SOUTH JERSEY INDUSTRIES INC
Form 10-K
February 28, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:
South Jersey Industries, Inc.: Yes x No o
South Jersey Gas Company: Yes o No x

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

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

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

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

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

Indicate by check mark whether any of the registrants are 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) - The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2018 was $2,854,343,456. As of February 15, 2019, there were 92,315,906 shares of the registrant's common stock outstanding. South Jersey Gas Company common stock ($2.50 par value) outstanding as of February 15, 2019 was 2,339,139 shares. All of South Jersey Gas Company's outstanding shares of common stock are held by South Jersey Industries, Inc.

South Jersey Gas Company is a wholly-owned subsidiary of South Jersey Industries, Inc. and meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K; therefore, South Jersey Gas Company files this form with the reduced disclosure format.

Documents Incorporated by Reference:
In Part III of Form 10-K: Portions of South Jersey Industries, Inc.'s definitive proxy statement for its 2019 annual meeting of shareholders to be filed with the Securities and Exchange Commission are incorporated by reference into Part III of this Form 10-K.

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GLOSSARY OF TERMS AND ABBREVIATIONS

ABO	Accumulated Benefit Obligation
ACB	ACB Energy Partners, LLC
ACLE	AC Landfill Energy, LLC
Acquisition	The Company's acquisition of Elizabethtown Gas Company and Elkton Gas Company effective July 1, 2018, from Pivotal Utility Holdings, Inc., a subsidiary of Southern Company Gas
AFUDC	Allowance for Funds During Construction
AIRP	Accelerated Infrastructure Replacement Program
AMA	Asset Management Agreement
AOCL	Accumulated Other Comprehensive Loss
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bcf	One billion cubic feet
BCLE	BC Landfill Energy, LLC
BGSS	Basic Gas Supply Service
BPA	Bond Purchase Agreement
BPU	New Jersey Board of Public Utilities
CBA	Collective Bargaining Agreement
CEGR	Compounded Earnings Annual Growth Rate
CIP	Conservation Incentive Program
CLEP	Clean Energy Program
CODM	Chief Operating Decision Maker
Columbia	Columbia Gas Transmission, LLC
DCF	Discounted Cash Flow
DOJ	Department of Justice
Dominion	Dominion Transmission, Inc.
DPA	Deferred Payment Arrangements
DRP	Dividend Reinvestment Plan
dt	Decatherm
dts/d	Decatherms per day
EEP	Energy Efficiency Program
EET	Energy Efficiency Tracker
EGR	Earnings Growth Rate
ELK	Elkton Gas Company
EMI	Energy & Minerals, Inc.
EnerConnex	EnerConnex, LLC
Energenic	Energenic US, LLC
EnergyMark	EnergyMark, LLC
EPS	Earnings Per Share
ERIP	Early Retirement Incentive Program
ERISA	Employee Retirement Income Security Act of 1974
ETG	Elizabethtown Gas Company
F	Fahrenheit
FASB	Financial Accounting Standards Board

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FERC	Federal Energy Regulatory Commission
FSS	Federal Supply Schedule
FT	Firm Transportation
GAAP	Generally Accepted Accounting Principles for financial reporting in the United States
Gulf South	Gulf South Pipeline
IAM	International Association of Machinists and Aerospace Workers
IBEW	International Brotherhood of Electrical Workers
IIP	Infrastructure Investment Programs
IIT	Infrastructure Investment Recovery
LFGTE	Landfill Gas-to-Energy
LIBOR	London Interbank Offer Rate
LMP	Locational Marginal Price
LNG	Liquefied Natural Gas
Marina	Marina Energy, LLC
Mcf	One thousand cubic feet
MCS	MCS Energy Partners, LLC
MDQ	Maximum Daily Quantities
MDWQ	Maximum Daily Withdrawal Quantity
Midstream	SJI Midstream, LLC
Millennium	Millennium Account Services, LLC
MPSC	Maryland Public Service Commission
MMdts	One million decatherms
MMmwh	One million megawatt hours
Morie	The Morie Company, Inc.
MTM	Mark-to-market
MTN	Medium Term Notes
MW	Megawatts
Mwh	Megawatt-hours
National Fuel	National Fuel Gas Supply Corporation
NAV	Net Asset Value
NBS	NBS Energy Partners, LLC
Non-GAAP	The financial measures that are not prepared in accordance with U.S. GAAP
NPA	Note Purchase Agreement
NJCEP	New Jersey Clean Energy Program
NJDEP	New Jersey Department of Environmental Protection
NJEDA	New Jersey Economic Development Authority
NOL	Net Operating Loss
OPEB	Other Postretirement Benefits
OSMC	On-System Margin Sharing Credit
PennEast	PennEast Pipeline, LLC
Potato Creek	Potato Creek, LLC
PBO	Projected Benefit Obligation
RAC	Remediation Adjustment Clause
RAM	Rate Adjustment Mechanism
ROE	Return on Equity
SAB	Staff Accounting Bulletin

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Savings Plan	Employees' Retirement Savings Plan
SBC	Societal Benefits Clause
SBS	SBS Energy Partners, LLC
SCLE	SC Landfill Energy, LLC
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
SHARP	Storm Hardening and Reliability Program
SJE	South Jersey Energy Company
SJES	South Jersey Energy Solutions, LLC
SJESP	South Jersey Energy Service Plus, LLC
SJEX	South Jersey Exploration, LLC
SJF	South Jersey Fuel, Inc.
SJG	South Jersey Gas Company
SJI	South Jersey Industries, Inc., or the Company
SJIU	SJI Utilities, Inc.
SJRG	South Jersey Resources Group, LLC
SOA	Society of Actuaries
SRECs	Solar Renewable Energy Credits
SXLE	SX Landfill Energy, LLC
Tax Reform	Tax Cuts and Jobs Act which was enacted into law on December 22, 2017
Tennessee	Tennessee Gas Pipeline Company, L.L.C.
Tetco	Texas Eastern Transmission Corp
TIC	Transportation Initiation Clause
Transco	Transcontinental Gas Pipe Line Company, LLC
TSA	Transition Services Agreement
TSR	Total Shareholder Return
USF	Statewide Universal Service Fund
Utilities	Represents SJI's three utility businesses: SJG, ETG, and ELK
UWUA	United Workers Union of America
VIE	Variable Interest Entities
WNC	Weather Normalization Clause

INTRODUCTION

FILING FORMAT

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

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

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

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Forward Looking Statements

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

Available Information

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

PART I

Item 1. Business
Description of Business

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

SJI provides a variety of energy-related products and services, primarily through the following wholly-owned subsidiaries:

- SJIU is a holding company that owns SJG, and as of July 1, 2018, ETG and ELK (see "Acquisition" below).

  * SJG is a regulated natural gas utility which distributes natural gas in the seven southernmost counties of New Jersey.
  * ETG is a regulated natural gas utility which distributes natural gas in seven counties in northern and central New Jersey.
  * ELK is a regulated natural gas utility which distributes natural gas in northern Maryland.

- SJE acquires and markets electricity to retail end users. SJE previously acquired and marketed natural gas and provided total energy management services to commercial, industrial and residential customers. In November 2018, the Company sold SJE's retail gas businesses.

- 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.

- SJEX owns oil, gas and mineral rights in the Marcellus Shale region of Pennsylvania.
- Marina develops and operates on-site energy-related projects. The significant wholly-owned subsidiaries of Marina include:

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

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

- MCS, NBS and SBS, which owned and operated solar-generation sites located in New Jersey. These entities were sold in October 2018.

- SJESP receives commissions on service contracts from a third party.

- 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.

On July 1, 2018, SJI, through its wholly-owned subsidiary SJIU, acquired the assets of ETG and ELK from Pivotal Utility Holdings, Inc., a subsidiary of Southern Company Gas (collectively, the "Acquisition"), for total consideration of $1.7 billion. See Note 20 to the consolidated financial statements.

On June 27, 2018, the Company, through Marina, entered into a series of agreements whereby Marina agreed to sell its portfolio of solar energy assets to a third-party buyer. As part of these agreements, Marina has agreed to sell its distributed solar energy projects located across New Jersey, Maryland, Massachusetts and Vermont. As of December 31, 2018, the Company earned cash of $228.1 million related to the closing of these projects, which included selling the wholly-owned subsidiaries MCS, NBS and SBS, along with $62.5 million related to the sale of certain SRECs. The Company currently has projects that have not yet closed and are expected to be sold in 2019. See Note 1 to the consolidated financial statements.

On November 30, 2018, SJI sold the retail gas assets of SJE for total consideration of $15.0 million. As a result of this agreement, SJE no longer acquires, transports or markets natural gas for retail markets.

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

Financial Information About Reportable Segments

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

Sources and Availability of Raw Materials

The Utilities:

Transportation and Storage Agreements

During 2018, SJG, ETG and ELK purchased and had delivered natural gas distribution of 49.1 MMdts, 21.8 MMdts and 0.5 MMdts, respectively (ETG and ELK are for the period July 1 - December 31, 2018 only). These deliveries were for on-system and off-system customers and for injections into storage. SJG's average cost per dt of natural gas purchased and delivered in 2018, 2017 and 2016, including demand charges, was $5.20, $3.75 and $3.40, respectively. The average cost per dt of natural gas purchased and delivered for ETG and ELK for the period July 1 - December 31, 2018 was $4.71 and $6.43, respectively.

SJG has direct connections to the interstate pipeline systems of Transco and Columbia. SJG secures other long-term services from Dominion, a pipeline upstream of the Transco and Columbia systems. Services provided by Dominion are utilized to deliver gas into either the Transco or Columbia systems for ultimate delivery to SJG.

ETG has direct connections to the interstate pipeline systems of Transco, Columbia, Tetco and Tennessee. ETG secures other long-term services from several inter-state pipelines, Dominion, National Fuel and Gulf South that are not directly connected to ETG and are upstream of the Transco and Tetco systems. Services provided by Dominion are utilized to deliver gas into either the Transco or Tetco systems for ultimate delivery to ETG. Services provided by National Fuel and Gulf South are utilized to deliver gas into the Transco system for ultimate delivery to ETG. ETG also secures third-party storage services from Stagecoach Gas Services and Stagecoach Pipeline & Storage Company.

Total transportation under contract at SJG and ETG are 421,980 dts/d and 218,523 dts/d, respectively. These contracts have terms with various ending dates, ranging from March 31, 2019 through March 31, 2029. The Company's intentions are to renew or extend these service agreements before they expire.

Total storage capacity under contract at SJG and ETG is 8.9 MMdts and 13.1 MMdts, respectively, with a total MDWQ of 170,298 dts and 225,343 dts, respectively. These contracts have terms with various ending dates, ranging from March 31, 2019 through September 30, 2029. The Company's intentions are to renew or extend these service agreements before they expire.

ELK has direct connections to the interstate pipeline systems of Eastern Shore Natural Gas, along with firm transportation agreements with Transco and Columbia Gas. The activities of ELK utility operations are immaterial.

Services provided by all of the above-mentioned pipelines are subject to the jurisdiction of the FERC.

Gas Supplies

SJG has two separate AMA's with gas marketers that extend through March 31, 2019 and October 31, 2019, respectively. SJG released to the marketers its firm transportation rights, and in return the marketers manage this capacity and provide SJG with firm deliverability each day. The marketer's intents are to optimize the capacity released to SJG under these AMA's and pay SJG an asset management fee.

SJG has two long-term purchase agreements with separate gas producers. SJG has committed to purchase a minimum of 6,250 dts/d and up to 25,000 dts/d of natural gas, from one supplier, for a term of eight years at index-based prices. SJG has also committed to a purchase of a minimum of 55,000 dts/d and up to 70,000 dts/d, from the other supplier for a term of ten years at index-based prices.

On July 1, 2018, ETG and ELK entered into an AMA with SJRG which extends through March 31, 2022. Under this agreement ETG and ELK released to SJRG and/or designated SJRG as agent for all firm transportation and storage contracts. SJRG is obligated to provide natural gas supply to meet demand requirements and optimize ETG’s and ELK's portfolio of natural gas transportation and storage contracts. SJRG pays a fixed fee and shares net margin generated through portfolio optimization.

As part of the gas purchasing strategy, the Utilities use financial contracts to hedge against forward price risk. These contracts are recoverable through the BGSS Clause, subject to BPU/MPSC approval.

Supplemental Gas Supplies

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

ETG operates a peaking facility, located in Elizabeth, NJ, where it stores and vaporizes LNG for injection into its distribution system. ETG's LNG facility has a storage capacity equivalent to 145,000 dts of natural gas and has an installed capacity to vaporize up to 25,000 dts of LNG per day for injection into its distribution system.

Peak-Day Supply

SJG plans for a winter season peak-day demand on the basis of an average daily temperature of 2 degrees F or 63 Heating Degree Days, while ETG's plans on an average daily temperature of 0 degrees F or 65 Heating Degree Days. Gas demand on such a design day for the 2018-2019 winter season is estimated to be 566,405 dts for SJG and 445,102 dts for ETG (excluding industrial customers). SJG and ETG project to have adequate supplies and interstate pipeline entitlements to meet design day requirements. SJG and ETG both experienced their highest peak-day demand for calendar year 2018 on January 6th.

South Jersey Energy Company

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

South Jersey Resources Group

Transportation and Storage Agreements

SJRG holds various firm transportation agreements with National Fuel, Transco, Dominion, Columbia, Columbia Gulf, Tennessee and Tetco. Total transportation under contract is 566,989 dts/d. These contracts have terms with various ending dates, ranging from March 31, 2019 through March 31, 2043. SJRG's intentions are to renew or extend these service agreements before they expire.

SJRG holds multiple storage service agreements with National Fuel, Transco (for storage service at Transco's WSS facility) and Columbia (for service under Columbia's FSS rate schedule). Total storage capacity under contract is approximately 8.6 MMdts. These contracts have terms with various ending dates, ranging from March 31, 2020 through March 31, 2023. SJRG's intentions are to renew or extend these service agreements before they expire.

Gas Supplies

SJRG has entered into several long-term natural gas supply agreements to purchase 832,500 dts/d, depending upon production levels, for terms ranging from four to ten years at index-based prices.

Patents and Franchises

The Utilities hold nonexclusive franchises granted by municipalities in the areas to which they serve. No other natural gas public utility presently serves the territory covered by the Utilities' franchises. Otherwise, patents, trademarks, licenses, franchises and concessions are not material to the business of the Utilities.

Seasonal Aspects

Utility Companies

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

Non-Utility Companies

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

Working Capital Practices

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

Customers

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

Backlog

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

Government Contracts

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

Competition

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

Research

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

Environmental Matters

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

South Jersey Industries, Inc.
Part I

Employees

SJI and its subsidiaries had a total of approximately 1,100 employees as of December 31, 2018, approximately 550 of which were SJG employees. Of those totals, 495 of SJI employees are unionized and 317 SJG employees are unionized (all of SJI's unionized employees are with SJG or ETG). SJI has collective bargaining agreements with unions that represent these employees: IBEW Local 1293; IAM Local 76; and UWUA Local 424. 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. ETG employees represented by the UWUA operate under a collective bargaining agreement that runs through November 2019.

Financial Information About Foreign and Domestic Operations and Export Sales

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

Item 1A. Risk Factors

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

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

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

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

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

- Warm weather, high commodity costs, or customer conservation initiatives could result in reduced demand for some of SJI's and SJG's energy products and services. SJG currently has a conservation incentive program clause that protects its revenues and gross margin against usage that is lower than a set level. ETG has a weather normalization clause which allows ETG to implement surcharges or credits during the months of October through May to compensate for weather-related changes in customer usage from the previous winter period. Should these clauses be terminated without replacement, lower customer energy utilization levels would likely reduce SJI's and SJG's net income. Further, during periods of warmer temperatures, demand and volatility in the natural gas market could decrease, which would negatively impact their financial results.

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

South Jersey Industries, Inc.
Part I

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Our business could be harmed by cybersecurity threats and related disruptions. We rely extensively on information technology systems to process transactions, transmit and store information and manage our business. Disruption or failure of our information technology systems could shut down our facilities or otherwise harm our ability to safely deliver natural gas to our customers, serve our customers effectively, manage our assets, or otherwise materially disrupt our business. Cyber threats are constantly evolving, increasing the difficulty of detecting and successfully defending against them. SJI and SJG have experienced such attacks in the past; however, based on information currently available to SJI and SJG, none have had a material impact on our business, financial condition, results of operations or cash flows. In response, we have invested in expanded cybersecurity systems and procedures designed to safeguard the continuous and uninterrupted performance of our information technology systems and protect against unauthorized access. However, all information technology systems are potentially vulnerable to security threats, including hacking, viruses, other malicious software, and other unlawful attempts to disrupt or gain access to such systems. There is no guarantee that our cybersecurity systems and procedures will prevent or detect the unauthorized access by experienced computer programmers, hackers or others. An attack on or failure of our information technology systems could result in the unauthorized disclosure, theft, misuse or destruction of customer or employee data or business or confidential information, or disrupt the performance of our information technology systems. These events could expose us to potential liability, litigation, governmental inquiries, investigations or regulatory actions, harm our brand and reputation, diminish customer confidence, disrupt operations, and subject us to payment of fines or other penalties, legal claims by our clients and significant remediation costs.

- Tax law or regulation changes may negatively impact financial performance. SJI and SJG are subject to taxation by various taxing authorities at the federal, state and local levels. Any future changes in tax laws or regulations, including Tax Reform, or interpretation of such laws or regulations, could have a materially adverse effect on SJI's and SJG's financial condition and results of operations.

- The loss of long-tenured employees could negatively impact the daily operations and financial performance of SJI and SJG. In October 2018, the Company announced it will offer an ERIP for eligible non-union employees and officers. Several employees have accepted the ERIP and will be retiring from the Company within 6 to 12 months. The departure of these individuals, who have varying roles and corresponding oversight responsibilities for SJI and SJG, could adversely impact SJI's and SJG's results of operations.

