                                |        |                              |        |
| Residential                           | 265                            | 392    | 1,792                        | 2,294  |
| Commercial                            | 967                            | 1,081  | 4,372                        | 4,532  |
| Industrial                            | 3,069                          | 3,159  | 6,017                        | 6,669  |
| Cogeneration & Electric Generation    | 1,710                          | 1,229  | 3,078                        | 3,189  |
| Total Firm Throughput                 | 9,658                          | 9,716  | 37,660                       | 36,929 |
| Interruptible Sales                   | 17                             | —      | 20                           | —      |
| Interruptible Transportation          | 319                            | 338    | 652                          | 706    |
| Off-System Sales                      | 2,157                          | 1,088  | 6,621                        | 3,518  |
| Capacity Release                      | 13,945                         | 14,477 | 28,990                       | 30,659 |
| Total Throughput - Utility            | 26,096                         | 25,619 | 73,943                       | 71,812 |

|                                    | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|------------------------------------|--------------------------------|----------|------------------------------|-----------|
|                                    | 2015                           | 2014     | 2015                         | 2014      |
| Utility Operating Revenues:        |                                |          |                              |           |
| Firm Sales -                       |                                |          |                              |           |
| Residential                        | \$42,376                       | \$35,099 | \$212,585                    | \$160,287 |
| Commercial                         | 9,701                          | 9,119    | 47,110                       | 37,450    |
| Industrial                         | 435                            | 586      | 3,122                        | 2,667     |
| Cogeneration & Electric Generation | 1,483                          | 1,581    | 2,288                        | 3,661     |
| Firm Transportation -              |                                |          |                              |           |
| Residential                        | 2,350                          | 2,697    | 10,827                       | 12,855    |
| Commercial                         | 4,716                          | 4,509    | 18,477                       | 17,963    |
| Industrial                         | 5,269                          | 6,184    | 11,600                       | 12,974    |
| Cogeneration & Electric Generation | 1,088                          | 1,248    | 2,996                        | 3,574     |
| Total Firm Revenues                | 67,418                         | 61,023   | 309,005                      | 251,431   |

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|  | Three Months Ended |          | Six Months Ended |           |
|--|--------------------|----------|------------------|-----------|
|  | June 30,<br>2015   | 2014     | June 30,<br>2015 | 2014      |
| Interruptible Sales                              | 242                | —        | 298              | 2         |
| Interruptible Transportation                     | 354                | 411      | 764              | 859       |
| Off-System Sales                                 | 6,108              | 5,415    | 30,096           | 23,966    |
| Capacity Release                                 | 1,350              | 1,952    | 2,658            | 2,848     |
| Other  | 340                | 358      | 649              | 598       |
|  | 75,812             | 69,159   | 343,470          | 279,704   |
| Less: Intercompany Sales                         | (518               | ) (256   | ) (1,646         | )(472     |
| Total Utility Operating Revenues                 | 75,294             | 68,903   | 341,824          | 279,232   |
| Less:  |                    |          |                  |           |
| Cost of Sales - Utility (Excluding depreciation) | 24,901             | 24,623   | 169,875          | 127,700   |
| Conservation Recoveries*                         | 4,861              | 4,951    | 17,124           | 15,718    |
| RAC Recoveries*                                  | 2,280              | 2,022    | 4,561            | 4,043     |
| EET Recoveries*                                  | 998                | 992      | 2,047            | 2,051     |
| Revenue Taxes                                    | 208                | 175      | 787              | 611       |
| Utility Margin**                                 | \$42,046           | \$36,140 | \$147,430        | \$129,109 |
| Margin:  |                    |          |                  |           |
| Residential                                      | \$23,419           | \$22,477 | \$114,103        | \$96,071  |
| Commercial and Industrial                        | 12,268             | 11,430   | 44,982           | 37,457    |
| Cogeneration and Electric Generation             | 1,187              | 1,100    | 2,380            | 2,447     |
| Interruptible                                    | 29                 | 16       | 84               | 34        |
| Off-System Sales & Capacity Release              | 507                | 467      | 2,078            | 1,120     |
| Other Revenues                                   | 947                | 872      | 1,255            | 1,111     |
| Margin Before Weather Normalization & Decoupling | 38,357             | 36,362   | 164,882          | 138,240   |
| CIP Mechanism                                    | 3,185              | (409     | ) (18,396        | )(9,419   |
| EET Mechanism                                    | 504                | 187      | 944              | 288       |
| Utility Margin**                                 | \$42,046           | \$36,140 | \$147,430        | \$129,109 |
| Degree Days:                                     | 415                | 476      | 3,340            | 3,262     |

\*Represents expenses for which there is a corresponding credit in operating revenues. Therefore, such recoveries have no impact on SJG's financial results.

\*\*Utility Margin is further defined under the caption "Margin - Gas Utility Operations" below.

