SOUTH JERSEY INDUSTRIES INC
Form 10-Q
May 07, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

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

For the transition period from ____________________ to ______________________

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

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

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

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

Large accelerated filer	x	Accelerated filer	o	Non-accelerated filer	o
Smaller reporting company	o	Emerging growth company	o		

South Jersey Gas Company:

Large accelerated filer	o	Accelerated filer	o	Non-accelerated filer	x
Smaller reporting company	o	Emerging growth company	o		

If an emerging growth company, indicate by check mark if either registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section

13(a) of the Exchange Act o

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

South Jersey Industries, Inc. common stock ($1.25 par value) outstanding as of May 1, 2018 was 85,502,759 shares.

South Jersey Gas Company common stock ($2.50 par value) outstanding as of May 1, 2018 was 2,339,139 shares. All of South Jersey Gas Company's outstanding shares of common stock are held by South Jersey Industries, Inc.

South Jersey Gas Company is a wholly-owned subsidiary of South Jersey Industries, Inc. and meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q. As such, South Jersey Gas Company files its Quarterly Report on Form 10-Q with the reduced disclosure format authorized by General Instruction H.

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INTRODUCTION

FILING FORMAT

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

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

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

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Item 1. Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2018	2017
Operating Revenues (See Note 16):		
Utility	$231,768	$195,769
Nonutility	290,177	230,060
Total Operating Revenues	521,945	425,829
Operating Expenses:		
Cost of Sales - (Excluding depreciation)		
- Utility	87,117	71,379
- Nonutility	195,951	215,763
Operations (See Note 1)	47,044	38,448
Maintenance	6,862	4,981
Depreciation	24,662	24,323
Energy and Other Taxes	2,439	2,071
Total Operating Expenses	364,075	356,965
Operating Income (See Note 1)	157,870	68,864
Other Income and Expense (See Note 1)	2,761	4,487
Interest Charges	(13,972)	(16,745)
Income Before Income Taxes	146,659	56,606
Income Taxes	(36,415)	(21,870)
Equity in Earnings of Affiliated Companies	1,062	3,011
Income from Continuing Operations	111,306	37,747
Loss from Discontinued Operations - (Net of tax benefit)	(66)	(30)
Net Income	$111,240	$37,717
Basic Earnings Per Common Share:		
Continuing Operations	$1.40	$0.47
Discontinued Operations	—	—
Basic Earnings Per Common Share	$1.40	$0.47
Average Shares of Common Stock Outstanding - Basic	79,595	79,519
Diluted Earnings Per Common Share:		
Continuing Operations	$1.40	$0.47
Discontinued Operations	—	—
Diluted Earnings Per Common Share	$1.40	$0.47
Average Shares of Common Stock Outstanding - Diluted	79,724	79,641
Dividends Declared Per Common Share	$0.28	$0.27

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 COMPREHENSIVE INCOME (UNAUDITED)
(In Thousands)

	Three Months Ended March 31,	
	2018	2017
Net Income	$111,240	$37,717
Other Comprehensive Income, Net of Tax:*		
Unrealized Gain on Derivatives - Other	9	1,515
Other Comprehensive Income - Net of Tax*	9	1,515
Comprehensive Income	$111,249	$39,232

* Determined using a combined average statutory tax rate of approximately 25% and 40% in 2018 and 2017, respectively.

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)

	Three Months Ended March 31,	
	2018	2017
Net Cash Provided by Operating Activities	$95,201	$79,528
Cash Flows from Investing Activities:		
Capital Expenditures	(58,816)	(67,278)
Proceeds from Sale of Property, Plant & Equipment	—	3,058
Investment in Long-Term Receivables	(1,916)	(2,362)
Proceeds from Long-Term Receivables	2,390	2,554
Notes Receivable	—	3,000
Purchase of Company-Owned Life Insurance	(279)	(8,074)
Investment in Affiliate	(3,975)	(5,902)
Net Repayment of Notes Receivable - Affiliate	1,065	2,251
Net Cash Used in Investing Activities	(61,531)	(72,753)
Cash Flows from Financing Activities:		
Net Repayments of Short-Term Credit Facilities	(98,300)	(91,000)
Proceeds from Issuance of Long-Term Debt	50,000	273,000
Principal Repayments of Long-Term Debt	—	(200,000)
Payments for Issuance of Long-Term Debt	(1,264)	(2,021)
Net Settlement of Restricted Stock	(776)	(751)
Net Cash Used in Financing Activities	(50,340)	(20,772)
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(16,670)	(13,997)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	39,695	31,910
Cash, Cash Equivalents and Restricted Cash at End of Period	$23,025	$17,913

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)

	March 31, 2018	December 31, 2017
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$2,696,087	$2,652,244
Accumulated Depreciation	(504,936)	(498,161)
Nonutility Property and Equipment, at cost	745,826	741,027
Accumulated Depreciation	(205,230)	(194,913)
Property, Plant and Equipment - Net	2,731,747	2,700,197
Investments:		
Available-for-Sale Securities	36	36
Restricted	16,713	31,876
Investment in Affiliates	66,970	62,292
Total Investments	83,719	94,204
Current Assets:		
Cash and Cash Equivalents	6,312	7,819
Accounts Receivable	243,395	202,379
Unbilled Revenues	62,601	73,377
Provision for Uncollectibles	(14,684)	(13,988)
Notes Receivable - Affiliate	3,848	4,913
Natural Gas in Storage, average cost	33,422	48,513
Materials and Supplies, average cost	4,233	4,239
Prepaid Taxes	20,391	41,355
Derivatives - Energy Related Assets	24,386	42,139
Other Prepayments and Current Assets	29,602	28,247
Total Current Assets	413,506	438,993
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	491,629	469,224
Derivatives - Energy Related Assets	12,268	5,988
Notes Receivable - Affiliate	13,275	13,275
Contract Receivables	27,638	28,721
Goodwill	3,578	3,578
Identifiable Intangible Assets	12,240	12,480
Other	100,480	98,426
Total Regulatory and Other Noncurrent Assets	661,108	631,692
Total Assets	$3,890,080	$3,865,086

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)

	March 31, 2018	December 31, 2017
Capitalization and Liabilities		
Equity:		
Common Stock	$99,516	$ 99,436
Premium on Common Stock	709,756	709,658
Treasury Stock (at par)	(274)	(271)
Accumulated Other Comprehensive Loss	(36,756)	(36,765)
Retained Earnings	509,255	420,351
Total Equity	1,281,497	1,192,409
Long-Term Debt	974,749	1,122,999
Total Capitalization	2,256,246	2,315,408
Current Liabilities:		
Notes Payable	248,100	346,400
Current Portion of Long-Term Debt	263,809	63,809
Accounts Payable	259,684	284,899
Customer Deposits and Credit Balances	29,356	43,398
Environmental Remediation Costs	60,846	66,372
Taxes Accrued	6,814	2,932
Derivatives - Energy Related Liabilities	12,486	46,938
Deferred Contract Revenues	262	259
Derivatives - Other Current	526	748
Dividends Payable	22,334	—
Interest Accrued	7,790	9,079
Pension Benefits	2,388	2,388
Other Current Liabilities	9,785	15,860
Total Current Liabilities	924,180	883,082
Deferred Credits and Other Noncurrent Liabilities:		
Deferred Income Taxes - Net	123,239	86,884
Pension and Other Postretirement Benefits	104,262	101,544
Environmental Remediation Costs	101,551	106,483
Asset Retirement Obligations	59,807	59,497
Derivatives - Energy Related Liabilities	4,153	6,025
Derivatives - Other Noncurrent	7,194	9,622
Regulatory Liabilities	300,358	287,105
Other	9,090	9,436
Total Deferred Credits and Other Noncurrent Liabilities	709,654	666,596
Commitments and Contingencies (Note 11)		