- Our stated long-term goals are based on various assumptions and beliefs that may not prove to be accurate, and we may not achieve our stated long-term goals by 2020 or at all. SJI's current long-term goals are to grow Economic Earnings Per Share 6-8% annually while maintaining high quality earnings, a strong balance sheet and a low-to-moderate risk profile. Management established those goals in conjunction with our board of directors based upon a number of different internal and external factors that characterize and influence our current and expected future activities. For example, these long-term goals are based on certain assumptions regarding our participation in a current project to build an approximately 118-mile natural gas pipeline in Pennsylvania and New Jersey. However, construction on this project is not expected to begin until 2019 and is estimated to be completed in late 2020, but may be subject to delay. As a result, no assurance can be given that this project will be completed on time or at all. Also, as noted below, the Acquisition involves risks associated with acquisitions and integrating acquired assets, including the potential exposure to significant liabilities, and the intended benefits of the Acquisition may not be realized. Further, the economy could cause increased customer delinquencies or otherwise negatively affect achievement of our long-term earnings goals. Changes in the New Jersey State administration could lead to unfavorable state and local regulatory changes that could delay approvals, require environmental remediation or capital or other expenditures or otherwise adversely affect our results of operations, financial condition or cash flows. Other factors, assumptions and beliefs of management and our board of directors on which our long-term goals were based may also prove to differ materially from actual future results. Accordingly, we may not achieve our stated long-term goals by 2020 or at all, or our stated long-term goals may be negatively revised as a result of less than expected progress toward achieving these goals, and you are therefore cautioned not to place undue reliance on these goals.

- The Acquisition involves risks associated with acquisitions and integrating acquired assets, including the potential exposure to significant liabilities. The Acquisition may not achieve its intended results and benefits, including anticipated investment opportunities and earnings growth.

The Acquisition involves risks associated with acquisitions and integrating acquired assets into existing operations, including that:

- our senior management's attention may be diverted from the management of daily operations to the integration of the Acquisition;
- we could incur significant unknown and contingent liabilities for which we have limited or no contractual remedies or insurance coverage;
- the assets to be acquired may not perform as well as we anticipate; and
- unexpected costs, delays and challenges may arise in integrating the assets acquired in the Acquisition into our existing operations.

Although we expect that the Acquisition will result in various benefits, including expanding our gas utility rate and customer bases, providing investment opportunities through infrastructure development and enhancing our regulatory relationships within the local communities served, we cannot assure you regarding when or the extent to which we will be able to realize these or other benefits. Achieving the anticipated benefits is subject to a number of uncertainties, including whether the businesses acquired can be operated in the manner we intend and whether our costs to finance the Acquisition will be consistent with our expectations. Events outside of our control, including but not limited to regulatory changes or developments, could also adversely affect our ability to realize the anticipated benefits from the Acquisition. Thus the integration of the ETG and ELK businesses, respectively, may be unpredictable, subject to delays or changed circumstances, and we cannot assure you that the acquired businesses will perform in accordance with our expectations or that our expectations with respect to improving our business risk profile, leveraging existing regulatory relationships or achieving earnings growth as a result of the Acquisition will be achieved. In addition, our anticipated costs to achieve the integration of the acquired businesses may differ significantly from our current estimates. The integration may place an additional burden on our management and internal resources, and the diversion of management’s attention during the integration process could have an adverse effect on our business, financial condition and expected operating results.

- We issued additional securities to provide permanent financing for the Acquisition, and, as a result, we are subject to market risks including market demand for our debt and equity securities. We are also seeking to consummate certain asset sales.

In connection with the Acquisition, we have obtained permanent financing which includes common stock and Equity Units, Senior Unsecured Notes, Floating Rate Senior Notes, a Term Loan Facility and a Revolving Credit Agreement.

Among other risks, the increase in our indebtedness may:

- make it more difficult for us to repay or refinance our debts as they become due during adverse economic and industry conditions;
- limit our flexibility to pursue other strategic opportunities or react to changes in our business and the industries in which we operate and, consequently, place us at a competitive disadvantage to competitors with less debt;
- require an increased portion of our cash flows from operations to be used for debt service payments, thereby reducing the availability of cash flows to fund working capital, capital expenditures, dividend payments and other general corporate purposes;

- result in a downgrade in the credit rating of our indebtedness, which could limit our ability to borrow additional funds or increase the interest rates applicable to our indebtedness;
- result in higher interest expense in the event of increases in market interest rates for both long-term debt as well as short-term commercial paper, bank loans or borrowings under our lines of credit at variable rates;
- reduce the amount of credit available to support hedging activities; and
- require that additional terms, conditions or covenants be placed on us.

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Among other risks, the issuance of additional equity by SJI may:

- be dilutive to our existing shareholders and earnings per share;
- impact our capital structure and cost of the capital;
- be adversely impacted by movements in the overall equity markets or the utility or natural gas utility industry sectors of that market, which could impact the offering price of our new equity or necessitate the use of other equity or equity-like instruments such as preferred stock, convertible preferred shares, or convertible debt; and
- impact our ability to make our current and future dividend payments.

- The Company may not be able to obtain refinancings of short-term debt, causing the ability to pay such debt at maturity to be at risk. As a result of the Acquisition, the Company has $733.9 million of debt coming due within the next twelve months. The plan is to obtain refinancings for most of this debt, with the remainder being paid off through various transactions including the expected sale of non-core assets as noted below. The Company can offer no assurances that these refinancings or sales will be successful.

- The agreements to sell certain non-core assets of the Company may not be consummated. An agreement to sell solar assets has been entered into with a third party, with actual sales occurring on a rolling basis as the conditions precedent to the closing of each solar project, including certain regulatory filings and receipt of consents to assignment of project contracts and permits, are satisfied. While certain consents have been received and the sale of certain projects has consummated, we cannot guarantee that all approvals and consents will occur.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The principal property of SJI consists of gas transmission and distribution systems that include mains, service connections and meters. The transmission facilities carry the gas from the connections with Transco and Columbia to distribution systems for delivery to customers. As of December 31, 2018, there were approximately 146.2 miles of mains in the transmission systems and 6,567 miles of mains in the distribution systems.

In 2018, SJG sold 117 acres of deed restricted land in Folsom. Currently, SJG owns approximately 44 acres of land in Folsom, New Jersey which is the site of SJI's corporate headquarters. Approximately 30 acres of this property is deed restricted. SJG also has office and service buildings at six other locations in its territory. There is a liquefied natural gas storage, liquefaction and vaporization facility at one of these locations.

In November 2018, SJG opened its corporate headquarters in Atlantic City, New Jersey.

ETG is headquartered in Union, NJ and owns approximately 3,200 miles of distribution pipeline in seven counties in northern and central New Jersey. ETG has office and service buildings at six other locations in its territory. ELK is headquartered in Elkton, MD and has one other service building in its territory.

As of December 31, 2018, SJI's utility plant had a gross book value of $4.3 billion and net book value, after accumulated depreciation, of $3.6 billion. In 2018, SJI spent $341.1 million on additions to utility plant and nonutility property and equipment, and there were retirements of property having an aggregate gross book cost of $38.1 million.

As of December 31, 2018, SJG's utility plant had a gross book value of $2.9 billion and a net book value, after accumulated depreciation, of $2.4 billion. In 2018, SJG spent $241.9 million on additions to utility plant and there were retirements of property having an aggregate gross book cost of $26.8 million.

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

Nonutility property and equipment with a net book value of $99.6 million consists primarily of Marina's thermal facility. This amount is reduced compared to the prior year due to the sale of certain solar assets (see Note 1 to the consolidated financial statements).

SJF an inactive subsidiary, owns real estate in Deptford Township and Upper Township, New Jersey.

Item 3. Legal Proceedings

SJI and SJG are subject to claims arising in the ordinary course of business and other legal proceedings. SJI has been named in, among other actions, certain gas supply contract disputes and certain product liability claims related to our former sand mining subsidiary. See Note 15 to the consolidated financial statements for more detail on these claims.

Item 4. Mine Safety Disclosures

Not applicable.

Item 4A. Executive Officers of the Registrant

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

Name, age and position with the Company	Period Served
Michael J. Renna, Age 51	
Chief Executive Officer	April 2015 - Present
Director	January 2014 - Present
President	January 2014 - Present
Chief Operating Officer	January 2014 - April 2015
Senior Vice President	January 2013 - January 2014
Cielo Hernandez, Age 43	
Chief Financial Officer	January 2019 - Present
Senior Vice President	January 2019 - Present
VP and Chief Financial Officer North America and Canada Region, Maersk Line	February 2015 - December 2018
VP & CFO Latin America Region, APM Terminals	November 2013 - January 2015
Stephen H. Clark, Age 60	
President, SJES	August 2018 - Present
Chief Operating Officer, SJES	August 2018 - Present
Executive Vice President	January 2017 - Present
Senior Vice President	April 2015 - December 2016
Chief Financial Officer	November 2013 - August 2018
Treasurer	January 2004 - April 2014

Kenneth A. Lynch, Age 53	
Chief Accounting & Risk Officer	August 2018 - Present
Chief Risk Officer	January 2017 - Present

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Senior Vice President	April 2015 - Present
Chief Accounting Officer	January 2013 - December 2016
Kathleen A. McEndy, Age 65	
Chief Administrative Officer	June 2015 - Present
Senior Vice President	April 2015 - Present
Chief Human Resources Officer	March 2013 - June 2015
Vice President	March 2013 - April 2015
David Robbins, Jr., Age 56	
President, SJIU	August 2018 - Present
President, SJG	January 2017 - August 2018
Senior Vice President	April 2015 - Present
Vice President	April 2014 - April 2015
Senior Vice President, SJES	January 2013 - December 2016
Chief Operating Officer, SJES	January 2013 - April 2014
Steven R. Cocchi, Age 41	
Chief Strategy and Development Officer	January 2018 - Present
Interim General Counsel	August 2017 - December 2017
Senior Vice President, Strategy and Growth	April 2017 - Present
Vice President, Strategy and Growth	January 2017 - April 2017
Vice President, Rates and Regulatory Affairs	April 2015 - January 2017
Director, Rates and Revenue Requirements	October 2011 - April 2015
Melissa Orsen, Age 43	
Senior Vice President & General Counsel	January 2018 - Present
Chief Executive Officer, New Jersey Economic Development Authority	March 2015 - December 2017
Deputy Commissioner, New Jersey Department of Community Affairs	March 2014 - March 2015
Chief of Staff & Lieutenant Governor, Office of the New Jersey Governor	January 2011 - March 2014

PART II

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

South Jersey Industries, Inc.

Market Price of Common Stock and Related Information

Our stock is traded on the New York Stock Exchange under the symbol SJI. As of December 31, 2018, the latest available date, our records indicate there were 6,248 shareholders of record.

Stock Performance Graph

The performance graph below illustrates a five-year comparison of cumulative total returns based on an initial investment of $100 in South Jersey Industries, Inc. common stock, as compared with the S&P 500 Stock Index and the S&P Utility Index for the five-year period through December 31, 2018.

This performance chart assumes:

- $100 invested on December 31, 2013 in South Jersey Industries, Inc. common stock, in the S&P 500 Stock Index and in the S&P Utility Index; and
- All dividends are reinvested.

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
S&P 500	100	$ 114	$ 115	$ 129	$ 157	$ 150
S&P Utilities	$ 100	$ 129	$ 123	$ 143	$ 160	$ 167
SJI	$ 100	$ 109	$ 91	$ 134	$ 128	$ 119

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

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

In 2018, non-employee members of SJI's Board of Directors received an aggregate of 26,416 shares of restricted stock, valued at that time at $823,123, as part of their compensation for serving on the Board.

Issuer Purchases of Equity Securities - There were no purchases by SJI of its own common stock during the year ended December 31, 2018.

South Jersey Gas Company

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

SJG is restricted under its First Mortgage Indenture, as supplemented, as to the amount of cash dividends or other distributions that may be paid on its common stock. As of December 31, 2018, these restrictions did not affect the amount that may be distributed from SJG’s retained earnings. SJG declared and paid cash dividends of $20.0 million in 2017 to SJI. No dividends were declared or paid on SJG's common stock in 2018 or 2016.

Item 6. Selected Financial Data

Five-Year Summary of Selected Financial Data
(In Thousands Where Applicable)

South Jersey Industries, Inc. and Subsidiaries
Year Ended December 31,

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

	2018	2017	2016	2015	2014
Operating Results:					
Operating Revenues	$1,641,338	$1,243,068	$1,036,500	$959,568	$886,996
Income (Loss) from Continuing Operations	$17,903	$(3,404)	$119,061	$105,610	$97,628
Discontinued Operations - Net (1)	(240)	(86)	(251)	(503)	(582)
Net Income (Loss)	$17,663	$(3,490)	$118,810	$105,107	$97,046
Total Assets	$5,956,577	$3,865,086	$3,730,567	$3,480,900	$3,349,425
Capitalization:					

Equity	$1,267,022	$1,192,409	$1,289,240	$1,037,539	$932,432
Long-Term Debt	2,106,863	1,122,999	808,005	1,006,394	859,491

Total Capitalization	$3,373,885	$2,315,408	$2,097,245	$2,043,933	$1,791,923
Ratio of Earnings to Fixed Charges (2)	1.2x	0.5x	5.4x	3.8x	3.8x
Diluted Earnings (Loss) Per Common Share (Based on Average Diluted Shares Outstanding) (3):					
Continuing Operations	$0.21	$(0.04)	$1.56	$1.53	$1.47
Discontinued Operations - Net (1)	—	—	—	(0.01)	(0.01)
Diluted Earnings (Loss) Per Common Share (3)	$0.21	$(0.04)	$1.56	$1.52	$1.46
Return (Loss) on Average Equity (4)	1.5%	(0.3)%	10.2%	10.7%	11.1%
Share Data:					
Number of Shareholders of Record	6.3	6.5	6.7	6.7	6.9
Average Common Shares (3)	83,693	79,541	76,362	68,735	66,278
Common Shares Outstanding at Year End (3)	85,506	79,549	79,478	70,966	68,334
Dividend Reinvestment Plan:					
Number of Shareholders	4.8	5.0	5.2	5.2	5.2
Number of Participating Shares (3)	3,317	3,607	3,627	4,170	4,082
Book Value at Year End (3)	$14.82	$14.99	$16.22	$14.62	$13.65
Dividends Declared per Common Share (3)	$1.13	$1.10	$1.07	$1.02	$0.96
Market Price at Year End (3)	$27.80	$31.23	$33.69	$23.52	$29.46
Market-to-Book Ratio (3)	1.9x	2.1x	2.1x	1.6x	2.2x
Consolidated Economic Earnings (5)					
Income (Loss) from Continuing Operations	$17,903	$(3,404)	$119,061	$105,610	$97,628
Minus/Plus:					
Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized Losses/(Gains) on Inventory Injection Hedges (6)	(35,846)	14,558	(26,867)	(8,355)	8,211
Net Loss from Affiliated Companies (6,7)	—	—	—	(2,540)	2,540
Loss on Property, Plant and Equipment (8)	105,280	91,299	—	—	—
Net Losses from Legal Proceedings (9)	5,910	56,075	—	—	—
Acquisition/Sale Costs (10)	34,674	19,564	—	—	—
Customer Credits (11)	15,333	—	—	—	—
ERIP (12)	6,733	—	—	—	—
Other (6,13)	—	2,227	(165)	(165)	(165)
Income Taxes (14)	(33,753)	(70,834)	10,813	4,424	(4,235)
Additional Tax Adjustments (15)	—	(11,420)	—	—	—
Economic Earnings	$116,234	$98,065	$102,842	$98,974	$103,979
Earnings (Loss) per Share from Continuing Operations (3)	$0.21	$(0.04)	$1.56	$1.53	$1.47
Minus/Plus:					
Unrealized Mark-to-Market Losses/(Gains) on Derivatives and Realized Losses/(Gains) on Inventory Injection Hedges (6)	(0.42)	0.18	(0.35)	(0.12)	0.12

Net Loss from Affiliated Companies (6,7)	—	—	—	(0.04)	0.04
Loss on Property, Plant and Equipment (8)	1.24	1.14	—	—	—

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Net Losses from Legal Proceedings (9)	0.07	0.70	—	—	—
Acquisition/Sale Costs (10)	0.41	0.25	—	—	—
Customer Credits (11)	0.18	—	—	—	—
ERIP (12)	0.08	—	—	—	—
Other (6,13)	—	0.03	—	—	—
Income Taxes (14)	(0.39)	(0.89)	0.13	0.07	(0.06)
Additional Tax Adjustments (15)	—	(0.14)	—	—	—
Economic Earnings per Share (3,5)	$1.38	$1.23	$1.34	$1.44	$1.57

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

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

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

(4) Calculated based on Income from Continuing Operations.

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

(6) Certain reclassifications have been made to the prior period numbers in these tables to conform to the current period presentation. The 2014-2015 numbers in these line items have been adjusted to be presented before income taxes.

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

(8) Represents impairment charges taken in 2018 on solar generating facilities (which was primarily driven by the purchase price in the agreement to sell solar assets being less than the carrying amount of the assets) along with LFGTE assets (which was primarily driven by the remaining carrying value of these assets no longer being recoverable. Also represents impairment charges taken in 2017 on solar generating facilities, LFGTE long-lived assets, LFGTE assets customer relationships, and goodwill.

(9) Represents net losses from three separate legal proceedings: (a) charges in 2017 and 2018, including interest, legal fees and the realized difference in the market value of the commodity (including financial hedges) resulting from a ruling in a legal proceeding related to a pricing dispute between SJI and a gas supplier that began in October 2014; (b) a charge in 2017, including legal fees, resulting from a settlement with a counterparty over a dispute related to a three-year capacity management contract; and (c) a gain taken in 2017 resulting from a favorable FERC decision, including interest, over a tariff rate dispute with a counterparty, whereby SJI contended that the counterparty was overcharging for storage demand charges over a ten-year period.

(10) Represents costs incurred on the agreement to acquire the assets of ETG and ELK, including legal, consulting and other professional fees. Also included here are costs incurred on the sale of solar and SJE assets, partially offset by gains recorded on the sale of solar assets.

(11) Represents credits to ETG and ELK customers that were required as part of the Acquisition.

(12 Represents costs incurred on the Company's ERIP as well as the benefit of amending the Company's OPEB.

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

(14) Determined using a combined average statutory tax rate of approximately 25% for 2018, 39% for 2017 and 40% for 2016, 2015 and 2014.