Throughput - Gas Utility Operations - Total gas throughput increased 0.5 MMdts and 2.1 MMdts during the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. Firm throughput increased 0.7 MMdts, or 2.0%, during the first six months of 2015 as a result of weather that was 2.4% colder than the same period in the prior year. Also contributing to higher throughput was the addition of 6,405 customers over the last 12 months, representing 1.8% customer growth. Firm throughput was relatively flat during the second quarter of 2015 versus the same period in 2014, which is typical during the spring and summer months in the absence of heating demand. Off-System Sales (OSS) throughput increased 1.1 MMdts and 3.1 MMdts during the three and six months ended June 30, 2015, respectively. The increase in OSS was primarily related to opportunities created on the interstate pipeline as a result of extremely cold weather in the northeast region of the country during the first quarter of 2015. The increases in throughput noted above were offset by lower capacity release activity during the three and six months ended June



30, 2015 compared to the same period in the prior year, as higher demand for bundled OSS partially displaced the demand for only pipeline capacity.

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Conservation Incentive Program (CIP) - Gas Utility Operations - The effects of the CIP on net income of the gas utility operations for the three and six months ended June 30, 2015 and 2014 and the associated weather comparisons are as follows (\$'s in millions):

|  | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |              |
|--|--------------------------------|-------------|------------------------------|--------------|
|  | 2015                           | 2014        | 2015                         | 2014         |
| Net Income Impact:                     |                                |             |                              |              |
| CIP – Weather Related                  | \$1.7                          | \$0.4       | \$(7.3                       | ) \$(5.7     |
| CIP – Usage Related                    | 0.2                            | (0.7        | ) (3.6                       | ) 0.1        |
| Total Net Income Impact                | \$1.9                          | \$(0.3      | ) \$(10.9                    | ) \$(5.6     |
| Weather Compared to 20-Year<br>Average | 20.7% Warmer                   | 0.1% Warmer | 14.7% Colder                 | 13.4% Colder |
| Weather Compared to Prior Year         | 12.7% Warmer                   | 3.9% Warmer | 2.4% Colder                  | 10.5% Colder |

Operating Revenues - Gas Utility Operations - Revenues increased \$6.4 million and \$62.6 million, or 9.3% and 22.4%, during the three and six months ended June 30, 2015, respectively, compared with the same periods in the prior year, after eliminating intercompany transactions, due to higher firm sales and OSS. Total firm revenue increased \$6.4 million and \$57.6 million in the three and six months ended June 30, 2015, respectively, as a result of the settlement of a base rate case and a 22.1% increase in SJG's rate for natural gas recoveries, both effective October 1, 2014. These two events increased revenue by approximately \$4.9 million and \$3.7 million, respectively, during the three months ended June 30, 2015, versus the same period in 2014; and by approximately \$15.8 million and \$34.9 million, respectively, during the six months ended June 30, 2015, versus the same period in 2014. While changes in the gas costs and Basic Gas Supply Service ("BGSS") recoveries fluctuate from period to period, SJG does not profit from the sale of the commodity. Therefore, fluctuations in Operating Revenue and Cost of Sales, such as those caused by the recovery of an incremental \$34.9 million in gas costs during 2015, have no impact on SJG's profitability, as further discussed below under the caption "Margin-Gas Utility Operations". Also contributing to higher revenue were 2.4% colder weather and 6,405 additional customers compared with the same period in 2014, as previously discussed under "Throughput-Gas Utility Operations." While colder weather increased firm sales revenue significantly, the revenue increase has little impact on SJG profitability under the operation of the Conservation Incentive Program, as discussed under the captions "Conservation Incentive Program (CIP) - Gas Utility Operations" and "Margin - Gas Utility Operations."

Higher OSS unit sales volume, partially offset by lower unit prices, resulted in a \$0.7 million and \$6.1 million increase in OSS revenues during the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. Extremely cold weather in the northeast region of the country led to greater demand during the first quarter of 2015, creating opportunity for SJG to increase revenue from such sales. However, the impact of changes in OSS activity does not have a material impact on the earnings of SJG, as SJG is required to return 85% of the profits of such activity to its ratepayers. Earnings from OSS can be seen in the "Margin" table above.

Operating Revenues - Energy Group - Combined revenues for Energy Group, net of intercompany transactions, increased \$37.8 million, or 78.6%, to \$85.9 million, and \$13.8 million, or 8.0%, to \$187.8 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014.

Revenues from retail gas operations at SJE, net of intercompany transactions, decreased \$6.8 million, or 27.3%, and \$20.4 million, or 26.8%, for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. Excluding the change in unrealized gains and losses recorded on forward financial contracts due to

price volatility of \$0.1 million and \$(1.4) million, revenues decreased \$6.7 million, or 26.9%, and \$21.8 million, or 28.5%, for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. The decrease in revenues for the three and six months ended June 30, 2015 compared with the same periods in 2014 was mainly due to a 43.4% and 41.5% decrease in the average monthly New York Mercantile Exchange (NYMEX) settle price, along with a 4.3% and 3.8% decrease in sales volumes compared with the same periods in 2014. Sales volumes totaled 5,247,321 and 5,480,375 dekatherms for the three months ended June 30, 2015 and 2014, respectively. and 13,623,071 and 14,166,835 dekatherms for the six months ended June 30, 2015 and 2014, respectively.