Total Capitalization and Liabilities	$3,890,080	$3,865,086

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

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

	Three Months Ended March 31,	
	2018	2017
Operating Revenues (See Note 16)	$234,459	$196,814
Operating Expenses:		
Cost of Sales (Excluding depreciation)	89,808	72,424
Operations (See Note 1)	29,370	24,175
Maintenance	6,862	4,981
Depreciation	14,363	12,714
Energy and Other Taxes	1,255	1,295
Total Operating Expenses	141,658	115,589
Operating Income (See Note 1)	92,801	81,225
Other Income and Expense (See Note 1)	2,510	1,042
Interest Charges	(6,728)	(5,878)
Income Before Income Taxes	88,583	76,389
Income Taxes	(21,836)	(29,911)
Net Income	$66,747	$46,478

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

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

	Three Months Ended March 31,	
	2018	2017
Net Income	$66,747	$46,478
Other Comprehensive Income - Net of Tax: *		
Unrealized Gain on Derivatives - Other	9	7
Other Comprehensive Income - Net of Tax *	9	7
Comprehensive Income	$66,756	$46,485

* Determined using a combined average statutory tax rate of approximately 25% and 40% in 2018 and 2017, respectively.

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

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

	Three Months Ended March 31,	
	2018	2017
Net Cash Provided by Operating Activities	$44,492	$56,986
Cash Flows from Investing Activities:		
Capital Expenditures	(54,960)	(56,086)
Purchase of Company-Owned Life Insurance	—	(4,875)
Investment in Long-Term Receivables	(1,916)	(2,362)
Proceeds from Long-Term Receivables	2,390	2,554
Net Cash Used in Investing Activities	(54,486)	(60,769)
Cash Flows from Financing Activities:		
Net Borrowings from (Repayments of) Short-Term Credit Facilities	11,100	(104,300)
Proceeds from Issuance of Long-Term Debt	—	273,000
Principal Repayments of Long-Term Debt	—	(200,000)
Payments for Issuance of Long-Term Debt	(5)	(2,021)
Additional Investment by Shareholder	—	40,000
Net Cash Provided by Financing Activities	11,095	6,679
Net Increase in Cash, Cash Equivalents and Restricted Cash	1,101	2,896
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	4,619	1,391
Cash, Cash Equivalents and Restricted Cash at End of Period	$5,720	$4,287

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

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

	March 31, 2018	December 31, 2017
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$2,696,087	$2,652,244
Accumulated Depreciation	(504,936)	(498,161)
Property, Plant and Equipment - Net	2,191,151	2,154,083
Investments:		
Restricted Investments	2,322	2,912
Total Investments	2,322	2,912
Current Assets:		
Cash and Cash Equivalents	3,398	1,707
Accounts Receivable	128,583	78,571
Accounts Receivable - Related Parties	2,842	988
Unbilled Revenues	44,287	54,980
Provision for Uncollectibles	(14,491)	(13,799)
Natural Gas in Storage, average cost	5,190	14,932
Materials and Supplies, average cost	824	825
Prepaid Taxes	17,156	38,326
Derivatives - Energy Related Assets	404	7,327
Other Prepayments and Current Assets	12,895	12,670
Total Current Assets	201,088	196,527
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	491,629	469,224
Long-Term Receivables	24,874	25,851
Derivatives - Energy Related Assets	—	5
Other	19,063	17,372
Total Regulatory and Other Noncurrent Assets	535,566	512,452
Total Assets	$2,930,127	$2,865,974

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

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

	March 31, 2018	December 31, 2017
Capitalization and Liabilities		
Equity:		
Common Stock	$ 5,848	$ 5,848
Other Paid-In Capital and Premium on Common Stock	355,744	355,744
Accumulated Other Comprehensive Loss	(25,988)	(25,997)
Retained Earnings	652,584	585,838
Total Equity	988,188	921,433
Long-Term Debt	558,218	758,052
Total Capitalization	1,546,406	1,679,485
Current Liabilities:		
Notes Payable	63,100	52,000
Current Portion of Long-Term Debt	263,809	63,809
Accounts Payable - Commodity	37,810	43,341
Accounts Payable - Other	34,923	41,365
Accounts Payable - Related Parties	13,176	17,029
Derivatives - Energy Related Liabilities	784	9,270
Derivatives - Other Current	337	389
Customer Deposits and Credit Balances	24,788	41,656
Environmental Remediation Costs	60,528	66,040
Taxes Accrued	5,785	1,760
Pension Benefits	2,353	2,353
Interest Accrued	5,938	7,615
Other Current Liabilities	5,755	7,027
Total Current Liabilities	519,086	353,654
Regulatory and Other Noncurrent Liabilities:		
Regulatory Liabilities	300,358	287,105
Deferred Income Taxes - Net	302,524	280,746
Environmental Remediation Costs	100,736	105,656
Asset Retirement Obligations	59,018	58,714
Pension and Other Postretirement Benefits	91,264	88,871
Derivatives - Energy Related Liabilities	328	170
Derivatives - Other Noncurrent	5,669	6,639
Other	4,738	4,934
Total Regulatory and Other Noncurrent Liabilities	864,635	832,835

Commitments and Contingencies (Note 11)

Total Capitalization and Liabilities	$2,930,127	$2,865,974

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

Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

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

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

Marina Energy, LLC (Marina) develops and operates on-site energy-related projects. It currently operates projects in New Jersey, Maryland, Massachusetts and Vermont. The significant wholly-owned subsidiaries of Marina include:

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

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

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

South Jersey Energy Service Plus, LLC (SJESP) serviced residential and small commercial HVAC systems, installed small commercial HVAC systems, provided plumbing services and serviced appliances under warranty via a subcontractor arrangement as well as on a time and materials basis. On September 1, 2017, SJESP sold certain assets of its residential and small commercial HVAC and plumbing business to a third party. SJESP continues to receive commissions paid on service contracts from the third party and will do so on a go forward basis.

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

In October 2017, SJI announced that it had entered into agreements to acquire the assets of Elizabethtown Gas and Elkton Gas from Pivotal Utility Holdings, Inc., a subsidiary of Southern Company Gas. SJI is acquiring the assets of both companies for total consideration of $1.7 billion. The transaction is expected to close in mid-2018, and is subject to approvals by the New Jersey Board of Public Utilities (BPU) and the Maryland Public Service Commission (PSC), with limited approvals also required from the Federal Energy Regulatory Commission (FERC), as well as certain anti-trust filings and approvals. In April 2018, SJI completed public equity offerings and issued long-term debt to help fund the acquisition (see Note 17).

In connection with the acquisition, SJI has incurred total fees of $9.3 million during the three months ended March 31, 2018. Of these fees, $5.5 million were related to consulting and legal expenses and recorded as Operations Expenses in the condensed consolidated statements of income for the three months ended March 31, 2018. The remaining $3.8 million relates to a senior unsecured bridge facility (the "Bridge Facility"), which was entered into in the fourth quarter of 2017. Debt issuance costs associated with the Bridge Facility of $2.6 million were amortized to interest expense during the three months ended March 31, 2018. Also incurred was $1.2 million of ticking fees which are also recorded as interest expense during the three months ended March 31, 2018. The interest expenses noted above are recorded in Interest Charges in the condensed consolidated statements of income. All of the above costs are included in the Corporate & Services segment.