(15) Represents one-time tax adjustments, most notably for Tax Reform.

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

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Operating Revenues	$548,000	$517,254	$461,055	$534,290	$501,875
Net Income	$82,949	$72,557	$69,045	$66,578	$66,483
Average Shares of Common Stock Outstanding	2,339	2,339	2,339	2,339	2,339
Ratio of Earnings to Fixed Charges (1)	4.5x	5.4x	5.5x	5.4x	5.4x

	As of December 31,				
	2018	2017	2016	2015	2014
Property, Plant and Equipment, Net	$2,383,459	$2,154,083	$1,952,912	$1,770,766	$1,589,369
Total Assets	$3,118,236	$2,865,974	$2,551,923	$2,288,204	$2,185,672
Capitalization:					
Common Equity	$1,008,022	$921,433	$839,900	$707,927	$680,568
Long-Term Debt	874,507	758,052	423,177	584,082	507,091
Total Capitalization	$1,882,529	$1,679,485	$1,263,077	$1,292,009	$1,187,659
Total Customers	391,092	383,633	377,625	373,100	366,854

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

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

Introduction

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

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

- SJI - This section describes the financial condition and results of operations of SJI and its subsidiaries on a consolidated basis. It includes discussions of our regulated operations, including SJG, and our non-regulated operations.

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

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

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

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

SJIU

SJIU was established as a subsidiary of SJI for the purpose of serving as a holding company that owns SJG, and, as of July 1, 2018, ETG and ELK.

SJG

SJG, a New Jersey corporation, is an operating public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also sells natural gas and pipeline transportation capacity (off-system sales) on a wholesale basis to various customers on the interstate pipeline system and transports natural gas purchased directly from producers or suppliers to their customers. SJG contributed approximately $82.9 million to SJI's net income on a consolidated basis in 2018.

SJG's service territory covers approximately 2,500 square miles in the southern part of New Jersey. It includes 117 municipalities throughout Atlantic, Cape May, Cumberland and Salem Counties and portions of Burlington, Camden and Gloucester Counties. SJG benefits from its proximity to Philadelphia, PA and Wilmington, DE on the western side of its service territory and the popular shore communities on the eastern side. Continuing expansion of SJG's infrastructure throughout its seven-county region has fueled annual customer growth and creates opportunities for future extension into areas not yet served by natural gas.

SJG believes there is an ongoing transition of southern New Jersey's oceanfront communities from seasonal resorts to year round economies. In mainland communities, building expansions in the medical, education and retail sectors contributed to SJG's growth. At present, SJG serves approximately 71% of households within its territory with natural gas. SJG also serves southern New Jersey's diversified industrial base that includes processors of petroleum and agricultural products; chemical, glass and consumer goods manufacturers; and high technology industrial parks.

As of December 31, 2018, SJG served 391,092 residential, commercial and industrial customers in southern New Jersey, compared with 383,633 customers at December 31, 2017. No material part of SJG's business is dependent upon a single customer or a few customers. Gas sales, transportation and capacity release for 2018 amounted to 159.1 MMdts, of which 58.2 MMdts were firm sales and transportation, 1.1 MMdts were interruptible sales and transportation and 99.8 MMdts were off-system sales and capacity release. The breakdown of firm sales and transportation includes 46.3% residential, 22.4% commercial, 18.4% industrial, and 12.9% cogeneration and electric generation. As of December 31, 2018, SJG served 365,009 residential customers, 25,657 commercial customers and 426 industrial customers. This includes 2018 net additions of 6,983 residential customers and 476 commercial and industrial customers.

SJG makes wholesale gas sales to gas marketers for resale and ultimate delivery to end users. These “off-system” sales are made possible through the issuance of the FERC Orders No. 547 and 636. Order No. 547 issued a blanket certificate of public convenience and necessity authorizing all parties, which are not interstate pipelines, to make FERC jurisdictional gas sales for resale at negotiated rates, while Order No. 636 allowed SJG to deliver gas at delivery points on the interstate pipeline system other than its own city gate stations and release excess pipeline capacity to third parties. During 2018, off-system sales amounted to 13.6 MMdts and capacity release amounted to 86.2 MMdts.

Supplies of natural gas available to SJG that are in excess of the quantity required by those customers who use gas as their sole source of fuel (firm customers) make possible the sale and transportation of gas on an interruptible basis to commercial and industrial customers whose equipment is capable of using natural gas or other fuels, such as fuel oil and propane. The term “interruptible” is used in the sense that deliveries of natural gas may be terminated by SJG at any time if this action is necessary to meet the needs of higher priority customers as described in SJG's tariffs. In 2018, usage by interruptible customers, excluding off-system customers, amounted to 1.1 MMdts, or approximately 1% of the total throughput.

ETG/ELK

On July 1, 2018, SJI, through its wholly-owned subsidiary SJIU, acquired the assets of ETG and ELK from Pivotal Utility Holdings, Inc., a subsidiary of Southern Company Gas (see Note 20 to the consolidated financial statements).

ETG is a regulated natural gas utility which distributes natural gas in seven counties in northern and central New Jersey. ETG serves residential, business and industrial customers, with a service territory that covers the northern part of New Jersey, including 86 municipalities throughout Union, Middlesex, Sussex, Warren, Hunterdon, Morris and Mercer Counties. ETG was founded in 1855 and is based in Union, New Jersey. ETG had a net loss of approximately $5.0 million, which reduced SJI's net income on a consolidated basis in 2018 by such amount.

ETG believes growth exists in the expansion of its Northwestern service territory, the Franklin/Sparta area, and the Hackettstown Interconnect. At present, ETG serves approximately 56% of households within its territory with natural gas. ETG also serves northern New Jersey's diversified industrial base that includes pharmaceutical, food and beverage, and transportation industries.

As of December 31, 2018, ETG served 293,672 customers in northern and central New Jersey, including 270,342 residential customers, 23,233 commercial customers and 97 industrial customers. No material part of ETG's business is dependent upon a single customer or a few customers. Gas sales and transportation for July 1 - December 31, 2018 (post-Acquisition) amounted to 212.9 MMdts, of which 176.7 MMdts were firm sales and transportation and 36.2 MMdts were interruptible sales and transportation. The breakdown of firm sales and transportation includes 93.9 MMdts residential, 56.4 MMdts commercial, and 62.6 MMdts industrial.

ELK is a regulated natural gas utility which distributes natural gas in northern Maryland. ELK's service territory covers approximately six square miles in Elkton, Maryland with an estimated permanent population of 16,000. At present, ELK serves approximately 44% of households within its territory with natural gas. ELK's diverse customer base includes residential and commercial accounts coupled with a significant industrial presence in the military and defense, pharmaceutical, chemical and textile industries.

SJES

SJI groups its nonutility operations into two categories: Energy Group and Energy Services. Energy Group includes wholesale energy and retail electric operations. Energy Services includes on-site energy production and appliance service operations. SJI established SJES as a direct subsidiary for the purpose of serving as a holding company for all of SJI's non-utility businesses. The following businesses are wholly-owned subsidiaries of SJES:

SJE

SJE provides services for the acquisition and transportation of electricity for retail end users and markets total energy management services. SJE markets electricity to commercial and industrial customers. SJE became active in the residential market for electricity beginning in March 2016 as a result of several municipal aggregation bids won in the second half of 2015. Most customers served by SJE are located within New Jersey, northwestern Pennsylvania and New England. In 2018, SJE had a net loss of approximately $6.0 million which reduced SJI's net income on a consolidated basis by such amount.

On November 30, 2018, SJI sold the retail gas assets of SJE for total consideration of $15.0 million. As a result of this agreement, SJE no longer acquires, transports or markets natural gas for retail markets. See Note 1 to the consolidated financial statements.

SJRG

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

SJRG also conducts price risk management activities by entering into a variety of physical and financial transactions including forward contracts, swap agreements, option contracts and futures contracts. In 2018, SJRG contributed approximately $66.2 million to SJI's net income on a consolidated basis.

SJEX

SJEX owns oil, gas and mineral rights in the Marcellus Shale region of Pennsylvania. SJEX is considered part of SJI's wholesale energy operations. In 2018, SJEX contributed approximately $0.2 million to SJI's net income on a consolidated basis.

Marina

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

Other entities that are wholly owned by Marina are ACB, ACLE, BCLE, SCLE, and SXLE.

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

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

On June 27, 2018, the Company, through Marina, entered into a series of agreements whereby Marina agreed to sell its portfolio of solar energy assets to a third-party buyer. As part of these agreements, Marina has agreed to sell its distributed solar energy projects located across New Jersey, Maryland, Massachusetts and Vermont. As of December 31, 2018, the Company earned cash of $228.1 million related to the closing of these projects, which included selling the wholly-owned subsidiaries MCS, NBS and SBS, along with $62.5 million related to the sale of certain SRECs. The Company currently has projects that have not yet closed and are expected to be sold in 2019. See Note 1 to the consolidated financial statements.

In 2018, Marina had a net loss of approximately $78.0 million, which reduced SJI's net income on a consolidated basis by such amount.

SJESP

SJESP receives commissions on service contracts from a third party. In 2018, SJESP contributed approximately $1.5 million to SJI's net income on a consolidated basis.

Midstream

Midstream owns a 20% equity investment in PennEast, through which SJI, along with other investors, expect to construct an approximately 118-mile natural gas pipeline that will extend from Northeastern Pennsylvania into New Jersey. Construction is expected to begin in 2019 and is estimated to be completed in late 2020. In 2018, Midstream contributed approximately $3.1 million to SJI's net income on a consolidated basis.

Other

EMI principally manages liabilities associated with its discontinued operations of nonutility subsidiaries.

Primary Factors Affecting SJI's Business

SJI's current long-term goals are to grow Economic Earnings Per Share 6-8% annually while maintaining high quality earnings, a strong balance sheet and a low-to-moderate risk profile. Management established those goals in conjunction with SJI's Board of Directors based upon a number of different internal and external factors that characterize and influence SJI's current and expected future activities.

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

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

Customer Growth - Southern New Jersey, SJG's primary area of operations, has not been immune to the issues impacting the new housing market nationally. Residential new construction activity remains steady, supported by growth in higher density and multi-family units. Customers for SJG grew 1.9% for 2018 as SJG continues its focus on customer conversions. In 2018, the 7,191 consumers converting their homes and businesses from other heating fuels, such as electric, propane or oil, represented approximately 78% of the total new customer acquisitions for the year. In comparison, conversions over the past five years averaged 5,904 annually. Customers in SJG's service territory typically base their decisions to convert on comparisons of fuel costs, environmental considerations and efficiencies. While oil and propane prices have become more competitive with natural gas in the past two years, affecting the number of conversions, SJG began a comprehensive partnership with the State’s Office of Clean Energy to educate consumers on energy efficiency and to promote the rebates and incentives available to natural gas users.

Central and Northern NJ, ETG's primary area of operations continues to grow in multifamily housing and gas infrastructure extensions to unserved areas. While ETG continues to partner with builders in the new construction sector with the view of increasing natural gas burner tips, ETG is pursuing conversions throughout its service territory. As a result, customer additions for ETG grew approximately 1.1%. In 2018, 1,590 consumers converted their homes and businesses from other heating fuels, such as electric, propane or oil, representing approximately 50% of the total new customer acquisitions for the year. In comparison, conversions over the past five years average 1,499 annually while new construction averaged 1,327 over the same period.   Customers in ETG service territories typically base their decisions to convert on fuel cost savings, efficiencies, and fuel stability pricing. ETG leverages its comprehensive partnership with the State’s Office of Clean Energy to educate consumers on energy efficiency and to promote the rebates and incentives available to natural gas users.

Regulatory Environment - SJG and ETG are primarily regulated by the BPU; ELK is regulated by the MPSC. The BPU/MPSC approve the rates that are charged to rate-regulated customers for services provided and the terms of service under which the Utilities operate. The rates and established terms of service are designed to enable the Utilities to obtain a fair and reasonable return on capital invested.

SJG’s BPU approved CIP protects SJG's net income from severe fluctuations in gas used by residential, commercial and small industrial customers. SJG's AIRP is a program to replace cast iron and unprotected bare steel mains and services. All AIRP investments are reflected in base rates. Additionally, the BPU issued an Order approving an extension of the AIRP for a five-year period (“AIRP II”), commencing October 1, 2016, with authorized investments of up to $302.5 million to continue replacing cast iron and unprotected bare steel mains and associated services. SJG earns a return on AIRP II investments once they are placed in service and thereafter, once they are included in rate base, through annual filings. SJG's SHARP is a program to replace low-pressure distribution mains and services with high-pressure mains and services in coastal areas that are susceptible to flooding during major storms. In May 2018, the BPU issued an order approving a second phase of the SHARP ("SHARP II") for a three-year period, commencing June 1, 2018, with authorized investments of up to $100.3 million to continue storm hardening efforts to further improve safety, redundancy and resiliency of SJG’s natural gas system in coastal areas. Pursuant to the order, SHARP II investments are to be recovered through annual base rate adjustments.

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

Effective July 1, 2017, the BPU granted ETG a base rate increase of $13.3 million (see Note 10 to the consolidated financial statements).

Consistent with Acquisition approval, SJI was required to develop a plan, in concert with the BPU and the New Jersey Division of Rate Counsel, to address the replacement of ETG's aging infrastructure. In October 2018, ETG filed an IIP petition with the BPU pursuant to rules adopted by the BPU in December 2017 pertaining to utility infrastructure investments. The IIP petition seeks authority to recover the costs associated with ETG's initial investment of approximately $518.0 million from 2019-2023 to, among other things, replace its cast-iron and low-pressure vintage main and related services. The IIP petition includes a request for timely recovery of ETG's investment on a semi-annual basis through a separate rate mechanism. A resolution of the IIP petition is pending.

Weather Conditions and Customer Usage Patterns - Usage patterns can be affected by a number of factors, such as wind, precipitation, temperature extremes and customer conservation. SJG's earnings are largely protected from fluctuations in temperatures by the CIP. The CIP has a stabilizing effect on utility earnings as SJG adjusts revenues when actual usage per customer experienced during an annual period varies from an established baseline usage per customer. The WNC rate allows ETG to implement surcharges or credits during the months of October through May to compensate for weather-related changes in customer usage from the previous winter period. Our nonutility retail marketing business is directly affected by weather conditions, as it does not have regulatory mechanisms that address weather volatility. The impact of different weather conditions on the earnings of our nonutility businesses is dependent on a range of different factors. Consequently, weather may impact the earnings of SJI's various subsidiaries in different, or even opposite, ways. Further, the profitability of individual subsidiaries may vary from year-to-year despite experiencing substantially similar weather conditions.

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

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

Midstream Investments - Midstream owns a 20% equity investment in PennEast, through which SJI, along with other investors, expect to construct an approximately 118-mile natural gas pipeline that will extend from Northeastern Pennsylvania into New Jersey. In September 2015, PennEast submitted an application to FERC for a permit to proceed with construction. In January 2018, the Certificate of Public Convenience and Necessity was approved by the FERC. This authorized PennEast to construct, install, own, operate and maintain this pipeline. While opponents of the project have filed a variety appeals and several are still pending, a December 2018 ruling from the U.S. District Court of New Jersey allowed PennEast to proceed with survey work that is expected to enable it to complete and submit permit applications to the NJDEP. We expect to make additional investments in similar midstream projects.

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

Labor and Benefit Costs - Labor and benefit costs have a significant impact on SJI's profitability. Benefit costs, especially those related to pension and health care, have risen in recent years. We seek to manage these costs by revising health care plans offered to existing employees, capping postretirement health care benefits, and changing health care and pension packages offered to new hires. In addition, the Company offered an ERIP to non-union, non-Officer employees over the age of 55 years old with 20 or more years of service to the Company as well as to Officers over the age of 55 years old with 5 or more years of service to the Company (see Note 1 to the consolidated financial statements). We expect savings from these changes to gradually increase as new hires replace retiring employees. SJI's workforce totaled approximately 1,100 employees at the end of 2018, approximately 550 of which were SJG employees. Of those totals, 495 of SJI employees are unionized and 317 SJG employees are unionized (all of SJI's unionized employees are with SJG or ETG).

Balance Sheet Strength - SJI's and SJG's goal is to maintain a strong balance sheet. SJI's average equity-to-capitalization ratio was approximately 33% and 47% as calculated for the four quarters of 2018 and 2017, respectively, with the decrease in 2018 due to debt incurred to fund the Acquisition (see Note 14 to the consolidated financial statements). SJG's average equity-to-capitalization ratio was approximately 52% and 54% as calculated for the four quarters of 2018 and 2017, respectively. A strong balance sheet assists us in maintaining the financial flexibility necessary to take advantage of growth opportunities and to address volatile economic and commodity markets while maintaining a low-to-moderate risk platform.

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

Regulatory Accounting - The Utilities maintain their accounts according to the Uniform System of Accounts as prescribed by the BPU (SJG and ETG) or the MPSC (ELK). As a result of the ratemaking process, the Utilities are required to follow FASB ASC Topic 980 - “Regulated Operations,” which requires them to recognize the impact of regulatory decisions on their financial statements. The Utilities are required under their BGSS clauses to forecast their natural gas costs and customer consumption in setting their rates. Subject to regulator approval, they are able to recover or return the difference between gas cost recoveries and the actual costs of gas through a BGSS charge to customers. The Utilities record any over/under recoveries as a regulatory asset or liability on the consolidated balance sheets and reflect them in the BGSS charge to customers in subsequent years. The Utilities also enter into derivatives that are used to hedge natural gas purchases. The offset to the resulting derivative assets or liabilities is recorded as a regulatory asset or liability on the consolidated balance sheets. See additional detailed discussions on Rates and Regulatory Actions in Note 10 to the consolidated financial statements.

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

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

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

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

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

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

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

In 2019, the Company expects its cost of providing pension and other postretirement healthcare to decrease approximately
$1.5 million, due to an increase in discount rates and a full year of the acquired companies. In 2019, the acquired companies are estimated to generate net periodic benefit income of approximately $1.0 million. Additional information regarding investment returns and assumptions can be found in Pension and Other Postretirement Benefits in Note 12 to the consolidated financial statements.