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A summary of SJE's retail gas revenue is as follows (in millions):

|  | Three Months Ended |        |          | Six Months Ended |        |           |
|--|--------------------|--------|----------|------------------|--------|-----------|
|  | June 30,<br>2015   | 2014   | Change   | June 30,<br>2015 | 2014   | Change    |
| SJE Retail Gas Revenue   | \$18.0             | \$24.8 | \$(6.8 ) | \$55.9           | \$76.3 | \$(20.4 ) |
| Add: Unrealized Losses (Subtract:<br>Unrealized Gains)         | 0.2                | 0.1    | 0.1      | (1.1 )           | 0.3    | (1.4 )    |
| SJE Retail Gas Revenue, Excluding<br>Unrealized Losses (Gains) | \$18.2             | \$24.9 | \$(6.7 ) | \$54.8           | \$76.6 | \$(21.8 ) |

Revenues from retail electric operations at SJE, net of intercompany transactions, increased \$8.4 million, or 32.1%, and decreased \$1.8 million, or 2.8%, for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. Excluding the impact of the net change in unrealized gains and losses recorded on forward financial contracts due to price volatility of \$(0.6) million and \$(0.8) million, revenues increased \$7.8 million, or 29.1%, and decreased \$2.6 million, or 4.0%, for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014.

A summary of revenues from retail electric operations at SJE is as follows (in millions):

|   | Three Months Ended |        |        | Six Months Ended |        |          |
|---|--------------------|--------|--------|------------------|--------|----------|
|   | June 30,<br>2015   | 2014   | Change | June 30,<br>2015 | 2014   | Change   |
| SJE Retail Electric Revenue   | \$34.7             | \$26.3 | \$8.4  | \$63.7           | \$65.5 | \$(1.8 ) |
| Add: Unrealized Losses (Subtract:<br>Unrealized Gains)              | (0.1 )             | 0.5    | (0.6 ) | (0.1 )           | 0.7    | (0.8 )   |
| SJE Retail Electric Revenue, Excluding<br>Unrealized Losses (Gains) | \$34.6             | \$26.8 | \$7.8  | \$63.6           | \$66.2 | \$(2.6 ) |

The increase in revenues from retail electric operations at SJE as defined above for the three months ended June 30, 2015 compared with the same period in 2014 was mainly due to a 27.1% increase in sales volumes. The decrease in revenues from retail electric operations at SJE as defined above for the six months ended June 30, 2015 compared with the same period in 2014 was mainly due to a 14.1% decrease in the average monthly sales price, which was driven by a lower average Locational Marginal Price (LMP) per megawatt hour, partially offset by a 10.1% increase in sales volumes. SJE uses forward financial contracts to mitigate commodity price risk on fixed price electric contracts. In accordance with GAAP, the forward financial contracts are recorded at fair value, with changes in fair value recorded in earnings in the period of change. The related customer contracts are not considered derivatives and, therefore, are not recorded in earnings until the electricity is delivered. As a result, earnings are subject to volatility as the market price of the forward financial contracts change, even when the underlying hedged value of the customer contract is unchanged. Over time, gains or losses on the sale of the fixed price electric under contract will be offset by losses or gains on the forward financial contracts, resulting in the realization of the profit margin expected when the transactions were initiated. The retail electric operations at SJE serve both fixed and market-priced customers.

Revenues from wholesale energy operations at SJRG, net of intercompany transactions, increased \$36.2 million and \$36.3 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. Excluding the impact of the net change in unrealized gains and losses recorded on forward financial contracts due to price volatility of \$(14.4) million and \$(34.6) million and adjusting for the change in realized gains and losses on all hedges attributed to inventory injection transactions of \$(0.2) million and \$(0.6) million to align them with the related cost of inventory in the period of withdrawal, revenues from the wholesale energy operations at SJRG

increased \$21.6 million and \$1.1 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014.

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A summary of revenues from wholesale energy operations at SJRG is as follows (in millions):

|   | Three Months Ended |         |          | Six Months Ended |        |        |
|---|--------------------|---------|----------|------------------|--------|--------|
|   | June 30,<br>2015   | 2014    | Change   | June 30,<br>2015 | 2014   | Change |
| SJRG Revenue  | \$33.1             | \$(3.1) | ) \$36.2 | \$68.3           | \$32.0 | \$36.3 |
| Add: Unrealized Losses (Subtract:<br>Unrealized Gains)  | (14.8)             | ) (0.4) | ) (14.4) | ) (6.8)          | ) 27.8 | (34.6) |
| Add: Realized Losses (Subtract:<br>Realized Gains) on Inventory Injection<br>Hedges                               | —                  | 0.2     | (0.2)    | ) 0.1            | 0.7    | (0.6)  |
| SJRG Revenue, Excluding Unrealized<br>Losses (Gains) and Realized Losses<br>(Gains) on Inventory Injection Hedges | \$18.3             | \$(3.3) | ) \$21.6 | \$61.6           | \$60.5 | \$1.1  |

The increase in revenues from the wholesale energy operations at SJRG as defined above for the three and six months ended June 30, 2015 compared with the same periods in 2014 was due mainly to revenues earned on a gas supply contract with an electric generation facility that began operations in the second half of 2014. Partially offsetting the six month comparative period change was a 31% decrease in storage volumes sold. As discussed in Note 1 to the Consolidated Financial Statements in Item 8 of SJI's Annual Report on Form 10-K for the year ended December 31, 2014, revenues and expenses related to the energy trading activities of the wholesale energy operations at SJRG are presented on a net basis in Operating Revenues – Nonutility on the condensed consolidated income statement.