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BASIS OF PRESENTATION - SJI's condensed consolidated financial statements include the accounts of SJI, its wholly-owned subsidiaries (including SJG) and subsidiaries in which SJI has a controlling interest. SJI eliminates all significant intercompany accounts and transactions. In management's opinion, the unaudited condensed consolidated financial statements of SJI and SJG reflect all normal and recurring adjustments needed to fairly present their respective financial positions, operating results and cash flows at the dates and for the periods presented. SJI's and SJG's businesses are subject to seasonal fluctuations and, accordingly, this interim financial information should not be the basis for estimating the full year's operating results. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC), the accompanying unaudited condensed consolidated financial statements of SJI and SJG contain certain condensed financial information and exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These financial statements should be read in conjunction with SJI's and SJG's Annual Reports on Form 10-K for the year ended December 31, 2017 for a more complete discussion of the accounting policies and certain other information.

Certain reclassifications have been made to SJI's and SJG's prior period condensed consolidated statements of income to conform to the current period presentation. The non-service cost components of net periodic pension and postretirement benefit costs are now included as a reduction to Other Income and Expense, as opposed to being recorded as an Operations Expense, to conform with ASU 2017-07, which is described below under "New Accounting Pronouncements." This caused Other Income to be reduced, and Operations Expense to also be reduced, by $1.2 million and $0.6 million for SJI and SJG, respectively, for the three months ended March 31, 2017. This also caused a reclassification to SJI's prior period segments disclosure in Note 6 to increase Operating Income within both the Gas Utility Operations and Corporate & Services segments by $0.6 million for the three months ended March 31, 2017.

Certain reclassifications have been made to SJI's prior period segments disclosures to conform to the current period presentation. The activities of SJI Midstream, which were presented in the Corporate & Services segment during the three months ended March 31, 2017, are now separated into the Midstream segment for the same period in 2018. This caused prior period adjustments to Interest Charges, Income Taxes and Property Additions in Note 6.

REVENUE-BASED TAXES - SJG collects certain revenue-based energy taxes from its customers. Such taxes include the New Jersey State Sales Tax and Public Utilities Assessment (PUA). State sales tax is recorded as a liability when billed to customers and is not included in revenue or operating expenses. The PUA is included in both Utility Revenue and Energy and Other Taxes and totaled $0.4 million for both the three months ended March 31, 2018 and 2017.

IMPAIRMENT OF LONG-LIVED ASSETS - Long-lived assets that are held and used are reviewed for impairment whenever events or changes in circumstances indicate carrying values may not be recoverable. Such reviews are performed in accordance with ASC 360. An impairment loss is indicated if the total future estimated undiscounted cash flows expected from an asset are less than its carrying value. An impairment charge is measured by the difference between an asset's carrying amount and fair value with the difference recorded within Operating Expenses on the condensed consolidated statements of income. Fair values can be determined by a variety of valuation methods, including third-party appraisals, sales prices of similar assets, and present value techniques.

No impairments were identified at SJI or SJG for the three months ended March 31, 2018. SJI recorded an impairment charge of $0.3 million during the first quarter of 2017 due to a reduction in the expected cash flows to be received from a solar generating facility within the on-site energy production segment. For the three months ended March 31, 2017, no impairments were identified at SJG.

Marina's solar energy projects rely on returns from electricity and solar renewable energy credits (SRECs). A decrease in the value of electricity and SRECs due to market conditions and/or legislative changes may negatively impact Marina's return on its investments as well as lead to impairment of the respective assets.

GAS EXPLORATION AND DEVELOPMENT - SJI capitalizes all costs associated with gas property acquisition, exploration and development activities under the full cost method of accounting. Capitalized costs include costs related to unproved properties, which are not amortized until proved reserves are found or it is determined that the unproved properties are impaired. All costs related to unproved properties are reviewed quarterly to determine if impairment has occurred. No impairment charges were recorded during the three months ended March 31, 2018 or 2017. As of March 31, 2018 and December 31, 2017, $8.6 million and $8.7 million, respectively, related to interests in proved and unproved properties in Pennsylvania, net of amortization, is included with Nonutility Property and Equipment and Other Noncurrent Assets on SJI's condensed consolidated balance sheets.

TREASURY STOCK - SJI uses the par value method of accounting for treasury stock. As of March 31, 2018 and December 31, 2017, SJI held219,136 and 216,642 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.

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

The SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of Tax Reform. SAB 118 provides a measurement period that should not extend beyond one year from the enactment date of Tax Reform for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of Tax Reform for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of Tax Reform is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of Tax Reform.

SJI and SJG were able to make reasonable, good faith estimates of certain effects and, therefore, recorded provisional adjustments for the following: the tax rules regarding the appropriate bonus deprecation rate that should be applied to assets placed in service after September 27, 2017, including the information required to compute the applicable depreciable tax basis. Further, Tax Reform is unclear in certain respects and will require interpretations and implementing regulations by the Internal Revenue Service, as well as state tax authorities. Tax Reform could also be subject to potential amendments and technical corrections which could impact the Company’s financial statements.

Any required changes to the provisional estimates would result in the recording of regulatory assets or liabilities to the extent such amounts are probable of settlement or recovery through customer rates and a net change to income tax expense for any other amounts. Final adjustments to the provisional amounts are expected to be recorded by the third quarter of 2018. The accounting for all other applicable provisions of Tax Reform is considered complete based on the current interpretation.

GOODWILL - Goodwill represents the excess of the consideration paid over the fair value of identifiable net assets acquired. Goodwill is not amortized, but instead is subject to impairment testing on an annual basis, and between annual tests whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying amount. No such events have occurred during the three months ended March 31, 2018. Goodwill totaled $3.6 million on the condensed consolidated balance sheets of SJI as of both March 31, 2018 and December 31, 2017.

NEW ACCOUNTING PRONOUNCEMENTS - Other than as described below, no new accounting pronouncement issued or effective during 2018 or 2017 had, or are expected to have, a material impact on the condensed consolidated financial statements.

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

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

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

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

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

The new guidance in ASU 2014-09, as well as all amendments discussed above, is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017.

On January 1, 2018, SJI and SJG adopted ASU 2014-09 and all amendments, which meant adopting the guidance in ASC 606. SJI and SJG adopted the new guidance using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under ASC 605. See Note 16. The methods of recognizing revenue for SJI's and SJG's contracts with customers is the same under ASC 605 and ASC 606, as revenues from contracts that SJI and SJG have with customers are currently recorded as gas or electricity is delivered to the customer, which is consistent with the new guidance under ASC 606. As such, there was no significant impact to revenues for the quarter ended March 31, 2018 as a result of applying ASC 606, and there was no cumulative catch-up to retained earnings under the modified retrospective method for changes in accounting for revenues. Further, there were no significant changes to our business processes, systems or internal controls over financial reporting needed to support recognition and disclosure under the new guidance.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which enhances the reporting model for financial instruments and includes amendments to address aspects of recognition, measurement, presentation and disclosure. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted for only certain portions of the new guidance. Adoption of this guidance did not have an impact on the financial statement results of SJI or SJG.

In March 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which establishes a new lease accounting model for lessees. The new standard requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. The new standard also will result in enhanced quantitative and qualitative disclosures, including significant judgments made by management, to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing leases. The accounting for leases by the lessor remains relatively the same. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. Management has formed an implementation team that is inventorying leases and evaluating the impact that adoption of this guidance will have on SJI's and SJG's financial statements, which includes monitoring industry specific developments including the exposure draft issued by the FASB that would introduce a land easement practical expedient to ASC 842. Consistent with the requirements of the standard, SJI and SJG expect to both transition to the new guidance using the modified retrospective approach, although this could be subject to change based on new guidance from the FASB. The Company does not plan to early adopt the new guidance.