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

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

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

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

On January 1, 2018, SJI and SJG adopted ASU 2014-09 Revenue from Contracts with Customers, and all amendments, in accordance with the guidance in ASC 606. SJI and SJG adopted the new guidance using the modified retrospective method applied to those contracts that 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 historical accounting under ASC 605. 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 year ended December 31, 2018 for SJI or SJG as a result of applying ASC 606, and there was no cumulative catch-up to retained earnings for SJI or SJG under the modified retrospective method for changes in accounting for revenues. Further, there were no significant changes to SJI's or SJG's business processes, systems or internal controls over financial reporting needed to support recognition and disclosure under the new guidance. Some revenue arrangements, such as alternative revenue programs and derivative contracts, are excluded from the scope of ASC 606 and, therefore, will be presented separately from revenues under ASC 606 on SJI and SJG's footnote disclosures (see Note 19 to the consolidated financial statements). Alternative revenue programs include revenue earned at the Utilities on such programs as the CIP, AIRP, SHARP and WNC.

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

Goodwill - Goodwill represents future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration paid or transferred 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.

Tax Cuts and Jobs Act - On December 22, 2017, Tax Reform was enacted into law, changing 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 requirements 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%. See Note 4 to the consolidated financial statements.

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

RATES AND REGULATION - SJG and ETG ("the NJ Utilities" for context of this section) are subject to regulation by the BPU. Additionally, the Natural Gas Policy Act, which was enacted in November 1978, contains provisions for Federal regulation of certain aspects of the NJ Utilities' business. The NJ Utilities are affected by Federal regulation with respect to transportation and pricing policies applicable to pipeline capacity from Transco (both utilities' major supplier), Columbia and Dominion , since such services are provided under rates and terms established under the jurisdiction of the FERC. The NJ Utilities' retail sales are made under rate schedules within a tariff filed with, and subject to the jurisdiction of, the BPU. These rate schedules provide primarily for either block rates or demand/commodity rate structures. The NJ Utilities' primary rate mechanisms include base rates, the BGSS, Accelerated Infrastructure Programs, EET and the CIP for SJG, and BGSS and WNC for ETG.

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

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

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

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

	2018	2017	2016
Net Income Impact:			
CIP - Weather Related	$(16.5)	$ 8.7	$ 5.9
CIP - Usage Related	7.5	3.3	4.0
Total Net Income Impact	$(9.0)	$ 12.0	$ 9.9
Weather Compared to 20-Year Average	183.0% colder	11.5% warmer	8.1% warmer
Weather Compared to Prior Year	7.7% colder	0.4% warmer	2.5% warmer

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

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

For ETG, the WNC is a BPU-approved program that is designed to recover or refund balances associated with differences between actual and normal weather during the preceding winter period(s). The effective winter period of the WNC is defined as October through May.

In 2018, ETG's net income was reduced by $3.0 million, primarily due to colder than average weather for the applicable months in the 2018 winter period.

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

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

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

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

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

CUSTOMER CHOICE LEGISLATION - All residential natural gas customers in New Jersey can choose their natural gas commodity supplier under the terms of the “Electric Discount and Energy Competition Act of 1999." This bill created the framework and necessary time schedules for the restructuring of the state's electric and natural gas utilities. The Act established unbundling, where redesigned utility rate structures allow natural gas and electric consumers to choose their energy supplier. It also established time frames for instituting competitive services for customer account functions and for determining whether basic gas supply services should become competitive. Customers purchasing natural gas from a provider other than the local utility (the “marketer”) are charged for the gas costs by the marketer and charged for the transportation costs by the utility. The total number of customers in SJG's service territory purchasing natural gas from a marketer averaged 25,665, 30,423 and 34,130 during 2018, 2017 and 2016, respectively. The total number of customers in ETG's service territory purchasing natural gas from a marketer averaged 8,015 during 2018.

RESULTS OF OPERATIONS:

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

- SJG utility operations consist primarily of natural gas distribution to residential, commercial and industrial customers in southern New Jersey.
- ETG utility operations consist primarily of natural gas distribution to residential, commercial and industrial customers in northern and central New Jersey.
- ELK utility operations consist of natural gas distribution to residential, commercial and industrial customers in Maryland.
- Wholesale energy operations include the activities of SJRG and SJEX.
- Retail gas and other operations at SJE included natural gas acquisition and transportation service business lines. This business was sold on November 30, 2018 (see Note 1 to the consolidated financial statements).
- Retail electric operations at SJE 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, along with MCS, NBS and SBS,

which were sold in October 2018 (see Note 1 to the consolidated financial statements).

- Appliance service operations includes SJESP, which receives commissions on service contracts from a third party.
- 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.
- Corporate & Services segment includes costs related to the Acquisition, along with other unallocated costs.
- Intersegment represents intercompany transactions between the above SJI consolidated entities.

SJI groups its utility businesses under its wholly-owned subsidiary SJIU. This group consists of gas utility operations of SJG, ETG and ELK. SJI groups its nonutility operations into separate categories: Energy Group and Energy Services. Energy Group includes wholesale energy, retail gas and other, and retail electric operations. Energy Services includes on-site energy production and appliance service operations.

SJI's net income for 2018 increased $21.2 million to $17.7 million compared to 2017. The significant drivers for the overall change were as follows:

- The net income contribution from the wholesale energy operations at SJRG increased $89.7 million to $66.2 million. The significant drivers for the overall change were as follows:

$37.5 million increase due to the change in unrealized gains and losses on derivatives used by the wholesale energy operations to mitigate natural gas commodity price risk, as discussed under "Operating Revenues - Energy Group" below. This change was also impacted by Tax Reform.
$28.9 million increase due to lower legal fees, reserves and interest recorded on a pricing dispute between SJI and a gas supplier as compared with the same period in 2017 (see Note 15 to the consolidated financial statements), along with two other settled cases (see 2017 vs. 2016 discussion below).

The remaining increase is primarily due to higher margins on daily energy trading activities and an overall increase in sales due to cold weather experienced in the first quarter of 2018, as discussed under "Gross Margin - Energy Group" below. Also contributing was the impact of Tax Reform.

- The net income contribution from the gas utility operations at SJG increased $10.3 million to $82.9 million, primarily due to the base rate case settlement, the roll-in of investments for infrastructure replacement and improvement, along with customer growth, partially offset with an overall increase in depreciation, interest and operations expenses.

- SJI recorded $30.4 million (after-tax) of additional financing costs and other charges compared to 2017 in connection with the Acquisition (see Note 14 and 20 to the consolidated financial statements). These costs are recorded in the Corporate & Services segment.

- The net income contribution from on-site energy production at Marina decreased $17.5 million to a net loss of $78.0 million, primarily due to $78.7 million (after-tax) of impairment charges taken on solar generating facilities and LFGTE assets in 2018, which were driven by the purchase price in the agreement to sell solar assets being less than the carrying amount of the assets, along with the carrying value of LFGTE assets no longer being recoverable. Also contributing were consulting and legal costs incurred as a result of the agreement to sell solar assets. This was partially offset by $56.1 million (after-tax) of impairment charges recorded in 2017, along with gains recorded on the sale of solar assets (see Note 1 to the consolidated financial statements).

- SJI recorded $13.5 million of one-time tax gains in 2017 related to the enactment of Tax Reform. See Note 4 to the consolidated financial statements.

- SJI recorded $5.0 million (after-tax) related to the implementation of the ERIP as well as amendments made to the OPEB (see Notes 1 and 12 to the consolidated financial statements).

- The net income contribution from the retail gas and electric operations at SJE decreased $7.3 million to a net loss of $6.0 million primarily due to the change in unrealized gains and losses on forward financial contracts used to mitigate price risk on retail gas as discussed under "Operating Revenues – Energy Group" below, along with a loss recorded on the sale of the SJE retail gas operations (see Note 1 to the consolidated financial statements).

- In connection with the Acquisition (see Note 20 to the consolidated financial statements), SJI consolidated the accounts of ETG and ELK gas utility operations beginning with the third quarter of 2018. This contributed a net loss of $5.2 million in 2018, which included approximately $11.1 million (after-tax) of credits provided to customers of ETG and ELK (see Note 10 to the consolidated financial statements).

SJI's net income for 2017 decreased $122.3 million, or 102.9%, to a net loss of $3.5 million compared to 2016. The significant drivers for the overall change were as follows:

- The net income contribution from on-site energy production at Marina decreased $76.5 million to a net loss of $60.5 million, primarily due to the following:
$56.1 million decrease due to several impairment charges recorded during the year, including impairments on solar generating facilities, LFGTE long-lived assets, LFGTE assets customer relationships, and goodwill (see Note 1 to the consolidated financial statements).
$9.1 million of investment tax credits on renewable energy facilities recorded in 2016, compared with none recorded in 2017, which is consistent with SJI's previously announced strategy of substantially reducing solar development.
$4.5 million decrease related to gains on two settlements recorded at Marina in 2016 that did not recur in 2017 (see Note 7 to the consolidated financial statements).
$1.7 million decrease related to the change in unrealized gains and losses on interest rate derivative contracts (see Note 16 to the consolidated financial statements).
The remaining decrease is primarily due to an overall increase in operating and interest expenses.

- The net income contribution from the wholesale energy operations at SJRG decreased $49.5 million to a net loss of $23.5 million, primarily due to the following:
$32.6 million decrease resulting from an unfavorable court ruling related to a pricing dispute between SJRG and a supplier, including interest (see Note 15 to the consolidated financial statements)
$20.6 million decrease resulting from the change in unrealized gains and losses on derivatives used by the wholesale energy operations to mitigate natural gas commodity price risk, as discussed under "Operating Revenues - Energy Group" below.
$5.8 million decrease resulting from a settlement of a legal dispute related to a three-year capacity management contract with a counterparty (see Note 15 to the consolidated financial statements)
$1.5 million decrease due to legal fees recorded on the two legal disputes noted above
$5.7 million increase resulting from a favorable FERC decision over a tariff rate dispute with a counterparty, including interest, whereby SJI contended that the counterparty was overcharging for storage demand charges over a ten year period (see Note 15 to the consolidated financial statements).
    $5.3 million increase due to higher margins earned on daily energy trading activities, colder weather conditions experienced in the fourth quarter of 2017 compared to the prior year, additional margins earned during 2017 on gas supply contracts with three electric generation facilities, and an overall decrease in operating expenses (excluding the legal fees discussed above).

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

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

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

- The net income contribution from Midstream increased $4.8 million to $4.6 million primarily due to recognition of AFUDC at PennEast, of which Midstream has a 20% equity interest.

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

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

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

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

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

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

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

We define Economic Earnings as: Income from continuing operations, (i) less the change in unrealized gains and plus the change in unrealized losses on all derivative transactions; (ii) less realized gains and plus realized losses on all commodity derivative transactions attributed to expected purchases of gas in storage to match the recognition of these gains and losses with the recognition of the related cost of the gas in storage in the period of withdrawal; (iii) less the impact of transactions, contractual arrangements or other events where management believes period to period comparisons of SJI's operations could be difficult or potentially confusing. With respect to part (iii) of the definition of Economic Earnings:

- For the year ended December 31, 2018, Economic Earnings excludes impairment charges, including charges taken in 2018 on solar generating facilities (which was primarily driven by the purchase price in the agreement to sell solar assets being less than the carrying amount of the assets) along with LFGTE assets (which was primarily driven by the remaining carrying value of these assets no longer being recoverable. For the year ended December 31, 2017, Economic Earnings excludes impairment charges on solar generating facilities, LFGTE long-lived assets, LFGTE assets customer relationships, and goodwill.

- For the years ended December 31, 2018 and 2017, Economic Earnings excludes the impact of a May 2017 jury verdict stemming from a pricing dispute with a gas supplier over costs, including interest charges and legal fees incurred, along with the realized difference in the market value of the commodity (including financial hedges).

- For the years ended December 31, 2018 and 2017, Economic Earnings excludes various costs related to the Acquisition, a series of agreements whereby Marina agreed to sell its portfolio of solar energy assets to a third-party buyer, and the agreement to sell the assets of SJE's retail gas business.

- For the year ended December 31, 2018, Economic Earnings excludes approximately $15.3 million (pre-tax) of credits to ETG and ELK customers that was required as part of the Acquisition.

- For the year ended December 31, 2018, Economic Earnings excludes costs incurred on the Company's ERIP as well as the benefit of amending the Company's OPEB.

- For the year ended December 31, 2017, Economic Earnings also excludes the impact of a 2017 settlement of a legal claim stemming from a dispute related to a three-year capacity management contract with a counterparty, including legal fees incurred, along with the impact of a favorable FERC decision over a tariff rate dispute with a counterparty, including interest earned.

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

- For the year ended December 31, 2017, Economic Earnings excludes the impact of one-time tax adjustments, most notably related to the Tax Reform.

Economic Earnings is a significant performance metric used by our management to indicate the amount and timing of income from continuing operations that we expect to earn after taking into account the impact of derivative instruments on the related transactions, contractual arrangements and other events that management believes make period to period comparisons of SJI's operations difficult or potentially confusing. Specifically regarding derivatives, we believe that this financial measure indicates to investors the profitability of the entire derivative-related transaction and not just the portion that is subject to mark-to-market valuation under GAAP. We believe that considering only the change in market value on the derivative side of the transaction can produce a false sense as to the ultimate profitability of the total transaction as no change in value is reflected for the non-derivative portion of the transaction.

Economic Earnings for 2018 increased $18.1 million, or 18.5%, to $116.2 million compared to 2017. The significant drivers for the overall change were as follows:

- The income contribution from the wholesale energy operations at SJRG increased $22.0 million to $43.6 million, primarily due to higher margins on daily energy trading activities and an overall increase in sales due to cold weather experienced in the first quarter of 2018, as discussed under "Gross Margin - Energy Group" below. Also contributing was the impact of Tax Reform, as discussed in Note 1 to the consolidated financial statements.

- The income contribution from the gas utility operations at SJG increased $10.3 million to $82.9 million, primarily due to the base rate case settlement, the roll-in of investments for infrastructure replacement and improvement, along with customer growth, partially offset with an overall increase in depreciation, interest and operations expenses.

- In connection with the Acquisition, SJI consolidated the results of the ETG and ELK gas utility operations beginning July 2018 (see Note 20 to the consolidated financial statements), contributing net income of $5.8 million for 2018, excluding the customer credits discussed above.

- SJI recorded $18.3 million (after-tax) of additional interest charges relating to the debt that was issued during the second quarter of 2018 (see Note 14 to the consolidated financial statements).

Economic Earnings for 2017 decreased $4.8 million, or 4.6%, to $98.1 million compared to 2016. The significant drivers for the overall change were as follows:

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

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

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

- The income contribution from Midstream increased $4.8 million to $4.6 million primarily due to recognition of AFUDC at PennEast, of which Midstream has a 20% equity interest.

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

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

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

	2018	2017	2016
Income (Loss) from Continuing Operations	$17,903	$(3,404)	$119,061
Minus/Plus:			
Unrealized Mark-to-Market (Gains) Losses on Derivatives	(35,846)	14,226	(27,550)
Realized Losses on Inventory Injection Hedges	—	332	683
Loss on Property, Plant and Equipment (A)	105,280	91,299	—
Net Losses from Legal Proceedings (B)	5,910	56,075	—
Acquisition/Sale Costs (C)	34,674	19,564	—
Customer Credits (D)	15,333	—	—
ERIP and OPEB (E)	6,733	—	—
Other (F)	—	2,227	(165)
Income Taxes (G)	(33,753)	(70,834)	10,813
Additional Tax Adjustments (H)	—	(11,420)	—
Economic Earnings	$116,234	$98,065	$102,842
Earnings (Loss) per Share from Continuing Operations	$0.21	$(0.04)	$1.56
Minus/Plus:			
Unrealized Mark-to-Market (Gains) Losses on Derivatives	(0.42)	0.18	(0.36)
Realized Losses on Inventory Injection Hedges	—	—	0.01
Loss on Property, Plant and Equipment (A)	1.24	1.14	—
Net Losses from Legal Proceedings (B)	0.07	0.70	—
Acquisition/Sale Costs (C)	0.41	0.25	—
Customer Credits (D)	0.18	—	—
ERIP and OPEB (E)	0.08	—	—
Other (F)	—	0.03	—
Income Taxes (G)	(0.39)	(0.89)	0.13

Additional Tax Adjustments (H)	—	(0.14)	—
Economic Earnings per Share	$1.38	$1.23	$1.34

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The effect of derivative instruments not designated as hedging instruments under GAAP in the statements of consolidated income (see Note 16 to the consolidated financial statements) is as follows (gains (losses) in thousands):

	2018	2017	2016
Gains (Losses) on energy-related commodity contracts	$34,509	$(13,667)	$26,935
Gains (Losses) on interest rate contracts	1,337	(677)	647
Total before income taxes	35,846	(14,344)	27,582
Unrealized mark-to-market gains (losses) on derivatives held by affiliated companies, before taxes	—	118	(32)
Total unrealized mark-to-market gains (losses) on derivatives	35,846	(14,226)	27,550
Realized losses on inventory injection hedges	—	(332)	(683)
Loss on Property, Plant and Equipment (A)	(105,280)	(91,299)	—
Net Losses from Legal Proceedings (B)	(5,910)	(56,075)	—
Acquisition/Sale Costs (C)	(34,674)	(19,564)	—
Customer Credits (D)	(15,333)	—	—
ERIP and OPEB (E)	(6,733)		
Other (F)	—	(2,227)	165
Income Taxes (G)	33,753	70,834	(10,813)
Additional Tax Adjustments (H)	—	11,420	—
Total reconciling items between (losses) income from continuing operations and Economic Earnings	$(98,331)	$(101,469)	$16,219

(A) Represents impairment charges taken in 2018 on solar generating facilities (which was primarily driven by the purchase price in the agreement to sell solar assets being less than the carrying amount of the assets) along with LFGTE assets (which was primarily driven by the remaining carrying value of these assets no longer being recoverable. Also represents impairment charges taken in 2017 on solar generating facilities, LFGTE long-lived assets, LFGTE assets customer relationships, and goodwill.