Operating Revenues - Energy Services - Combined revenues for Energy Services, net of intercompany transactions, increased \$0.2 million, or 1.4%, to \$16.5 million, and \$0.7 million, or 2.4%, to \$31.0 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014.

Revenues from on-site energy production at Marina, net of intercompany transactions, did not change significantly for the three months ended June 30, 2015 compared with the same period in 2014. Revenues from on-site energy production at Marina, net of intercompany transactions, increased \$1.0 million for the six months ended June 30, 2015 compared with the same period in 2014 primarily due to several new renewable energy projects that began operations over the past twelve months.

Revenues from appliance service operations at SJESP, net of intercompany transactions, did not change significantly for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014.

Margin - Gas Utility Operations - The gas utility operations margin is defined as natural gas revenues less natural gas costs, regulatory rider expenses and related volumetric and revenue based energy taxes. SJG believes that margin provides a more meaningful basis for evaluating utility operations than revenues since natural gas costs, regulatory rider expenses and related energy taxes are passed through to customers and, therefore, have no effect on margin. Natural gas costs are charged to operating expenses on the basis of therm sales at the prices approved by the New Jersey Board of Public Utilities (BPU) through SJG's BGSS clause.

Total margin increased \$5.9 million and \$18.3 million, or 16.3% and 14.2%, for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. The increases are primarily due to increases in rates as a result of the settlement of SJG's base rate case effective October 1, 2014 which increased margin by approximately \$4.9 million and \$15.8 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. In addition, SJG added 6,405 customers over the 12-month period ended June 30, 2015, contributing approximately \$0.6 million and \$1.8 million in additional margin during the three and six months ended June 30, 2015, respectively, compared with the same periods of 2014.

The CIP tracking mechanism adjusts earnings when actual usage per customer experienced during the period varies from an established baseline usage per customer. As reflected in the margin and CIP tables above, the CIP mechanism protected \$3.2 million, or \$1.9 million after taxes, for the three month period ended June 30, 2015, that would have been lost due to lower customer usage primarily as a result of warmer weather during the period. The impact of the CIP mechanism on net income for the three month period ended June 30, 2014 was not significant.

The CIP mechanism reduced margin by \$18.4 million, or \$10.9 million after taxes, and \$9.4 million, or \$5.6 million after taxes, during the six month periods ended June 30, 2015 and 2014, respectively, primarily due to weather that was colder than average.

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

Gross Margin - Energy Group - For the three and six months ended June 30, 2015, combined gross margins for Energy Group increased \$26.1 million to \$21.3 million and \$29.3 million to \$30.2 million, respectively, compared with the same periods in 2014. These changes were primarily due to the following:

Gross margin from SJE's retail gas and other operations increased \$0.3 million to \$1.5 million and \$1.2 million to \$5.8 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. Excluding the change in unrealized gains and losses recorded on forward financial contracts due to price volatility of \$0.1 million and \$(1.4) million, gross margin increased \$0.4 million and decreased \$0.2 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. These three and six month comparative period changes were not significant. Excluding the impact of the unrealized gains/losses discussed above, gross margin as a percentage of Operating Revenues did not change significantly for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014.

Gross margin from SJE's retail electric operations increased \$1.2 million to \$1.5 million and \$1.0 million to \$2.6 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. Excluding the impact of the net change in unrealized gains and losses recorded on forward financial contracts due to price volatility of \$(0.6) million and \$(0.8) million, gross margins increased \$0.6 million and \$0.2 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. These three and six month comparative period changes were not significant. Excluding the impact of the unrealized gains/losses discussed above, gross margin as a percentage of Operating Revenues did not change significantly for the three and six months ended June 30, 2015 compared with the same periods in 2014.

Gross margin from the wholesale energy operations at SJRG increased \$24.6 million to \$18.4 million and \$27.2 million to \$21.9 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. Excluding the impact of the net change in unrealized gains and losses recorded on forward financial contracts due to price volatility of \$(14.4) million and \$(34.6) million and adjusting for the change in realized gains and losses on all hedges attributed to inventory injection transactions of \$(0.2) million and \$(0.6) million to align them with the related cost of inventory in the period of withdrawal as discussed above, gross margin for the wholesale energy operations at SJRG increased \$10.0 million and decreased \$8.0 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. The increase in gross margin for the three months ended June 30, 2015 compared with the same period in 2014 was due mainly to higher margins on daily energy trading activities. The decrease in gross margin for the six months ended June 30, 2015 compared with the same period in 2014 was due mainly to lower margins on daily energy trading activities in the first quarter of 2015, along with a decrease in storage volumes sold.