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In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This standard requires recognition of the current and deferred income tax effects of an intra-entity asset transfer, other than inventory, when the transfer occurs, as opposed to current GAAP, which requires companies to defer the income tax effects of intra-entity asset transfers until the asset has been sold to an outside party. The income tax effects of intra-entity inventory transfers will continue to be deferred until the inventory is sold. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, with early adoption permitted. The standard is required to be adopted on a modified retrospective basis with a cumulative-effect adjustment recorded to retained earnings as of the beginning of the period of adoption. Adoption of this guidance did not have an impact on the financial statement results of SJI or SJG.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This new standard provides amended and clarifying guidance regarding whether an integrated set of assets and activities acquired is deemed the acquisition of a business (and, thus, accounted for as a business combination) or the acquisition of assets. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. Adoption of this guidance did not have an impact on the financial statement results of SJI or SJG.

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

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU is designed to improve guidance related to the presentation of defined benefit costs in the income statement. In particular, this ASU requires an employer to report the service cost component in the same line item(s) as other compensation costs arising from services rendered by the pertinent employees during the period. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Adoption of this guidance was applied retrospectively and did not have a material impact on the financial statements of SJI or SJG; however, current and prior period presentation on the condensed consolidated statements of income were modified for SJI and SJG to conform to this guidance, as described under “Basis of Presentation” above.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU clarifies and reduces both (i) diversity in practice and (ii) cost and complexity when applying the guidance in Topic 718, to a change to the terms and conditions of a share-based payment award. This standard is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. Adoption of this guidance did not have an impact on the financial statement results of SJI or SJG.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU is intended to improve the financial reporting of hedging relationships so that it represents a more faithful portrayal of an entity’s risk management activities (i.e. to help financial statement users understand an entity’s risk exposures and the manner in which hedging strategies are used to manage them), as well as to further simplify the application of the hedge accounting guidance in GAAP. The standard is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods.

Management is currently determining the impact that adoption of this guidance will have on the financial statements of SJI and SJG.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income. This ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from Tax Reform. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Reform and will improve the usefulness of information reported to financial statement users. The ASU is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Management is currently determining the impact that adoption of this guidance will have on the financial statements of SJI and SJG.

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In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which gave improvements and enhancements to ASU 2016-01 discussed above. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. SJI and SJG adopted this guidance during the first quarter of 2018 in conjunction with adopting ASU 2016-01 discussed above. Adoption of this guidance did not have an impact on the financial statement results of SJI or SJG.

In March 2018, the FASB issued ASU 2018-04, Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update). This ASU incorporates recent SEC guidance which was issued in order to make the relevant interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulation. ASU No. 2018-04 was effective upon issuance. Adoption of this guidance did not have an impact on the financial statement results of SJI or SJG.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update). This ASU incorporates recent SEC guidance related to the income tax accounting implications of Tax Reform. ASU No. 2018-05 was effective upon issuance. Adoption of this guidance did not have an impact on the financial statement results of SJI or SJG.

2. STOCK-BASED COMPENSATION PLAN:

On April 30, 2015, the shareholders of SJI approved the adoption of SJI's 2015 Omnibus Equity Compensation Plan (Plan), replacing the Amended and Restated 1997 Stock-Based Compensation Plan that had terminated on January 26, 2015. Under the Plan, shares may be issued to SJI’s officers (Officers), non-employee directors (Directors) and other key employees. No options were granted or outstanding during the three months ended March 31, 2018 and 2017. No stock appreciation rights have been issued under the plans. During the three months ended March 31, 2018 and 2017, SJI granted 185,214 and 158,688 restricted shares, respectively, to Officers and other key employees under the Plan. Performance-based restricted shares vest over a three-year period and are subject to SJI achieving certain market and earnings-based performance targets, which can cause the actual amount of shares that ultimately vest to range from 0% to 200% of the original shares granted.

In 2015, SJI began granting time-based shares of restricted stock, one-third of which vest annually over a three-year period and which are limited to a 100% payout. Vesting of time-based grants is contingent upon SJI achieving a return on equity (ROE) of at least 7% during the initial year of the grant and meeting the service requirement. Provided that the 7% ROE requirement is met in the initial year, payout is solely contingent upon the service requirement being met in years two and three of the grant. Beginning in 2018, the vesting and payout of time-based shares of restricted stock is only contingent upon the service requirement being met in years one, two, and three of the grant. During the three months ended March 31, 2018 and 2017, Officers and other key employees were granted 56,634 and 48,790 shares of time-based restricted stock, respectively, which are included in the shares noted above.

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

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

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During the three months ended March 31, 2018 and 2017, SJI granted 26,416 and 30,394 restricted shares, respectively, to Directors. Shares issued to Directors vest over twelve months and contain no performance conditions. As a result, 100% of the shares granted generally vest.

The following table summarizes the nonvested restricted stock awards outstanding for SJI at March 31, 2018 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 -	2016 - TSR	58,205	$22.53	18.1 %	1.31 %
	2016 - CEGR, Time	73,344	$23.52	N/A	N/A
	2017 - TSR	49,981	$32.17	20.8 %	1.47 %
	2017 - CEGR, Time	81,372	$33.69	N/A	N/A
	2018 - TSR	64,290	$31.05	21.9 %	2.00 %
	2018 - CEGR, Time	120,924	$31.23	N/A	N/A
Directors -	2018	26,416	$31.16	N/A	N/A

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

The following table summarizes the total stock-based compensation cost to SJI for the three months ended March 31, 2018 and 2017 (in thousands):

	Three Months Ended March 31,	
	2018	2017
Officers & Key Employees	$1,100	$1,070
Directors	206	256
Total Cost	1,306	1,326
Capitalized	(101)	(88)
Net Expense	$1,205	$1,238

As of March 31, 2018, there was $9.3 million of total unrecognized compensation cost related to nonvested stock-based compensation awards granted under the plans. That cost is expected to be recognized over a weighted average period of 2.1 years.

The following table summarizes information regarding restricted stock award activity for SJI during the three months ended March 31, 2018, excluding accrued dividend equivalents:

	Officers &Other Key Employees	Directors	Weighted Average Fair Value
Nonvested Shares Outstanding, January 1, 2018	342,793	30,394	$ 28.60
Granted	185,214	26,416	$ 31.17
Cancelled/Forfeited	(34,990)	—	$ 28.21
Vested	(44,901)	(30,394)	$ 30.56
Nonvested Shares Outstanding, March 31, 2018	448,116	26,416	$ 29.46

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During the three months ended March 31, 2018 and 2017, SJI awarded 63,030 shares to its Officers and other key employees at a market value of $1.9 million, and 65,628 shares at a market value of $2.2 million, respectively. During the three months ended March 31, 2018 and 2017, SJI also granted 26,416 and 30,394 shares to its Directors at a market value of $0.8 million and $1.0 million, respectively.

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

South Jersey Gas Company - Officers and other key employees of SJG participate in the stock-based compensation plans of SJI. During the three months ended March 31, 2018 and 2017, SJG officers and other key employees were granted 26,652 and 21,061 shares of SJI restricted stock, respectively. The cost of outstanding stock awards for SJG during the three months ended March 31, 2018 and 2017 was $0.2 million and $0.1 million, respectively. Approximately 60% of these costs were capitalized on SJG's condensed balance sheets to Utility Plant.