(B) Represents net losses from three separate legal proceedings: (a) charges in 2017 and 2018, including interest, legal fees and the realized difference in the market value of the commodity (including financial hedges) resulting from a ruling in a legal proceeding related to a pricing dispute between SJI and a gas supplier that began in October 2014; (b) a charge in 2017, including legal fees, resulting from a settlement with a counterparty over a dispute related to a three-year capacity management contract; and (c) a gain taken in 2017 resulting from a favorable FERC decision, including interest, over a tariff rate dispute with a counterparty, whereby SJI contended that the counterparty was overcharging for storage demand charges over a ten-year period.

(C) Represents costs incurred on the agreement to acquire the assets of ETG and ELK, including legal, consulting and other professional fees. Also included here are costs incurred on the sale of solar and SJE assets, partially offset by gains recorded on the sale of solar assets.

(D) Represents credits to ETG and ELK customers that were required as part of the Acquisition.

(E) Represents costs incurred on the Company's ERIP as well as the benefit of amending the Company's OPEB.

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

(G) Determined using a combined average statutory tax rate of approximately 25%, 39% and 40% for 2018, 2017 and 2016, respectively.

(H) Represents one-time tax adjustments, most notably for Tax Reform.

SJI Utilities:

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

	December 31, 2018		December 31, 2017		December 31, 2016	
Utility Operating Revenues:						
Firm Sales-						
Residential	$316,593	58 %	$269,721	52 %	$259,881	56 %
Commercial	68,286	13 %	61,514	12 %	55,795	12 %
Industrial	4,630	1 %	4,235	1 %	3,126	1 %
Cogeneration and Electric Generation	9,706	2 %	5,519	1 %	5,257	1 %
Firm Transportation -						
Residential	12,614	2 %	14,162	3 %	14,989	3 %
Commercial	37,764	7 %	34,986	7 %	32,423	7 %
Industrial	23,993	4 %	20,576	4 %	19,594	4 %
Cogeneration and Electric Generation	4,595	1 %	4,360	1 %	4,472	1 %
Total Firm Revenues	478,181	88 %	415,073	81 %	395,537	85 %
Interruptible Sales	349	—	25	—	18	—
Interruptible Transportation	1,178	—	867	—	928	—
Off-System Sales	59,157	11 %	92,376	18 %	51,661	11 %
Capacity Release	7,963	1 %	7,695	1 %	11,778	3 %
Other	1,172	— %	1,218	— %	1,133	1 %
	548,000	100 %	517,254	100%	461,055	100%
Less: Intercompany Sales	6,192		4,772		7,236	
Total Utility Operating Revenues	541,808		512,482		453,819	
Less:						
Cost of Sales - Utility	209,649		204,432		174,390	
Less: Intercompany Cost of Sales	6,192		4,772		7,236	
Total Cost of Sales - Utility (Excluding Depreciation)	203,457		199,660		167,154	
Conservation Recoveries *	14,136		7,003		9,202	
RAC recoveries *	17,099		11,014		9,326	
EET Recoveries*	1,772		1,284		2,718	
Revenue Taxes	1,074		1,162		1,109	
Utility Margin**	$304,270		$292,359		$264,310	
Utility Margin:						
Residential	$213,026	70 %	$180,106	62 %	$162,820	62 %
Commercial and Industrial	89,172	29 %	76,491	26 %	69,396	26 %
Cogeneration and Electric Generation	4,975	1 %	4,762	1 %	4,898	2 %
Interruptible	105	—	63	—	79	—
Off-system Sales & Capacity Release	4,434	2 %	5,051	2 %	4,731	2 %
Other Revenues	1,942	1 %	2,107	1 %	2,213	1 %
Margin Before Weather Normalization & Decoupling	313,654	103 %	268,580	92 %	244,137	93 %
CIP mechanism	(12,382)	(4)%	20,062	7 %	16,615	6 %

EET mechanism	2,998	1 %	3,717	1 %	3,558	1 %
Utility Margin**	$304,270	100 %	$292,359	100%	$264,310	100%

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* Represents expenses for which there is a corresponding credit in operating revenues. Therefore, such recoveries have no impact on SJG's financial results.
** Utility Margin is a non-GAAP financial measure and is further defined under the caption "Utility Margin" below.

Operating Revenues - SJG Utility Operations 2018 vs. 2017 - Revenues increased $30.7 million, or 5.9%, during 2018 compared with 2017. Excluding intercompany transactions, revenues increased $29.3 million, or 5.7%, during 2018 compared with 2017.

The main driver for the increased revenue was higher firm sales. Total firm revenue increased $63.1 million, or 15.2%, for 2018 compared with 2017 as a result of colder weather and additional customers. Additionally, firm sales increased due to base rate increases related to the settlement of SJG's base rate case, effective November 1, 2017. While changes in gas costs and BGSS recoveries/refunds fluctuate from period to period, SJG does not profit from the sale of the commodity. Therefore, corresponding fluctuations in Operating Revenue or Cost of Sales have no impact on profitability, as further discussed below under the caption "Utility Margin."

Partially offsetting these increases was the impact of OSS volume, discussed under "Throughput - Gas Utility Operations" below, which resulted in corresponding decreases of $33.2 million, or 36.0%, in OSS revenues for 2018 compared with 2017. However, the impact of changes in OSS and capacity release activity do not have a material impact on the earnings of SJG, as SJG is required to return 85% of the profits of such activity to its ratepayers. Earnings from OSS can be seen in the “Margin” table above.

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

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

Utility Margin - SJG Utility Operations 2018 vs. 2017 - Management uses Utility Margin, a non-GAAP financial measure, when evaluating the operating results of SJG. Utility Margin is defined as natural gas revenues less natural gas costs, regulatory rider expenses and related volumetric and revenue-based energy taxes. Management believes that Utility Margin provides a more meaningful basis for evaluating utility operations than revenues since natural gas costs, regulatory rider expenses and related energy taxes are passed through to customers. Natural gas costs are charged to operating expenses on the basis of therm sales at the prices approved by the BPU through SJG’s BGSS clause. Non-GAAP financial measures are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not as a substitute for, the comparable GAAP measure.

Utility Margin increased $11.9 million, or 4.1 %, during 2018 compared with 2017. The twelve-month comparative period increase is primarily due to the base rate case settlement and the roll-in of SHARP and AIRP II investments, partially offset by the deferral of excess taxes billed which will be returned to ratepayers (see Note 10 to the consolidated financial statements). The base rate increase associated with our infrastructure and system improvements and the related expenses, effective November 1, 2017, contributed approximately $28.8 million of additional Utility Margin in 2018 and the base rate increase associated with SHARP and AIRP II investments contributed approximately $7.2 million of additional Utility Margin in 2018. Utility Margin was reduced by $26.3 million for 2018 due to the deferral of the excess taxes, with a corresponding decrease in tax expense.

The CIP tracking mechanism adjusts earnings when actual usage per customer experienced during the period varies from an established baseline usage per customer. As reflected in the Utility Margin table above and the CIP table in SJG's Management Discussion section, the CIP mechanism reduced Utility Margin by $12.4 million or $9.0 million after taxes, for the twelve months ended December 31, 2018, primarily due to the weather that was 7% colder than average and variation in customer usage.

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

The CIP mechanism protected $20.1 million, or $12.0 million after taxes, during 2017, due to weather that was 11.5% warmer than average and customer usage variations.

ETG Utility Operations:

The following tables summarize the composition of regulated natural gas utility operations, operating revenues and margin at ETG for the period since Acquisition, which is July 1, 2018 through December 31, 2018 (in thousands, except for degree day data).

Utility Operating Revenues:	
Firm & Interruptible Sales -	
Residential	$80,215
Commercial & Industrial	26,784
Firm & Interruptible Transportation -	
Residential	508
Commercial & Industrial	15,148
Other	2,949
Total Firm & Interruptible Revenues	125,604
Less:	
Total Cost of Sales - Utility (Excluding depreciation)	53,491
Regulatory Rider Expenses*	2,068
Utility Margin**	$70,045

Utility Margin:	
Residential	$43,293
Commercial & Industrial	26,034
Regulatory Rider Expenses*	718
Utility Margin**	$70,045
Degree Days	1,724

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

**Utility Margin is a non-GAAP financial measure and is further defined under the caption "Utility Margin" above. The definition of Utility Margin is the same for SJG, ETG and ELK utility operations.

Since ETG was acquired on July 1, 2018, there is no activity for the prior year period. ETG consists of natural gas distribution to residential, commercial and industrial customers in northern and central New Jersey. ETG's operating revenues of $125.6 million for the year ended December 31, 2018 consists of firm sales and transportation, as well as interruptible sales and transportation. ETG does not have any off-system sales. The Utility Margin at ETG of $70.0 million is considered a non-GAAP measure and calculated the same as SJG as discussed under "Utility Margin" above.

ELK Utility Operations - The activities of ELK utility operations are not material to SJI's financial results.

Operating Revenues - Energy Group 2018 vs. 2017 - Combined revenues for Energy Group, net of intercompany transactions, increased $272.2 million, or 43.0%, to $904.8 million, in 2018 compared with 2017. The significant drivers for the overall change were as follows:

Revenues from wholesale energy operations at SJRG, net of intercompany transactions, increased $283.2 million to $634.8 million for 2018 compared with 2017. This increase was primarily due to an overall increase in sales due to cold weather experienced in the first quarter of 2018, along with revenues earned on gas supply contracts with electric generation facilities, including three that began operations in late 2017 or in the first quarter of 2018. Also contributing to the overall comparative period increase was the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total increase of $50.2 million in 2018 compared with 2017.

Revenues from retail gas operations at SJE, net of intercompany transactions, decreased $10.0 million, or 9.2%, to $98.6 million for 2018 compared with 2017 primarily due to the agreement entered into in the fourth quarter of 2018 to sell the retail gas operations at SJE to a third party (see Note 1 to the consolidated financial statements). Also contributing to the comparative period decrease was the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total decrease of $2.7 million in 2018 compared with 2017. Partially offsetting these decreases was an increase in sales volumes due to cold weather experienced during the first quarter of 2018.

Revenues from retail electric operations at SJE, net of intercompany transactions, decreased $0.9 million, or 0.5%, to $171.2 million for 2018 compared with 2017, primarily due to lower sales volumes in the first two quarters of 2018 resulting from the expiration in the second quarter of 2017 of a large electric sales contract with a group of school boards. Also contributing to the comparative period decrease was the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total decrease of $2.4 million in 2018 compared with 2017. Partially offsetting these decreases was a higher average LMP per megawatt hour in 2018 compared with 2017.

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

Operating Revenues - Energy Services 2018 vs. 2017 - Combined revenues for Energy Services, net of intercompany transactions, decreased $32.1 million, or 32.8%, to $65.9 million in 2018 compared with 2017. The significant drivers for the overall change were as follows:

Revenues from on-site energy production at Marina, net of intercompany transactions, decreased $27.6 million, or 30.1%, to$63.9 million in 2018 compared with 2017, primarily due to a lack of SREC revenue in the second half 2018 as a result of the sale of solar assets to a third party buyer (see Note 1 to the consolidated financial statements). This was partially offset by increased production at the thermal facility.

Revenues from appliance service operations at SJESP, net of intercompany transactions, decreased $4.5 million, or 69.8%, to$1.9 million for 2018 compared with 2017 primarily due to the sale of certain assets of SJESP's residential and small commercial HVAC and plumbing business to a third party, which was completed on September 1, 2017.

Operating Revenues - Energy Group 2017 vs. 2016 - Combined revenues for Energy Group, net of intercompany transactions, increased $147.2 million, or 30.3%, to $632.6 million in 2017 compared with 2016. The significant drivers for the overall change were as follows:

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

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

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

Operating Revenues - Energy Services 2017 vs. 2016 - Combined revenues for Energy Services, net of intercompany transactions, increased $0.7 million, or 0.7%, to $98.0 million in 2017 compared with 2016. The significant drivers for the overall change were as follows:

Revenues from on-site energy production at Marina, net of intercompany transactions, increased $2.1 million, or 2.4%, to $91.5 million in 2017 compared with 2016, primarily due to an increase in SRECs transferred as a result of more solar projects being online compared with 2016. Solar revenues, net of intercompany transactions, which is included in revenues from on-site energy production above, increased $1.3 million, or 2.4%, to $56.5 million in 2017 compared with 2016.

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

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

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

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

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

Gross margin for our nonutility business totaled $174.1 million and $84.0 million for 2018 and 2017, respectively. Gross margin is broken out between Energy Group and Energy Services, which are defined as categories of segments in Note 8 to the consolidated financial statements.

Gross Margin - Energy Group 2018 vs. 2017 - Combined gross margins for Energy Group increased $115.8 million to $108.8 million for 2018 compared with 2017. The significant drivers for the overall change were as follows:

- Gross margin from the wholesale energy operations at SJRG increased $122.9 million to $100.8 million for 2018 compared to 2017. The significant drivers for the overall change were as follows:

- $50.2 million increase resulting from the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings.

- $38.7 million reduction in charges compared to the prior year recorded on a pricing dispute between SJI and a gas supplier (see Note 15 to the consolidated financial statements), along with two other settled cases (see 2017 vs. 2016 discussion below).
- The remaining increase is primarily due to higher margins on daily energy trading activities and an overall increase in sales due to cold weather experienced in the first quarter of 2018.

The wholesale energy operations at SJRG expect to continue to add incremental margin from marketing and related opportunities in the Marcellus region, capitalizing on its established presence in the area. Future margins could fluctuate significantly due to the volatile nature of wholesale gas prices. As of December 31, 2018, the wholesale energy operations had 8.6 MMdts of storage and 566,989 dts/day of transportation under contract.

- Gross margin from SJE’s retail gas and other operations decreased $2.7 million to $4.7 million for 2018 compared with 2017, primarily due to the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total decrease of $2.7 million in 2018 compared with 2017.

- Gross margin from SJE’s retail electric operations decreased $4.3 million to $3.2 million in 2018 compared with 2017, primarily due to lower sales volumes in the first two quarters of 2018 resulting from the expiration in the second quarter of 2017 of a large electric sales contract with a group of school boards. Also contributing to the comparative period decrease was the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings and represented a total decrease of $2.4 million in 2018 compared with 2017.

Gross Margin - Energy Services 2018 vs. 2017 - Combined gross margins for Energy Services decreased $25.6 million to $65.3 million for 2018 compared with 2017. The significant drivers for the overall change were as follows:

- Gross margin from on-site energy production at Marina decreased $24.8 million to $63.3 million in 2018 compared with 2017, primarily due to the sale of certain SREC's (see Note 1 to the consolidated financial statements).

- Gross margin from appliance service operations at SJESP decreased $0.8 million to $1.9 million in 2018 compared with 2017, primarily due to the impact of the sale of certain assets of SJESP's residential and small commercial HVAC and plumbing business to a third party, which was completed on September 1, 2017.

Gross Margin - Energy Group 2017 vs. 2016 - For 2017, combined gross margins for Energy Group decreased $87.6 million to a loss of $6.9 million compared with 2016. The significant drivers for the overall change were as follows:

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

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

- Gross margin from the wholesale energy operations at SJRG decreased $78.8 million to a loss of $22.1 million in 2017 compared with 2016. The significant drivers for the overall change were as follows:

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- $49.6 million decrease resulting from an unfavorable court ruling related to a pricing dispute between SJRG and a supplier (see Note 15 to the consolidated financial statements), which is excluded for Economic Earnings.
- $33.5 million decrease resulting from the change in unrealized gains and losses recorded on forward financial contracts due to price volatility, which is excluded for Economic Earnings.
- $9.5 million decrease resulting from a settlement of a legal dispute related to a three-year capacity management contract, which is excluded for Economic Earnings.
- $7.4 million increase resulting from favorable FERC decision over a tariff rate dispute with a counterparty, whereby SJI contended that the counterparty was overcharging for storage demand charges over a ten year period, which is excluded for Economic Earnings.

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

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

Gross Margin - Energy Services 2017 vs. 2016 - For 2017, combined gross margins for Energy Services increased $2.8 million to $90.9 million compared with 2016. The significant drivers for the overall change were as follows:

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

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

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

	2018 vs. 2017	2017 vs. 2016
SJI Utilities:		
SJG Utility Operations	$16,316	$3,592
ETG Utility Operations	52,070	—
ELK Utility Operations	1,218	—
Subtotal SJI Utilities	69,604	3,592
Nonutility:		
Energy Group:		
Wholesale Energy Operations	(1,560)	(130)
Retail Gas and Other Operations	1,705	1,221
Retail Electric Operations	(452)	273
Subtotal Energy Group	(307)	1,364
Energy Services:		
On-Site Energy Production	9,432	5,918
Appliance Service Operations	(2,227)	(928)
Subtotal Energy Services	7,205	4,990
Total Nonutility	6,898	6,354
Midstream	291	—
Corporate & Services and Intercompany Eliminations	10,302	12,765
Total Operations Expense	$87,095	$22,711

Operations - In connection with the Acquisition, SJI consolidated the accounts of ETG and ELK utility operations beginning July 1, 2018 (see Note 20 to the consolidated financial statements), contributing an increase to Operations Expenses of $53.3 million.

SJG utility operations expense increased $16.3 million in 2018 compared with 2017. The increase primarily resulted from the operation of SJG's CLEP and EEP, which experienced an aggregate net increase. Such costs are recovered on a dollar-for-dollar basis; therefore, SJG experienced an offsetting increase in revenue during the year ended December 31, 2018. This was due to higher recoveries resulting from colder weather in the first quarter of 2018. In addition, the increase in operations expense was due to higher expenses in various areas, including those associated with corporate support, governance and compliance costs, along with increases in the reserve for uncollectibles as a result of higher customer accounts receivable balances.

SJG utility operations expense increased $3.6 million in 2017 compared with 2016. The increase was primarily due to higher corporate support, governance and compliance costs, higher compensation costs and higher costs related to the operation of SJG's compressed natural gas stations. The increases were partially offset by a decrease associated with the New Jersey Clean Energy Program and Energy Efficiency Programs which are recovered on a dollar-for-dollar basis; therefore, SJG experienced an offsetting decrease in revenue during 2017.