The wholesale energy operations at SJRG expects to continue to add incremental margin from marketing and related opportunities in the Marcellus region, capitalizing on its established presence in the area. Future margins could fluctuate significantly due to the volatile nature of wholesale gas prices. As of June 30, 2015, the wholesale energy operations had 9.2 Bcf of storage and 456,898 dts/day of transportation under contract.



Gross Margin - Energy Services - For the three and six months ended June 30, 2015, combined gross margins for Energy Services increased \$0.3 million to \$15.0 million and \$1.9 million to \$25.8 million, respectively, compared with the same periods in 2014. These changes were primarily due to the following:

Gross margin from on-site energy production at Marina increased \$0.4 million to \$13.8 million and \$2.0 million to \$23.6 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. Gross margin as a percentage of Operating Revenues increased 1.8 and 4.5 percentage points for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014 mainly due to several new higher margin renewable energy projects that began operations over the past twelve months.

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Gross margin from appliance service operations at SJESP did not change significantly for the three and six months ended June 30, 2015 compared with the same periods in 2014.

Operating Expenses - A summary of net changes in operations expense for the three and six months ended June 30, follows (in thousands):

|                                     | Three Months Ended<br>June 30,<br>2015 vs. 2014 | Six Months Ended<br>June 30,<br>2015 vs. 2014 |
|-------------------------------------|---|---|
| Gas Utility Operations              | \$1,839   | \$4,885                                       |
| Nonutility:                         |   |   |
| Energy Group:                       |   |   |
| Wholesale Energy Operations         | 827   | 1,415   |
| Retail Gas and Other Operations     | 124   | (226)   |
| Retail Electric Operations          | 19  | 52  |
| Subtotal Energy Group               | 970   | 1,241   |
| Energy Services:                    |   |   |
| On-Site Energy Production           | 573   | 123   |
| Appliance Service Operations        | (29)  | (41)  |
| Subtotal Energy Services            | 544   | 82  |
| Total Nonutility                    | 1,514   | 1,323   |
| Intercompany Eliminations and Other | (203)   | (547)   |
| Total Operations Expense            | \$3,150   | \$5,661                                       |

Operations - Gas utility operations expense increased \$1.8 million and \$4.9 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014. This increase is primarily due to increased spending under the New Jersey Clean Energy Program and Energy Efficiency Programs. Such costs are recovered on a dollar-for-dollar basis; therefore, the gas utility operations experienced an offsetting increase in revenues during the periods. In addition, SJG increased its reserve for uncollectible accounts, which was the result of fluctuations in levels of customer accounts receivable balances. Accounts receivable was higher as of June 30, 2015 due to higher customer billing rates, as approved by the BPU effective October 1, 2014, in addition to customer growth over the 12-month period ended June 30, 2015.

Nonutility operations expense increased \$1.5 million and \$1.3 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014 primarily due to additional personnel, governance and compliance costs incurred to support continued growth.

Maintenance - Maintenance expense increased \$0.7 million and \$1.5 million during the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014 primarily due to the BPU-approved amortization and recovery of previously deferred maintenance costs, primarily those associated with a federally mandated pipeline integrity management program. These amortizations are being recovered through an offsetting amount in revenues.

Depreciation - Depreciation increased \$1.9 million and \$3.8 million during the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014 due primarily to the increased investment in property, plant and equipment by the gas utility operations of SJG and on-site energy production at Marina.

Energy and Other Taxes - The change in energy and other taxes for the three and six months ended June 30, 2015 compared with the same periods in 2014 was not significant.

Other Income and Expense - Other income and expense decreased \$1.2 million for both the three and six months ended June 30, 2015 compared with the same periods in 2014 due primarily to a settlement of litigation at SJEX in the second quarter of 2014 that did not recur in 2015.

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**Interest Charges** – Interest charges increased \$0.6 million and \$2.1 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014 primarily due to higher amounts of long-term debt outstanding at SJI and SJG, along with lower capitalization of interest costs on construction at the gas utility operations of SJG during 2015. This was a result of the roll-in of capital investments under SJG's Accelerated Infrastructure Replacement Program (AIRP) into base rates effective October 1, 2014, a lower allowance for debt funds used during construction as a result of placing two major technology systems in service during the fourth quarter of 2014, and weather-related construction delays during the first quarter of 2015. AIRP investments are approved by the BPU to accrue interest on construction until such time they are rolled into base rates.

**Income Taxes** – Income tax benefit decreased \$6.2 million for the three months ended June 30, 2015 compared with the same period in 2014. Income tax expense increased \$11.0 million for the six months ended June 30, 2015 compared with the same period in 2014. These comparative period changes were due primarily to higher income before income taxes, along with a higher effective tax rate due to a projected decrease in the investment tax credits available on renewable energy facilities at Marina in 2015 as compared to 2014.

**Equity in Loss of Affiliated Companies** – Equity in loss of affiliated companies increased \$14.9 million and \$16.8 million for the three and six months ended June 30, 2015, respectively, compared with the same periods in 2014 due primarily to the reduction in the carrying amount of an investment in the Energenic subsidiaries that operate the central energy center for a hotel, casino and entertainment complex in Atlantic City, New Jersey (see Note 5 to the condensed consolidated financial statements).