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

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

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

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

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

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

EnergyMark, LLC (EnergyMark) - SJE has a 33% investment in EnergyMark, an entity that acquires and markets natural gas to retail end users.

For the three months ended March 31, 2018 and 2017, SJRG had net sales to EnergyMark of $14.6 million and $15.2 million, respectively.

During the first three months of 2018 and 2017, SJI made net investments in unconsolidated affiliates of $2.9 million and $3.7 million, respectively. As of March 31, 2018 and December 31, 2017, the outstanding balance of Notes Receivable – Affiliate was $17.1 million and $18.2 million, respectively. As of March 31, 2018, $13.6 million of these notes were secured by property, plant and equipment of the affiliates, accrue interest at 7.5% and are to be repaid through 2025. The remaining $3.5 million of these notes are unsecured and accrue interest at variable rates.

SJI holds significant variable interests in these entities but is not the primary beneficiary. Consequently, these entities are accounted for under the equity method because SJI does not have both (a) the power to direct the activities of the entity that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. As of March 31, 2018, SJI had a net asset of approximately $67.0 million included in Investment in Affiliates on the condensed consolidated balance sheets related to equity method investees, in addition to Notes Receivable – Affiliate as discussed above. SJI's maximum exposure to loss from these entities as of March 31, 2018, is limited to its combined equity contributions and the Notes Receivable-Affiliate in the aggregate amount of $84.1 million.

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

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

Summarized operating results of the discontinued operations for the three months ended March 31, 2018 and 2017, were (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2018	2017
Loss before Income Taxes:		
Sand Mining	$(40)	$(17)
Fuel Oil	(42)	(29)
Income Tax Benefits	16	16
Loss from Discontinued Operations — Net	$(66)	$(30)
Earnings Per Common Share from Discontinued Operations — Net:		
Basic and Diluted	$—	$—

SJG RELATED-PARTY TRANSACTIONS - There have been no significant changes in the nature of SJG’s related-party transactions since December 31, 2017. See Note 3 to the Financial Statements in Item 8 of SJI's and SJG’s Form 10-K for the year ended December 31, 2017 for a detailed description of the related parties and their associated transactions.

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

	Three Months Ended March 31,	
	2018	2017
Operating Revenues/Affiliates:		
SJRG	$2,588	$963
Marina	103	82
Other	23	21
Total Operating Revenue/Affiliates	$2,714	$1,066

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

	Three Months Ended March 31,	
	2018	2017
Costs of Sales/Affiliates (Excluding depreciation)		
SJRG*	$25,338	$10,450

Operations Expense/Affiliates:		
SJI	$7,043	$6,050
Millennium	697	708
Other	(115)	(39)
Total Operations Expense/Affiliates	$7,625	$6,719

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*As discussed in Note 1 to the Consolidated Financial Statements in Item 8 of SJI’s and SJG's Annual Report on Form 10-K for the year ended December 31, 2017, 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.

4. COMMON STOCK:

The following shares were issued and outstanding for SJI:

	2018
Beginning Balance, January 1	79,549,080
New Issuances During the Period:	
Stock-Based Compensation Plan	63,809
Ending Balance, March 31	79,612,889

The par value ($1.25 per share) of stock issued was recorded in Common Stock and the net excess over par value of approximately $0.1 million was recorded in Premium on Common Stock.

There were 2,339,139 shares of SJG's common stock (par value $2.50 per share) outstanding as of March 31, 2018. SJG did not issue any new shares during the period. SJI owns all of the outstanding common stock of SJG.

SJI's EARNINGS PER COMMON SHARE (EPS) - SJI's Basic EPS is based on the weighted-average number of common shares outstanding. The incremental shares required for inclusion in the denominator for the diluted EPS calculation were 129,369 and 121,812 for the three months ended March 31, 2018 and 2017, respectively. These additional shares relate to SJI's restricted stock as discussed in Note 2.

DIVIDEND REINVESTMENT PLAN (DRP) — SJI offers a DRP which allows participating shareholders to purchase shares of SJI common stock by automatic reinvestment of dividends or optional purchases. SJI currently purchases shares on the open market to fund share purchases by DRP participants, and as a result SJI did not raise any equity capital through the DRP in 2017 or 2018. SJI does not intend to issue equity capital via the DRP in 2018.

5. FINANCIAL INSTRUMENTS:

RESTRICTED INVESTMENTS — Marina is required to maintain escrow accounts related to ongoing capital projects. As of both March 31, 2018 and December 31, 2017, the escrowed funds, including interest earned, totaled $0.3 million which are recorded in Restricted Investments on the condensed consolidated balance sheets.

SJI and SJG maintain margin accounts with selected counterparties to support their risk management activities. The balances required to be held in these margin accounts increase as the net value of the outstanding energy-related contracts with the respective counterparties decrease. As of March 31, 2018 and December 31, 2017, SJI's balances (including SJG) in these accounts totaled $16.4 million and $31.6 million, respectively, held by the counterparty, which is recorded in Restricted Investments on the condensed consolidated balance sheets. As of March 31, 2018 and December 31, 2017, SJG's balance held by the counterparty totaled $2.3 million and $2.9 million and was recorded in Restricted Investments on the condensed balance sheets.

The carrying amounts of the Restricted Investments for both SJI and SJG approximate their fair values at March 31, 2018 and December 31, 2017, which would be included in Level 1 of the fair value hierarchy (see Note 13).

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

	As of March 31, 2018	
Balance Sheet Line Item	SJI	SJG
Cash and Cash Equivalents	$6,312	$3,398
Restricted Investments	16,713	2,322
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$23,025	$5,720

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	As of December 31, 2017	
Balance Sheet Line Item	SJI	SJG
Cash and Cash Equivalents	$7,819	$1,707
Restricted Investments	31,876	2,912
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$39,695	$4,619

NOTES RECEIVABLE-AFFILIATES - As of March 31, 2018, SJI had approximately $13.6 million included in Notes Receivable - Affiliate on the condensed consolidated balance sheets, due from Energenic, which is secured by its cogeneration assets for energy service projects. This note is subject to a reimbursement agreement that secures reimbursement for SJI, from its joint venture partner, of a proportionate share of any amounts that are not repaid.

LONG-TERM RECEIVABLES - SJG provides financing to customers for the purpose of attracting conversions to natural gas heating systems from competing fuel sources. The terms of these loans call for customers to make monthly payments over periods ranging from five to ten years, with no interest. The carrying amounts of such loans were $6.6 million and $7.0 million as of March 31, 2018 and December 31, 2017, respectively. The current portion of these receivables is reflected in Accounts Receivable and the non-current portion is reflected in Contract Receivables on the condensed consolidated balance sheets. The carrying amounts noted above are net of unamortized discounts resulting from imputed interest in the amount of $0.7 million as of both March 31, 2018 and December 31, 2017. The annualized amortization to interest is not material to SJI’s or SJG's condensed consolidated financial statements. The carrying amounts of these receivables approximate their fair value at March 31, 2018 and December 31, 2017, which would be included in Level 2 of the fair value hierarchy (see Note 13).

CREDIT RISK - As of March 31, 2018, SJI had approximately $4.3 million, or 11.9%, of the current and noncurrent Derivatives – Energy Related Assets 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.

FINANCIAL INSTRUMENTS NOT CARRIED AT FAIR VALUE - The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. The carrying amounts of SJI's and SJG's financial instruments approximate their fair values at March 31, 2018 and December 31, 2017, except as noted below.