Nonutility operations expense increased $6.9 million in 2018 compared with 2017. This increase is primarily due to costs incurred in the first half of 2018 at the on-site energy production segment to enter into a series of agreements whereby Marina is selling its portfolio of solar energy assets to a third-party buyer, along with costs incurred to enter into the sale of SJE's retail gas business (see Note 1 to the consolidated financial statements). These increases were partially offset with lower legal fees incurred at the wholesale energy operations at SJRG from an unfavorable court ruling related to a pricing dispute between SJRG and a supplier (see Note 15 to the consolidated financial statements), along with a reduction at the appliance service operations at SJESP due to the sale of certain assets of SJESP's residential and small commercial HVAC and plumbing business to a third party, which was completed on September 1, 2017.

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

The Corporate & Services segment had a $10.3 million increase in 2018 compared with 2017, and a $12.8 million increase in 2017 compared with 2016, in total operations expense primarily due to costs incurred on the Acquisition (see Note 1 to the consolidated financial statements). These include finders fees, consulting and legal charges, among others. These increases were partially offset by intercompany eliminations. Also contributing to the 2018 increase were costs associated with the ERIP.

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

	2018 vs. 2017	2017 vs. 2016
Impairment Charges	$13,981	$91,299
Maintenance	$12,435	$2,178
Depreciation	$(3,995)	$10,329
Energy and Other Taxes	$3,050	$145

Impairment Charges - Marina incurred approximately $105.3 million of impairment charges on solar generating facilities and LFGTE assets in 2018, which were driven by the purchase price in the agreement to sell solar assets being less than the carrying amount of the assets, along with the carrying value of LFGTE assets no longer being recoverable (see Note 1 to the consolidated financial statements). Marina incurred approximately $91.3 million of non-cash impairment charges during 2017, including impairments on solar generating facilities, LFGTE long-lived assets, LFGTE assets customer relationships, and goodwill (see Note 1 to the consolidated financial statements). These impairment charges were recorded in the On-Site Energy Production segment.

Maintenance Expense - Maintenance expense increased $12.4 million in 2018 compared with 2017, of which ETG and ELK contributed $3.4 million. The remaining increase was primarily due to increased maintenance of services activity and higher levels of RAC amortization at SJG. This increase in RAC-related expenses does not affect earnings, as SJG recognizes an offsetting amount in revenues. Maintenance expense increased $2.2 million during 2017 compared with 2016 primarily due to increased maintenance of services activity and higher levels of RAC amortization.

Depreciation Expense - Depreciation expense decreased $4.0 million in 2018 compared with 2017 primarily due to reduced depreciation expense at Marina as a result of the solar assets being classified as held for sale (see Note 1 to the consolidated financial statements), along with impairment charges taken on solar generating facilities and LFGTE assets in 2018. Partially offsetting this decrease is the impact of ETG and ELK, along with increased investment in property, plant and equipment by the gas utility operations of SJG. Depreciation increased $10.3 million in 2017 compared with 2016 primarily due to increased investment in property, plant and equipment by the gas utility operations at SJG and on-site energy production at Marina.

Energy and Other Taxes - The change in energy and other taxes in 2018 compared with the prior year was attributable to the addition of ETG/ELK. The change in energy and other taxes in 2017 compared with the prior year was not significant.

Net Gain on Sales of Assets - In the fourth quarter 2018, the Company recognized net gains on the sale of assets of $15.4 million, which includes gains on the sale of solar assets of $17.6 million, partially offset with a loss incurred on the sale of the retail gas operations at SJE of $2.2 million. See Note 1 to the consolidated financial statements.

Other Income and Expense - Other income and expense decreased $8.6 million in 2018 compared with 2017 primarily due to a gain recorded on a sale of real estate during the first quarter of 2017, as well as interest income earned in 2017 from a favorable FERC decision over a tariff rate dispute at SJRG, neither of which recurred in 2018. Other income increased $6.0 million in 2017 compared with 2016 primarily due to higher AFUDC due to increased capital spending and a new AIRP II program at SJG, a gain recorded on a sale of real estate during the first quarter of 2017, as well as interest income earned from a favorable FERC decision over a tariff rate dispute at SJRG (see Note 15 to the consolidated financial statements). These were partially offset by a settlement at Marina during the second quarter of 2016 as discussed in Note 7 to the consolidated financial statements.

Interest Charges - Interest charges increased $36.3 million in 2018 compared with 2017 primarily due to interest incurred on higher amounts of long-term debt outstanding at SJI and SJG, including financing for the Acquisition (see Note 14 to the consolidated financial statements).

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

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

Income Taxes - Income taxes went from a benefit of $24.9 million in 2017 to expense of $0.6 million in 2018 primarily due to income before income taxes in 2018 as opposed to a loss before income taxes in 2017. Income taxes changed from a $54.2 million expense in 2016 to a $24.9 million benefit in 2017 primarily due to $13.5 million of adjustments made as a result of Tax Reform, which was enacted in 2017 (see Note 4 to the consolidated financial statements), which are excluded from Economic Earnings. Also contributing was an overall loss before income taxes, as opposed to income in 2016, primarily due to several impairment charges taken as discussed under "Impairment Charges" above (also see Note 1 to the consolidated financial statements), along with an unfavorable court ruling related to a pricing dispute between SJRG and a supplier (see Note 15 to the consolidated financial statements). These were partially offset with the impact of recording no investment tax credits on renewable energy facilities in 2017 as opposed to $9.1 million in 2016, which is consistent with SJI's previously announced strategy of substantially reducing solar development.

Equity in Earnings of Affiliated Companies - The change in equity in earnings of affiliated companies in 2018 and 2017 compared with the prior year was not significant.

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

LIQUIDITY AND CAPITAL RESOURCES:

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

Cash Flows from Operating Activities - Liquidity needs are first met with net cash provided by operating activities. Net cash provided by operating activities totaled $143.6 million, $190.3 million and $262.6 million in 2018, 2017 and 2016, respectively. Net cash provided by operating activities varies from year-to-year primarily due to the impact of weather on customer demand and related gas purchases, customer usage factors related to conservation efforts and the price of the natural gas commodity, inventory utilization, and gas cost recoveries. Operating activities in 2018 produced less net cash than 2017 due to lower collections from customers at the Utilities as well as higher costs experienced at SJG for environmental remediations. This decrease was partially mitigated by higher margins and increased collections on daily energy trading activities at SJRG driven in part by cold weather experienced in the first quarter of 2018, along with the SJG base rate case settlement and customer growth. In addition, SJI did not make a pension payment in 2018, but did make a $10.0 million contribution in the first quarter of 2017.

Operating activities in 2017 produced less net cash than 2016, primarily due to under-recoveries in the BGSS clause at SJG. During the second quarter of 2017, SJG provided a customer BGSS bill credit based on a forecasted over-recovered clause balance at the end of the BGSS year. In addition, SJG experienced higher spending for environmental remediation. Finally, during the first quarter of 2017, SJI made a $10.0 million payment to fund its pension plans. SJI did not make a pension payment in 2016. SJI strives to keep its pension plans fully funded. When factors such as lesser than expected asset performance and/or declining discount rates negatively impact the funding status of the plans, SJI increases its contributions to supplant that funding shortfall.

Cash Flows from Investing Activities - SJI has a continuing need for cash resources and capital, primarily to invest in new and replacement facilities and equipment. Net cash outflows from investing activities, which are primarily construction projects along with the impacts from the Acquisition, for 2018, 2017 and 2016 amounted to $1.79 billion, $287.3 million and $280.3 million, respectively. The high amount of net cash outflows from investing activities for 2018 was due to cash paid for the Acquisition (see Note 20 to the consolidated financial statements). We estimate the cash outflows for investing activities, net of refinancings and returns/advances on investments from affiliates, for 2019, 2020 and 2021 to be approximately $378.9 million, $536.5 million and $506.4 million, respectively. These amounts include the capital expenditures of ETG and ELK (post-Acquisition) for all three years. The high level of investing activities for 2019, 2020 and 2021 is due to the accelerated infrastructure investment programs at SJG along with projected SJI Midstream investments, net of projected returns, in 2019 through 2021. SJI expects to use short-term borrowings under lines of credit from commercial banks and a commercial paper program to finance these investing activities as incurred. From time to time, SJI may refinance the short-term debt with long-term debt.

Other key investing activities of SJI during 2018 and 2017 were as follows:

- SJI received approximately $310.6 million in 2018 from the sale of certain solar assets along with the sale of SJE's retail gas operations. See Note 1 to the consolidated financial statements.
- SJI paid $11.3 million to enter into a new asset management agreement. See Note 1 to the consolidated financial statements.
- SJI made net investments in unconsolidated affiliates of $6.6 million and $32.1 million in 2018 and 2017, respectively.
- During 2017, SJI received approximately $3.1 million related to the sale of real estate. SJI recognized an after-tax gain on this sale of approximately $1.7 million.
- During 2017, SJI made an incremental $7.5 million payment above the prior year to fund company-owned life insurance.
- During 2017, SJI received the remaining balance in connection with an outstanding note receivable with a third party. Cash proceeds received in 2017 were $22.9 million.

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

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

Company	Total Facility	Usage		Available Liquidity	Expiration Date
SJI:					
SJI Syndicated Revolving Credit Facility	$400,000	$33,100	(A)	$366,900	August 2022
Revolving Credit Facility	50,000	50,000		—	September 2019
Total SJI	450,000	83,100		366,900	
SJG:					
Commercial Paper Program/Revolving Credit Facility	200,000	108,300	(B)	91,700	August 2022
Uncommitted Bank Line	10,000			10,000	August 2019
Total SJG	210,000	108,300		101,700	
ETG/ELK:					
ETG/ELK Revolving Credit Facility	200,000	86,000		114,000	June 2020
Total	$860,000	$277,400		$582,600	

(A) Includes letters of credit outstanding in the amount of $6.1 million.

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

On June 26, 2018, SJI (as a guarantor to ELK's obligation under this revolving credit agreement) and ETG and ELK (as Borrowers) entered into a $200.0 million, two-year revolving credit agreement with several lenders. The revolving credit agreement provides for the extension of credit to the Borrowers in a total aggregate amount of $200.0 million ($175.0 million for ETG; $25.0 million for ELK), in the form of revolving loans up to a full amount of $200.0 million, swingline loans in an amount not to exceed an aggregate of $20.0 million and letters of credit in an amount not to exceed an aggregate of $50.0 million, each at the applicable interest rates specified in the revolving credit agreement. Subject to certain conditions set forth in the revolving credit agreement, ETG may increase the revolving credit facility up to a maximum aggregate amount of $50.0 million (for a total revolving facility of up to $250.0 million). This facility contains one financial covenant, limiting the ratio of indebtedness to total capitalization (as defined in the credit agreement) of each Borrower to not more than 0.70 to 1, measured at the end of each fiscal quarter. ETG and ELK were in compliance with this covenant at December 31, 2018. As of December 31, 2018, outstanding loans from this credit facility amount to $86.0 million.

The SJG and ETG/ELK facilities are restricted as to use and availability specifically to SJG and ETG/ELK, respectively; however, if necessary, the SJI facilities can also be used to support the liquidity needs of SJG, ETG or ELK. All committed facilities contain one financial covenant limiting the ratio of indebtedness to total capitalization of the applicable borrowers (as defined in the respective credit agreements), measured on a quarterly basis. SJI, SJG, ETG and ELK were in compliance with these covenants as of December 31, 2018. Borrowings under these credit facilities are at market rates.

SJI's weighted average interest rate on these borrowings (which includes SJG and ETG/ELK), which changes daily, was 3.32%, 2.46% and 1.47% at December 31, 2018, 2017 and 2016, respectively. SJG's weighted average interest rate on these borrowings, which changes daily, was 2.96%, 1.88% and 0.97% at December 31, 2018, 2017 and 2016, respectively.

SJI's average borrowings outstanding under these credit facilities (which includes SJG and ETG/ELK), not including letters of credit, during the years ended December 31, 2018 and 2017 were $265.5 million and $276.7 million, respectively. The maximum amounts outstanding under these credit facilities (which includes SJG and ETG/ELK), not including letters of credit, during the years ended December 31, 2018 and 2017 were $497.0 million and $373.8 million respectively.

SJG's average borrowings outstanding under its credit facilities, not including letters of credit, during the years ended December 31, 2018 and 2017 were $86.0 million and $17.6 million, respectively. The maximum amount outstanding under its credit facilities, not including letters of credit, during the years ended December 31, 2018 and 2017 were $177.0 million and $110.1 million, respectively.

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

The SJI and SJG principal credit facilities are provided by a syndicate of banks. In January 2018, the NPA for Senior Unsecured Notes issued by SJI, as well as the credit agreements with its syndicate of banks, were amended to reflect a financial covenant limiting the ratio of indebtedness to total capitalization (as defined in the respective NPA or credit agreement) to not more than 0.70 to 1, measured at the end of each fiscal quarter. For SJI, the equity units are treated as equity (as opposed to how they are classified on the consolidated balance sheet, as long-term debt) for purposes of the covenant calculation. Further, in the event that SJI receives less than $500.0 million of net cash proceeds from the issuance of equity or equity-linked securities, that financial covenant limiting the ratio of indebtedness to total capitalization (as defined in the respective NPA or credit agreement) increases to not more than 0.75 to 1, measured at the end of each fiscal quarter, for a period of one year following the closing of the acquisition of ETG and ELK. SJI and SJG were in compliance with this covenant as of December 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 than 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. SJG is was in compliance with this covenant as of December 31, 2018.

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

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

2018-2019 Activity:

In January 2018, SJI issued the following MTN's: (a) $25.0 million aggregate principal amount of 3.32% Senior Notes, Series 2017A-2, due January 2025 and (b) $25.0 million aggregate principal amount of 3.56% Senior Notes, Series 2017B-2, due January 2028.

In the second quarter of 2018, the Company issued senior unsecured notes as follows: (a) $90.0 million aggregate principal amount of 3.18% Senior Notes, Series 2018A, due April 2021; (b) $80.0 million aggregate principal amount of 3.82% Senior Notes, Series 2018B, due 2028; and (c) $80.0 million aggregate principal amount of 3.92% Senior Notes, Series 2018C, due 2030.

In April 2018, the Company completed the following public offerings, the net proceeds of which were used to fund a portion of the consideration paid for the assets of ETG and ELK (see Notes 1 and 6 to the consolidated financial statements):

- SJI offered 12,669,491 shares of its common stock, par value $1.25 per share, at a public offering price of $29.50 per share. Of the offered shares, 5,889,830 shares were issued at closing, including 1,652,542 shares pursuant to the underwriters' option. The gross proceeds from these shares was $173.7 million, with net proceeds, after deducting underwriting discounts and commissions, of $167.7 million. The remaining 6,779,661 shares of common stock ("Forward Shares") were to be sold by Bank of America, N.A., as forward seller, pursuant to a forward sale agreement. The Company received no proceeds from the sale of the Forward Shares in 2018. In January 2019, the Company settled the equity forward sale agreement by physically delivering 6,779,661 shares of common stock and receiving net cash proceeds of approximately $189.0 million. See Note 22 to the consolidated financial statements.

SJI issued and sold 5,750,000 Equity Units, initially in the form of Corporate Units, which included 750,000 Corporate Units pursuant to the underwriters' option. Each Corporate Unit has a stated amount of $50 and is comprised of (a) a purchase contract obligating the holder to purchase from the Company, and for the Company to sell to the holder for a price in cash of $50, on the purchase contract settlement date, or April 15, 2021, subject to earlier termination or settlement, a certain number of shares of common stock; and (b) a 1/20, or 5%, undivided beneficial ownership interest in $1,000 principal amount of SJI's 2018 Series A 3.70% Remarketable Junior Subordinated Notes due 2031. SJI will pay the holder quarterly contract adjustment payments at a rate of 3.55% per year on the stated amount of $50 per Equity Unit, in respect of each purchase contract, subject to the Company's right to defer these payments. No deferral period will extend beyond the purchase contract settlement date. The contract adjustment payments are payable quarterly on January 15, April 15, July 15 and October 15 of each year (except that if such date is not a business day, contract adjustment payments will be payable on the following business day, without adjustment), commencing on July 15, 2018. The contract adjustment payments will be subordinated to all of the Company's existing and future "Priority Indebtedness" and will be structurally subordinated to all liabilities of our subsidiaries. The present value of the contract adjustment payments due through April 15, 2021 are initially charged to Shareholders' Equity, with an offsetting credit to Other Current and Noncurrent Liabilities on the consolidated balance sheet. These liabilities are accreted over the life of the purchase contract by interest charges to the income statement based on a constant rate calculation. Subsequent contract adjustment payments reduce this liability. This offering resulted in gross proceeds of approximately $287.5 million, with net proceeds, after deducting underwriting discounts and commissions, of $278.9 million. As of December 31, 2018, the net proceeds, after amortization of the underwriting discounts, are recorded as Long-Term Debt on the consolidated balance sheets (see Note 14).

On June 20, 2018, the Company issued an aggregate of $475.0 million of Floating Rate Senior Notes, Series 2018D, due 2019 on the one-year anniversary of the date of initial issuance. These notes will be repaid using the proceeds of the various contemplated asset sales or will be refinanced.

In July 2018, S&P downgraded SJI and SJG, from BBB+ with a negative outlook to BBB with a stable outlook. S&P had revised the outlook for both SJI and SJG from stable to negative after the announcement of the Acquisition in October 2017. Certain of SJI's and SJG's credit agreements are ratings-based so a downgrade could adversely impact the cost of future borrowings. The Company does not believe that the downgrade will negatively impact our ability to refinance any of our debt.

In October 2018, SJG entered into an unsecured, $400.0 million term loan credit agreement (the "Credit Agreement"), under which SJG can borrow up to an aggregate of $400.0 million until October 2019. All loans under the Credit Agreement become due and payable in April 2020. Any amounts repaid prior to the maturity date cannot be reborrowed.

In November 2018, SJG redeemed $8.0 million of 4.01% MTNs.

In December 2018, ETG issued $530.0 million aggregate principal amount of its First Mortgage Bonds, Series 2018A, which were issued in five Tranches (see Note 14 to the consolidated financial statements). The proceeds from the sale of these bonds were used to repay short-term indebtedness under a previous $530.0 million, 364-day term loan credit agreement dated as of June 26, 2018, which was entered into to help fund the Acquisition. Prior to repayment, the term loans bore interest at a variable base rate or a variable LIBOR at the election of the Company.