**Discontinued Operations** — The results are primarily comprised of environmental remediation and product liability litigation associated with previously disposed of businesses.

## LIQUIDITY AND CAPITAL RESOURCES:

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

**Cash Flows from Operating Activities** — Liquidity needs are first met with net cash provided by operating activities. Net cash provided by operating activities totaled \$102.1 million and \$89.7 million in the first six months of 2015 and 2014, respectively. Net cash provided by operating activities varies from year-to-year primarily due to the impact of weather on customer demand and related gas purchases, customer usage factors related to conservation efforts and the price of the natural gas commodity, inventory utilization, and gas cost recoveries. Operating activities in the first six months of 2015 produced more net cash than the same period in 2014 primarily as a result of higher collections of gas costs under the BGSS at the utility that were deferred in 2014 as a result of the extremely cold weather experienced during the 2014 winter. This benefit was partially offset by a \$15.0 million pension contribution made by SJI as a result of a decline in the discount rate and new mortality tables released at the end of 2014, both of which negatively impacted the funding status of the pension plans. No such contribution was made in 2014. The Company strives to keep its pension plans fully funded. When factors such as lesser than expected asset performance and/or declining discount rates negatively impact the funding status of the plans, the Company increases its contributions to supplant that funding shortfall.

**Cash Flows from Investing Activities** — SJI has a continuing need for cash resources and capital, primarily to invest in new and replacement facilities and equipment. Net cash outflows for investing activities, which are primarily

construction projects, for the first six months of 2015 and 2014 amounted to \$145.7 million and \$128.3 million, respectively. We estimate the net cash outflows for investing activities for fiscal years 2015, 2016 and 2017 at SJI to be approximately \$373.4 million, \$397.4 million and \$434.3 million, respectively. The high level of investing activities for 2015, 2016 and 2017 is due to a combination of the AIRP and a major pipeline project to support an electric generation facility, both at SJG. Also contributing to the high level of investing activities are anticipated solar projects at Marina and SJI Midstream investments. The Company expects to use short-term borrowings under lines of credit from commercial banks and the commercial paper program to finance these investing activities as incurred. From time to time, the Company may refinance the short-term debt with long-term debt.

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In support of its risk management activities, the Company is required to maintain margin accounts with selected counterparties as collateral for its forward contracts, swap agreements, options contracts and futures contracts. These margin accounts are included in Restricted Investments or Margin Account Liability, depending upon the value of the related contracts (the change in the Margin Account Liability is reflected in cash flows from Operating Activities) on the condensed consolidated balance sheets. The required amount of restricted investments changes on a daily basis due to fluctuations in the market value of the related outstanding contracts and is difficult to predict. Margin posted by the Company decreased by \$12.6 million in the first six months of 2015, compared with a decrease of \$3.3 million in the same period of 2014.

During the first six months of 2015 and 2014, the Company received net repayments from unconsolidated affiliates of \$1.3 million and \$3.7 million, respectively.

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 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.

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

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

| Company  | Total Facility | Usage     | Available Liquidity | Expiration Date   |
|--|----------------|-----------|---------------------|-------------------|
| SJG:   |                |           |                     |                   |
| Commercial Paper Program/Revolving Credit Facility | \$200,000      | \$127,600 | \$72,400            | May 2018          |
| Uncommitted Bank Lines                             | 10,000         | —         | 10,000              | Various           |
| Total SJG  | 210,000        | 127,600   | 82,400              |                   |
| SJI:   |                |           |                     |                   |
| Revolving Credit Facility                          | 400,000        | 251,500   | 148,500             | February 2018 (A) |
| Total SJI  | 400,000        | 251,500   | 148,500             |                   |
| Total  | \$610,000      | \$379,100 | \$230,900           |                   |

(A) Includes letters of credit outstanding in the amount of \$13.1 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. All committed facilities contain one financial covenant limiting the ratio of indebtedness to total capitalization (as defined in the respective credit agreements), measured on a quarterly basis. SJI and SJG were in compliance with these covenants as of June 30, 2015. Borrowings under these credit facilities are at market rates. The weighted average borrowing cost, which changes daily, was 0.96% and 1.16% at June 30, 2015 and 2014, respectively. Average borrowings outstanding under these credit facilities, not including

letters of credit, during the six months ended June 30, 2015 and 2014 were \$274.3 million and \$320.2 million, respectively. The maximum amounts outstanding under these credit facilities, not including letters of credit, during the six months ended June 30, 2015 and 2014 were \$368.1 million and \$390.7 million, respectively. Based upon the existing credit facilities and a regular dialogue with our banks, we believe there will continue to be sufficient credit available to meet our business' future liquidity needs.

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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.

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

The Company did not issue any long-term debt during the six months ended June 30, 2015.

In June 2015, the Company redeemed at maturity \$64.0 million aggregate principal amount of 2.39% Senior Notes.

SJI raises equity capital through its Dividend Reinvestment Plan (DRP). Participants in SJI's DRP receive newly issued shares. Shares of common stock offered by the DRP have been issued directly by SJI from its authorized but unissued shares of common stock. SJI raised \$3.6 million and \$17.1 million of equity capital through the DRP during the six months ended June 30, 2015 and 2014, respectively.