- For Long-Term Debt, in estimating the fair value, SJI and SJG use the present value of remaining cash flows at the balance sheet date. SJI and SJG based the estimates on interest rates available at the end of each period for debt with similar terms and maturities (Level 2 in the fair value hierarchy, see Note 13).

- The estimated fair values of SJI's long-term debt (which includes SJG and all consolidated subsidiaries), including current maturities, as of March 31, 2018 and December 31, 2017, were $1,257.1 million and $1,216.1 million, respectively. The carrying amounts of SJI's long-term debt, including current maturities, as of March 31, 2018 and December 31, 2017, were $1,238.6 million and $1,186.8 million, respectively. SJI's carrying amounts as of March 31, 2018 and December 31, 2017 are net of unamortized debt issuance costs of $15.6 million and $17.4 million, respectively.

- The estimated fair values of SJG's long-term debt, including current maturities, as of March 31, 2018 and December 31, 2017, were $831.6 million and $838.5 million, respectively. The carrying amount of SJG's long-term debt, including current maturities, as of March 31, 2018 and December 31, 2017, was $822.0 million and $821.9 million, respectively. The carrying amounts as of March 31, 2018 and December 31, 2017 are net of unamortized debt issuance costs of $7.1 million and $7.3 million, respectively.

OTHER FINANCIAL INSTRUMENTS - The carrying amounts of SJI's and SJG's other financial instruments approximate their fair values at March 31, 2018 and December 31, 2017.

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6. SEGMENTS OF BUSINESS:

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

- Gas utility operations (SJG) consist primarily of natural gas distribution to residential, commercial and industrial customers. The result of SJG are only included in this operating segment.
- Wholesale energy operations include the activities of SJRG and SJEX.
- SJE is involved in both retail gas and retail electric activities.
  Retail gas and other operations include natural gas acquisition and transportation service business lines.
  Retail electric operations consist of electricity acquisition and transportation to commercial, industrial and residential customers.
- On-site energy production consists of Marina's thermal energy facility and other energy-related projects. Also included in this segment are the activities of ACB, ACLE, BCLE, SCLE, SXLE, MCS, NBS and SBS.
- Appliance service operations includes SJESP, which serviced residential and small commercial HVAC systems, installed small commercial HVAC systems, provided plumbing services and serviced appliances under warranty via a subcontractor arrangement as well as on a time and materials basis. On September 1, 2017, SJESP sold certain assets of its residential and small commercial HVAC and plumbing business to a third party. SJESP continues to receive commissions paid on service contracts from the third party and will do so on a go forward basis.
- Midstream was formed to invest in infrastructure and other midstream projects, including a current project to build a natural gas pipeline in Pennsylvania and New Jersey.
- Costs incurred related to the agreement to acquire Elizabethtown Gas and Elkton Gas are recorded in the Corporate & Services segment.

SJI groups its nonutility operations into two categories: Energy Group and Energy Services. Energy Group includes wholesale energy, retail gas and other, and retail electric operations. Energy Services includes on-site energy production and appliance service operations. 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 March 31,	
	2018	2017
Operating Revenues:		
Gas Utility Operations	$234,459	$196,814
Energy Group:		
Wholesale Energy Operations	190,343	127,517
Retail Gas and Other Operations	40,201	36,878
Retail Electric Operations	44,035	48,957
Subtotal Energy Group	274,579	213,352
Energy Services:		
On-Site Energy Production	21,157	19,612
Appliance Service Operations	520	1,658
Subtotal Energy Services	21,677	21,270
Corporate and Services	13,000	11,596
Subtotal	543,715	443,032
Intersegment Sales	(21,770)	(17,203)

Total Operating Revenues	$521,945	$425,829

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	Three Months Ended March 31,	
	2018	2017
Operating Income (See Note 1):		
Gas Utility Operations	$92,801	$81,225
Energy Group:		
Wholesale Energy Operations	75,657	(11,626)
Retail Gas and Other Operations	(5,758)	(1,667)
Retail Electric Operations	(208)	1,306
Subtotal Energy Group	69,691	(11,987)
Energy Services:		
On-Site Energy Production	(554)	(1,969)
Appliance Service Operations	503	(72)
Subtotal Energy Services	(51)	(2,041)
Corporate and Services	(4,571)	1,667
Total Operating Income	$157,870	$68,864
Depreciation and Amortization:		
Gas Utility Operations	$20,315	$17,362
Energy Group:		
Wholesale Energy Operations	23	28
Retail Gas and Other Operations	75	83
Subtotal Energy Group	98	111
Energy Services:		
On-Site Energy Production	10,271	11,593
Appliance Service Operations	—	54
Subtotal Energy Services	10,271	11,647
Corporate and Services	3,214	401
Total Depreciation and Amortization	$33,898	$29,521
Interest Charges (See Note 1):		
Gas Utility Operations	$6,728	$5,878
Energy Group:		
Wholesale Energy Operations	—	3,059
Retail Gas and Other Operations	146	85
Subtotal Energy Group	146	3,144
Energy Services:		
On-Site Energy Production	3,847	5,814
Midstream	426	510
Corporate and Services	7,470	4,731
Subtotal	18,617	20,077
Intersegment Borrowings	(4,645)	(3,332)
Total Interest Charges	$13,972	$16,745

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	Three Months Ended March 31, 2018	2017
Income Taxes (See Note 1):		
Gas Utility Operations	$21,836	$29,911
Energy Group:		
Wholesale Energy Operations	19,127	(6,319)
Retail Gas and Other Operations	(1,534)	(447)
Retail Electric Operations	(58)	535
Subtotal Energy Group	17,535	(6,231)
Energy Services:		
On-Site Energy Production	(1,157)	(3,069)
Appliance Service Operations	131	(17)
Subtotal Energy Services	(1,026)	(3,086)
Midstream	62	(84)
Corporate and Services	(1,992)	1,360
Total Income Taxes	$36,415	$21,870
Property Additions (See Note 1):		
Gas Utility Operations	$50,237	$62,280
Energy Group:		
Wholesale Energy Operations	5	3
Retail Gas and Other Operations	173	295
Subtotal Energy Group	178	298
Energy Services:		
On-Site Energy Production	1,113	7,349
Appliance Service Operations	—	6
Subtotal Energy Services	1,113	7,355
Midstream	211	152
Corporate and Services	3,345	93
Total Property Additions	$55,084	$70,178

	March 31, 2018	December 31, 2017
Identifiable Assets:		
Gas Utility Operations	$2,930,127	$2,865,974
Energy Group:		
Wholesale Energy Operations	150,330	208,785
Retail Gas and Other Operations	57,497	56,935
Retail Electric Operations	32,149	34,923
Subtotal Energy Group	239,976	300,643
Energy Services:		
On-Site Energy Production	584,349	582,587
Appliance Service Operations	491	1,338
Subtotal Energy Services	584,840	583,925
Midstream	64,831	63,112
Discontinued Operations	1,751	1,757
Corporate and Services	640,996	711,038

Intersegment Assets	(572,441)	(661,363)
Total Identifiable Assets	$3,890,080	$3,865,086

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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 March 2018, SJG filed a petition with the BPU for a change in rates, customer refund and rider associated with the implementation of Tax Reform. The BPU subsequently approved an interim rate reduction, effective April 1, 2018, to reflect the change in the corporate tax rate within SJG’s base rates. This petition is currently pending.