On January 15, 2019, SJI settled its equity forward sale agreement (see Note 6 to the consolidated financial statements) by delivering 6,779,661 shares of common stock and receiving net cash proceeds of approximately $189.0 million. The forward price used to determine cash proceeds received by SJI at settlement was calculated based on the initial forward sale price, as adjusted for underwriting fees, interest rate adjustments as specified in the equity forward agreement and any dividends paid on our common stock during the forward period.

On January 17, 2019, SJI provided Notice of Optional Prepayment to the holders of its Floating Rate Senior Notes, Series 2018D, due June 20, 2019 of the Company’s intent to prepay a portion of the $475.0 million aggregate principal amount outstanding. As a result, the Company paid $150.0 million on January 31, 2019. On February 6, 2019, a second Notice of Optional Prepayment was provided by SJI to the holders of its Floating Rate Senior Notes, Series 2018D, due June 20, 2019 of the Company's intent to prepay an additional $125.0 million on February 22, 2019.

CURRENT PORTION OF LONG-TERM DEBT - The Company has $733.9 million of long-term debt that is due within the next year. The Company expects to significantly reduce this debt in 2019 using cash provided from the settlement of its equity forward sale agreement (see Note 22 to the consolidated financial statements), the sale of the remaining solar assets (see Note 1 to the consolidated financial statements), along with the sale of other assets considered non-core to the business. The remaining long-term debt that is due within the next year is expected to be paid by utilizing funds provided from refinancing activity and from the revolving credit facility. The Company anticipates refinancing approximately $500.0 million of outstanding long-term debt during 2019.

2017 Activity:

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

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

In January 2017, SJG entered into an unsecured, $200.0 million multiple-draw term loan credit agreement ("Credit Agreement"), which is syndicated among seven banks. Term loans under the Credit Agreement bear interest at a variable base rate or a variable LIBOR rate, at SJG's election. Under the Credit Agreement, SJG can borrow up to an aggregate of $200.0 million until July 2018, of which SJG borrowed $200.0 million during 2017. Proceeds from the above-mentioned $400.0 million term loan credit agreement entered into in October 2018 were used to pay down this facility.

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

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

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

In August 2017, SJI entered into a note purchase agreement that provides for the issuance of an aggregate of $100.0 million of MTNs. Pursuant to the agreement, SJI issued $50.0 million aggregate principal amount of MTNs, consisting of (a) $25.0 million aggregate principal amount of 3.22% Senior Notes, Series 2017A-1, due August 2024, and (b) $25.0 million aggregate principal amount of 3.46% Senior Notes, Series 2017B-1, due August 2027. The agreement also provided for the issuance of (a) $25.0 million aggregate principal amount of 3.32% Senior Notes, Series 2017A-2, due January 2025 and (b) $25.0 million aggregate principal amount of 3.56% Senior Notes, Series 2017B-2, due January 2028, that SJI issued in January 2018 (see Note 19 to the consolidated financial statements).

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

No other long-term debt was issued or retired during the years ended December 31, 2018 or 2017.

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 2019.

SJI's capital structure was as follows:

	As of December 31, 2018	2017
Equity	28.9 %	43.7 %
Long-Term Debt	64.9 %	43.6 %
Short-Term Debt	6.2 %	12.7 %
Total	100.0 %	100.0 %

During 2018, 2017 and 2016, SJI paid quarterly dividends to its common shareholders. SJI has paid dividends on its common stock for 67 consecutive years and has increased that dividend each year for the last 19 years. SJI currently seeks to grow that dividend consistent with earnings growth while targeting a payout ratio of between 55% and 65% of Economic Earnings. In setting the dividend rate, the Board of Directors of SJI considers future earnings expectations, payout ratio, and dividend yield relative to those at peer companies, as well as returns available on other income-oriented investments. However, there can be no assurance that SJI will be able to continue to increase the dividend, meet the targeted payout ratio or pay a dividend at all in the future.

COMMITMENTS AND CONTINGENCIES:

ENVIRONMENTAL REMEDIATION - Costs for remediation projects, net of recoveries from ratepayers, for 2018, 2017 and 2016 amounted to net cash outflows of $59.3 million, $39.9 million and $39.7 million, respectively. These include environmental remediation liabilities of ETG associated with six former manufactured gas plant sites in New Jersey which are recoverable from customers through rate mechanisms approved by the BPU. Total net cash outflows for remediation projects are expected to be approximately $43.2 million, $77.9 million and $54.0 million for 2019, 2020 and 2021, respectively. As discussed in Notes 10 and 15 to the consolidated financial statements, certain environmental costs are subject to recovery from ratepayers.

STANDBY LETTERS OF CREDIT — See Note 15 to the consolidated financial statements.

CONTRACTUAL OBLIGATIONS - SJG and SJRG have certain commitments for both pipeline capacity and gas supply for which they pay fees regardless of usage. Those commitments as of December 31, 2018, average $84.6 million annually and total $867.5 million over the contracts' lives. Approximately 36% of the financial commitments under these contracts expire during the next five years. These contracts are included in SJI's contractual obligations below. We expect to renew each of these contracts under renewal provisions as provided in each contract. SJG recovers all prudently incurred fees through rates via the BGSS clause.

In addition, in the normal course of business, SJG and SJRG have entered into long-term contracts for natural gas supplies. SJRG has committed to purchase 832,500 dts/d of natural gas, from various suppliers, for terms ranging from four to ten years at index-based prices. SJG has committed to purchase a minimum of 6,250 dts/d and up to 25,000 dts/d of natural gas, from one supplier, for a term of eight years at index-based prices. SJG has also committed to a purchase of a minimum of 55,000 dts/d and up to 70,000 dts/d, for a term of ten years at index-based prices. The obligations for these purchases have not been included in SJI's contractual obligations discussed below because the actual volumes and prices are not fixed.

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The following table summarizes our contractual cash obligations and their applicable payment due dates as of December 31, 2018 (in thousands):

Contractual Cash Obligations	Total	Up to 1 Year	Years 2 & 3	Years 4 & 5	More than 5 Years
Principal Payments on Long-Term Debt	$2,867,764	$733,909	$495,818	$106,168	$1,531,869
Interest on Long-Term Debt	1,091,131	105,180	154,071	124,958	706,922
Construction Obligations	320,672	320,672	—	—	—
Operating Leases	1,885	838	916	131	—
Commodity Supply Purchase Obligations	1,701,676	626,361	483,359	195,228	396,728
Environmental Remediation Costs	253,650	47,592	131,878	46,810	27,370
New Jersey Clean Energy Program	18,832	18,832	—	—	—
Other Purchase Obligations	4,213	4,213	—	—	—
Total Contractual Cash Obligations	$6,259,823	$1,857,597	$1,266,042	$473,295	$2,662,889

Long-Term Debt in the table above does not include unamortized debt issuance costs of $27.0 million, which are reclassified to Long-Term Debt on the consolidated balance sheets.

Interest on long-term debt in the table above includes the related interest obligations through maturity on all outstanding long-term debt. Expected asset retirement obligations and the liability for unrecognized tax benefits are not included in the table above as the total obligation cannot be calculated due to the subjective nature of these costs and timing of anticipated payments. SJI did not make contributions to its employee pension plans in 2018. SJI contributed $10.0 million to the pension plans, of which SJG contributed $8.0 million, in January 2017. Future pension contributions cannot be determined at this time. SJG's regulatory obligation to contribute $3.6 million annually to its postretirement benefit plans' trusts, as discussed in Note 12 to the consolidated financial statements, is also not included as its duration is indefinite.

RC Cape May Holdings, LLC has communicated to SJG that it no longer intends to proceed with a project to re-power the former BL England facility with natural gas. The proposed project was approved by the BPU in 2015 and the New Jersey Pinelands Commission in 2017, and would have supplied natural gas to this facility as well as provided a secondary supply of natural gas to customers in Atlantic and Cape May counties. SJG remains committed to meeting the vitally important needs of residents and businesses in these counties, and SJG is exploring other alternatives.

OFF-BALANCE SHEET ARRANGEMENTS - An off-balance sheet arrangement is any contractual arrangement involving an unconsolidated entity under which the Company has either made guarantees or has certain other interests or obligations.

As of December 31, 2018, SJI had issued $8.6 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.

In April 2018, SJI entered into various agreements relating to public offerings. See "Liquidity and Capital Resources."

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

Management will continue to monitor the situation surrounding the cogeneration assets and will evaluate the carrying value of the investment and the note receivable as future events occur.

PENDING LITIGATION - SJI and SJG are subject to claims arising in the ordinary course of business and other legal proceedings. SJI has been named in, among other actions, certain gas supply contract disputes and certain product liability claims related to our former sand mining subsidiary. See Note 15 to the consolidated financial statements for more detail on these claims.

SOUTH JERSEY GAS COMPANY

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

RESULTS OF OPERATIONS:

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

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

	December 31, 2018			December 31, 2017			December 31, 2016		
Utility Throughput - dts:									
Firm Sales -									
Residential	25,424	16	%	22,107	15	%	22,126	15	%
Commercial	6,037	4	%	5,294	3	%	4,956	3	%
Industrial	434	—		422	—		310	—	
Cogeneration and Electric Generation	2,384	1	%	1,300	1	%	1,485	1	%
Firm Transportation -									
Residential	1,504	1	%	1,635	1	%	1,975	1	%
Commercial	6,978	4	%	6,422	4	%	6,892	5	%
Industrial	10,278	6	%	10,894	7	%	11,612	8	%
Cogeneration and Electric Generation	5,113	3	%	6,199	4	%	7,451	5	%
Total Firm Throughput	58,152	35	%	54,273	35	%	56,807	38	%
Interruptible Sales	28	—		3	—		2	—	
Interruptible Transportation	1,039	1	%	1,140	1	%	1,149	1	%
Off-System	13,582	9	%	25,560	17	%	16,526	11	%
Capacity Release	86,249	55	%	70,315	47	%	73,913	50	%
Total Throughput - Utility	159,050	100	%	151,291	100	%	148,397	100	%
Number of Customers at Year End:									
Residential	365,009	93	%	358,026	93	%	352,427	93	%
Commercial	25,657	7	%	25,184	7	%	24,767	7	%
Industrial	426	—		423	—		431	—	
Total Customers	391,092	100	%	383,633	100	%	377,625	100	%
Annual Degree Days*	4,602			4,272			4,292		

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

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Throughput - Gas Utility Operations 2018 vs. 2017 - Total gas throughput increased 7.8 MMdts or 5.1% in 2018 compared with 2017, primarily due to 15.9 MMdts increase in capacity release. The increase in capacity release volume was primarily related to acquisition of additional pipeline capacity on the Tennessee pipeline system, which was not in service during the same periods in the prior year. In addition, total firm throughput increased by 3.9 MMdts due to weather that was 7.7% colder than the previous year and 7,459 additional customers. These increases were partially offset by 12.0 MMdts decrease in OSS volume, primarily due to production area OSS made for April through October 2017 which did not occur during 2018.

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

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

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

	2018 vs. 2017	2017 vs. 2016
Operations	16,316	$3,383
Maintenance	9,015	$2,178
Depreciation	5,868	$6,455
Energy and Other Taxes	517	$109

Operations - See SJI's Management Discussion section above.

Maintenance - See SJI's Management Discussion section above.

Depreciation - Depreciation expense increased $5.9 million and $6.5 million in 2018 and 2017, respectively, compared with the prior year primarily due to continuing investment in utility plant. The increased spending in recent years is a direct result of New Jersey's infrastructure improvement efforts, which included the approval of SJG’s AIRP and SHARP, in addition to significant investment in new technology systems.

Energy and Other Taxes - The change in energy and other taxes in 2018 and 2017 compared with prior years was not significant.

Other Income and Expense - The changes in Other Income and Expense in 2018 compared to 2017 were not significant. Other Income and Expense increased $2.6 million in 2017 compared with 2016, primarily due to higher AFUDC due to increased capital spending and a new AIRP II program.

Interest Charges – Interest charges increased $3.3 million in 2018 compared with 2017, primarily due to higher amounts of long-term debt outstanding compared with 2017. Interest charges increased $6.8 million in 2017 compared with 2016, primarily due to higher amounts of long-term debt outstanding (see Note 14 to the consolidated financial statements).

Income Taxes – Income tax expense generally fluctuates as income before taxes changes. Minor variations will occur period to period as a result of effective tax rate adjustments. Changes for the year ended December 31, 2018 were also impacted by Tax Reform.

LIQUIDITY AND CAPITAL RESOURCES:

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

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

Cash Flows from Operating Activities - Liquidity needs are first met with net cash provided by operating activities. Net cash provided by operating activities totaled $113.0 million, $106.7 million and $142.2 million for the years ended 2018, 2017 and 2016, respectively. Net cash provided by operating activities varies from year-to-year primarily due to the impact of weather on customer demand and related gas purchases, customer usage factors related to conversion efforts and the price of the natural gas commodity, inventory utilization, and gas cost recoveries.

Operating activities in 2018 produced more net cash than 2017 due to the SJG base rate case settlement and customer growth. In addition, SJG did not make a pension payment in 2018, but did make an $8.0 million contribution in the first quarter of 2017.
These were partially offset with higher costs experienced for environmental remediations.

Operating activities for 2017 produced less net cash than the same period in 2016, primarily due to under-recoveries in the BGSS clause at SJG. During the second quarter of 2017, SJG provided a customer BGSS bill credit based on a forecasted over-recovered clause balance at the end of the BGSS year. In addition, SJG experienced higher spending for environmental remediation. Finally, during the first quarter of 2017, SJG made an $8.0 million payment to fund its pension plans. SJG did not make a contribution to its pension plans in 2016.

Cash Flows from Investing Activities - SJG has a continuing need for cash resources for capital expenditures, primarily to invest in new and replacement facilities and equipment. SJG estimates the net cash outflows for capital expenditures for fiscal years 2019, 2020 and 2021 to be approximately $277.3 million, $283.7 million and $370.4 million, respectively. For capital expenditures, including those under the AIRP and SHARP, SJG expects to use short-term borrowings under both its commercial paper program and lines of credit from commercial banks to finance capital expenditures as incurred. From time to time, SJG may refinance the short-term debt incurred to support capital expenditures with long-term debt.

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

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

SJI did not contribute equity to SJG in 2018. SJI contributed equity infusions of $40.0 million and $65.0 million to SJG during the years ended December 31, 2017 and 2016, respectively. No dividends were declared by SJG in 2018. In December 2017, SJG declared and paid cash dividends of $20.0 million to SJI.

SJG’s capital structure was as follows:

	As of December 31,	
	2018	2017
Common Equity	50.2 %	51.3 %
Long-Term Debt	44.5 %	45.8 %
Short-Term Debt	5.3 %	2.9 %

Total	100.0%	100.0%

COMMITMENTS AND CONTINGENCIES:

Costs for remediation projects, net of recoveries from ratepayers, for 2018, 2017 and 2016, amounted to net cash outflows of $53.7 million, $39.9 million and $39.7 million, respectively. Total net cash outflows for remediation projects are expected to be $28.6 million, $42.5 million and $32.5 million for 2019, 2020 and 2021, respectively. Environmental remediation costs are subject to recovery from ratepayers.

SJG has certain commitments for both pipeline capacity and gas supply for which SJG pays fees regardless of usage. Those commitments, as of December 31, 2018, averaged $68.7 million annually and totaled $453.4 million over the contracts' lives. Approximately 27% of the financial commitments under these contracts expire during the next five years. SJG expects to renew each of these contracts under renewal provisions as provided in each contract. SJG recovers all such prudently incurred fees through rates via the BGSS.

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

The following table summarizes SJG's contractual cash obligations and their applicable payment due dates as of December 31, 2018 (in thousands):

Contractual Cash Obligations	Total	Up to 1 Year	Years 2 & 3	Years 4 & 5	More than 5 Years
Principal Payments on Long-Term Debt	$900,264	$18,909	$355,818	$71,168	$454,369
Interest on Long-Term Debt	235,322	32,273	45,272	37,952	119,825
Commodity Supply Purchase Obligations	295,504	295,504	—	—	—
Environmental Remediation Costs	148,071	33,022	74,954	27,118	12,977
Construction Obligations	477,230	87,137	130,180	65,919	193,994
Operating Leases	175	56	112	7	—
New Jersey Clean Energy Program	8,323	8,323	—	—	—
Other Purchase Obligations	4,213	4,213	—	—	—
Total Contractual Cash Obligations	$2,069,102	$479,437	$606,336	$202,164	$781,165

Long-Term Debt in the table above does not include unamortized debt issuance costs of $6.8 million, which are reclassified to Long-Term Debt on the balance sheets.

Expected asset retirement obligations and the liability for unrecognized tax benefits are not included in the table above as the total obligation cannot be calculated due to the subjective nature of these costs and timing of anticipated payments. SJG did not make a pension plan contribution in 2018. Future pension contributions cannot be determined at this time. SJG's regulatory obligation to contribute $3.6 million annually to its postretirement benefit plans' trusts, as discussed in Note 12 to the consolidated financial statements, is also not included as its duration is indefinite.

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

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risks

South Jersey Industries, Inc.

Commodity Market Risks - Certain 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 due to price fluctuations. To hedge against this risk, SJI enters into a variety of physical and financial transactions including forward contracts, swaps, futures and options agreements. To manage these transactions, SJI has a well-defined risk management policy approved by SJI's Board of Directors that includes volumetric and monetary limits. Management reviews reports detailing activity daily. Generally, the derivative activities described above are entered into for risk management purposes.

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

SJRG manages risk for its own portfolio by entering into the types of transactions noted above. The retail electric operations of SJE use forward physical and financial contracts to mitigate commodity price risk on fixed price electric contracts. It is management's policy, to the extent practical, within predetermined risk management policy guidelines, to have limited unmatched positions on a deal or portfolio basis while conducting these activities. As a result of holding open positions to a minimal level, the economic impact of changes in value of a particular transaction is substantially offset by an opposite change in the related hedge transaction.

SJI has entered into certain contracts to buy, sell, and transport natural gas and to buy and sell retail electricity. SJI recorded net pre-tax gains (losses) on these contracts of $34.5 million, $(13.7) million and $26.9 million in earnings during 2018, 2017 and 2016, respectively, which are included with realized gains and losses in Operating Revenues - Nonutility on the consolidated statements of income.