SJI's capital structure was as follows:

|                 | As of June 30,<br>2015 | As of December<br>31, 2014 |   |
|-----------------|------------------------|----------------------------|---|
| Equity          | 42.5                   | % 42.6                     | % |
| Long-Term Debt  | 41.5                   | % 46.2                     | % |
| Short-Term Debt | 16.0                   | % 11.2                     | % |
| Total           | 100.0                  | % 100.0                    | % |

SJI has paid dividends on its common stock for 64 consecutive years and has increased that dividend each year for the last fifteen years. The Company's goal is to grow that dividend by at least 6% to 7% per year and has a targeted payout ratio of between 50% and 60% of Economic Earnings. In setting the dividend rate, the Board of Directors of SJI considers future earnings expectations, payout ratio, and dividend yield relative to those at peer companies, as well as returns available on other income-oriented investments. However, there can be no assurance that the Company will be able to continue to increase the dividend, meet the targeted payout ratio or pay a dividend at all in the future.

**COMMITMENTS AND CONTINGENCIES:**

**Environmental Remediation** - Costs for remediation projects, net of insurance reimbursements, for the first six months of 2015 and 2014 amounted to net cash outflows of \$4.9 million and \$2.9 million, respectively. Total net cash outflows for remediation projects are expected to be \$23.5 million, \$34.9 million and \$26.3 million for 2015, 2016 and 2017, respectively. As discussed in Notes 10 and 15 to the Consolidated Financial Statements in Item 8 of SJI's 10-K for the year ended December 31, 2014, certain environmental costs are subject to recovery from insurance carriers and ratepayers.

**Standby Letters of Credit** - As of June 30, 2015, SJI provided \$13.1 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. The Company also provided \$87.6 million of additional letters of credit under separate facilities outside of the



revolving credit facility to support variable-rate demand bonds issued through the New Jersey Economic Development Authority (NJEDA) to finance the expansion of SJG's natural gas distribution system and to finance Marina's initial thermal plant project.

Contractual Obligations - There were no significant changes to the Company's contractual obligations 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, except for (a) commodity supply purchase obligations, which increased approximately \$162.7 million in total since December 31, 2014 due to the addition of a 15-year gas supply contract scheduled to begin in September 2015 at SJG; and (b) construction obligations, which increased \$39.6 million in total since December 31, 2014 due to solar projects entered into at Marina.

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

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 June 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 June 30, 2015, 50% of the currently outstanding debt is \$8.4 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 June 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 June 30, 2015, SJI had issued \$5.9 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.

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 three months ended June 30, 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 on the condensed consolidated statements of income.

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As of June 30, 2015, the Company, through its investment in Energenic, had a remaining net asset of approximately \$2.2 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.

**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 \$3.0 million and \$2.9 million related to all claims in the aggregate as of June 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.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

SJI has entered into certain contracts to buy, sell, and transport natural gas and to buy and sell retail electricity. SJI recorded a net pre-tax gain (loss) of \$14.7 million and \$(0.2) million in earnings during the three months ended June 30, 2015 and 2014, respectively, and a net pre-tax gain (loss) of \$8.0 million and \$(28.8) million during the six months ended June 30, 2015 and 2014, respectively, which are included with realized gains and losses in Operating Revenues — Nonutility.



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The fair value and maturity of these energy-related contracts determined under the mark-to-market method as of June 30, 2015 is as follows (in thousands):

## Assets

| Source of Fair Value                                       | Maturity<br>< 1 Year | Maturity<br>1 -3 Years | Maturity<br>Beyond 3<br>Years | Total    |
|--|----------------------|------------------------|-------------------------------|----------|
| Prices actively quoted                                     | \$5,504              | \$383                  | \$—                           | \$5,887  |
| Prices provided by other external sources                  | 33,709               | 5,254                  | 168                           | 39,131   |
| Prices based on internal models or other valuation methods | 34,665               | 13,090                 | 310                           | 48,065   |
| Total  | \$73,878             | \$18,727               | \$478                         | \$93,083 |

## Liabilities

| Source of Fair Value                                       | Maturity<br><1 Year | Maturity<br>1 -3 Years | Maturity<br>Beyond<br>3Years | Total     |
|--|---------------------|------------------------|------------------------------|-----------|
| Prices actively quoted                                     | \$19,892            | \$4,758                | \$34                         | \$24,684  |
| Prices provided by other external sources                  | 38,813              | 697                    | —                            | 39,510    |
| Prices based on internal models or other valuation methods | 34,209              | 15,868                 | 532                          | 50,609    |
| Total  | \$92,914            | \$21,323               | \$566                        | \$114,803 |

NYMEX (New York Mercantile Exchange) is the primary national commodities exchange on which natural gas is traded. Volumes of our NYMEX contracts included in the table above under "Prices actively quoted" are 17.3 million dekatherms (dts) with a weighted average settlement price of \$3.52 per dt.

Basis represents the differential to the NYMEX natural gas futures contract for delivering gas to a specific location. Volumes of our basis contracts, along with volumes of our discounted index related purchase and sales contracts included in the table above under "Prices provided by other external sources" and "Prices based on internal models or other valuation methods" are 274.7 million dts with a weighted average settlement price of \$(1.16) per dt.