Also in March 2018, SJG filed a petition with the BPU seeking to continue its existing Energy Efficiency Programs (EEP's), with modifications, and to implement new programs (the “EEP IV”) for a five-year period with a proposed budget of approximately $195.4 million and with the same rate recovery mechanism that exists for its current EEP's. Under its existing EEP's, SJG is permitted to recover incremental operating and maintenance expenses and earn a return of, and return on, program investments. The matter is currently pending BPU approval.

There have been no other significant regulatory actions or changes to SJG's rate structure since December 31, 2017. See Note 10 to the Consolidated Financial Statements in Item 8 of SJI's and SJG's Annual Report on Form 10-K for the year ended December 31, 2017.

8. REGULATORY ASSETS AND REGULATORY LIABILITIES:

There have been no significant changes to the nature of SJG’s regulatory assets and liabilities since December 31, 2017, which are described in Note 11 to the Consolidated Financial Statements in Item 8 of SJI’s and SJG's Annual Report on Form 10-K for the year ended December 31, 2017. SJI has no regulatory assets or regulatory liabilities other than those of SJG.

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

	March 31, 2018	December 31, 2017
Environmental Remediation Costs:		
Expended - Net	$110,529	$ 100,327
Liability for Future Expenditures	161,263	171,696
Deferred Asset Retirement Obligation Costs	42,622	42,368
Deferred Pension and Other Postretirement Benefit Costs	78,211	78,211
Deferred Gas Costs - Net	54,351	16,838
Conservation Incentive Program Receivable	12,118	26,652
Societal Benefit Costs Receivable	2,699	2,484
Deferred Interest Rate Contracts	6,006	7,028
Energy Efficiency Tracker	1,832	2,094
Pipeline Supplier Service Charges	686	708
Pipeline Integrity Cost	4,977	5,280
AFUDC - Equity Related Deferrals	12,899	12,785
Other Regulatory Assets	3,436	2,753
Total Regulatory Assets	$491,629	$ 469,224

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

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DEFERRED GAS COSTS - NET - Over/Under collections of gas costs are monitored through SJG's Basic Gas Supply Service (BGSS) bill credit. 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 BGSS regulatory asset increased $37.5 million from December 31, 2017 to March 31, 2018, primarily due to the actual gas commodity costs exceeding recoveries from customers.

CONSERVATION INCENTIVE PROGRAM (CIP) RECEIVABLE – The CIP tracking mechanism adjusts earnings when actual usage per customer experienced during the period varies from an established baseline usage per customer. Actual usage per customer was more than the established baseline during the first three months of 2018, resulting in a decrease in the receivable. This is primarily the result of cold weather experienced in the region.

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

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

	March 31, 2018	December 31, 2017
Excess Plant Removal Costs	$23,527	$ 23,295
Excess Deferred Taxes	276,831	263,810
Total Regulatory Liabilities	$300,358	$ 287,105

EXCESS DEFERRED TAXES - As disclosed in Note 11 to the Consolidated Financial Statements in Item 8 of SJI’s and SJG's Annual Report on Form 10-K for the year ended December 31, 2017, the Excess Deferred Tax balance relates to Tax Reform enacted into law December 22, 2017 (see Note 1). The increase in this regulatory liability of $13.0 million during the first three months of 2018 is related to excess tax amounts that were billed to customers in the first quarter of 2018. Pending approval by the BPU of the refund methodology, amounts are expected to be returned to customers in May 2018.

9. PENSION AND OTHER POSTRETIREMENT BENEFITS:

For the three months ended March 31, 2018 and 2017, net periodic benefit cost related to the employee and officer pension and other postretirement benefit plans for SJI consisted of the following components (in thousands):

	Pension Benefits Three Months Ended March 31,	
	2018	2017
Service Cost	$2,177	$1,382
Interest Cost	5,108	2,955
Expected Return on Plan Assets	(7,633)	(3,524)
Amortizations:		
Prior Service Cost	71	33
Actuarial Loss	4,132	2,613

Net Periodic Benefit Cost	3,855	3,459
Capitalized Benefit Cost	(483)	(1,271)
Deferred Benefit Cost	(751)	(161)
Total Net Periodic Benefit Expense	$2,621	$2,027

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	Other Postretirement Benefits Three Months Ended March 31,	
	2018	2017
Service Cost	$ 81	$ 247
Interest Cost	217	601
Expected Return on Plan Assets	(305)	(853)
Amortizations:		
Prior Service Cost	(31)	(86)
Actuarial Loss	111	312
Net Periodic Benefit Cost	73	221
Capitalized Benefit Cost	(5)	(55)
Total Net Periodic Benefit Expense	$ 68	$ 166

The Pension Benefits Net Periodic Benefit Cost incurred by SJG was approximately $2.5 million of the totals presented in the table above for both the three months ended March 31, 2018 and 2017.During the three months ended March 31, 2018, and 2017, the Other Postretirement Benefits Net Periodic Benefit Cost incurred by SJG was less than $0.1 million and approximately $0.1 million, respectively, of the totals presented in the table above.

Capitalized benefit costs reflected in the table above relate to SJG's construction program. Effective January 1, 2018, SJI and SJG adopted FASB ASU 2017-07 which stipulates that only the service cost component of net benefit cost is eligible for capitalization. In SJG's rate case settlement in October 2017, The BPU allowed the deferral until the next base rate case of incremental expense associated with the adoption.

SJI contributed $10.0 million to the pension plans, of which SJG contributed $8.0 million, in January 2017. No contributions were made to the pension plans by either SJI or SJG during the three months ended March 31, 2018. SJI and SJG do not expect to make any additional contributions to the pension plans in 2018; however, changes in future investment performance and discount rates may ultimately result in a contribution. Payments related to the unfunded supplemental executive retirement plan (SERP) are expected to be approximately $2.4 million in 2018. Prior to the base rate case settlement in October 2017, SJG also had a regulatory obligation to contribute approximately $3.6 million annually to the other postretirement benefit plans' trusts, less direct costs incurred. The recent rate case settlement allows SJG to modify the future funding requirement level up to a limit that represents full funding of its obligation and to the maximum tax deduction allowed.

See Note 12 to the Consolidated Financial Statements in Item 8 of SJI's and SJG's Annual Report on Form 10-K for the year ended December 31, 2017 for additional information related to SJI's and SJG's pension and other postretirement benefits.

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10. LINES OF CREDIT:

Credit facilities and available liquidity as of March 31, 2018 were as follows (in thousands):

Company	Total Facility	Usage		Available Liquidity	Expiration Date
SJI:					
Syndicated Revolving Credit Facility	$400,000	$141,000	(A)	$259,000	August 2022
Revolving Credit Facility	50,000	50,000		—	September 2019
Total SJI	450,000	191,000		259,000	
SJG:					
Commercial Paper Program/Revolving Credit Facility	200,000	64,000	(B)	136,000	August 2022
Uncommitted Bank Line	10,000			10,000	August 2018 (C)
Total SJG	210,000	64,000		146,000	
Total	$660,000	$255,000		$405,000	

(A) Includes letters of credit outstanding in the amount of $6.0 million.

(B) Includes letters of credit outstanding in the amount of $0.9 million.

(C) SJG expects to renew this facility prior to expiration.

The SJG facilities are restricted as to use and availability specifically to SJG; however, if necessary, the SJI facilities can also be used to support SJG’s liquidity needs. Borrowings under these credit facilities are at market rates. SJI's weighted average interest rate on these borrowings, which changes daily, was 2.67% and 1.98% at March 31, 2018 and 2017, respectively. SJG did not have any outstanding borrowings at March 31, 2018 under the credit facility; however, SJG did have $64.0 million outstanding under the commercial paper program. SJG's weighted average interest rate on these borrowings, which changes daily, was 2.32% and 1.15% at March 31, 2018 and March 31, 2017, respectively.