The fair value and maturity of these energy-trading contracts determined under the mark-to-market method as of December 31, 2018 is as follows (in thousands):

Assets

Source of Fair Value	Maturity < 1 Year	Maturity 1 - 3 Years	Maturity Beyond 3 Years	Total
Prices actively quoted	$9,344	$ 554	$ 57	$9,955
Prices provided by other external sources	19,529	3,707	193	23,429
Prices based on internal models or other valuation methods	25,148	2,604	54	27,806
Total	$54,021	$ 6,865	$ 304	$61,190

Liabilities

Source of Fair Value	Maturity < 1 Year	Maturity 1 - 3 Years	Maturity Beyond 3 Years	Total
Prices actively quoted	$6,113	$ 1,168	$ 10	$7,291

Prices provided by other external sources	11,048	1,279	27	12,354
Prices based on internal models or other valuation methods	6,973	4,537	235	11,745
Total	$ 24,134	$ 6,984	$ 272	$ 31,390

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•NYMEX (New York Mercantile Exchange) is the primary national commodities exchange on which natural gas is traded. Volumes of our NYMEX contracts included in the table above under "Prices actively quoted" are 47.4 MMdts with a weighted average settlement price of $2.99 per dt.
•Basis represents the differential to the NYMEX natural gas futures contract for delivering gas to a specific location. Volumes of our basis contracts, along with volumes of our discounted index related purchase and sales contracts, included in the table above under "Prices provided by other external sources" and "Prices based on internal models or other valuation methods" are 54.9 MMdts with a weighted average settlement price of $(0.37) per dt.
•Fixed Price Gas Daily represents the price of a NYMEX natural gas futures contract adjusted for the difference in price for delivering the gas at another location. Volumes of our Fixed Price Gas Daily contracts included in the table above under "Prices provided by other external sources" are 30.4 MMdts with a weighted average settlement price of $2.87 per dt.
•Volumes of electric included in the table above under "Prices based on internal models or other valuation methods" are 0.4 MMWh with a weighted average settlement price of $32.60 per MWh.

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

Net Derivatives - Energy Related Liabilities, January 1, 2018	$(4,836)
Contracts Settled During 2018, Net	4,469
Other Changes in Fair Value from Continuing and New Contracts, Net	30,167
Net Derivatives - Energy Related Assets, December 31, 2018	$29,800

As a result of the transaction to sell certain solar sites to a third party (see Note 1 to the consolidated financial statements), Marina will no longer generate SREC's on its own behalf and is no longer exposed to market risk associated with SRECs.

Interest Rate Risk - Our exposure to interest-rate risk relates to short-term and long-term variable-rate borrowings. Variable-rate debt outstanding, including short-term and long-term debt, at December 31, 2018 was $680.5 million and averaged $846.4 million during 2018. A hypothetical 100 basis point (1%) increase in interest rates on our average variable-rate debt outstanding would result in a $6.3 million increase in our annual interest expense, net of tax. The 100 basis point increase was chosen for illustrative purposes, as it provides a simple basis for calculating the impact of interest rate changes under a variety of interest rate scenarios. Over the past five years, the change in basis points (b.p.) of our average monthly interest rates from the beginning to end of each year was as follows: 2018 - 91 b.p. increase; 2017 - 82 b.p. increase; 2016 - 47 b.p. increase; 2015 - 14 b.p. increase; 2014 - 1 b.p. decrease. At December 31, 2018, our average interest rate on variable-rate debt was 3.40%.

We typically issue long-term debt either at fixed rates or use interest rate derivatives to limit our exposure to changes in interest rates on variable-rate, long-term debt. As of December 31, 2018, the interest costs on $1.97 billion of our long-term debt was either at a fixed rate or hedged via an interest rate derivative.

As of December 31, 2018, SJI's active interest rate swaps were as follows:

Notional Amount	Fixed Interest Rate	Start Date	Maturity	Obligor
$20,000,000	3.049%	3/15/2017	3/15/2027	SJI
$20,000,000	3.049%	3/15/2017	3/15/2027	SJI
$10,000,000	3.049%	3/15/2017	3/15/2027	SJI
$12,500,000	3.530%	12/1/2006	2/1/2036	SJG
$12,500,000	3.430%	12/1/2006	2/1/2036	SJG

Credit Risk - As of December 31, 2018, SJI had approximately $11.7 million, or 19.1%, of the current and noncurrent Derivatives – Energy Related Assets transacted with three counterparties. These counterparties are investment-grade rated.

As of December 31, 2018, SJRG had $106.8 million of Accounts Receivable under sales contracts. Of that total, 37.3% were with regulated utilities or companies rated investment-grade or guaranteed by an investment-grade-rated parent or were with companies where we have a collateral arrangement or insurance coverage. The remainder of the Accounts Receivable were within approved credit limits.

South Jersey Gas Company:

The fair value and maturity of SJG's energy-trading and hedging contracts determined under the mark-to-market method as of December 31, 2018 is as follows (in thousands):

Assets

Source of Fair Value	Maturity < 1 Year	Maturity 1 - 3 Years	Maturity Beyond 3 Years	Total
Prices actively quoted	$ 333	$ 15	$ —	$348
Prices provided by other external sources	126	—	—	126
Prices based on internal models or other valuation methods	5,005	—	—	5,005
Total	$ 5,464	$ 15	$ —	$5,479

Liabilities

Source of Fair Value	Maturity < 1 Year	Maturity 1 - 3 Years	Maturity Beyond 3 Years	Total
Prices actively quoted	$ 992	$ 43	$ —	$1,035
Prices provided by other external sources	1,077	—	—	1,077
Prices based on internal models or other valuation methods	77	—	—	77
Total	$ 2,146	$ 43	$ —	$2,189

Contracted volumes of SJG's NYMEX contracts are 7.9 MMdts with a weighted-average settlement price of $3.02 per dt. Contracted volumes of SJG's Basis contracts are 1.1 MMdts with a weighted-average settlement price of $0.83 per dt.

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

Net Derivatives - Energy Related Liabilities, January 1, 2018	$(2,108)
Contracts Settled During 2018, Net	1,943
Other Changes in Fair Value from Continuing and New Contracts, Net	3,455
Net Derivatives - Energy Related Assets, December 31, 2018	$3,290

Interest Rate Risk - SJG's exposure to interest rate risk relates primarily to variable-rate borrowings. Variable-rate debt, including both short-term and long-term debt outstanding at December 31, 2018, was $417.5 million and averaged $297.7 million during 2018. A hypothetical 100 basis point (1%) increase in interest rates on SJG's average variable-rate debt outstanding would result in a $2.2 million increase in SJG's annual interest expense, net of tax. The 100 basis point increase was chosen for illustrative purposes, as it provides a simple basis for calculating the impact of interest rate changes under a variety of interest rate scenarios. Over the past five years, the change in basis points (b.p.) of SJG's average monthly interest rates from the beginning to end of each year was as follows: 2018 - 91 b.p.

increase; 2017 - 91 b.p. increase; 2016 - 19 b.p. increase; 2015 - 20 b.p. increase; and 2014 - 32 b.p. increase. As of December 31, 2018, SJG's average interest rate on variable-rate debt was 3.18%.

SJG typically issues long-term debt either at fixed rates or uses interest rate derivatives to limit exposure to changes in interest rates on variable-rate, long-term debt. As of December 31, 2018, the interest costs on $590.3 million of long-term debt was either at a fixed-rate or hedged via an interest rate derivative.

Item 8. Financial Statements and Supplementary Data
Statements of Consolidated Income
(In Thousands Except for Per Share Data)

	South Jersey Industries, Inc. and Subsidiaries		
	Year Ended December 31,		
	2018	2017	2016
Operating Revenues:			
Utility	$670,715	$512,482	$453,819
Nonutility	970,623	730,586	582,681
Total Operating Revenues	1,641,338	1,243,068	1,036,500
Operating Expenses:			
Cost of Sales - (Excluding depreciation and amortization)			
- Utility	258,781	199,660	167,154
- Nonutility	796,627	646,567	413,833
Operations (See Note 1)	256,862	169,767	147,056
Impairment Charges	105,280	91,299	—
Maintenance	32,162	19,727	17,549
Depreciation	96,723	100,718	90,389
Energy and Other Taxes	9,537	6,487	6,342
Net Gain on Sales of Assets	(15,379)	—	—
Total Operating Expenses	1,540,593	1,234,225	842,323
Operating Income (See Note 1)	100,745	8,843	194,177
Other Income and Expense (See Note 1)	2,404	11,041	5,088
Interest Charges	(90,296)	(54,019)	(31,449)
Income (Loss) Before Income Taxes	12,853	(34,135)	167,816
Income Taxes	(561)	24,937	(54,151)
Equity in Earnings of Affiliated Companies	5,611	5,794	5,396
Income (Loss) from Continuing Operations	17,903	(3,404)	119,061
Loss from Discontinued Operations - (Net of tax benefit)	(240)	(86)	(251)
Net Income (Loss)	$17,663	$(3,490)	$118,810
Basic Earnings (Loss) per Common Share:			
Continuing Operations	$0.21	$(0.04)	$1.56
Discontinued Operations	—	—	—
Basic Earnings (Loss) per Common Share	$0.21	$(0.04)	$1.56
Average Shares of Common Stock Outstanding - Basic	83,693	79,541	76,362
Diluted Earnings (Loss) per Common Share:			
Continuing Operations	$0.21	$(0.04)	$1.56
Discontinued Operations	—	—	—
Diluted Earnings (Loss) per Common Share	$0.21	$(0.04)	$1.56
Average Shares of Common Stock Outstanding - Diluted	84,471	79,541	76,475

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

Statements of Consolidated Comprehensive Income
(In Thousands)

	South Jersey Industries, Inc. and Subsidiaries Year Ended December 31,		
	2018	2017	2016
Net Income (Loss)	$17,663	$(3,490)	$118,810
Other Comprehensive Income (Loss), Net of Tax:			
Postretirement Liability Adjustment (A)	10,636	(10,920)	(3,197)
Unrealized Gain on Available-for-Sale Securities (B)	—	—	118
Unrealized Gain on Derivatives - Other (B)	34	1,536	197
Other Comprehensive Income (Loss) - Net of Tax	10,670	(9,384)	(2,882)
Comprehensive Income (Loss)	$28,333	$(12,874)	$115,928

(A) Determined using a combined average statutory tax rate of 25% for 2018; 27% for 2017; and 40% for 2016.
(B) Determined using a combined average statutory tax rate of 25% for 2018; 39% for 2017; and 40% for 2016.

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

Statements of Consolidated Cash Flows (In Thousands)

	South Jersey Industries, Inc. and Subsidiaries		
	Year Ended December 31,		
	2018	2017	2016
Cash Flows from Operating Activities:			
Net Income (Loss)	$17,663	$(3,490)	$118,810
Loss from Discontinued Operations	240	86	251
Income (Loss) from Continuing Operations	17,903	(3,404)	119,061
Adjustments to Reconcile Income from Continuing Operations to Net Cash Provided by Operating Activities:			
Net Gain on Sales of Assets	(15,379)	(2,563)	—
Impairment Charges	105,280	91,299	—
Loss on Extinguishment of Debt	—	543	—
Depreciation and Amortization	132,914	123,486	109,818
Net Unrealized (Gain) Loss on Derivatives - Energy Related	(34,447)	13,667	(26,935)
Unrealized (Gain) Loss on Derivatives - Other	(1,337)	677	(647)
Provision for Losses on Accounts Receivable	7,977	6,949	6,907
CIP Receivable/Payable	32,523	915	(24,943)
Deferred Gas Costs - Net of Recoveries	(46,495)	(28,092)	11,753
Deferred SBC Costs - Net of Recoveries	311	(5,578)	(7,102)
Stock-Based Compensation Expense	4,144	4,254	3,892
Deferred and Noncurrent Income Taxes - Net	10,392	10,082	55,789
Environmental Remediation Costs - Net of Recoveries	(59,307)	(39,860)	(39,731)
Gas Plant Cost of Removal	(11,184)	(7,062)	(6,070)
Pension Contribution	—	(10,000)	—
Changes in:			
Accounts Receivable	(106,283)	21	(67,160)
Inventories	566	5,589	387
Prepaid and Accrued Taxes - Net	13,418	(23,366)	4,253
Accounts Payable and Other Accrued Liabilities	114,371	58,858	112,199
Derivatives - Energy Related	5,208	899	6,723
Other Assets and Liabilities	(26,999)	(6,989)	4,477
Cash Flows from Discontinued Operations	7	(4)	(44)
Net Cash Provided by Operating Activities	143,583	190,321	262,627
Cash Flows from Investing Activities:			
Capital Expenditures	(341,120)	(272,965)	(279,423)
Cash Paid for Acquisition, Net of Cash Acquired	(1,740,285)	—	—
Cash Paid for Purchase of New Contract	(11,339)	—	—
Proceeds from Sale of Property, Plant and Equipment	310,644	3,547	—
Investment in Long-Term Receivables	(8,643)	(9,324)	(10,886)
Proceeds from Long-Term Receivables	9,813	9,861	10,014
Notes Receivable	—	22,884	9,916
Purchase of Company-Owned Life Insurance	(1,298)	(9,180)	(2,398)
Investment in Affiliate	(9,524)	(29,636)	(12,943)
Return of Investment in Affiliate	—	—	4,750
Advances on Notes Receivable - Affiliate	—	(2,451)	—
Net Repayment of Notes Receivable - Affiliate	2,967	—	672

Net Cash Used in Investing Activities	(1,788,785)	(287,264)	(280,298)

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Cash Flows from Financing Activities:			
Net (Repayments of) Borrowings from Short-Term Credit Facilities	(75,900)	50,300	(135,600)
Proceeds from Issuance of Long-Term Debt	2,432,500	450,000	61,000
Payments for Issuance of Long-Term Debt	(21,574)	(14,204)	(147)
Principal Repayments of Long-Term Debt	(768,909)	(293,309)	(49,366)
Dividends on Common Stock	(94,756)	(87,308)	(82,380)
Net Settlement of Restricted Stock	(776)	(751)	(387)
Proceeds from Sale of Common Stock	173,750	—	214,426
Payments for the Issuance of Common Stock	(7,149)	—	—
Payment of Lease Obligation	—	—	(10,600)
Net Cash Provided by (Used in) Financing Activities	1,637,186	104,728	(3,054)
Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash	(8,016)	7,785	(20,725)
Cash, Cash Equivalents and Restricted Cash at Beginning of Year	39,695	31,910	52,635
Cash, Cash Equivalents and Restricted Cash at End of Year	$31,679	$39,695	$31,910
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the year for:			
Interest (Net of Amounts Capitalized)	$84,792	$51,456	$32,372
Income Taxes (Refunds) Paid	$(20,004)	$(8,348)	$194
Supplemental Disclosures of Non-Cash Investing Activities			
Capital Expenditures acquired on account but unpaid as of year-end	$44,184	$32,253	$39,130
Notes Receivable Exchanged for Accounts Payable	$—	$3,841	$10,168

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

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Consolidated Balance Sheets
(In Thousands)

	South Jersey Industries, Inc. and Subsidiaries December 31,	
	2018	2017
Assets		
Property, Plant and Equipment:		
Utility Plant, at original cost	$4,341,113	$2,652,244
Accumulated Depreciation	(787,243)	(498,161)
Nonutility Property and Equipment, at cost	152,232	741,027
Accumulated Depreciation	(52,629)	(194,913)
Property, Plant and Equipment - Net	3,653,473	2,700,197
Investments:		
Available-for-Sale Securities	41	36
Restricted	1,649	31,876
Investment in Affiliates	76,122	62,292
Total Investments	77,812	94,204
Current Assets:		
Cash and Cash Equivalents	30,030	7,819
Accounts Receivable	337,502	202,379
Unbilled Revenues	79,538	73,377
Provision for Uncollectibles	(18,842)	(13,988)
Notes Receivable - Affiliate	1,945	4,913
Natural Gas in Storage, average cost	60,425	48,513
Materials and Supplies, average cost	1,743	4,239
Prepaid Taxes	30,694	41,355
Derivatives - Energy Related Assets	54,021	42,139
Assets Held For Sale	59,588	—
Other Prepayments and Current Assets	26,548	28,247
Total Current Assets	663,192	438,993
Regulatory and Other Noncurrent Assets:		
Regulatory Assets	662,969	469,224
Derivatives - Energy Related Assets	7,169	5,988
Notes Receivable - Affiliate	13,275	13,275
Contract Receivables	27,961	28,721
Goodwill	734,607	3,578
Other (See Note 1)	116,119	110,906
Total Regulatory and Other Noncurrent Assets	1,562,100	631,692
Total Assets	$5,956,577	$3,865,086

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

	2018	2017
Capitalization and Liabilities		
Equity:		
Common Stock: Par Value $1.25 per share; Authorized 120,000,000 shares; Outstanding Shares: 85,506,218 (2018) and 79,549,080 (2017)		
Balance at Beginning of Year	$99,436	$99,347
Common Stock Issued or Granted Under Stock Plans	7,447	89
Balance at End of Year	106,883	99,436
Premium on Common Stock	843,268	709,658
Treasury Stock (at par)	(292)	(271)
Accumulated Other Comprehensive Loss	(26,095)	(36,765)
Retained Earnings	343,258	420,351
Total Equity	1,267,022	1,192,409
Long-Term Debt	2,106,863	1,122,999
Total Capitalization	3,373,885	2,315,408
Current Liabilities:		
Notes Payable	270,500	346,400
Current Portion of Long-Term Debt	733,909	63,809
Accounts Payable	410,463	284,899
Customer Deposits and Credit Balances	32,058	43,398
Environmental Remediation Costs	47,592	66,372
Taxes Accrued	5,881	2,932
Derivatives - Energy Related Liabilities	24,134	46,938
Derivatives - Other Current	588	748
Deferred Contract Revenues	1,772	259
Interest Accrued	14,208	9,079
Pension Benefits	3,631	2,388
Other Current Liabilities	36,102	15,860
Total Current Liabilities	1,580,838	883,082
Deferred Credits and Other Noncurrent Liabilities:		