Fixed Price Gas Daily represents the price of a NYMEX natural gas futures contract adjusted for the difference in price for delivering the gas at another location. Volumes of our Fixed Price Gas Daily contracts included in the table above under "Prices provided by other external sources" are 5.0 million dts with a weighted average settlement price of \$3.06 per dt.

Volumes of electric included in the table above under "Prices based on internal models or other valuation methods" are less than 0.1 million mwh with a weighted average settlement price of \$45.31 per mwh.

A reconciliation of SJI's estimated net fair value of energy-related derivatives follows (in thousands):

|  |            |   |
|--|------------|---|
| Net Derivatives — Energy Related Liabilities, January 1, 2015      | \$(30,397) | ) |
| Contracts Settled During Six Months Ended June 30, 2015, Net       | 22,625     |   |
| Other Changes in Fair Value from Continuing and New Contracts, Net | (13,948)   | ) |
| Net Derivatives — Energy Related Liabilities, June 30, 2015        | \$(21,720) | ) |

Interest Rate Risk — Our exposure to interest-rate risk relates to short-term and long-term variable-rate borrowings. Variable-rate debt outstanding, including short-term and long-term debt, at June 30, 2015 was \$542.4 million and

averaged \$516.5 million during the first six months of 2015. A hypothetical 100 basis point (1%) increase in interest rates on our average variable-rate debt outstanding would result in a \$3.1 million increase in our annual interest expense, net of tax. The 100 basis point increase was chosen for illustrative purposes, as it provides a simple basis for calculating the impact of interest rate changes under a variety of interest rate scenarios. Over the past five years, the change in basis points (b.p.) of our average monthly interest rates from the beginning to end of each year was as follows: 2014 - 1 b.p. decrease; 2013 - 16 b.p. decrease; 2012 - 9 b.p. decrease; 2011 - 33 b.p. increase; and 2010 - 13 b.p. decrease. At June 30, 2015, our average interest rate on variable-rate debt was 1.01%.

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We typically issue long-term debt either at fixed rates or use interest rate derivatives to limit our exposure to changes in interest rates on variable rate, long-term debt. As of June 30, 2015, the interest costs on \$697.4 million of our long-term debt was either at a fixed rate or hedged via an interest rate derivative.

As of June 30, 2015, SJI's active interest rate swaps were as follows:

| Amount        | Fixed Interest Rate | Start Date | Maturity  | Type       | Obligor |
|---------------|---------------------|------------|-----------|------------|---------|
| \$ 14,500,000 | 3.905%              | 3/17/2006  | 1/15/2026 | Tax-exempt | Marina  |
| \$ 500,000    | 3.905%              | 3/17/2006  | 1/15/2026 | Tax-exempt | Marina  |
| \$ 330,000    | 3.905%              | 3/17/2006  | 1/15/2026 | Tax-exempt | Marina  |
| \$ 7,100,000  | 4.895%              | 2/1/2006   | 2/1/2016  | Taxable    | Marina  |
| \$ 12,500,000 | 3.430%              | 12/1/2006  | 2/1/2036  | Tax-exempt | SJG     |
| \$ 12,500,000 | 3.430%              | 12/1/2006  | 2/1/2036  | Tax-exempt | SJG     |

Credit Risk - As of June 30, 2015, approximately \$8.0 million, or 8.6%, 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.

As of June 30, 2015, SJRG had \$104.1 million of Accounts Receivable under sales contracts. Of that total, 83.3% were with regulated utilities or companies rated investment-grade or guaranteed by an investment-grade-rated parent or were with companies where we have a collateral arrangement or insurance coverage. The remainder of the Accounts Receivable were within approved credit limits.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of its chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) as of June 30, 2015. Based on that evaluation, the Company's chief executive officer and chief financial officer concluded that the disclosure controls and procedures employed at the Company are effective.

##### Changes in Internal Control Over Financial Reporting

There has not been any change in the Company's internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act, during the fiscal quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Information required by this Item is incorporated by reference to Part I, Item 2, Pending Litigation, beginning on page 47.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 6. Exhibits

(a) Exhibits

| Exhibit No. | Description  |
|-------------|--|
| 31.1        | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act.   |
| 31.2        | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act.   |
| 32.1        | Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) of the Exchange Act as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).  |
| 32.2        | Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) of the Exchange Act as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).  |
| 101         | The following financial statements from South Jersey Industries' Quarterly Report on Form 10-Q for the three and six months ended June 30, 2015, filed with the Securities and Exchange Commission on August 7, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income; (ii) the Condensed Consolidated Statements of Comprehensive Income; (iii) the Condensed Consolidated Statements of Cash Flows; (iv) the Condensed Consolidated Balance Sheets and (v) the Notes to Condensed Consolidated Financial Statements. |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized

SOUTH JERSEY INDUSTRIES, INC.  
(Registrant)

Dated: August 7, 2015

By: /s/ Stephen H. Clark  
Stephen H. Clark  
Chief Financial Officer