SJI's average borrowings outstanding under these credit facilities (which includes SJG), not including letters of credit, during the three months ended March 31, 2018 and 2017 were $238.0 million and $287.9 million, respectively. The maximum amounts outstanding under these credit facilities, not including letters of credit, during the three months ended March 31, 2018 and 2017 were $431.0 million and $354.1 million, respectively.

SJG's average borrowings outstanding under its credit facilities during the three months ended March 31, 2018 and 2017 were $47.7 million and $34.7 million, respectively. The maximum amounts outstanding under its credit facilities during the three months ended March 31, 2018 and 2017 were $85.0 million and $110.1 million, respectively.

The SJI and SJG principal credit facilities are provided by a syndicate of banks. In January 2018, the Note Purchase Agreements (NPA) for Senior Unsecured Notes issued by SJI were amended to reflect a financial covenant limiting the ratio of indebtedness to total capitalization (as defined in the respective NPA) to not more than 0.70 to 1, measured at the end of each fiscal quarter. SJI and SJG were in compliance with this covenant as of March 31, 2018. However, one SJG bank facility still contains a financial covenant limiting the ratio of indebtedness to total capitalization (as defined in the respective credit agreement) to not more that 0.65 to 1 measured at the end of each fiscal quarter. As a result, SJG must ensure that the ratio of indebtedness to total capitalization (as defined in the respective credit agreement) does not exceed 0.65 to 1, as measured at the end of each fiscal quarter.

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

In the fourth quarter of 2017, SJI entered into a $2.6 billion syndicated, committed Bridge Facility to support its $1.7 billion bid for the assets of the Elizabethtown Gas Company and Elkton Gas Company. The Bridge Facility was upsized to accommodate the aggregate amount of SJI's bank credit facilities and Senior Unsecured Notes pending the amendment of the one financial covenant of the amount of debt-to-capitalization from 0.65 to 1 to 0.70 to 1. In April 2018, the Bridge Facility was subsequently reduced to approximately $1.16 billion (see Note 17).

11. COMMITMENTS AND CONTINGENCIES:

GUARANTEES — As of March 31, 2018, SJI had issued $6.1 million of parental guarantees on behalf of an unconsolidated subsidiary. These guarantees generally expire within the next two years and were issued to enable the subsidiary to market retail natural gas.

GAS SUPPLY CONTRACTS - In the normal course of business, SJG and SJRG have entered into long-term contracts for natural gas supplies, firm transportation and gas storage service. The transportation and storage service agreements with interstate pipeline suppliers were made under Federal Energy Regulatory Commission (FERC) approved tariffs. SJG's cumulative obligation for gas supply-related demand charges and reservation fees paid to suppliers for these services averages approximately $5.8 million per month and is recovered on a current basis through the BGSS. SJRG's cumulative obligation for demand charges and reservation fees paid to suppliers for these services is approximately $0.5 million per month. SJRG has also committed to purchase a minimum of 604,000 dts/d and up to 954,000 dts/d of natural gas, from various suppliers, for terms ranging from 3 to 10 years at index-based prices.

COLLECTIVE BARGAINING AGREEMENTS — Unionized personnel represent approximately 40% and 57% of SJI's and SJG's workforce at March 31, 2018, respectively. SJI has collective bargaining agreements with two unions that represent these employees: the International Brotherhood of Electrical Workers (IBEW) Local 1293 and the International Association of Machinists and Aerospace Workers (IAM) Local 76. SJG employees represented by the IBEW operate under a collective bargaining agreement that runs through February 2022. SJG's remaining unionized employees are represented by the IAM and operate under a collective bargaining agreement that runs through August 2021.

STANDBY LETTERS OF CREDIT — As of March 31, 2018, SJI provided $6.0 million of standby letters of credit through its revolving credit facility to enable SJE to market retail electricity and for various construction and operating activities. SJG provided a $0.9 million letter of credit under its revolving credit facility to support the remediation of environmental conditions at certain locations in SJG's service territory. SJG has provided $25.1 million of additional letters of credit under a separate facility outside of the revolving credit facility to support variable-rate demand bonds issued through the New Jersey Economic Development Authority (NJEDA) to finance the expansion of SJG’s natural gas distribution system.

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

SJI is currently involved in a pricing dispute related to two long-term gas supply contracts. On May 8, 2017, a jury from the United States District Court for the District of Colorado returned a verdict in favor of the plaintiff supplier. On July 21, 2017, the Court entered Final Judgment against SJG and SJRG. As a result of this ruling, SJG and SJRG have accrued, including interest, \$20.6 million and \$53.9 million, respectively, from the first quarter of 2017 through March 31, 2018. We believe that the amount to be paid by SJG reflects a gas cost that ultimately will be recovered from SJG's customers through adjusted rates. As such, this amount was recorded as both an Accounts Payable and a reduction of Regulatory Liabilities on the condensed consolidated balance sheets of both SJI and SJG as of March 31, 2018. The amount associated with SJRG was also recorded as an Accounts Payable on the condensed consolidated balance sheets of SJI as of March 31, 2018, with charges of \$0.1 million to Cost of Sales - Nonutility on the condensed consolidated statements of income of SJI for the three months ended March 31, 2018. SJI also recorded \$0.2 million to Interest Charges on the condensed consolidated statements of income for the three months ended March 31, 2018. In April 2018, SJI filed an appeal of this judgment. During the pendency of the appeal, SJI continues to dispute the supplier invoices received and has created a reserve to reflect the difference between the invoices and paid amounts.

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

Liabilities related to claims are accrued when the amount or range of amounts of probable settlement costs or other charges for these claims can be reasonably estimated. For matters other than the pricing dispute noted above, SJI has accrued approximately $3.1 million and $3.0 million related to all claims in the aggregate as of March 31, 2018 and December 31, 2017, respectively, of which SJG has accrued approximately $0.8 million and $0.7 million as of March 31, 2018 and December 31, 2017, respectively. Although SJI and SJG do not presently believe that these matters will have a material adverse effect on its business, given the inherent uncertainties in such situations, SJI and SJG can provide no assurance regarding the outcome of litigation.

ENVIRONMENTAL REMEDIATION COSTS — SJG incurred and recorded costs for environmental cleanup of 12 sites where SJG or its predecessors operated gas manufacturing plants. SJG stopped manufacturing gas in the 1950s. SJI and some of its nonutility subsidiaries also recorded costs for environmental cleanup of sites where SJF previously operated a fuel oil business and Morie maintained equipment, fueling stations and storage. Other than the changes discussed in Note 8 to the condensed consolidated financial statements, there have been no changes to the status of SJI’s environmental remediation efforts since December 31, 2017, as described in Note 15 to the Consolidated Financial Statements in Item 8 of SJI’s and SJG's Annual Report on Form 10-K for the year ended December 31, 2017.

12. DERIVATIVE INSTRUMENTS:

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

As of March 31, 2018, SJI and SJG had outstanding derivative contracts as follows (1 MMdts = one million decatherms; 1 MMmWh = one million megawatt hours):

	SJI Consolidated	SJG
Derivative contracts intended to limit exposure to market risk to:		
Expected future purchases of natural gas (in MMdts)	45.3	13.3
Expected future sales of natural gas (in MMdts)	53.8	0.3
Expected future purchases of electricity (in MMmWh)	2.4	